GuideMyGrades

YOUR GOALS. OUR EXPERTISE.

EDEXCEL INTERNATIONAL A LEVEL ECONOMICS: QUESTIONS BY TOPIC

Market structures and contestability (3.3.3)

International A Level Economics · Unit 3: Business behaviour

78 questions · 586 marks · Mark schemes included

Past papers January 2020 - June 2025 · 8 specification sub-topics

guidemygrades.com

@Guidemygrades

@Guidemygrades

@Guidemygrades

info@guidemygrades.com

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

HOW TO USE THIS BOOKLET

Questions are grouped by specification sub-topic and run from the lowest to the highest mark tariff, then oldest paper first.
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; < QUESTION brings you back.
Whenever a question refers to an extract, figure or table, those exact pages are printed immediately before it ("extracts & data").
A gold bar in the left margin marks exactly where the question sits on the original page.
Diagrams, graphs, tables and data are printed exactly as they appear in the original papers.

	QUESTION	SOURCE	MARKS	PAGE
3.3.3.1	**EFFICIENCY**		5 Qs · 59 marks	**4**
1.	**Q5**	IAL Unit 3 January 2021	1	**5**
2.	**Q7(b)**	IAL Unit 3 October 2024	4	**6**
3.	**Q7(e)**	IAL Unit 3 January 2024	14	**10**
4.	**Q9**	IAL Unit 3 October 2020	20	**16**
5.	**Q10**	IAL Unit 3 October 2023	20	**17**
3.3.3.2	**CONCENTRATION RATIO**		9 Qs · 16 marks	**18**
6.	**Q2**	IAL Unit 3 January 2020	1	**19**
7.	**Q2**	IAL Unit 3 January 2021	1	**20**
8.	**Q2**	IAL Unit 3 October 2021	1	**21**
9.	**Q4**	IAL Unit 3 June 2022	1	**22**
10.	**Q7(a)**	IAL Unit 3 June 2021	2	**23**
11.	**Q7(a)**	IAL Unit 3 January 2022	2	**27**
12.	**Q7(a)**	IAL Unit 3 October 2022	2	**31**
13.	**Q7(a)**	IAL Unit 3 January 2025	2	**35**
14.	**Q7(b)**	IAL Unit 3 January 2023	4	**40**
3.3.3.3	**PERFECT COMPETITION**		8 Qs · 8 marks	**44**
15.	**Q2**	IAL Unit 3 October 2020	1	**45**
16.	**Q6**	IAL Unit 3 January 2022	1	**46**
17.	**Q4**	IAL Unit 3 June 2023	1	**47**
18.	**Q3**	IAL Unit 3 January 2024	1	**48**
19.	**Q4**	IAL Unit 3 June 2024	1	**49**
20.	**Q1**	IAL Unit 3 October 2024	1	**50**
21.	**Q4**	IAL Unit 3 January 2025	1	**51**
22.	**Q6**	IAL Unit 3 January 2025	1	**52**
3.3.3.4	**MONOPOLISTIC COMPETITION**		9 Qs · 12 marks	**53**
23.	**Q3**	IAL Unit 3 January 2021	1	**54**
24.	**Q6**	IAL Unit 3 June 2021	1	**55**
25.	**Q6**	IAL Unit 3 October 2021	1	**56**
26.	**Q2**	IAL Unit 3 January 2022	1	**57**
27.	**Q2**	IAL Unit 3 June 2022	1	**58**
28.	**Q2**	IAL Unit 3 October 2022	1	**59**
29.	**Q4**	IAL Unit 3 January 2023	1	**60**
30.	**Q3**	IAL Unit 3 October 2023	1	**61**

	QUESTION	SOURCE	MARKS	PAGE
31.	**Q7(b)**	IAL Unit 3 January 2024	4	**62**
3.3.3.5	**OLIGOPOLY**		24 Qs · 265 marks	**66**
32.	**Q1**	IAL Unit 3 October 2022	1	**67**
33.	**Q6**	IAL Unit 3 January 2024	1	**68**
34.	**Q5**	IAL Unit 3 January 2025	1	**69**
35.	**Q7(b)**	IAL Unit 3 June 2022	4	**70**
36.	**Q7(b)**	IAL Unit 3 June 2023	4	**74**
37.	**Q7(c)**	IAL Unit 3 October 2023	4	**78**
38.	**Q7(d)**	IAL Unit 3 October 2020	6	**82**
39.	**Q7(c)**	IAL Unit 3 January 2022	6	**87**
40.	**Q7(c)**	IAL Unit 3 June 2022	6	**92**
41.	**Q7(c)**	IAL Unit 3 January 2023	6	**97**
42.	**Q7(d)**	IAL Unit 3 October 2021	8	**102**
43.	**Q7(e)**	IAL Unit 3 January 2020	14	**107**
44.	**Q7(e)**	IAL Unit 3 June 2021	14	**113**
45.	**Q7(e)**	IAL Unit 3 October 2022	14	**119**
46.	**Q7(e)**	IAL Unit 3 June 2023	14	**125**
47.	**Q7(e)**	IAL Unit 3 October 2023	14	**131**
48.	**Q7(e)**	IAL Unit 3 June 2024	14	**137**
49.	**Q7(e)**	IAL Unit 3 January 2025	14	**143**
50.	**Q8**	IAL Unit 3 January 2021	20	**150**
51.	**Q8**	IAL Unit 3 January 2022	20	**151**
52.	**Q10**	IAL Unit 3 June 2022	20	**152**
53.	**Q9**	IAL Unit 3 January 2024	20	**153**
54.	**Q10**	IAL Unit 3 June 2024	20	**154**
55.	**Q10**	IAL Unit 3 October 2024	20	**155**
3.3.3.6	**MONOPOLY**		11 Qs · 138 marks	**156**
56.	**Q6**	IAL Unit 3 October 2023	1	**157**
57.	**Q4**	IAL Unit 3 January 2024	1	**158**
58.	**Q2**	IAL Unit 3 October 2024	1	**159**
59.	**Q5**	IAL Unit 3 June 2025	1	**160**
60.	**Q7(e)**	IAL Unit 3 October 2020	14	**161**
61.	**Q9**	IAL Unit 3 January 2020	20	**167**
62.	**Q9**	IAL Unit 3 June 2021	20	**168**
63.	**Q9**	IAL Unit 3 October 2021	20	**169**
64.	**Q9**	IAL Unit 3 October 2022	20	**170**
65.	**Q9**	IAL Unit 3 June 2023	20	**171**
66.	**Q9**	IAL Unit 3 June 2025	20	**172**
3.3.3.7	**MONOPSONY**		6 Qs · 47 marks	**173**
67.	**Q6**	IAL Unit 3 June 2022	1	**174**
68.	**Q4**	IAL Unit 3 October 2022	1	**175**

	QUESTION	SOURCE	MARKS	PAGE
69.	**Q3**	IAL Unit 3 June 2023	1	**176**
70.	**Q7(b)**	IAL Unit 3 January 2021	4	**177**
71.	**Q9**	IAL Unit 3 January 2023	20	**181**
72.	**Q8**	IAL Unit 3 January 2025	20	**182**
3.3.3.8	**CONTESTABILITY**		6 Qs · 41 marks	**183**
73.	**Q4**	IAL Unit 3 October 2020	1	**184**
74.	**Q6**	IAL Unit 3 June 2023	1	**185**
75.	**Q2**	IAL Unit 3 October 2023	1	**186**
76.	**Q7(b)**	IAL Unit 3 June 2025	4	**187**
77.	**Q7(e)**	IAL Unit 3 October 2024	14	**191**
78.	**Q9**	IAL Unit 3 January 2025	20	**197**

QUESTIONS

78 questions · 586 marks · 8 sub-topics

SUB-TOPIC 3.3.3.1

EFFICIENCY

Sub-topic 3.3.3.1 · 5 questions · 59 marks · lowest tariff first

4 In 2017 the Centre for Economic Analysis estimated that the elasticity of supply of labour for car manufacturing in Poland was 1.3.

Which **one** of the following would have caused the elasticity of the supply of labour to become more elastic?

- ☒ **A** A fall in net migration
- ☒ **B** A rise in the level of welfare benefits
- ☒ **C** A fall in income tax rates
- ☒ **D** A rise in trade union membership

(Total for Question 4 = 1 mark)

5 In March 2020 the Angolan Government announced that it was privatising three state-owned textile factories.

Which **one** of the following is the most likely effect of this privatisation?

- ☒ **A** A decrease in X-inefficiency
- ☒ **B** A decrease in productive efficiency
- ☒ **C** A decrease in consumer choice
- ☒ **D** A decrease in share ownership

(Total for Question 5 = 1 mark)

SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 2, calculate the change in AstraZeneca's total costs between 2021 and 2022.

You are advised to show your workings.

(2)

(b) With reference to Extract B line 14, explain the term 'dynamic efficiency'.

(4)

(c) With reference to Extract A, analyse **two** ways that pharmaceutical companies may benefit from external economies of scale.

(6)

(d) With reference to the last paragraph of Extract B, examine the impact of the increase in fixed costs on AstraZeneca's profit.

Illustrate your answer with an appropriate diagram(s).

(8)

(e) With reference to the information provided and your own knowledge, discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry.

(14)

Sources for use with Section B

The pharmaceutical industry

Figure 1 Largest pharmaceutical companies in Ireland, based on global revenue, $ billion, 2022

Rank	Company	Global revenue ($bn)
1	Pfizer	100.30
2	Roche	69.77
3	Merck & Co	59.28
4	AbbVie	58.05
5	Bayer	53.88
6	Johnson & Johnson	52.60

Figure 2 AstraZeneca's total global revenue and profit, $ million, 2021 and 2022

	2021 ($m)	2022 ($m)
Total revenue	36 541	42 998
Profit	1 056	3 757

Extract A The pharmaceutical industry in Ireland

Many large pharmaceutical companies have chosen to establish themselves in Ireland. The most important reason is the country's low rate of corporation tax which is set at 12.5% compared to 21% in the USA and 25% in the UK. Another reason for locating in Ireland is the speed at which new products are approved by Ireland's pharmaceutical regulatory authority.

Over 85 pharmaceutical companies operate in Ireland, enabling businesses located there to benefit from external economies of scale. These companies employ approximately 30 000 highly skilled workers. The Government of Ireland has invested heavily in improving roads and railways. In 2021 it announced plans for a further €35 billion investment into the country's transport system. There are many research partnerships between businesses and universities that share research and development (R&D) costs. These universities also help to ensure that students leave with the skills required to work in the pharmaceutical industry.

Extract B AstraZeneca

AstraZeneca is a UK-Swedish owned multinational pharmaceutical company that operates in over 100 countries around the world. In 2022 it was the tenth largest global pharmaceutical company, producing high quality medical equipment and pharmaceuticals for hospitals.

AstraZeneca has a good reputation for R&D. In 2022 it invested $9.8 billion in R&D. This enabled it to:

- develop three new medicines
- continue research on medical advancements
- improve productive efficiency.

In 2023 AstraZeneca announced plans to invest $400 million in building a new factory in Dublin, Ireland. This was a change from its previous plan to open a new factory in the UK. The company stated that it needed to reduce costs to be price competitive. At the same time this investment was necessary for the company to achieve dynamic efficiency.

One of the biggest problems facing AstraZeneca is the cost and time involved in producing new medicines. Also, the regulatory environment is complex because all pharmaceuticals must undergo clinical trials before medicines can be approved. The fixed costs associated with complying with these regulations have increased significantly. A low pricing strategy is critical to attract consumers because brand loyalty is low.

Extract C The global pharmaceutical industry

Although there are many companies in the pharmaceutical industry, they all own patents for their products. In the European Union these can last for up to 20 years. A business in this industry might spend up to 25% of its revenue on R&D. In 2022 Johnson & Johnson spent $14.6 billion, Roche spent $14.8 billion and AstraZeneca spent $9.8 billion. This investment is risky because there is no guarantee of medical breakthroughs. Consequently, there are many mergers and frequent collaborations between pharmaceutical companies. For example, in 2022 there were 1 733 mergers and acquisitions in the industry.

7 (a) With reference to Figure 2, calculate the change in AstraZeneca's total costs between 2021 and 2022.

You are advised to show your workings.

(2)

(b) With reference to Extract B line 14, explain the term 'dynamic efficiency'.

(4)

SECTION B

Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 7.
Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1 and Extract A, calculate the number of workers employed by SMEs in Bangladesh. You are advised to show your workings.

(2)

(b) With reference to Figure 1 and Extract A, explain what is meant by the term 'monopolistic competition'.

(4)

(c) With reference to Extract B, examine the impact of rising energy costs on the profits of a garment manufacturer in Bangladesh. Illustrate your answer with an appropriate diagram.

(8)

(d) With reference to extract B, analyse **two** likely effects on the labour market for garment workers of the possible increase in the minimum wage to 22 000 taka.

(6)

(e) With reference to Extract A and your own knowledge, discuss the likely effects of Government policies on the productive efficiency of SMEs.

(14)

Sources for use with Section B

Size of businesses and labour markets in Bangladesh

Figure 1 Size of businesses, 2022

Size	Number of businesses	% of total number of businesses	% of working population employed
Small	33 050	77.2	20.2
Medium	6 103	14.3	20.7
Large	3 639	8.5	59.1

Extract A Government support for small-sized and medium-sized enterprises (SMEs)

Bangladesh is a developing country located in South Asia with a population of over 160 million. In 2022 the number of people employed was 60.8 million. Its economy is heavily dependent on agriculture and on the production of garments and textiles. Bangladesh has made considerable progress in improving its rate of economic growth. The country's real GDP grew at an average rate of 6.5% per year between 2011 and 2020.

Many SMEs compete in the agriculture, garment and textile industries. Most businesses in these industries operate in monopolistically competitive markets. However, low-skilled labour, a lack of innovation and limited access to finance restrict the differentiation of products between businesses in these markets.

To meet these challenges the Government of Bangladesh adopted several policies to support SMEs. These include:

- creating the SME Foundation that provides training and funds for research and development
- providing finance for the creation of industrial parks (locations where SMEs can all locate together)
- investing in the quality of infrastructure within industrial parks
- establishing loan schemes to support SMEs
- providing subsidies to SMEs in agriculture, energy and those that export
- encouraging SMEs to adopt new technologies, including artificial intelligence.

However, critics of these policies have suggested that the Government needs to focus on reducing excessive administrative costs, deregulation and improving the quality of education.

Extract B Minimum wages in the garment industry

In April 2022 the minimum wage for all workers in Bangladesh not covered by industry-specific agreements was only 1 500 taka per month. However, some sectors have higher minimum wages. For example, the minimum wage for the country's 4.4 million garment workers was 8 000 taka per month. The Government has been under pressure from trade unions to increase this rate to 22 000 taka per month. The trade unions argue that recent high rates of inflation, and the fact the minimum wage for garment workers has not increased since 2018, have decreased the real incomes of its members.

Garment manufacturers argue that they do not have the funds to pay a higher minimum wage because they are already having to claim subsidies from the Government to cope with rising energy costs. In 2022 garment manufacturers experienced a 50% increase in energy costs.

(e) With reference to Extract A and your own knowledge, discuss the likely effects of Government policies on the productive efficiency of SMEs.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION C

Answer TWO questions from this section.

8 In 2017 19% of firms in the UK construction industry were small or medium-sized businesses.

Evaluate why some firms remain small.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 There are many hotel businesses in the Philippines that operate in a monopolistically competitive market.

To what extent would a perfectly competitive market be more efficient than a monopolistically competitive market?

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 Garuda Indonesia is the country's national airline. In November 2017 the company's Vice-President stated that the airline's main objective was to maximise revenue.

Evaluate the extent to which different business objectives may affect a firm's profits.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In Pakistan, internet services are provided by a monopolist, Pakistan Telecommunication Company Ltd (PTCL). The quality of the service offered is poor and the internet speed is slow resulting in a high level of complaints from consumers.

Evaluate policies that a government could use to control and regulate monopolies, such as PTCL.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In 2022 Belgium had an unemployment rate of 5.5% and a vacancy rate of 4.8%.

Evaluate policies that a government could use to reduce the geographical immobility of labour **and** the occupational immobility of labour.

Refer to industries of your choice in your answer.

(Total for Question 9 = 20 marks)

10 Nestlé is the largest manufacturer of pre-packaged food and beverages in the world, based on revenue. Its size has enabled it to reduce its average cost of production.

Evaluate the impact that the size of a business has on its efficiency.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SUB-TOPIC 3.3.3.2

CONCENTRATION RATIO

Sub-topic 3.3.3.2 · 9 questions · 16 marks · lowest tariff first

SECTION A

Answer ALL questions in this section.

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

1 In 2014 the Irish Government allowed private sector bus operators to bid for public transport contracts for the first time.

This is an example of

☒ **A** government failure

☒ **B** trade liberalisation

☒ **C** competitive tendering

☒ **D** regulation

(Total for Question 1 = 1 mark)

2 The table shows the market share by value of retail sales of grocery stores in the UK.

Store	March 2016 (%)	March 2017 (%)
Tesco	28.1	27.6
Sainsbury's	16.4	16.1
Asda	16.2	15.7
Morrisons	10.5	10.4
Co-op	6.1	6.1
Aldi	6.0	6.8
Others	16.7	17.3

(Source: https://www.statista.com/statistics/280208/grocery-market-share-in-the-united-kingdom-uk/)

From the data it can be deduced that

☒ **A** the 3-firm concentration ratio was 50.7% in March 2016

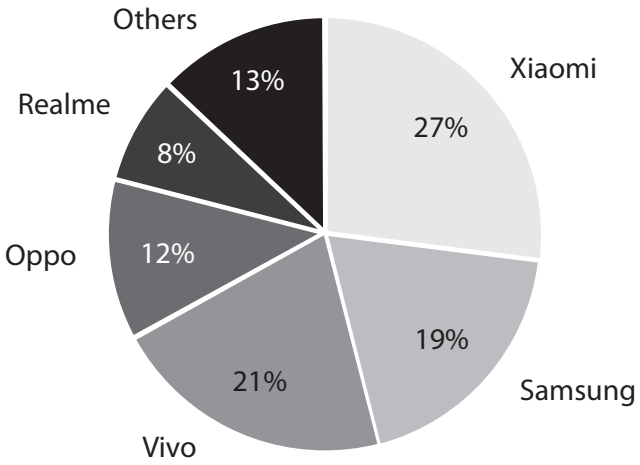
☒ **B** the 5-firm concentration ratio was 87.3% in March 2016

☒ **C** the 3-firm concentration ratio was 49.4% in March 2017

☒ **D** the 5-firm concentration ratio was 76.6% in March 2017

(Total for Question 2 = 1 mark)

2 The chart shows the market share of smartphone companies in India in quarter 4, 2019.



What is the 4-firm concentration ratio?

- ☒ **A** 67%
- ☒ **B** 79%
- ☒ **C** 80%
- ☒ **D** 87%

(Total for Question 2 = 1 mark)

3 Hairdressing salons are assumed to operate under conditions of monopolistic competition.

Which **one** of the following will be true for a hairdressing salon in long-run equilibrium?

- ☒ **A** It is productively efficient
- ☒ **B** It makes supernormal profit
- ☒ **C** It is allocatively efficient
- ☒ **D** It makes normal profit

(Total for Question 3 = 1 mark)

SECTION A

Answer ALL questions in this section.

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

1 In December 2020 Electronic Arts, an American video game producer, agreed to take over Codemasters, the producer of Formula One racing video games.

Which **one** of the following is likely to be a benefit of this takeover for Electronic Arts?

☒ **A** An increase in contestability in the video games market

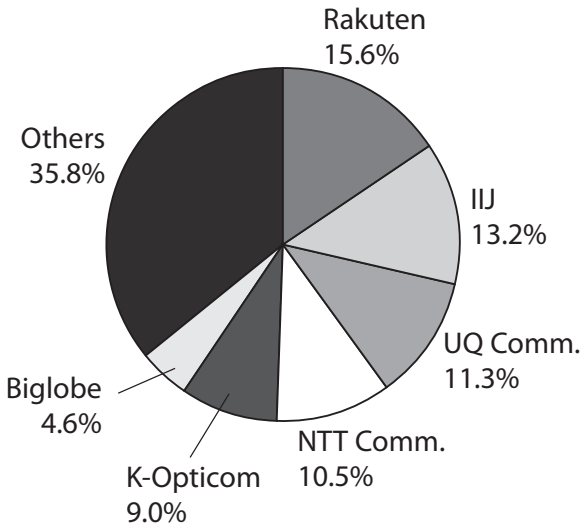
☒ **B** A decrease in total costs of production

☒ **C** An increase in competition in the video games market

☒ **D** A decrease in long-run average costs

(Total for Question 1 = 1 mark)

2 The chart shows the market share for mobile virtual network operators (MVNOs) in Japan for 2019.



What was the five firm concentration ratio for MVNOs in Japan for 2019?

☒ **A** 48.6%

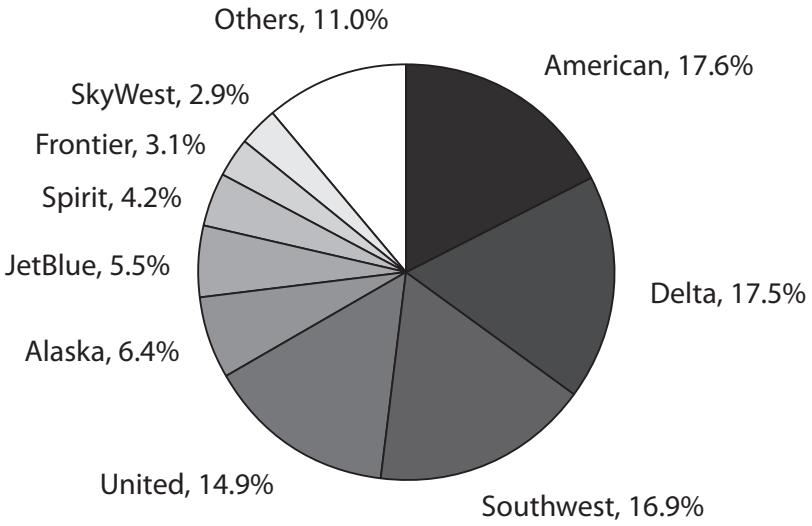
☒ **B** 50.6%

☒ **C** 59.6%

☒ **D** 86.4%

(Total for Question 2 = 1 mark)

4 The chart shows the market share, by revenue, for airlines operating domestic flights in the USA, February 2019–January 2020.



Which **one** of the following is the five-firm concentration ratio for airlines operating domestic flights in the USA?

- ☒ **A** 66.9%
- ☒ **B** 73.3%
- ☒ **C** 77.9%
- ☒ **D** 78.8%

(Total for Question 4 = 1 mark)

5 In January 2021 the UK Government set up a new national construction products regulator to ensure that homes are built from safe materials.

Which **one** of the following would limit the impact of government intervention in the housing market?

- ☒ **A** Perfect mobility of resources
- ☒ **B** A flexible labour market
- ☒ **C** Perfect knowledge of the housing market
- ☒ **D** Regulatory capture

(Total for Question 5 = 1 mark)

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

7 In 2018 total new car sales in China were 23.7 million.

(a) With reference to Figure 2, calculate the 4-firm concentration ratio for the car market in China in 2018. You are advised to show your working.

(2)

(b) With reference to the third paragraph of Extract B, explain what is meant by a 'takeover'.

(4)

(c) With reference to Figure 1 and Extract A, analyse **two** reasons for the fall in car sales in China since 2017.

(6)

(d) With reference to Extract A, examine the likely effects of the Chinese Government's subsidy on the profits of an electric car manufacturer.

Illustrate your answer with an appropriate diagram.

(8)

(e) With reference to Extract A and Extract B and your own knowledge, discuss the types of non-price competition that could be used by car manufacturers to increase the sales of cars.

(14)

Sources for use with Section B.

The Chinese car market

Figure 1 New car sales in China, 2009–2019 (millions)

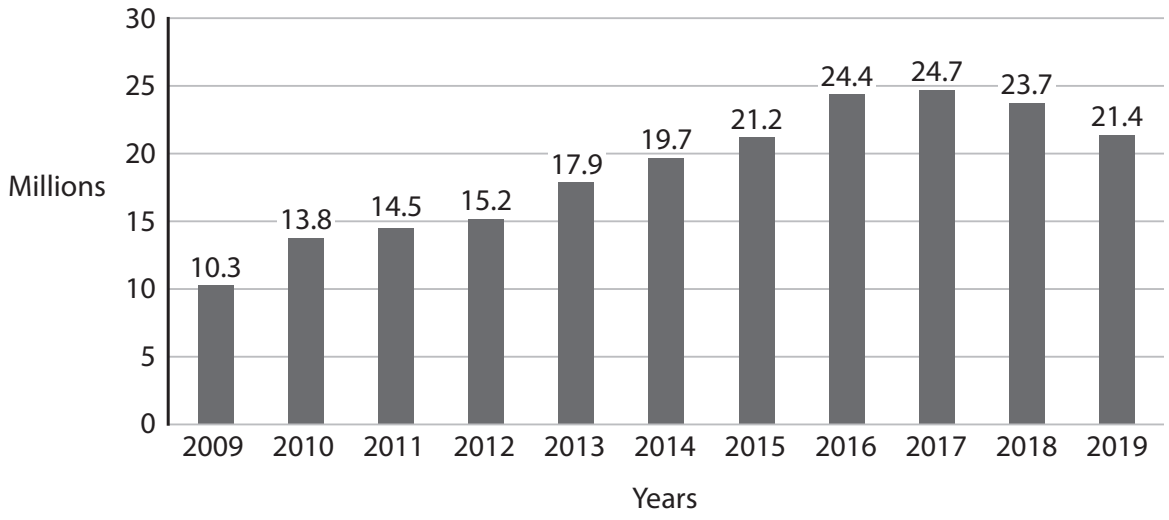
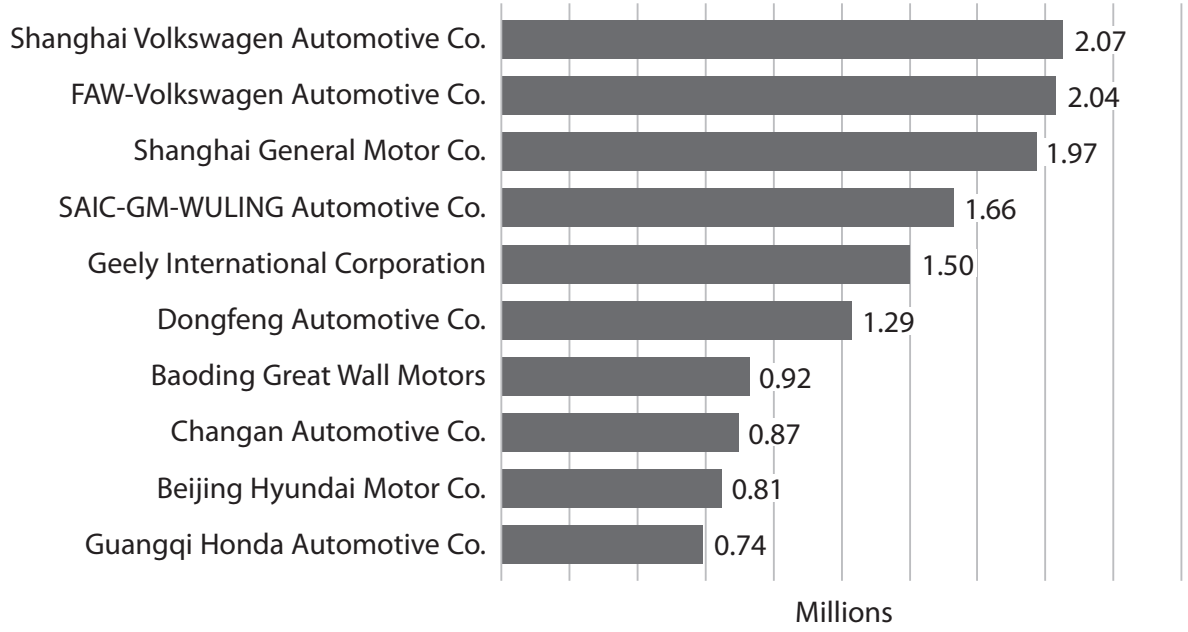


Figure 2 Major car manufacturers' sales in China, 2018 (millions)



Extract A Developments in the Chinese car market

In 2019 more cars were sold in China than in any other country. In that year, the Chinese car market accounted for 30% of total global car sales. Chinese manufacturers produced 42% of the cars sold in China in 2019. In 2018 23.7 million cars were sold in China, compared to only 4.4 million in Japan, 15.6 million in Europe and 17.2 million in the United States.

In 2018 car sales in China declined by 4%, the first reduction in 20 years. One reason for this was the slowdown in China's rate of economic growth. In 2009 real GDP rose by 9.4%, but in 2018 the rate of growth had fallen to 6.6%.

The decline in sales is also because of the increased availability of substitutes. Chinese car buyers are increasingly looking for low-cost alternatives to buying new cars. Many consumers are switching from car ownership to using car-hailing taxi apps instead. There are now over 100 different car-hailing platforms in China with over 330 million consumers. The price of these services is very low and the app makes them very easy to order. China is becoming the largest car-hailing taxi market in the world.

Growth in the electric and hybrid car market is promising, as younger consumers demand more environmentally friendly transportation. The Chinese Government is heavily subsidising electric cars, offering up to 90 000 yuan per car, in an attempt to encourage more production. The aims of the subsidies are to reduce air pollution to meet carbon performance targets and to improve the quality of electric cars. The Government is also increasing the number of public charging points available for electric cars. Local governments incentivise consumers to purchase electric cars by offering free licence plates and free parking.

Extract B Competition in the Chinese car market

A connected-car is one that has its own internet connection. This allows the car to share internet access and data with other devices inside and outside the car. The global connected-car market is expected to grow by 270% by 2022. Market research by Kantar TNS suggested 79% of the Chinese consumers planned to buy a connected-car in the future.

In 2018 BMW, a leading German luxury car manufacturer, started a joint venture with Alibaba Group, a Chinese multinational firm specialising in technology. Their aim was to develop a range of luxury connected-cars. Drivers are able to shop online, watch movies, listen to music and book appointments in their new BMW. Quality and innovation are very important in the Chinese car market. Consumers are very influenced by reputation and social media when choosing a car to purchase.

Chinese car manufacturer Geely is the main producer of connected-cars. Geely has a 6.3% market share of the total Chinese car market. The business produces highly connected-cars with ultra-modern design. The company targets its cars at younger consumers. The company is trying to expand internationally and recently bought the majority share in Lotus, a British sports car brand. The takeover should help Geely increase its sales in Europe. However, its main objective is to grow its market share in China.

7 In 2018 total new car sales in China were 23.7 million.

(a) With reference to Figure 2, calculate the 4-firm concentration ratio for the car market in China in 2018. You are advised to show your working.

(2)

(b) With reference to the third paragraph of Extract B, explain what is meant by a 'takeover'.

(4)

SECTION B

Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 7.
Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the four-firm concentration ratio for the US car market in 2019.

(2)

(b) With reference to Extract A, explain what is meant by 'horizontal integration'.

(4)

(c) With reference to Extract A, analyse **two** barriers that Stellantis are likely to experience when trying to increase market share in China.

(6)

(d) With reference to Extract A, examine the impact of an increase in car sales in the USA on the profits of Stellantis.

Illustrate your answer with an appropriate diagram.

(8)

(e) With reference to the information provided and your own knowledge, discuss the possible impact of the merger between PSA Group and Fiat Chrysler on workers and consumers.

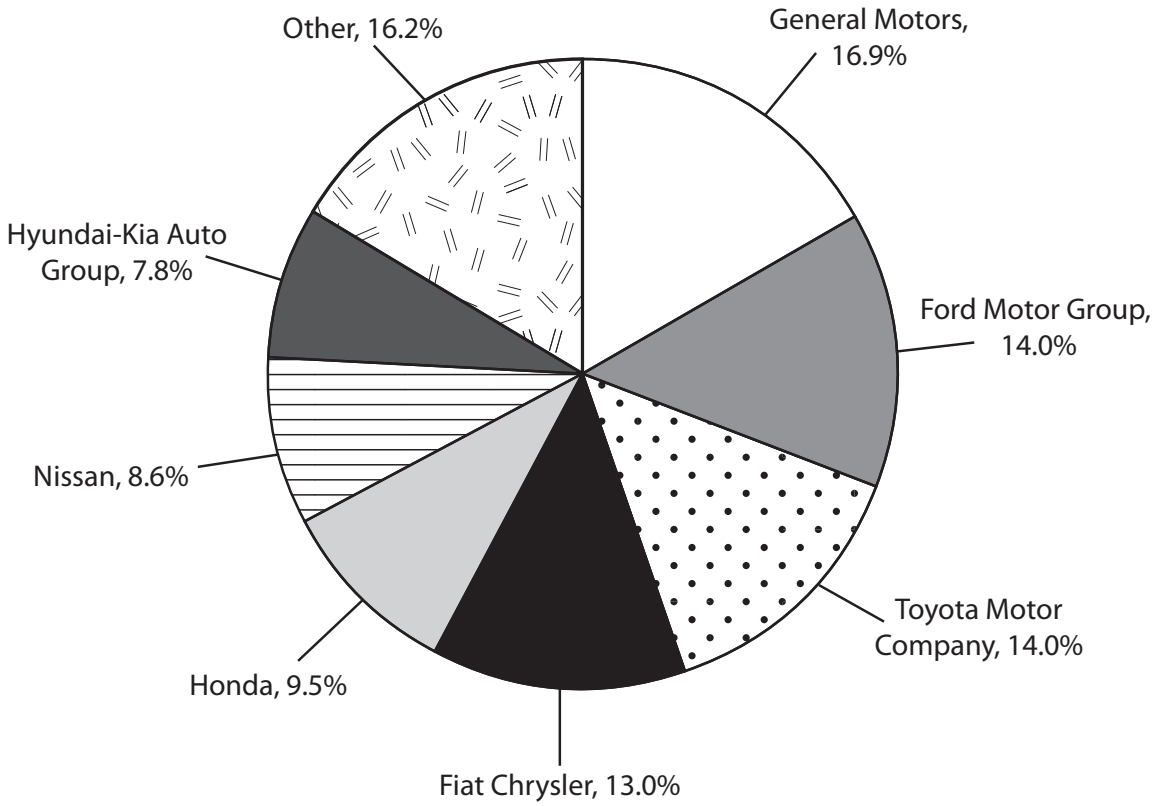
(14)

Sources for use with Section B

The car industry

Figure 1

Percentage market share of car manufacturers in the USA, 2019



Extract A PSA Group and Fiat Chrysler merger

In January 2021 PSA Group and Fiat Chrysler agreed to merge, creating the world's third largest car manufacturer by volume. The new firm, named Stellantis, includes well-known car brands including Peugeot, Citroen and Vauxhall from PSA Group and Alfa Romeo, Jeep and Lancia from Fiat Chrysler. The ownership of the firm is split evenly between the shareholders of PSA Group and Fiat Chrysler. As a result of this merger, Stellantis owns manufacturing plants all over the world including the Netherlands, the USA and the UK. It has an expected annual turnover of over €170 billion.

This horizontal integration is expected to benefit both firms. Each firm will benefit from cost savings by sharing production expertise and technical knowledge. It is estimated that there will be an annual cost saving of €3.4 billion from purchasing economies of scale. PSA Group has gained access to the American car market, where Fiat Chrysler already has a significant market share, with 3 000 car showrooms across the USA. Following the merger, in Q1 2021 Stellantis experienced a 25% increase in revenue as a result of an increase in car sales in the US market.

Fiat Chrysler will benefit from gaining access to PSA Group's research and development into electric cars. This is important for the firm because demand for electric cars is increasing globally. PSA Group has developed a range of low-emission vehicles that Fiat Chrysler does not have the technology to produce. Electric cars are also important when moving into foreign markets such as China. Since 2010, the demand for electric cars in China has been rising steadily. In 2020 38% of global sales of electric cars were in China.

The shareholders of Stellantis hope that the firm will be able to compete more effectively in China, the world's biggest car market. In 2020 PSA Group and Fiat Chrysler had a combined market share of only 1% in the Chinese car market, whereas Chinese car firms had a 40% market share. In addition, a number of other well-established firms are operating in the Chinese car market including Volkswagen, Honda and Toyota. Trying to increase market share in China may prove to be difficult for Stellantis. Good communication and clear management will be essential if Stellantis is to be successful.

Extract B Concerns over factory closures

Trade unions are concerned that Stellantis will close factories to cut costs. Unite, the UK-based trade union negotiating on behalf of the 3 000 Vauxhall employees, has requested a meeting with the head of Stellantis, to prevent possible factory closures. The skilled car workers are highly specialised. Therefore, if these factories were to close, it would be very difficult for the workers to find new jobs without training.

7 (a) With reference to Figure 1, calculate the four-firm concentration ratio for the US car market in 2019.

(2)

(b) With reference to Extract A, explain what is meant by 'horizontal integration'.

(4)

SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage point change in the four-firm concentration ratio between 2020 and 2021.

(2)

(b) With reference to Extract A, analyse **two** reasons why India has become the world's second largest smartphone market.

(6)

(c) With reference to Extract B, explain what is meant by 'economies of scale'.

(4)

(d) With reference to Figure 2 and Extract B, examine the likely impact on the profits of Samsung of opening a smartphone factory in India.

Use an appropriate diagram in your answer.

(8)

(e) With reference to Extract C, Figure 2 and your own knowledge, discuss the benefits of non-price competition for consumers and businesses in the Indian smartphone industry.

(14)

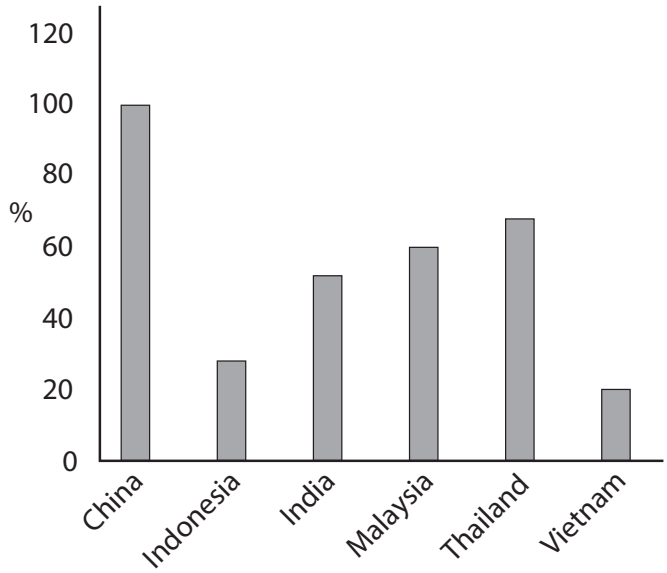
Sources for use with Section B

The Indian mobile phone market

Figure 1 Market shares of mobile phone companies in India, 2020 and 2021

	2020	2021
Xiaomi	26%	21%
realme	11%	17%
Samsung	20%	16%
vivo	15%	13%
OPPO	10%	9%
Others	18%	24%

Figure 2 Hourly labour cost for selected countries as a percentage of China's hourly labour costs, September 2018



Extract A The Indian smartphone market

In October 2021 India's population was 1.38 billion, the second largest in the world after China. India's per capita real income increased from US$ 1 000 in 2015 to US$ 1 301 in 2020. It is predicted that incomes will continue to rise steadily over the next few years. India's large population and increasing disposable incomes have made it the world's second largest smartphone market. Over half the population of India owns a smartphone. It is expected that the market will grow from US$ 25.1 billion in 2018–19 to US$ 80 billion in 2025–26.

Extract B The production of smartphones in India

The manufacture of smartphones in India has increased significantly, making it the second largest manufacturing country after China. If production continues to rise at its current rate, India will soon become the global leader in smartphone production.

The Indian Government has been encouraging foreign direct investment (FDI) through the "Make in India" programme. This scheme offers tax relief for any companies manufacturing in India. The scheme also introduced a 12.5% tax on any imported phone components needed in the manufacturing process. This has caused an increase in the local production of handsets and phone components. Also, it is estimated that wages for skilled workers are 15% less in India than in China. As a result, Samsung Electronics, a South Korean company, opened the world's largest smartphone factory in India. The company will benefit from economies of scale and from reduced transport costs when selling its products in India, the Middle East and Africa. Foxconn, a Taiwanese company, moved its production of the new Apple iPhone from China to India to reduce long-run average costs.

There are several challenges facing smartphone producers in India. For example, the supply of components is insufficient to meet the level of demand. This forced some businesses to import more expensive and heavily taxed components from China. In addition, the power supply is not always reliable, reducing output and efficiency. Transportation can also be slow and costly. Poor roads and railways mean that it takes a long time for manufactured goods to reach the coast to be transported to other countries.

Extract C Competition in the smartphone industry

The smartphone industry in India is dominated by a few large businesses because smaller businesses find it difficult to compete on quality, functions and variety of smartphones. The large smartphone businesses mainly use non-price competition in order to increase market share. These strategies include advertising and branding, innovation, design and after-sales service.

7 (a) With reference to Figure 1, calculate the percentage point change in the four-firm concentration ratio between 2020 and 2021.

(2)

SECTION B

Study Figure 1 and Extracts A, B and C in the Source Booklet before answering Question 7.
Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the 4-firm concentration ratio of the global fast-food industry.

You are advised to show your workings.

(2)

(b) With reference to Extract C, explain what is meant by organic growth.

(4)

(c) With reference to Extract A, analyse **two** reasons why the global fast-food market is expected to grow.

(6)

(d) With reference to the last paragraph of Extract B, examine the likely impact on McDonald's profits by switching 'to suppliers that use more ethical and sustainable methods of production'.

Illustrate your answer with an appropriate diagram.

(8)

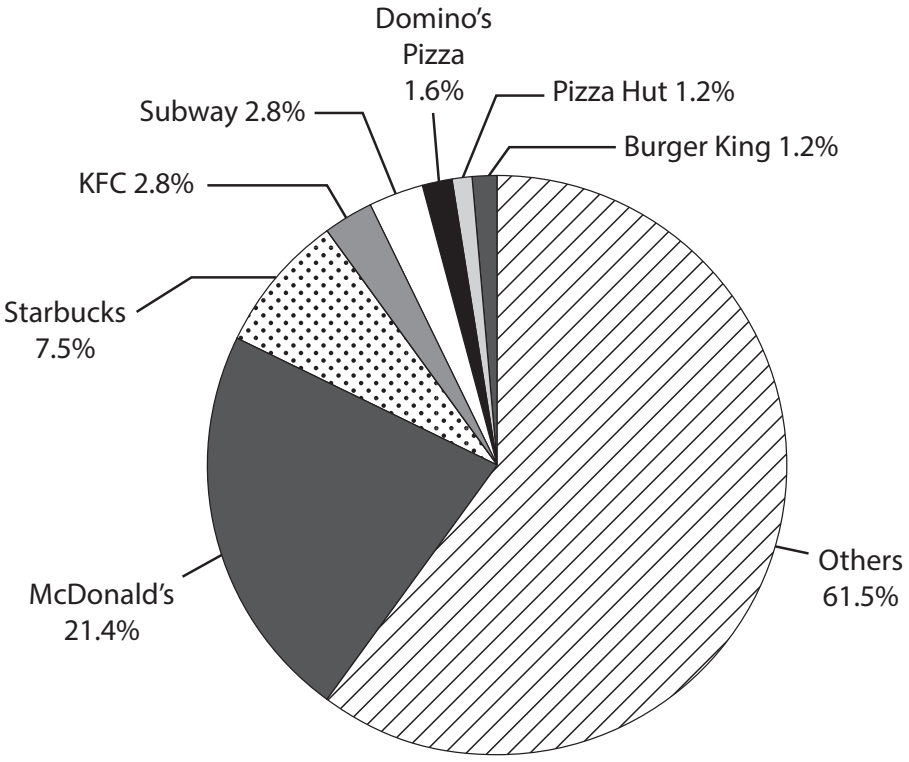
(e) With reference to Figure 1, Extract C and your own knowledge, discuss the likely effects of McDonald's opening CosMc's on its competitors.

(14)

Sources for use with Section B

The fast-food industry

Figure 1 Global market share of companies in the fast-food industry, 2023



Extract A The global fast-food market

The global increase in fast-food consumption has been caused by several factors:

- a rise in the number of people living in cities. For example, between 2010 and 2021, the population living in cities increased from 3.59 billion to 4.59 billion
- changes in people's lifestyles has led to limited time for individuals to spend preparing meals
- the affordability of fast food has made it popular as a result of slow wage growth and increased living costs
- the large marketing expenditures and branding strategies of the companies in the fast-food industry. For example, in 2020, fast-food companies spent $4.5 billion on advertising
- greater use of mobile applications by consumers to order fast food for home delivery. For example, in 2023, Zomato was downloaded 52 million times and Uber Eats 41 million times.

However, in many countries there is an increased awareness of health risks associated with consuming fast food, such as heart disease and obesity. This has led to changes in consumer behaviour as evidenced by an increase in demand for fresh food and organic food that use locally sourced ingredients.

Extract B McDonald's

McDonald's Corporation is an American business that operates over 40 275 restaurants worldwide. It produces a range of fast foods including burgers, fries, salads and drinks. In 2023 its assets were valued at $170 billion and it was the fourth-largest employer globally, employing over 1.9 million workers. McDonald's has over 70 million customers daily, selling an average of 80 burgers every minute.

In recent years, McDonald's has had to adapt its products to meet changing consumer preferences. McDonald's has made significant changes to provide healthy options for its customers. For example, it has expanded its menu to include salads, fruit bags and lower-calorie alternatives.

Moreover, McDonald's has switched to suppliers that use more ethical and sustainable methods of production. As a result, McDonald's costs of production have increased. The purpose of this change of suppliers was to make a positive impact on the planet. For example, McDonald's now uses:

- deforestation-free supply chains for beef
- sustainable fisheries for fish
- sustainable palm oil production
- locally-sourced ingredients to reduce its carbon footprint.

Extract C McDonald's opens CosMc's

In December 2023 McDonald's opened a new café called CosMc's. It sells a variety of drink and food options. CosMc's has a menu of drinks such as coffees and teas, with the ability to customise them. There are also limited food choices for on-the-go eating. McDonald's aims to compete with Starbucks in the growing beverage market and plans to open CosMc's in 10 different locations, mainly in Texas, USA, by December 2024. McDonald's is planning to establish 10 000 new CosMc's cafés worldwide by 2027.

Acknowledgements

Figure 1 adapted from:
https://www.zippia.com/advice/burger-king-statistics/

Extract A adapted from:
https://www.foodbusinessnews.net/articles/22941-fast-foods-future
https://www.fortunebusinessinsights.com/fast-food-market-106482
https://www.reportlinker.com/market-report/Food-Services/9301/Fast-Food?term=fast%20food%20statistics&matchtype=b&loc_interest=&loc_physical=1006925&utm_group=standard&utm_term=fast%20food%20statistics&utm_campaign=ppc&utm_source=google_ads&utm_medium=paid_ads&utm_content=transactionnel-3&gad_source=1&gclid=Cj0KCQiAtaOtBhCwARIsAN_x-3KQ6IPGiHO3NjUBbVH-lBGUv39amVw5J1Drqhoe_faIcV_B46MrgW8aAnhVEALw_wcB

Extract B adapted from:
https://corporate.mcdonalds.com/corpmcd/home.html
https://officechai.com/learn/the-biggest-employers-in-the-world-by-workforce/
https://www.enterpriseappstoday.com/stats/mcdonalds-statistics.html
https://www.theguardian.com/business/2007/jul/05/lifeandhealth.consumerandethicalliving

Extract C adapted from:
https://www.independent.co.uk/voices/mcdonalds-cosmcs-cafe-independent-coffee-shops-capitalism-b2461310.html
https://www.independent.co.uk/life-style/cosmcs-mcdonalds-menu-spinoff-b2460726.html

7 (a) With reference to Figure 1, calculate the 4-firm concentration ratio of the global fast-food industry.

You are advised to show your workings.

(2)

(b) With reference to Extract C, explain what is meant by organic growth.

(4)

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in the wholesale price of gas from 1 April 2021 to 1 April 2022. You are advised to show your working.

(2)

(b) With reference to Figure 2 and the second paragraph of Extract A, explain what is meant by the term 'concentration ratio'.

(4)

(c) With reference to Figure 2 and Extract A, analyse **two** barriers to entry that might prevent a new firm from entering the UK energy market.

(6)

(d) With reference to Figure 1 and Extract A, examine the impact of the increase in the wholesale price of natural gas on the cost of production for UK gas suppliers.

(8)

(e) With reference to Extract A and Extract B, discuss the likely effects of the increase in the energy price cap on both energy suppliers and consumers.

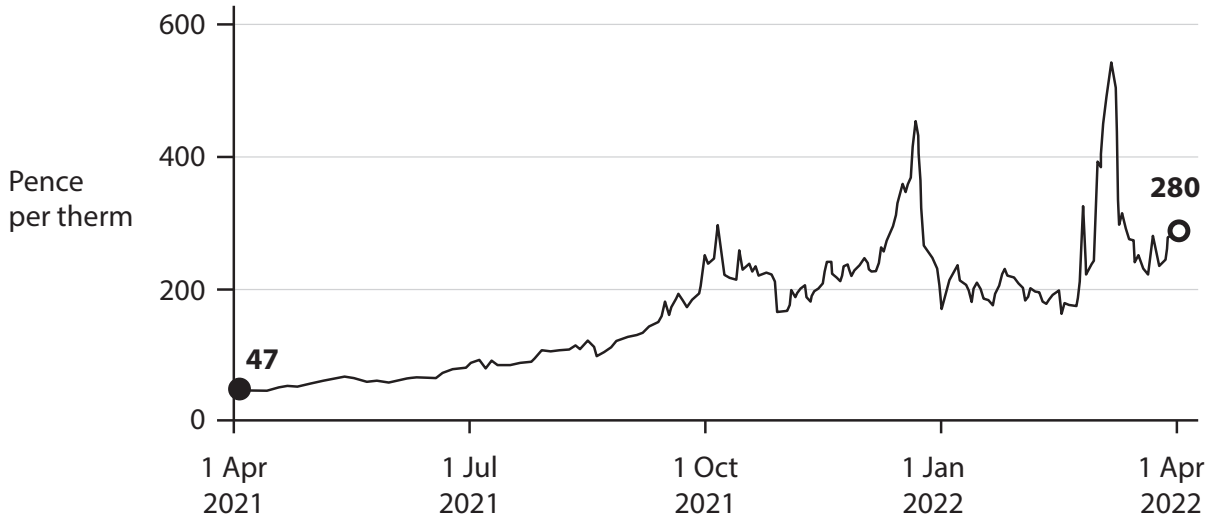
Illustrate your answer with an appropriate cost and revenue diagram.

(14)

Sources for use with Section B

The UK energy market

Figure 1 The UK wholesale price of natural gas, pence per therm*, 1 April 2021 to 1 April 2022



*A therm is a unit of heat

Figure 2 Market share of companies supplying natural gas, Q4 2020 and Q4 2021 (%)

	Q4 2020	Q4 2021
British Gas	26.9	27.6
E.ON Energy UK	12.5	14.7
Ovo	12.5	11.4
EDF UK	8.2	9.6
Scottish Power	8.0	7.9
Octopus	6.3	11.1
Other medium-sized gas suppliers	18.4	14.5
Small-sized gas suppliers	7.2	3.2

Extract A The UK energy market

In 2021 the global wholesale price of natural gas increased significantly. This caused a large increase in the costs for UK companies supplying gas because they have to purchase gas at world market prices. Purchasing natural gas accounts for approximately 35% of the total costs for large gas suppliers. This increase in the wholesale price made it impossible for 31 smaller suppliers to cover their costs and resulted in them shutting down.

With the closure of many small suppliers, there was an increase in the concentration ratio in the market. The six largest suppliers controlled 82.3% of the market for gas by the end of 2021. These larger suppliers increased their market shares by acquiring new consumers from those firms that had left the market. For example, British Gas acquired 729 000 new consumers, EDF UK 580 000 new consumers and E.ON Energy UK 239 000 new consumers. This change in the market enabled these large suppliers to increase their output and achieve greater economies of scale.

It is expected that the energy regulator, Ofgem, will seek to increase barriers to entry in this market by strengthening regulations, to prevent similar disruptions happening again. In addition, Ofgem, announced plans to increase the energy price cap (the maximum price that a supplier can charge for energy to a consumer) from £1 277 per year to £1 971 in April 2022. This should help the surviving suppliers to remain in the industry and secure energy supply for consumers.

Extract B UK Government support for consumers

The cost of living for consumers is set to rise significantly after the increase in the price cap. In response, the UK Government announced help for approximately 28 million households by providing a discount on energy bills worth £200 in 2022. Consumers would be required to pay this back to the Government over 5 years. There would also be a £150 cash payment to some households that will not need to be repaid.

(b) With reference to Figure 2 and the second paragraph of Extract A, explain what is meant by the term 'concentration ratio'.

(4)

SUB-TOPIC 3.3.3.3

PERFECT COMPETITION

Sub-topic 3.3.3.3 · 8 questions · 8 marks · lowest tariff first

SECTION A

Answer ALL questions in this section.

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

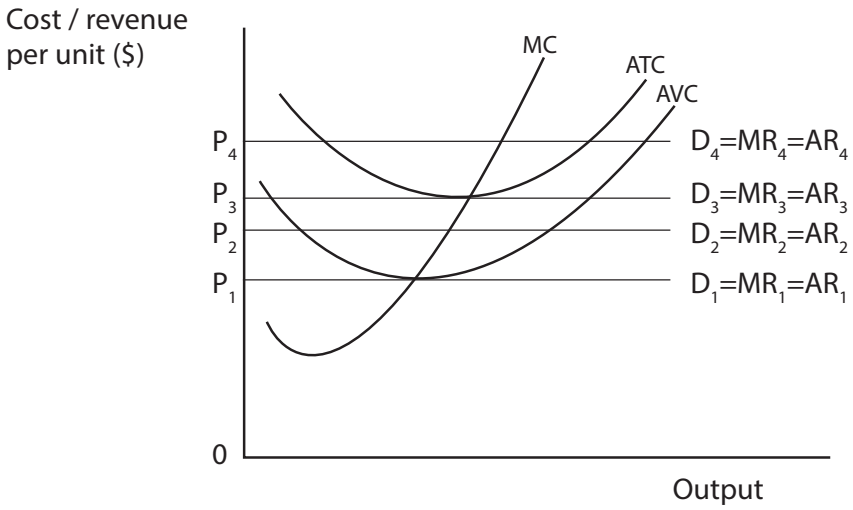
1 In 2018 the Competition and Markets Authority carried out an investigation into a proposed merger between two of the largest UK supermarket companies, Sainsbury's and Asda.

If approved, this type of merger would be an example of

- ☒ **A** conglomerate integration
- ☒ **B** horizontal integration
- ☒ **C** backward vertical integration
- ☒ **D** forward vertical integration

(Total for Question 1 = 1 mark)

2 The diagram shows a firm operating in a perfectly competitive market. The firm has the objective of profit maximisation.



Which **one** of the following is true?

- ☒ **A** At a price of P_1 the firm will shut down in the short-run
- ☒ **B** At a price of P_2 the firm will cover fixed costs and variable costs
- ☒ **C** At a price of P_3 the firm will shut down in the long-run
- ☒ **D** At a price of P_4 the firm will make supernormal profits

(Total for Question 2 = 1 mark)

6 A small fruit farm in Namibia is operating in a perfectly competitive market. Which of the following is true for such a firm in long-run equilibrium?

	Allocative efficiency	Profit
☒ **A**	No	Supernormal
☒ **B**	No	Normal
☒ **C**	Yes	Supernormal
☒ **D**	Yes	Normal

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

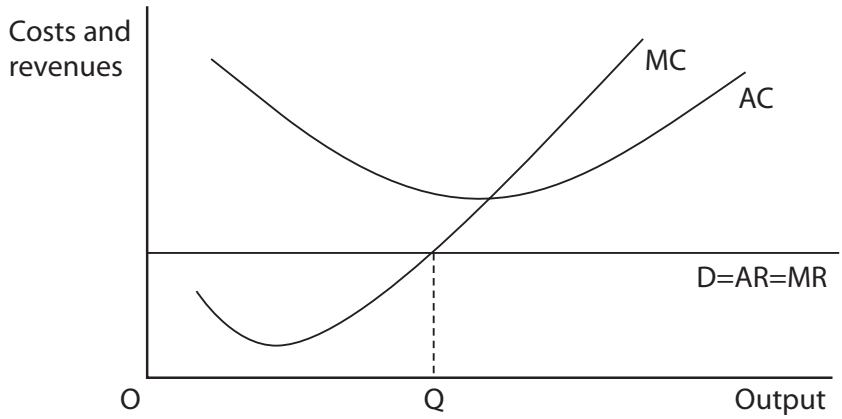
3 A firm employs 50 workers in its factory. Each worker is paid a weekly wage of $1 500. To attract an additional worker the firm needs to raise the wage from $1 500 a week to $1 600 a week for each of its employees.

Which **one** of the following is the marginal cost of employing the additional worker?

- ☒ **A** $100
- ☒ **B** $6 600
- ☒ **C** $75 000
- ☒ **D** $81 600

(Total for Question 3 = 1 mark)

4 The diagram shows the equilibrium output of a profit-maximising firm operating in a perfectly competitive market.

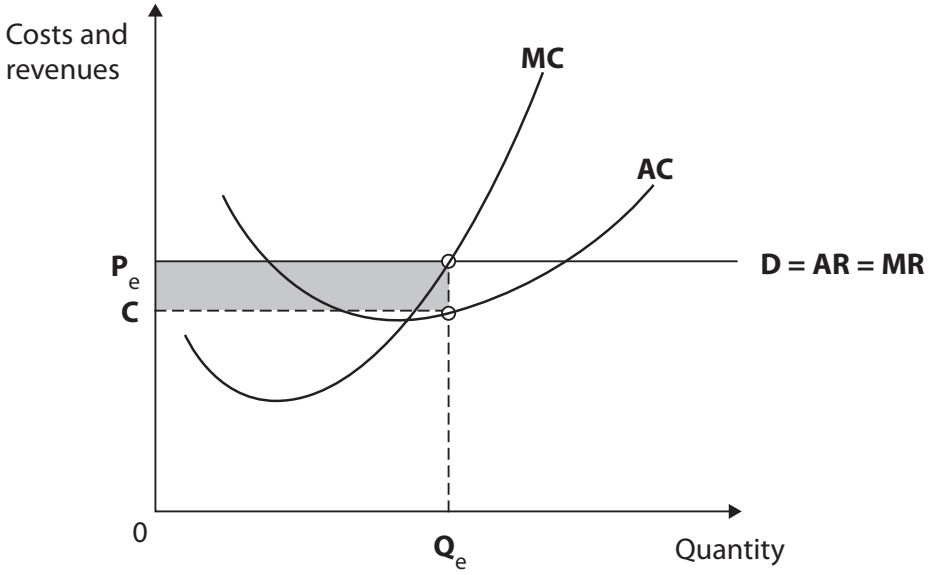


Which **one** of the following can be deduced from this diagram?

	Profits of the firm in the short-run	Number of firms in the industry in the long-run
☒ **A**	Loss	Increase
☒ **B**	Normal	Decrease
☒ **C**	Normal	Increase
☒ **D**	Loss	Decrease

(Total for Question 4 = 1 mark)

3 The diagram shows the short-run profit maximising equilibrium for an agricultural business operating in a perfectly competitive market.



Ceteris paribus, which **one** of the following is the most likely outcome in the long-run?

- ☒ **A** The agricultural business will make normal profit
- ☒ **B** The agricultural business will shut down
- ☒ **C** The agricultural business will increase its output
- ☒ **D** The agricultural business will increase its price

(Total for Question 3 = 1 mark)

4 In 2022 Google's global market share of the internet search engine market was 84%.

Which **one** of the following is the most likely outcome of Google operating at its profit maximising output?

- ☒ **A** Average revenue is equal to marginal cost
- ☒ **B** Marginal revenue is greater than average revenue
- ☒ **C** Marginal revenue is equal to total cost
- ☒ **D** Average revenue is greater than average cost

(Total for Question 4 = 1 mark)

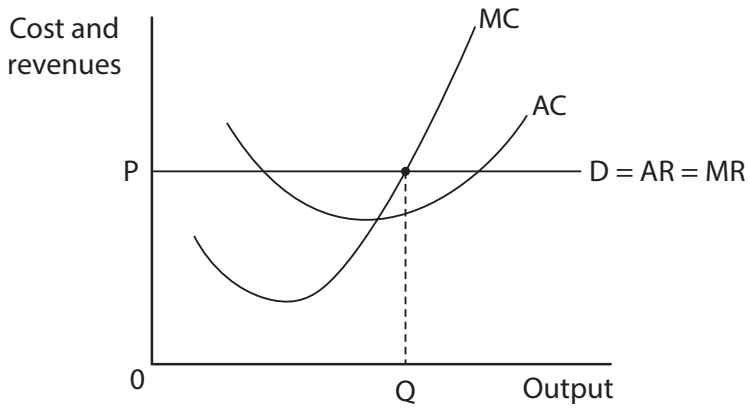
3 In 2022 the pharmaceutical company GlaxoSmithKline (GSK) demerged from the consumer health business Haleon. GSK's shareholders believed that the businesses would be able to work more successfully as separate companies.

Which **one** of the following is the most likely reason why GSK decided to demerge from Haleon?

- ☒ **A** To benefit from external economies of scale
- ☒ **B** To diversify the business
- ☒ **C** To achieve diseconomies of scale
- ☒ **D** To focus on its core business

(Total for Question 3 = 1 mark)

4 The diagram shows the short-run costs and revenues for a farmer producing wheat in India.



Which **one** of the following is most likely to occur in the long-run?

- ☒ **A** Additional wheat farmers will enter the market
- ☒ **B** Some wheat farmers will leave the market
- ☒ **C** The wheat farmer will make supernormal profit
- ☒ **D** The wheat farmer will make a loss

(Total for Question 4 = 1 mark)

SECTION A

Answer ALL questions in this section.

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

1 A pineapple producer in Costa Rica, operating in a perfectly competitive market, is currently making supernormal profits.

Which **one** of the following is the most likely outcome in the long-run?

☒ **A** The producer will make more supernormal profit

☒ **B** The producer's output will decrease but industry output will increase

☒ **C** The producer will leave the market

☒ **D** The market concentration will increase

(Total for Question 1 = 1 mark)

2 In 2023 Cineworld sold tickets for standard seats to watch movies at £9.99 in the UK. Students only paid £7.99 for the same seats.

Which **one** of the following best describes this pricing strategy?

☒ **A** Marginal cost pricing

☒ **B** Limit pricing

☒ **C** Price discrimination

☒ **D** Predatory pricing

(Total for Question 2 = 1 mark)

3 In 2023 the Government of the Philippines introduced a maximum price for rice of 41 pesos ($0.72) per kilogram.

Ceteris paribus, which **one** of the following is the most likely impact of the introduction of this maximum price for rice on producers?

☒ **A** Producer surplus will increase

☒ **B** Fixed costs will decrease

☒ **C** Dynamic efficiency will increase

☒ **D** Average revenue will decrease

(Total for Question 3 = 1 mark)

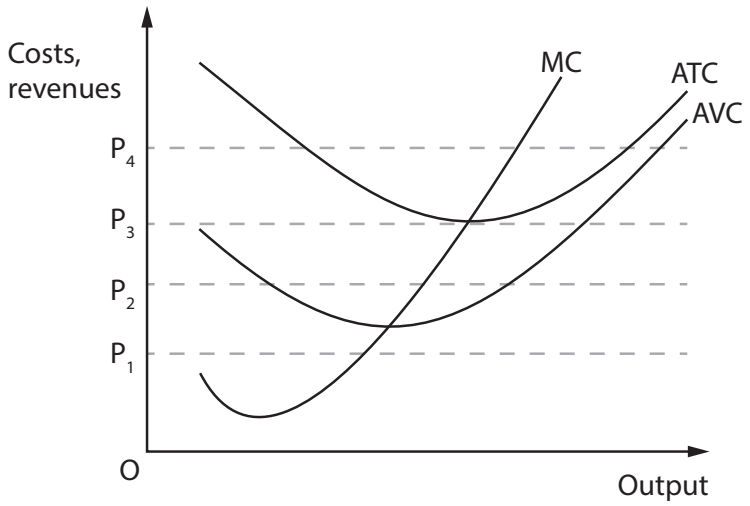
3 The elasticity of demand for labour for workers in the shipbuilding industry in France is estimated to be –0.88.

Which **one** of the following is most likely to cause the demand for labour to be inelastic?

- ☒ **A** Labour can be easily substituted by capital
- ☒ **B** The workers are all members of a trade union
- ☒ **C** There is a large supply of labour available to work in the industry
- ☒ **D** Labour costs are a small percentage of total costs

(Total for Question 3 = 1 mark)

4 The diagram shows marginal cost, average total cost and average variable cost curves for a profit-maximising sweetcorn producer in Argentina operating in a perfectly competitive market.



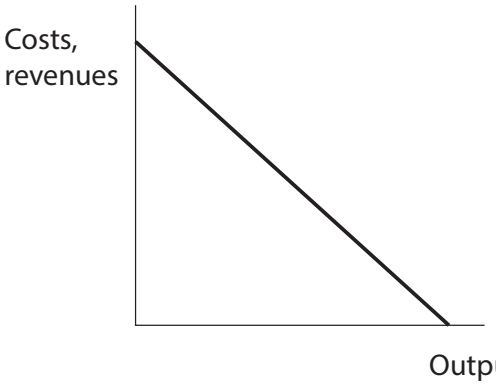
At which **one** of the following prices would the producer sell sweetcorn in the short-run but shut-down in the long-run?

- ☒ **A** P_1
- ☒ **B** P_2
- ☒ **C** P_3
- ☒ **D** P_4

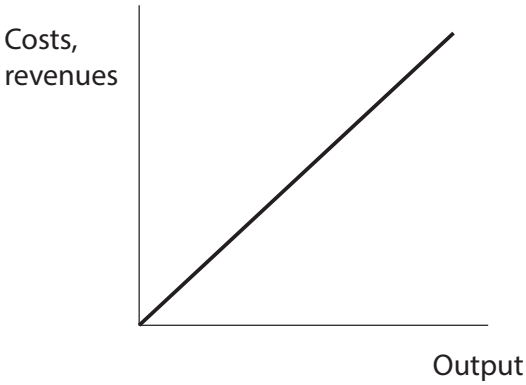
(Total for Question 4 = 1 mark)

6 Which **one** of the following diagrams illustrates the total revenue curve for a profit-maximising firm operating in a perfectly competitive market?

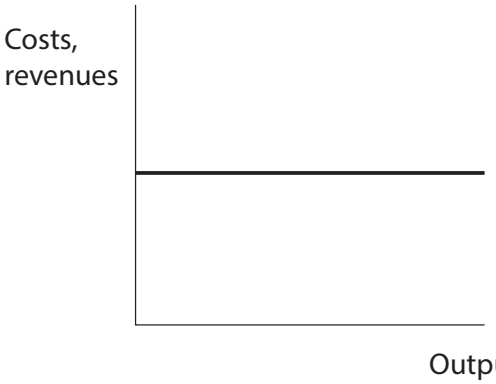
A



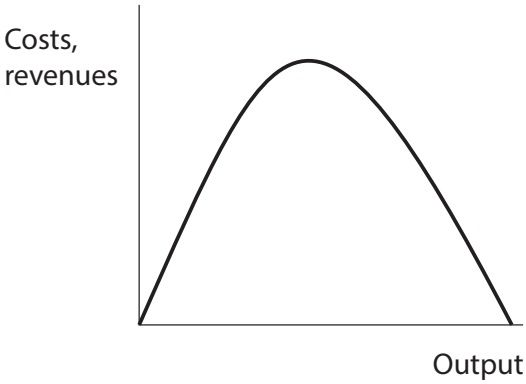
B



C



D



☒ **A**

☒ **B**

☒ **C**

☒ **D**

(Total for Question 6 = 1 mark)

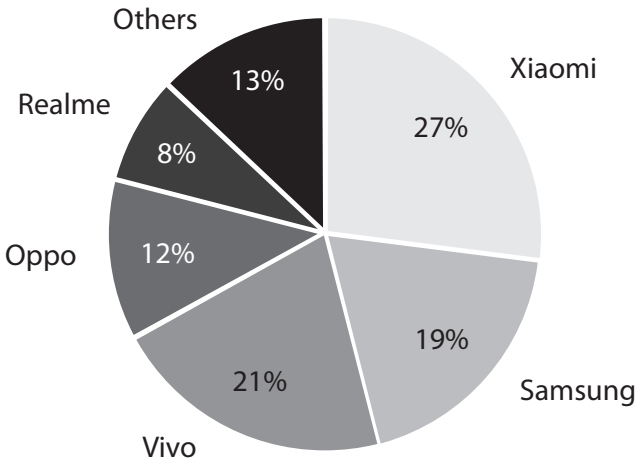
TOTAL FOR SECTION A = 6 MARKS

SUB-TOPIC 3.3.3.4

MONOPOLISTIC COMPETITION

Sub-topic 3.3.3.4 · 9 questions · 12 marks · lowest tariff first

2 The chart shows the market share of smartphone companies in India in quarter 4, 2019.



What is the 4-firm concentration ratio?

- ☒ **A** 67%
- ☒ **B** 79%
- ☒ **C** 80%
- ☒ **D** 87%

(Total for Question 2 = 1 mark)

3 Hairdressing salons are assumed to operate under conditions of monopolistic competition.

Which **one** of the following will be true for a hairdressing salon in long-run equilibrium?

- ☒ **A** It is productively efficient
- ☒ **B** It makes supernormal profit
- ☒ **C** It is allocatively efficient
- ☒ **D** It makes normal profit

(Total for Question 3 = 1 mark)

6 A farm producing wheat is operating in a monopolistically competitive market.
Which **one** of the following will apply to this firm?

- ☒ **A** Allocative inefficiency in the long-run
- ☒ **B** Productive efficiency in the short-run
- ☒ **C** Supernormal profit in the long-run
- ☒ **D** Allocative efficiency in the short-run

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

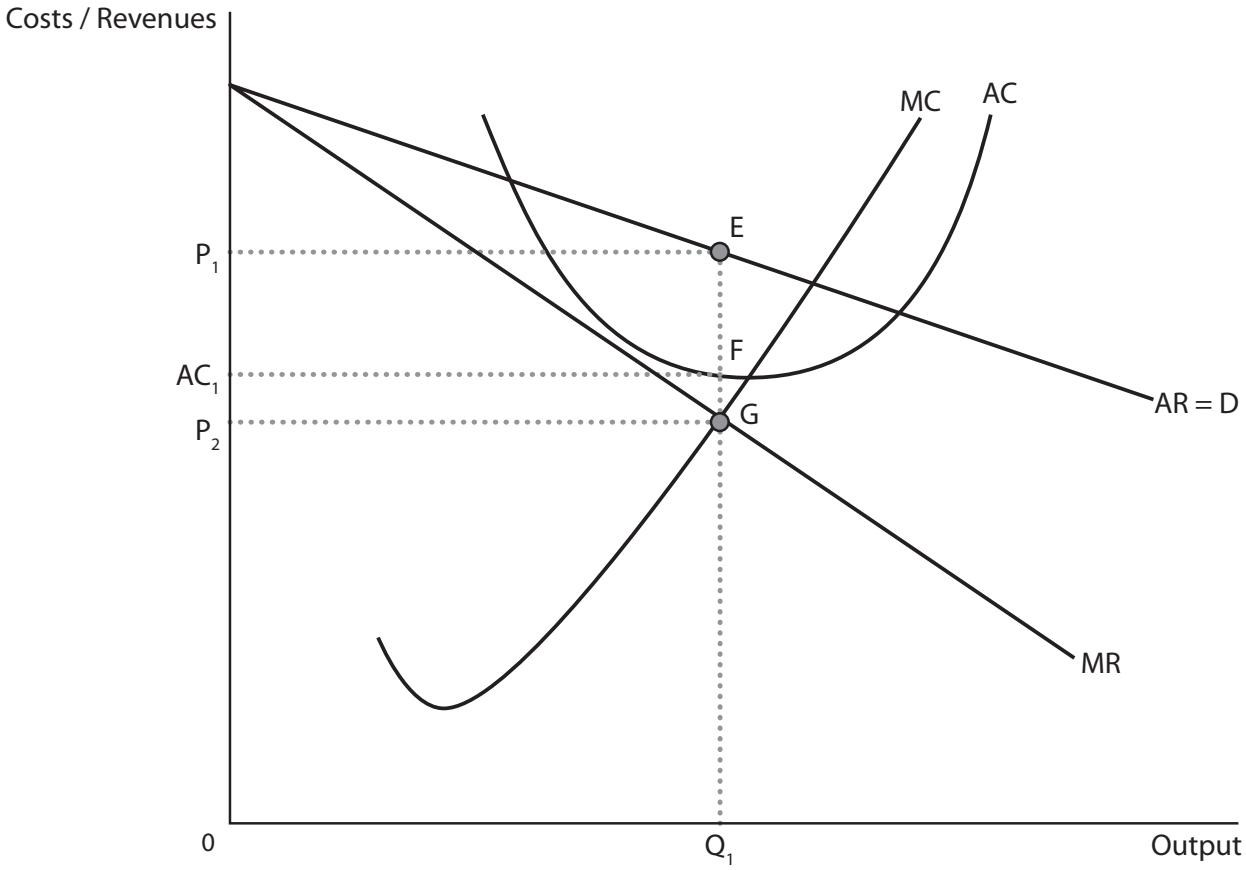
6 Which **one** of the following combinations best describes a profit-maximising firm operating in a monopolistically competitive market in the long-run?

		Efficiency	Profit
☒	**A**	Productively inefficient	Normal profit
☒	**B**	Productively efficient	Supernormal profit
☒	**C**	Allocatively inefficient	Supernormal profit
☒	**D**	Allocatively efficient	Normal profit

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

2 The diagram shows the short-run cost and revenue curves for a hairdresser operating in a monopolistically competitive market in Mumbai.



Which **one** of the following can be deduced from the diagram?

- ☒ **A** At output Q_1 the firm is maximising its total revenue
- ☒ **B** At output Q_1 the firm is minimising its average cost
- ☒ **C** At output Q_1 the firm is making normal profit
- ☒ **D** At output Q_1 the firm is making supernormal profit

(Total for Question 2 = 1 mark)

SECTION A

Answer ALL questions in this section.

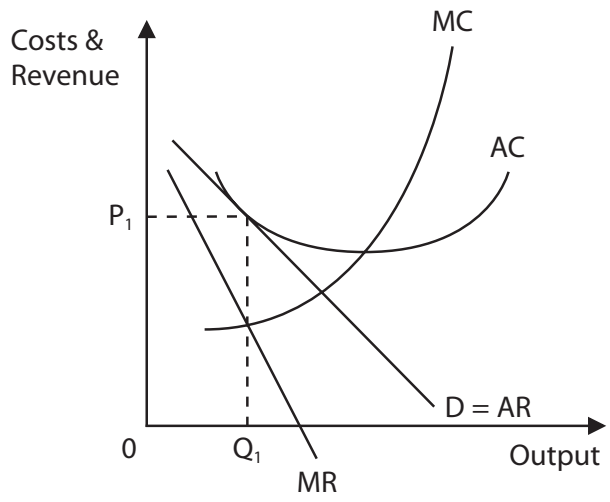
Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 *Ceteris paribus*, which **one** of the following would reduce the geographical mobility of labour within a country?

- ☒ **A** An increase in relocation grants paid by the government
- ☒ **B** An increase in the costs of relocating from one region to another
- ☒ **C** More accurate information about job opportunities in different locations
- ☒ **D** Similar average house prices in different regions of the country

(Total for Question 1 = 1 mark)

2 The diagram shows the long-run equilibrium for a restaurant in Bangkok, Thailand, operating in a monopolistically competitive market.



Which **one** of the following can be deduced from the diagram?

- ☒ **A** The firm is producing the allocatively efficient level of output at price P_1
- ☒ **B** The firm will leave the industry if average costs fall
- ☒ **C** The firm is producing the productively efficient level of output Q_1
- ☒ **D** The firm is making normal profit

(Total for Question 2 = 1 mark)

SECTION A

Answer ALL questions in this section.

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

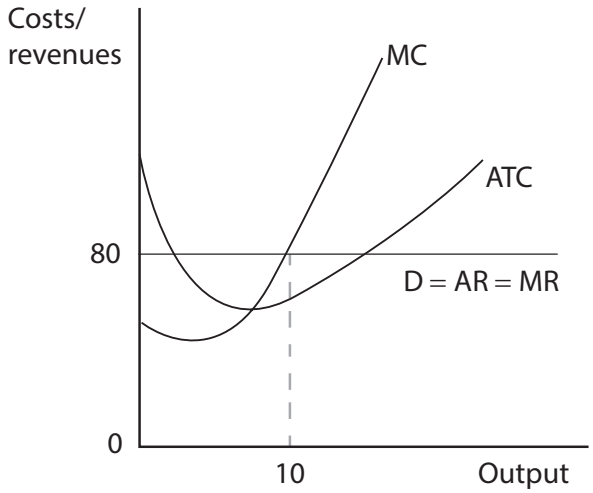
1 Patent protection makes it difficult for new firms to enter the pharmaceutical industry.

Which **one** of the following is also a barrier to entry for new firms?

- ☒ **A** Predatory pricing
- ☒ **B** Constant returns to scale
- ☒ **C** Low advertising costs
- ☒ **D** High supernormal profits

(Total for Question 1 = 1 mark)

2 The diagram shows the short-run profit-maximising equilibrium of a street food seller in Beijing.

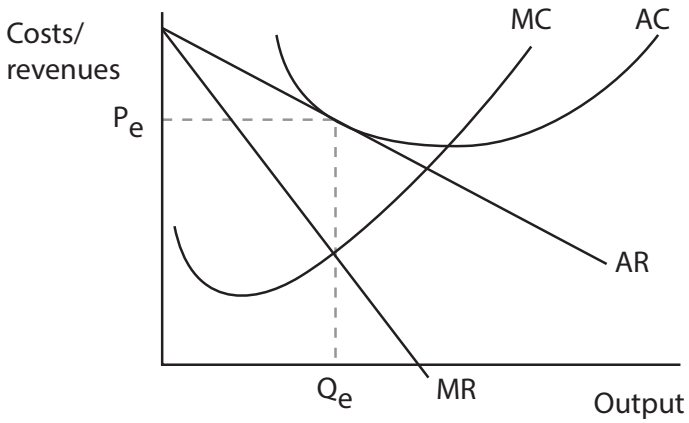


Which **one** of the following can be deduced from the information provided?

- ☒ **A** The productively efficient level of output is being produced
- ☒ **B** The allocatively inefficient level of output is being produced
- ☒ **C** There would be an incentive for new firms to enter the market
- ☒ **D** Firms will always make supernormal profits in this market

(Total for Question 2 = 1 mark)

4 The diagram shows the short-run cost and revenue curves for a profit maximising street food business in Sri Lanka.



Which **one** of the following can be deduced from this diagram?

- ☒ **A** The firm is dynamically efficient
- ☒ **B** The firm is making normal profit
- ☒ **C** The firm operates in a perfectly competitive market
- ☒ **D** The firm will shut-down in the short-run

(Total for Question 4 = 1 mark)

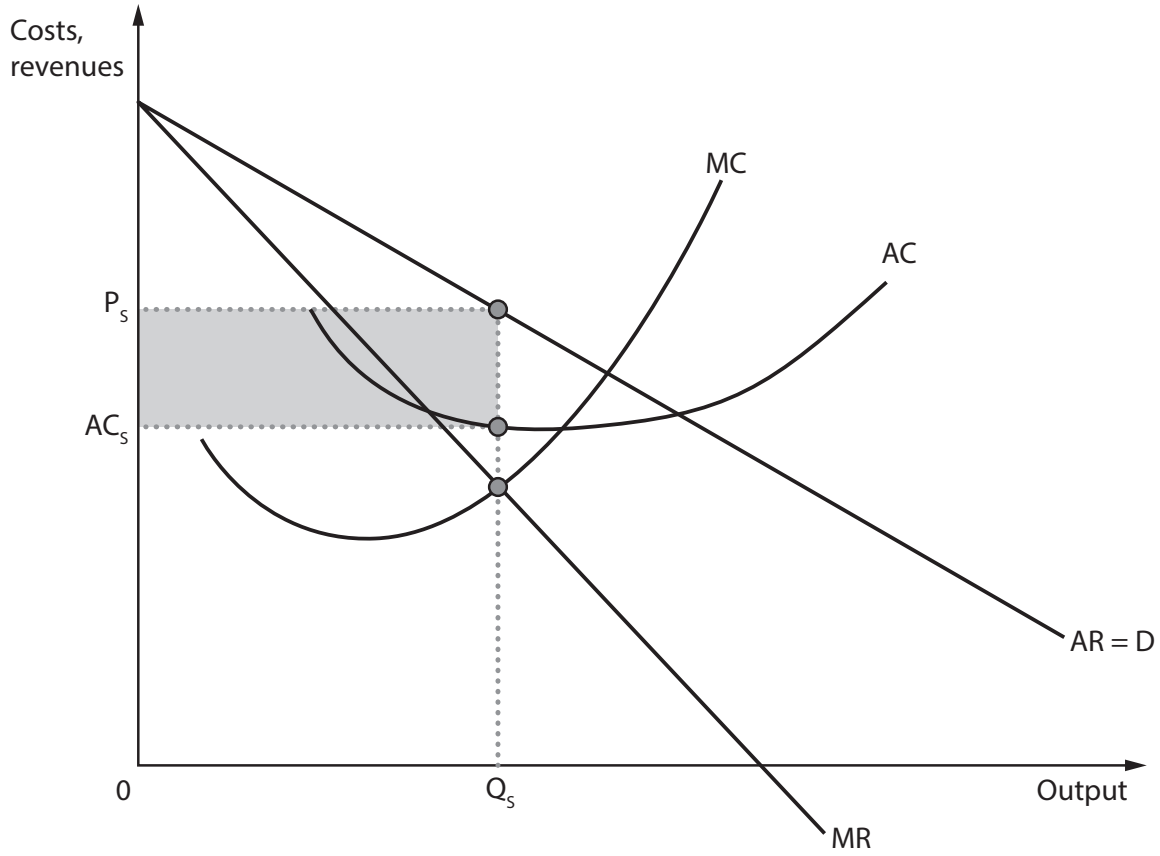
5 A monopolist changes its objective from profit maximisation to sales volume maximisation.

Which **one** of the following is the most likely impact of this decision?

- ☒ **A** A fall in the number of workers employed by the firm
- ☒ **B** An increase in the price of the good
- ☒ **C** A fall in the firm's total fixed costs
- ☒ **D** An increase in the firm's output

(Total for Question 5 = 1 mark)

3 The diagram illustrates the profit-maximising output for a street food seller in Taiwan operating in a monopolistically competitive market.



Which **one** of the following can be deduced from this information?

- ☒ **A** The street food seller is operating at the short-run equilibrium output
- ☒ **B** The street food seller is operating at the long-run equilibrium output
- ☒ **C** The street food seller is operating at the productively efficient level of output
- ☒ **D** The street food seller is operating at the allocatively efficient level of output

(Total for Question 3 = 1 mark)

SECTION B

Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 7.
Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1 and Extract A, calculate the number of workers employed by SMEs in Bangladesh. You are advised to show your workings.

(2)

(b) With reference to Figure 1 and Extract A, explain what is meant by the term 'monopolistic competition'.

(4)

(c) With reference to Extract B, examine the impact of rising energy costs on the profits of a garment manufacturer in Bangladesh. Illustrate your answer with an appropriate diagram.

(8)

(d) With reference to extract B, analyse **two** likely effects on the labour market for garment workers of the possible increase in the minimum wage to 22 000 taka.

(6)

(e) With reference to Extract A and your own knowledge, discuss the likely effects of Government policies on the productive efficiency of SMEs.

(14)

Sources for use with Section B

Size of businesses and labour markets in Bangladesh

Figure 1 Size of businesses, 2022

Size	Number of businesses	% of total number of businesses	% of working population employed
Small	33 050	77.2	20.2
Medium	6 103	14.3	20.7
Large	3 639	8.5	59.1

Extract A Government support for small-sized and medium-sized enterprises (SMEs)

Bangladesh is a developing country located in South Asia with a population of over 160 million. In 2022 the number of people employed was 60.8 million. Its economy is heavily dependent on agriculture and on the production of garments and textiles. Bangladesh has made considerable progress in improving its rate of economic growth. The country's real GDP grew at an average rate of 6.5% per year between 2011 and 2020.

Many SMEs compete in the agriculture, garment and textile industries. Most businesses in these industries operate in monopolistically competitive markets. However, low-skilled labour, a lack of innovation and limited access to finance restrict the differentiation of products between businesses in these markets.

To meet these challenges the Government of Bangladesh adopted several policies to support SMEs. These include:

- creating the SME Foundation that provides training and funds for research and development
- providing finance for the creation of industrial parks (locations where SMEs can all locate together)
- investing in the quality of infrastructure within industrial parks
- establishing loan schemes to support SMEs
- providing subsidies to SMEs in agriculture, energy and those that export
- encouraging SMEs to adopt new technologies, including artificial intelligence.

However, critics of these policies have suggested that the Government needs to focus on reducing excessive administrative costs, deregulation and improving the quality of education.

Extract B Minimum wages in the garment industry

In April 2022 the minimum wage for all workers in Bangladesh not covered by industry-specific agreements was only 1 500 taka per month. However, some sectors have higher minimum wages. For example, the minimum wage for the country's 4.4 million garment workers was 8 000 taka per month. The Government has been under pressure from trade unions to increase this rate to 22 000 taka per month. The trade unions argue that recent high rates of inflation, and the fact the minimum wage for garment workers has not increased since 2018, have decreased the real incomes of its members.

Garment manufacturers argue that they do not have the funds to pay a higher minimum wage because they are already having to claim subsidies from the Government to cope with rising energy costs. In 2022 garment manufacturers experienced a 50% increase in energy costs.

7 (a) With reference to Figure 1 and Extract A, calculate the number of workers employed by SMEs in Bangladesh. You are advised to show your workings.

(2)

(b) With reference to Figure 1 and Extract A, explain what is meant by the term 'monopolistic competition'.

(4)

SUB-TOPIC 3.3.3.5

OLIGOPOLY

Sub-topic 3.3.3.5 · 24 questions · 265 marks · lowest tariff first

SECTION A

Answer ALL questions in this section.

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

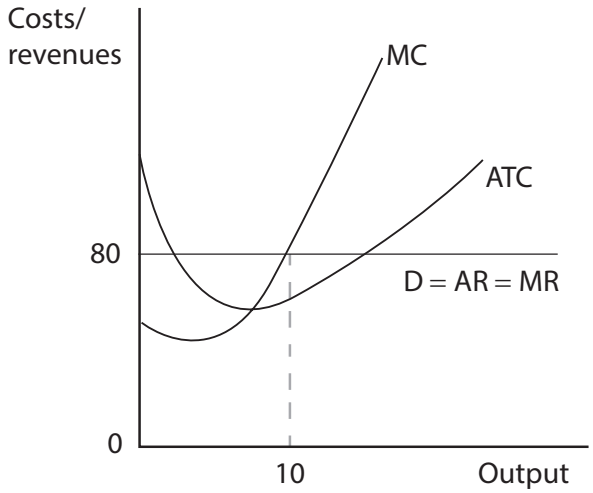
1 Patent protection makes it difficult for new firms to enter the pharmaceutical industry.

Which **one** of the following is also a barrier to entry for new firms?

- ☒ **A** Predatory pricing
- ☒ **B** Constant returns to scale
- ☒ **C** Low advertising costs
- ☒ **D** High supernormal profits

(Total for Question 1 = 1 mark)

2 The diagram shows the short-run profit-maximising equilibrium of a street food seller in Beijing.



Which **one** of the following can be deduced from the information provided?

- ☒ **A** The productively efficient level of output is being produced
- ☒ **B** The allocatively inefficient level of output is being produced
- ☒ **C** There would be an incentive for new firms to enter the market
- ☒ **D** Firms will always make supernormal profits in this market

(Total for Question 2 = 1 mark)

5 In Australia the elasticity of demand for construction workers is estimated to be –0.18.

Which **one** of the following factors is the most likely explanation of this elasticity of demand for construction workers?

- ☒ **A** The construction workers cannot be easily replaced by capital
- ☒ **B** The costs of employing construction workers are low
- ☒ **C** The productivity of construction workers is low
- ☒ **D** The majority of construction workers are members of trade unions

(Total for Question 5 = 1 mark)

6 A cereal manufacturer lowers its price to deter new firms from entering the market while still covering its costs.

Which **one** of the following best describes this pricing strategy?

- ☒ **A** Predatory pricing
- ☒ **B** Limit pricing
- ☒ **C** Price leadership
- ☒ **D** Short-run profit maximisation

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

5 In 2019 the European Union fined Qualcomm, a semiconductor manufacturer, €242 million for setting its price below its average variable cost.

Which **one** of the following best describes this pricing strategy?

- ☒ **A** Marginal cost pricing
- ☒ **B** Limit pricing
- ☒ **C** Predatory pricing
- ☒ **D** Price discrimination

(Total for Question 5 = 1 mark)

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in Amazon's revenue between 2010 and 2020.

(2)

(b) With reference to Figure 2, explain the market structure of cloud infrastructure providers.

(4)

(c) With reference to Extract A, analyse the likely impact on consumers of **two** methods by which Amazon competes with other retailers.

(6)

(d) With reference to Extract A, examine **two** likely effects of the global health crisis on Amazon's profits.

(8)

(e) With reference to Extract B and your own knowledge, discuss reasons why many SMEs in South Africa shut down in 2020.

Illustrate your answer with an appropriate diagram.

(14)

Sources for use with Section B

The impact of the global health crisis

Figure 1 Amazon's annual revenue, 2010–2020 (billion US dollars)

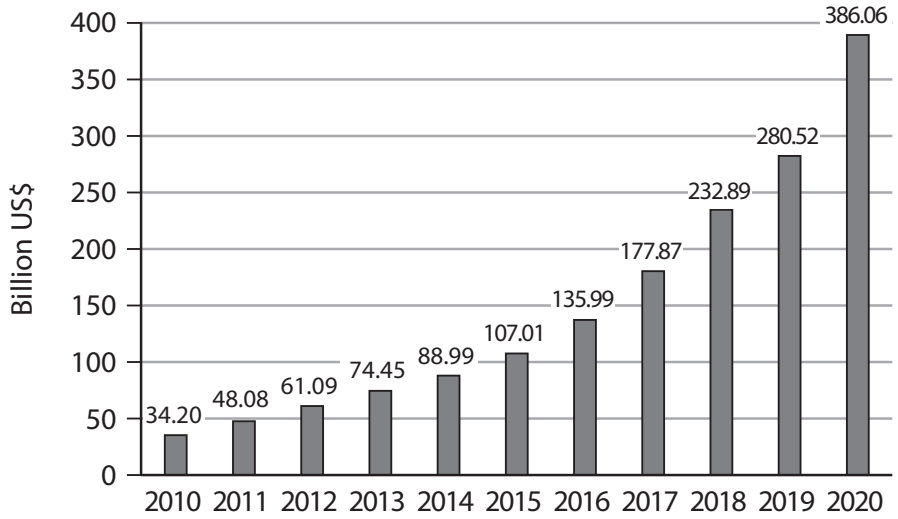
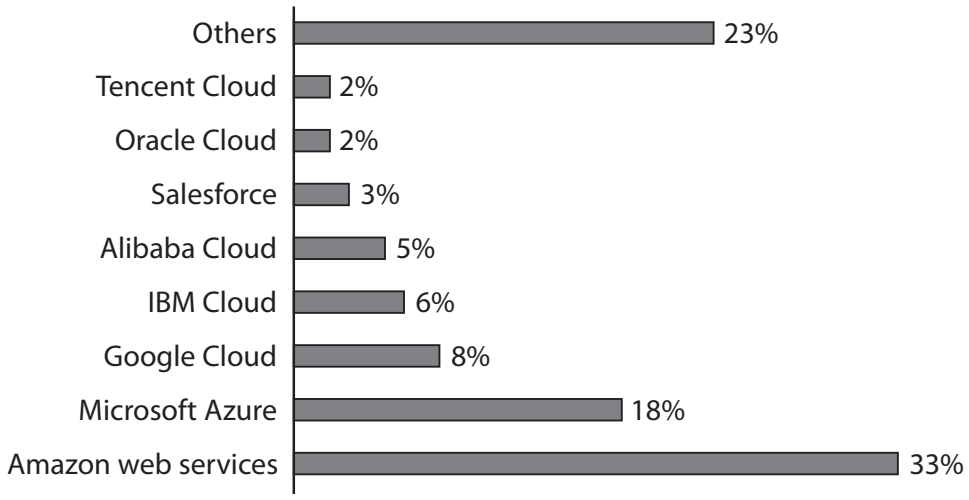


Figure 2 Worldwide market share of cloud infrastructure providers by revenue, Q4 2019



Extract A Amazon

Amazon, the American global distribution business, increased its revenue from $280.5 billion in 2019 to $386.1 billion in 2020. For the year ending 31 March 2021 its profit was $167.6 billion. The business operates mainly online but it also has several physical stores. Amazon's success has been driven by its methods of competition including its focus on convenience, fast delivery, low prices and choice for its consumers. Over 28% of consumers complete an Amazon order in three minutes or less and 50% of consumers in under 15 minutes. Amazon produces its own products such as Amazon Prime, Alexa, Kindle, Fire and Echo, as well as selling millions of additional products. Amazon also offers the opportunity for third party suppliers to sell on its website.

During 2020, the global health crisis prevented consumers from visiting physical stores. As a result many people used Amazon to purchase products online. This led to an increase in the demand for goods supplied by Amazon. Its costs of production increased by $4 billion, mainly as a result of employing an additional 400 000 workers in 2020. By the end of the year, it employed 1.3 million full-time and part-time workers globally. A fall in labour productivity also caused an increase in costs.

Extract B Small and medium-size enterprises (SMEs) in South Africa

As a result of the global health crisis the revenues of many South African enterprises fell significantly. In July 2020 a management consultancy company conducted a survey of 4 500 businesses in South Africa to examine the impact of the global health crisis. It reported that 21% of enterprises were closed but, of these, 64% indicated that they expected to reopen.

The survey also established that SMEs were 26 times more likely to close than much larger enterprises. In addition, SMEs would require R1.1 trillion of government financial support in order to remain open in 2021. In South Africa SMEs make up 98.5% of the total number of enterprises and contribute 39% to the country's GDP.

In the survey 70% of SMEs reported that they cut back on spending to survive. Over half of medium-sized enterprises were only able to survive by closing parts of their business or reducing capacity until the economic situation improved. However, the revenue of many SMEs did not cover their variable costs and they were forced to shut down.

The survey findings were not all negative. Those SMEs offering essential services, such as food, reported an increase in revenues. Although costs had also risen, profits had either remained constant or had increased.

(b) With reference to Figure 2, explain the market structure of cloud infrastructure providers.

(4)

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in Deliveroo's total revenue between 2017 and 2021. You are advised to show your working.

(2)

(b) With reference to Figure 2, explain the market structure of the UK food delivery market in 2021.

(4)

(c) With reference to Extract B, analyse **two** factors that influence the demand for online food delivery.

(6)

(d) With reference to Figure 1 and the first paragraph of Extract B, examine **two** reasons why Deliveroo is making a loss.

Illustrate your answer with an appropriate diagram(s).

(8)

(e) With reference to the information provided, discuss the strategies used by food delivery businesses to increase their market shares.

Refer to game theory analysis in your answer.

(14)

Sources for use with Section B

The food delivery market

Figure 1 Deliveroo's annual total revenue and loss, £ million, 2017–2021

Year	Total revenue	Loss
2017	277	199
2018	476	232
2019	771	317
2020	1 163	223
2021	1 824	298

Figure 2 Market share (%) of food delivery businesses in the UK, 2017–2021, (percentage share based on revenue)

	2017	2021
Just Eat	68	40
Deliveroo	12	27
Uber Eats	6	27
Dominos	5	3
Others	9	3

Extract A Deliveroo's market share in the UK

Deliveroo is a food delivery business operating mainly in western Europe. Consumers use an app to order food from a restaurant. Once the food has been prepared, a Deliveroo courier collects the food and delivers it to the consumer.

Deliveroo has three main competitors in the UK's food delivery market: Just Eat, Uber Eats and Dominos. All businesses provide consumers with an app to access their services.

During the global health crisis, Deliveroo experienced significant growth in its market share. This was because it differentiated itself by introducing home deliveries of groceries together with orders for takeaway meals. By the end of the crisis, Uber Eats and Just Eat had also introduced grocery deliveries to households.

Furthermore, the three largest businesses in the UK have been engaged in a price war and expensive advertising campaigns. The aim of these strategies was to increase market share and to force other competitors to leave the market.

Extract B Costs and revenues

In 2021 Deliveroo made a loss of £298 million. Marketing costs and fixed costs increased from £358.5 million in 2020 to £628.7 million in 2021. Costs are expected to continue to rise in the short-run because of the increase in the price of fuel and high rates of inflation across Europe. In the first six months of 2022, although Deliveroo's revenue was increasing, this was at a slower rate than the increase in its costs of production.

The average value of an order for a takeaway meal fell in many countries because consumers reduced the number of luxury items they purchased. In the European Union in June 2022 the annual growth in wages was 4.5% but the annual inflation rate was 9.6%.

However, demand for online food delivery and takeaway meals is expected to increase rapidly between 2023 and 2030. There are several reasons for this expected increase in demand including:

- An increase in the number of people living in cities. For example, from 2015 to 2025, there is expected to be a 7.6% increase in the population living in cities in the UK
- Greater consumer preference for online ordering associated with an increase in internet connectivity and smartphone usage. For example, online ordering and food delivery is growing at an annual rate of between 15% and 20% in the UK
- Increased advertising by food delivery businesses. For example, Just Eat's marketing expenditure in the first half of 2021 totalled £252 million compared with £83 million in the first half of 2020.

7 (a) With reference to Figure 1, calculate the percentage change in Deliveroo's total revenue between 2017 and 2021. You are advised to show your working.

(2)

(b) With reference to Figure 2, explain the market structure of the UK food delivery market in 2021.

(4)

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 2, calculate the percentage change in the price of the Model 3 Rear Wheel Drive vehicle between January and October 2022.

(2)

(b) With reference to Extract A, analyse **two** reasons why sales of electric vehicles in China increased.

Illustrate your answer with a supply and demand diagram.

(6)

(c) With reference to Figure 1 and Extract B, explain the market structure that best describes the electric vehicle market in China.

(4)

(d) With reference to the first two paragraphs of Extract B, examine the impact of Tesla producing its electric vehicles in China on its costs and profits.

Illustrate your answer with a costs and revenues diagram.

(8)

(e) With reference to the information provided and your own knowledge, discuss the impact of Tesla reducing its prices on the behaviour of other electric vehicle manufacturers.

(14)

Sources for use with Section B

The electric vehicle market in China

Figure 1 Market share for electric vehicle passenger sales, based on sales revenue, 2021

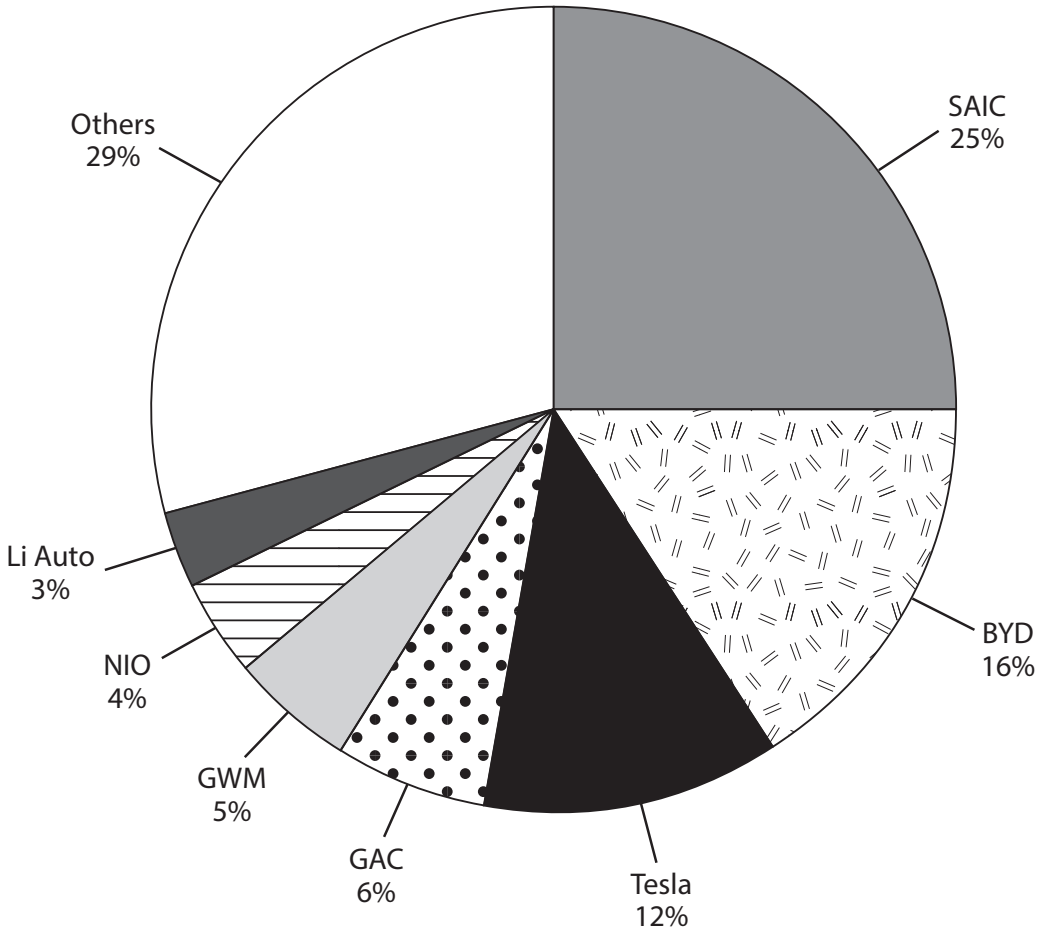


Figure 2 Tesla electric vehicle prices, 2022 (Yuan, 000s)

Model of vehicle	January 2022	October 2022
Model 3 Rear Wheel Drive	280	266
Model 3 Performance	368	350
Model Y Rear Wheel Drive	317	289
Model Y Performance	418	398

Extract A Changes in the Chinese electric vehicle market

In 2020 the Chinese Government adopted many new measures to reduce CO_2 emissions, in order to meet its climate change goals by 2030. For example, the Government has increased the number of charging points and raised the tax on non-electric vehicles. The global increase in the price of fuel has also led to an increase in demand for electric vehicles. Between 2021 and 2022 the sales of electric vehicles in China increased by 83% to 5.92 million.

Extract B Tesla in China

Tesla, a US-owned vehicle company, has attempted to increase its sales in China to take advantage of the increasing demand for electric vehicles. In 2019 the company opened a factory in Shanghai. It became the first fully foreign-owned vehicle manufacturer in the country. By producing vehicles in China, Tesla was able to take advantage of government incentives, such as subsidies, aimed at promoting the domestic electric vehicle industry, as well as benefiting from low-cost labour. This new factory was expected to increase Tesla's competitiveness in the Chinese market by making its vehicles more affordable for consumers. China has become a key manufacturing centre for Tesla. Its factory in Shanghai produced over 710 000 vehicles in 2022. This represented 52% of the company's worldwide output.

However, production has been difficult in China. Tesla faced supply chain disruptions as a result of the global health crisis of 2020 to 2022. This resulted in a reduction in output and an increase in its costs of production. Tesla also had to pay taxes on imported components and finished vehicles.

In October 2022 Tesla reduced the price of several of its electric vehicles. The two main reasons for these price reductions were:

- a fall in its production costs arising from government subsidies to electric car manufacturers
- improved efficiency from manufacturing in Shanghai.

The lower prices of Tesla's electric vehicles had a significant impact on its competitors. Domestic and other international manufacturers responded by reducing their prices for electric vehicles as they competed for market share.

(c) With reference to Figure 1 and Extract B, explain the market structure that best describes the electric vehicle market in China.

(4)

SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in Uber India's revenue from 2016 to 2018. You are advised to show your working.

(2)

(b) With reference to Extract B, explain what is meant by 'privatisation'.

(4)

(c) With reference to Extract B, examine **two** likely effects of deregulation and privatisation.

(8)

(d) With reference to Figure 2 and Extract A, analyse the likely effect of predatory pricing on the profits of a ride-hailing taxi firm.

(6)

(e) With reference to Extract C and your own knowledge, discuss the likely effects on consumers of the price discrimination strategy.

Illustrate your answer with an appropriate diagram(s).

(14)

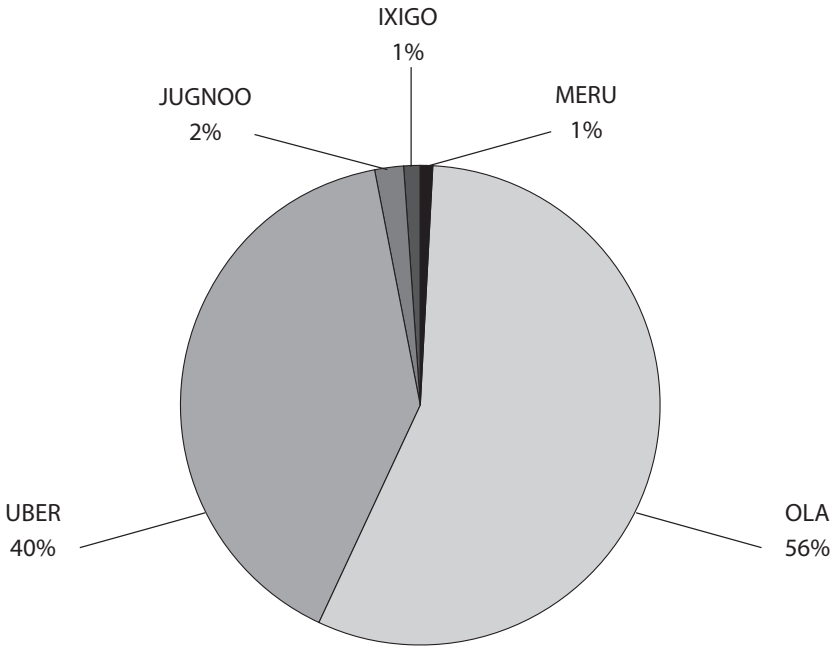
Sources for use with Section B.

The business behaviour of large firms

Figure 1 Uber India's revenue for year ending in March in rupees billion (Rs)

2016	3.7
2017	4.1
2018	5.3

Figure 2 Market share of ride-hailing taxi firms in India, December 2017



Extract A Predatory pricing in India?

The Chief Executive of Ola, India's biggest ride-hailing taxi firm, has heavily criticised the pricing policies of Uber. He claims that Uber has been adopting a predatory pricing strategy. A spokesperson for Uber denied this, stating that her company competes fairly to attract customers.

The two major ride-hailing taxi firms have been engaged in continuous price competition since Uber entered the Indian market in 2013. Since then both firms have repeatedly cut fares in big cities to levels either equal to or below the cost of each ride. For example, in March 2016 Ola offered rides in small cars for just Rs6 ($0.09) per kilometre, in addition to a flat rate charge. This price cut was made as a response to a price reduction by Uber.

Extract B End of state-owned coal monopoly in India

In 2017 the Indian Government announced its decision to deregulate and privatise parts of India's coal mining industry. This would end the long-standing monopoly of state-owned Coal India Ltd. Certain mines will be auctioned and contracts then awarded to private sector mining firms. As well as enabling domestic firms to enter the industry, the decision could also lead to global mining companies such as Rio Tinto, BHP Billiton and Vale entering the industry.

It is claimed these changes will lead to increased investment and create more direct and indirect employment in coal mining areas. However, representatives of mining trade unions fear that it may lead to job losses.

Extract C Price discrimination in Zambia

Zambia Sugar is responsible for over 90% of total sugar production in Zambia. In 2017 the Government's Competition and Consumer Protection Commission (CCPC) found that Zambia Sugar had engaged in price discrimination against several household sugar and industrial sugar* customers. The firm was charging Zambian consumers of household sugar 40% more than the export price for the same product. This price difference was not linked to any changes in Zambia's exchange rate.

In addition, some manufacturers were charged lower prices for the same industrial sugar compared to others. These price differences could not be explained by differences in the quantities of sugar purchased.

The CCPC fined the firm 76 million Zambian Kwacha (ZK) for unfair pricing. Zambia Sugar was told that it should end its price discrimination strategies and set fair prices for both household sugar and industrial sugar in future.

* where sugar is an ingredient in further production

(d) With reference to Figure 2 and Extract A, analyse the likely effect of predatory pricing on the profits of a ride-hailing taxi firm.

(6)

SECTION B

Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 7.
Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the four-firm concentration ratio for the US car market in 2019.

(2)

(b) With reference to Extract A, explain what is meant by 'horizontal integration'.

(4)

(c) With reference to Extract A, analyse **two** barriers that Stellantis are likely to experience when trying to increase market share in China.

(6)

(d) With reference to Extract A, examine the impact of an increase in car sales in the USA on the profits of Stellantis.

Illustrate your answer with an appropriate diagram.

(8)

(e) With reference to the information provided and your own knowledge, discuss the possible impact of the merger between PSA Group and Fiat Chrysler on workers and consumers.

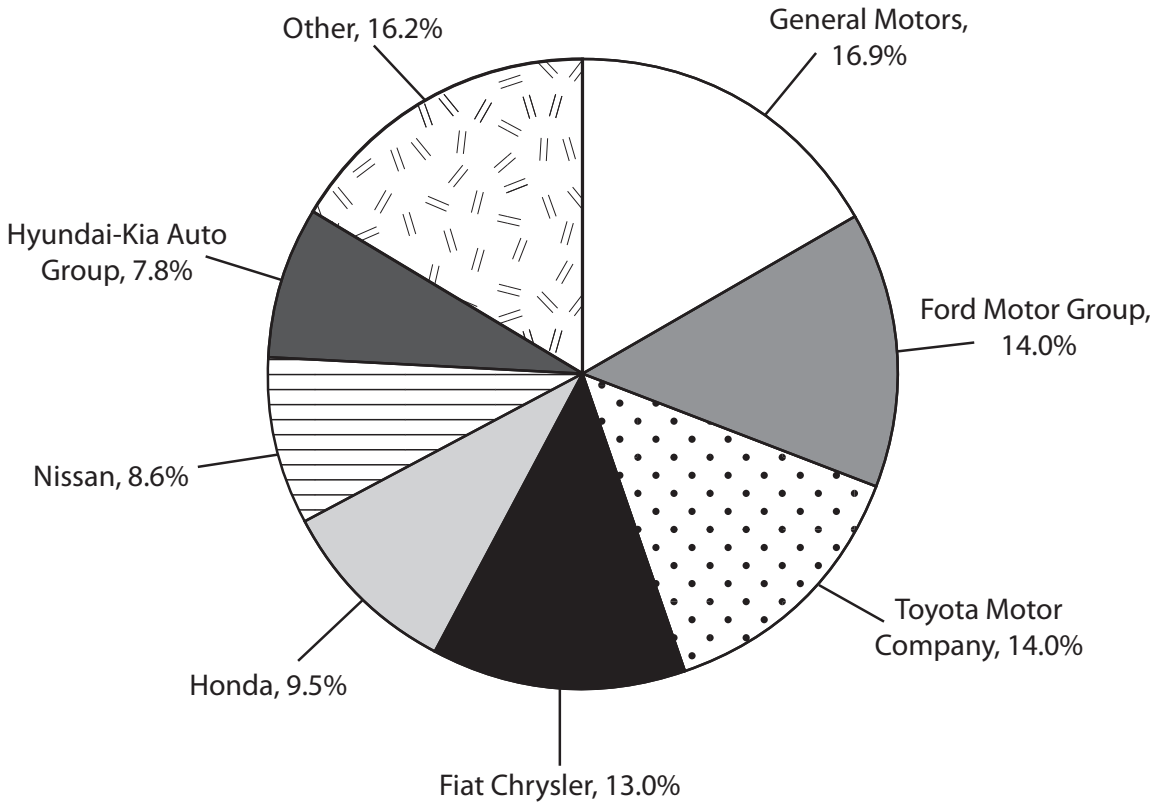
(14)

Sources for use with Section B

The car industry

Figure 1

Percentage market share of car manufacturers in the USA, 2019



Extract A PSA Group and Fiat Chrysler merger

In January 2021 PSA Group and Fiat Chrysler agreed to merge, creating the world's third largest car manufacturer by volume. The new firm, named Stellantis, includes well-known car brands including Peugeot, Citroen and Vauxhall from PSA Group and Alfa Romeo, Jeep and Lancia from Fiat Chrysler. The ownership of the firm is split evenly between the shareholders of PSA Group and Fiat Chrysler. As a result of this merger, Stellantis owns manufacturing plants all over the world including the Netherlands, the USA and the UK. It has an expected annual turnover of over €170 billion.

This horizontal integration is expected to benefit both firms. Each firm will benefit from cost savings by sharing production expertise and technical knowledge. It is estimated that there will be an annual cost saving of €3.4 billion from purchasing economies of scale. PSA Group has gained access to the American car market, where Fiat Chrysler already has a significant market share, with 3 000 car showrooms across the USA. Following the merger, in Q1 2021 Stellantis experienced a 25% increase in revenue as a result of an increase in car sales in the US market.

Fiat Chrysler will benefit from gaining access to PSA Group's research and development into electric cars. This is important for the firm because demand for electric cars is increasing globally. PSA Group has developed a range of low-emission vehicles that Fiat Chrysler does not have the technology to produce. Electric cars are also important when moving into foreign markets such as China. Since 2010, the demand for electric cars in China has been rising steadily. In 2020 38% of global sales of electric cars were in China.

The shareholders of Stellantis hope that the firm will be able to compete more effectively in China, the world's biggest car market. In 2020 PSA Group and Fiat Chrysler had a combined market share of only 1% in the Chinese car market, whereas Chinese car firms had a 40% market share. In addition, a number of other well-established firms are operating in the Chinese car market including Volkswagen, Honda and Toyota. Trying to increase market share in China may prove to be difficult for Stellantis. Good communication and clear management will be essential if Stellantis is to be successful.

Extract B Concerns over factory closures

Trade unions are concerned that Stellantis will close factories to cut costs. Unite, the UK-based trade union negotiating on behalf of the 3 000 Vauxhall employees, has requested a meeting with the head of Stellantis, to prevent possible factory closures. The skilled car workers are highly specialised. Therefore, if these factories were to close, it would be very difficult for the workers to find new jobs without training.

(c) With reference to Extract A, analyse **two** barriers that Stellantis are likely to experience when trying to increase market share in China.

(6)

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in Amazon's revenue between 2010 and 2020.

(2)

(b) With reference to Figure 2, explain the market structure of cloud infrastructure providers.

(4)

(c) With reference to Extract A, analyse the likely impact on consumers of **two** methods by which Amazon competes with other retailers.

(6)

(d) With reference to Extract A, examine **two** likely effects of the global health crisis on Amazon's profits.

(8)

(e) With reference to Extract B and your own knowledge, discuss reasons why many SMEs in South Africa shut down in 2020.

Illustrate your answer with an appropriate diagram.

(14)

Sources for use with Section B

The impact of the global health crisis

Figure 1 Amazon's annual revenue, 2010–2020 (billion US dollars)

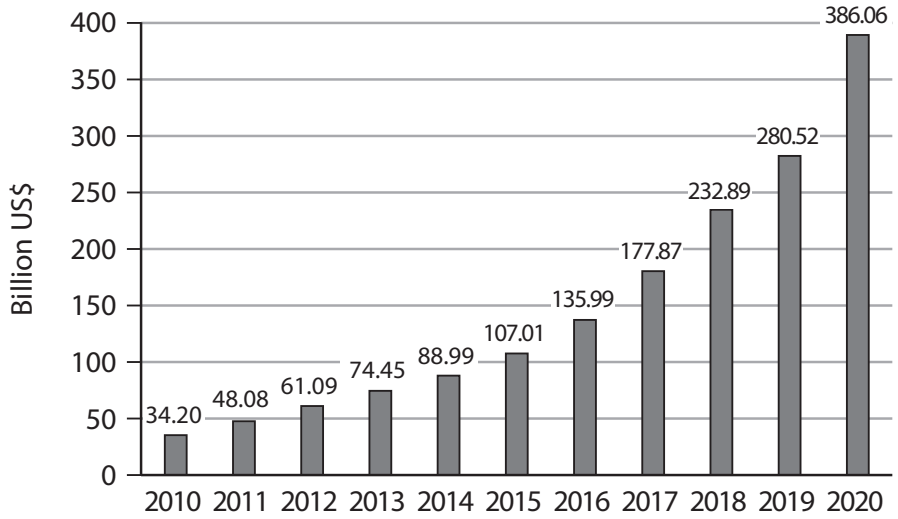
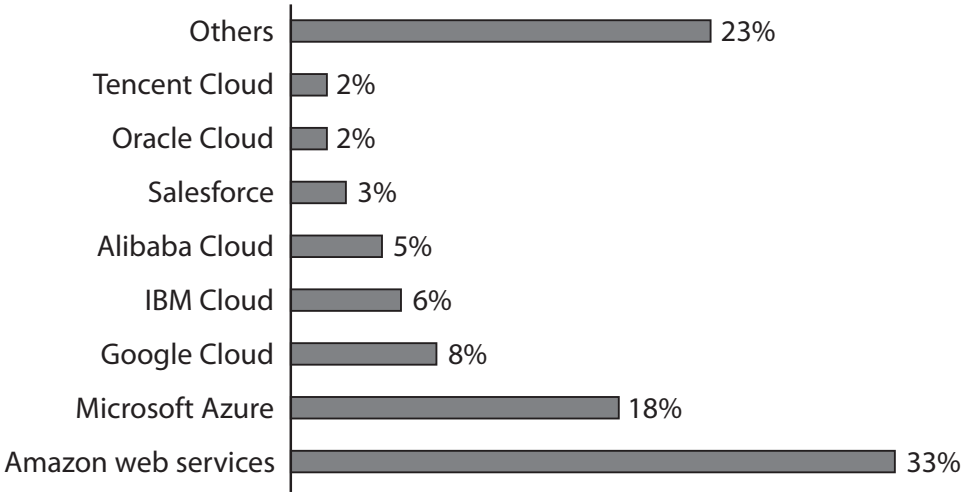


Figure 2 Worldwide market share of cloud infrastructure providers by revenue, Q4 2019



Extract A Amazon

Amazon, the American global distribution business, increased its revenue from $280.5 billion in 2019 to $386.1 billion in 2020. For the year ending 31 March 2021 its profit was $167.6 billion. The business operates mainly online but it also has several physical stores. Amazon's success has been driven by its methods of competition including its focus on convenience, fast delivery, low prices and choice for its consumers. Over 28% of consumers complete an Amazon order in three minutes or less and 50% of consumers in under 15 minutes. Amazon produces its own products such as Amazon Prime, Alexa, Kindle, Fire and Echo, as well as selling millions of additional products. Amazon also offers the opportunity for third party suppliers to sell on its website.

During 2020, the global health crisis prevented consumers from visiting physical stores. As a result many people used Amazon to purchase products online. This led to an increase in the demand for goods supplied by Amazon. Its costs of production increased by $4 billion, mainly as a result of employing an additional 400 000 workers in 2020. By the end of the year, it employed 1.3 million full-time and part-time workers globally. A fall in labour productivity also caused an increase in costs.

Extract B Small and medium-size enterprises (SMEs) in South Africa

As a result of the global health crisis the revenues of many South African enterprises fell significantly. In July 2020 a management consultancy company conducted a survey of 4 500 businesses in South Africa to examine the impact of the global health crisis. It reported that 21% of enterprises were closed but, of these, 64% indicated that they expected to reopen.

The survey also established that SMEs were 26 times more likely to close than much larger enterprises. In addition, SMEs would require R1.1 trillion of government financial support in order to remain open in 2021. In South Africa SMEs make up 98.5% of the total number of enterprises and contribute 39% to the country's GDP.

In the survey 70% of SMEs reported that they cut back on spending to survive. Over half of medium-sized enterprises were only able to survive by closing parts of their business or reducing capacity until the economic situation improved. However, the revenue of many SMEs did not cover their variable costs and they were forced to shut down.

The survey findings were not all negative. Those SMEs offering essential services, such as food, reported an increase in revenues. Although costs had also risen, profits had either remained constant or had increased.

(c) With reference to Extract A, analyse the likely impact on consumers of **two** methods by which Amazon competes with other retailers.

(6)

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in the wholesale price of gas from 1 April 2021 to 1 April 2022. You are advised to show your working.

(2)

(b) With reference to Figure 2 and the second paragraph of Extract A, explain what is meant by the term 'concentration ratio'.

(4)

(c) With reference to Figure 2 and Extract A, analyse **two** barriers to entry that might prevent a new firm from entering the UK energy market.

(6)

(d) With reference to Figure 1 and Extract A, examine the impact of the increase in the wholesale price of natural gas on the cost of production for UK gas suppliers.

(8)

(e) With reference to Extract A and Extract B, discuss the likely effects of the increase in the energy price cap on both energy suppliers and consumers.

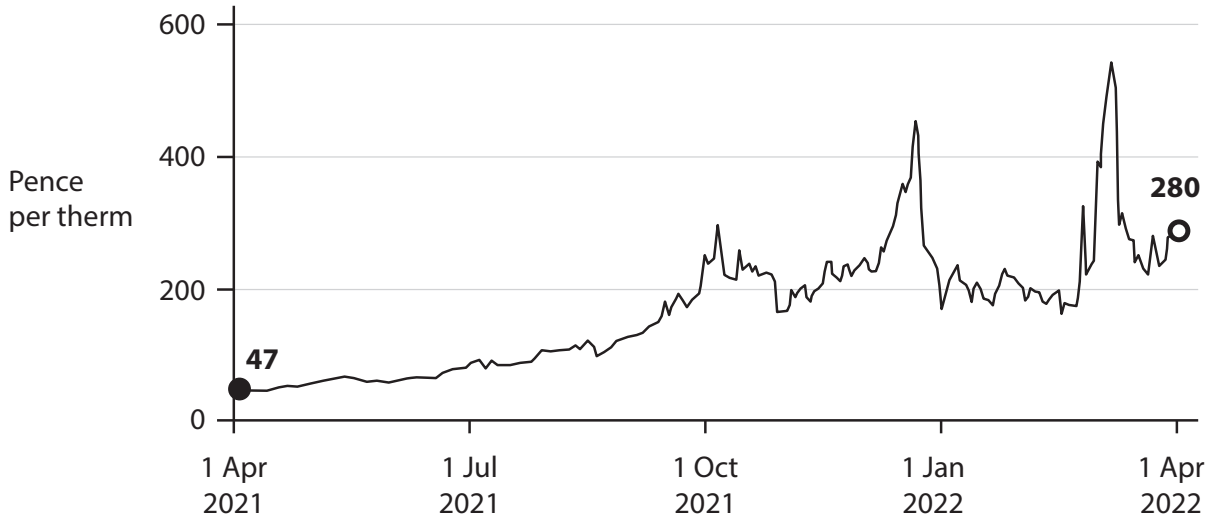
Illustrate your answer with an appropriate cost and revenue diagram.

(14)

Sources for use with Section B

The UK energy market

Figure 1 The UK wholesale price of natural gas, pence per therm*, 1 April 2021 to 1 April 2022



*A therm is a unit of heat

Figure 2 Market share of companies supplying natural gas, Q4 2020 and Q4 2021 (%)

	Q4 2020	Q4 2021
British Gas	26.9	27.6
E.ON Energy UK	12.5	14.7
Ovo	12.5	11.4
EDF UK	8.2	9.6
Scottish Power	8.0	7.9
Octopus	6.3	11.1
Other medium-sized gas suppliers	18.4	14.5
Small-sized gas suppliers	7.2	3.2

Extract A The UK energy market

In 2021 the global wholesale price of natural gas increased significantly. This caused a large increase in the costs for UK companies supplying gas because they have to purchase gas at world market prices. Purchasing natural gas accounts for approximately 35% of the total costs for large gas suppliers. This increase in the wholesale price made it impossible for 31 smaller suppliers to cover their costs and resulted in them shutting down.

With the closure of many small suppliers, there was an increase in the concentration ratio in the market. The six largest suppliers controlled 82.3% of the market for gas by the end of 2021. These larger suppliers increased their market shares by acquiring new consumers from those firms that had left the market. For example, British Gas acquired 729 000 new consumers, EDF UK 580 000 new consumers and E.ON Energy UK 239 000 new consumers. This change in the market enabled these large suppliers to increase their output and achieve greater economies of scale.

It is expected that the energy regulator, Ofgem, will seek to increase barriers to entry in this market by strengthening regulations, to prevent similar disruptions happening again. In addition, Ofgem, announced plans to increase the energy price cap (the maximum price that a supplier can charge for energy to a consumer) from £1 277 per year to £1 971 in April 2022. This should help the surviving suppliers to remain in the industry and secure energy supply for consumers.

Extract B UK Government support for consumers

The cost of living for consumers is set to rise significantly after the increase in the price cap. In response, the UK Government announced help for approximately 28 million households by providing a discount on energy bills worth £200 in 2022. Consumers would be required to pay this back to the Government over 5 years. There would also be a £150 cash payment to some households that will not need to be repaid.

(c) With reference to Figure 2 and Extract A, analyse **two** barriers to entry that might prevent a new firm from entering the UK energy market.

(6)

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in the average world price of coffee beans from 1 July 2017 to 1 May 2019. You are advised to show your working.

(2)

(b) With reference to Extract A (line 12), explain what is meant by 'short-run shutdown point.'

(4)

(c) With reference to Figure 2 and Extract A, analyse **two** possible reasons for the increase in supply of coffee beans between 2015 and 2019.

(6)

(d) With reference to Extract B, examine **two** barriers to entry into the US coffee shop market.

(8)

(e) With reference to the information provided, discuss the reasons for the increase in Starbucks' profits in 2019.

For **one** of these reasons, illustrate your answer with an appropriate cost and revenue diagram.

(14)

Sources for use with Section B.

The global coffee market

Figure 1 Average world price of coffee beans, $ per kg, July 2017–May 2019

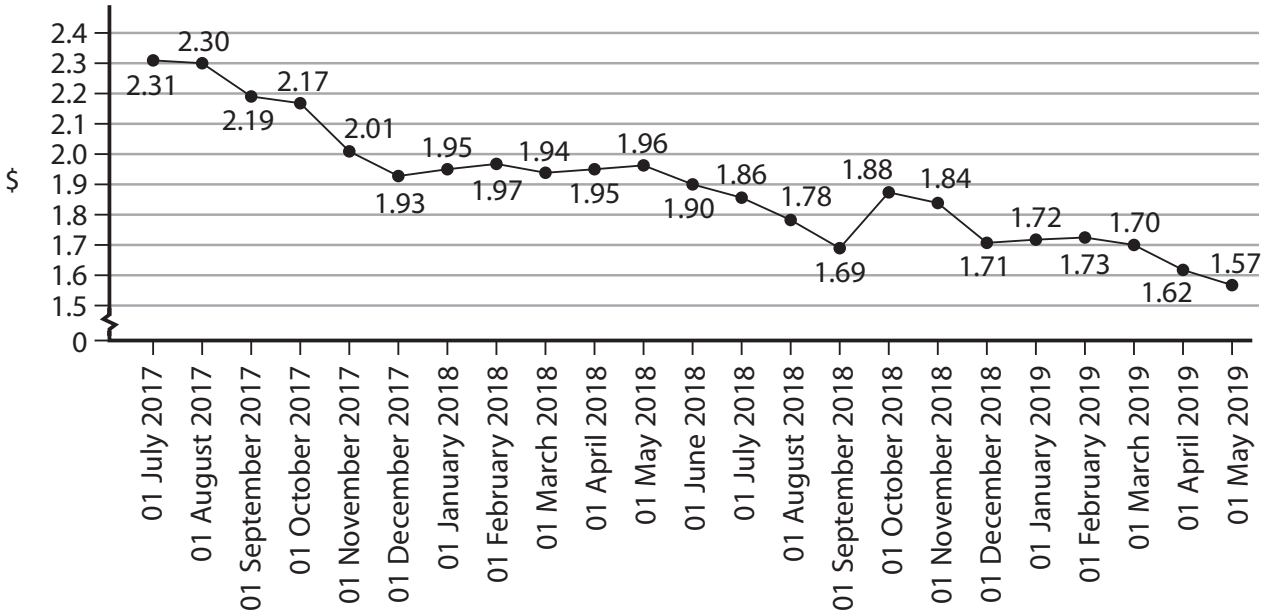
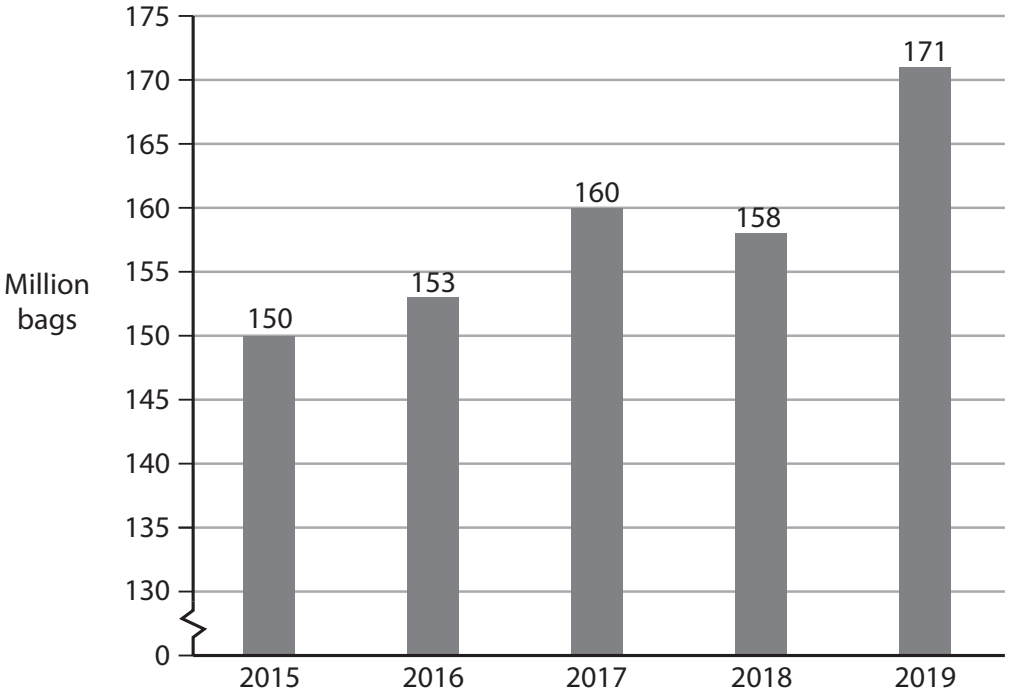


Figure 2 World coffee production, million bags, 2015–2019



Extract A Global coffee bean production

In 2019 the supply of coffee beans was greater than the demand, resulting in a global coffee bean surplus of over 4 million bags. Coffee bean supply increased by 8% whereas demand increased by only 2%. Consequently, by May 2019, the global price of coffee beans fell to its lowest level in over 10 years.

The increase in global production was caused by developments in farming equipment and improved methods of production. Also, favourable weather conditions in major coffee-producing countries, such as Brazil, contributed to the global increase in production.

The fall in the global price of coffee beans caused serious problems for small coffee growers in Central America and Africa. These farmers made large losses and many reached their short-run shutdown point. Some farmers have switched to the production of lower-risk crops.

Extract B Coffee shop chain growth

Coffee is the second most popular drink in the world and the demand for it is increasing steadily. Globally two billion cups of coffee are consumed every day. The revenue of coffee shop chains globally is projected to reach $237.6 billion by 2025.

Starbucks is the largest coffee shop chain worldwide. In 2019 Starbucks' revenue increased by 7.24%. Its profits also increased by 7.11% to $17.98 billion. The company had over 27 000 stores worldwide, with many new shops opening in China.

In the USA it is difficult for a new firm to enter the coffee shop market because there are already a number of well-known firms. These include Starbucks, Tim Hortons, Dunkin' Donuts, Dutch Bros Coffee and Peet's Coffee. The firms compete using special offers, large advertising budgets and loyalty schemes. More recently, these firms have been using higher quality coffee beans and cold coffee drinks to attract younger coffee drinkers. They have also been investing heavily in developing mobile phone apps and online ordering systems to increase brand loyalty and market shares. Industry leaders believe that social media advertising is the most effective form of marketing for coffee shops.

However, there are still a large number of successful, small independent coffee shops in the USA. These are often very different to the larger firms, offering alternative drinks and food options. They are also located in out-of-town-centres and aim to attract a different type of consumer.

(d) With reference to Extract B, examine **two** barriers to entry into the US coffee shop market.

(8)

SECTION B

Study Figure 1 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in electric car sales from 2013 to 2017. You are advised to show your working.

(2)

(b) With reference to Extract A and Extract B, explain what is meant by *specialisation*.

(4)

(c) With reference to Extract A, examine the likely effect of a decrease in variable costs on Tesla's profits.

Illustrate your answer with an appropriate diagram(s).

(8)

(d) With reference to Extract B, analyse the relationship between price elasticity of demand and total revenue.

Illustrate your answer with an appropriate diagram(s).

(6)

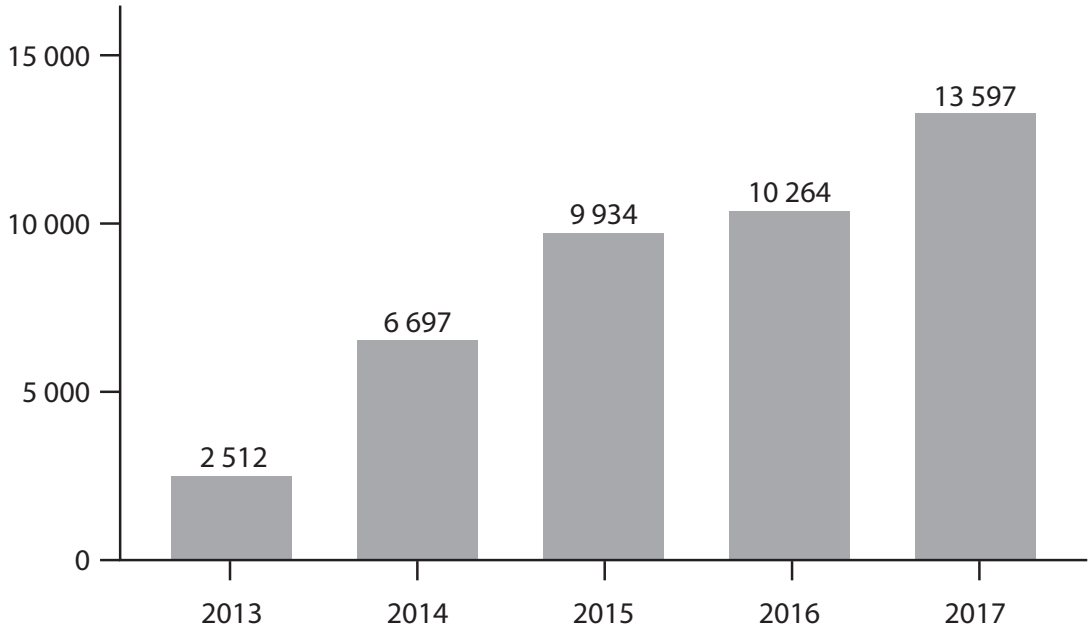
(e) With reference to the information provided, discuss the significance of barriers to entry and exit in the electric car market for new entrants, such as Dyson.

(14)

Sources for use with Section B.

The electric car market

Figure 1 UK electric car registrations, 2013 – 2017



Extract A Financial performance of Tesla

Tesla is a large American corporation that specialises in the production of electric cars. In January 2017 the company had a 30% market share for electric cars in the USA.

Between 2010 and March 2018, Tesla recorded only two profitable quarters. The company made its biggest quarterly loss of $709.6 million in quarter one of 2018. It was failing to produce enough of its 'Model 3' mass market electric car. For example, 20 000 'Model 3' cars should have been produced in December 2017. However, during the whole of quarter four of 2017, Tesla manufactured only 2 425 cars.

The 'Model 3' is the most important part of Tesla's plan to become a mass market car manufacturer. At one stage, it had more than 500 000 potential consumers on its waiting list. However, in April 2018 the company admitted that some buyers had cancelled their orders for Tesla cars.

Senior managers have been looking for ways of decreasing the company's variable costs. This may require the sourcing of cheaper car parts and reducing the number of workers on production lines.

Extract B New entrants in the luxury electric car market

Dyson was established in 1991. It has become a very successful technology company with its headquarters in the UK. It specialises in the design and manufacture of domestic appliances such as vacuum cleaners, hand dryers and hair dryers. In 2018 Dyson employed 12 000 workers worldwide. The company has built a reputation for creating and producing a range of high quality and innovative products.

Its latest project is to design and produce an electric vehicle. Dyson plans to invest $2.7 billion, split evenly between battery technology and vehicle development. Initially, the company will be targeting the luxury segment of the electric car market. This is a niche that Tesla almost exclusively occupies. Demand is significantly more price inelastic in this part of the market.

However, it is possible that barriers to entry and exit could create problems for Dyson. The experience of Apple may prove to be relevant. Apple abandoned its plans to manufacture electric cars when both the high initial capital costs and the complexities of the production process became apparent.

The badge on the front of a luxury car is all-important. Possibly a Dyson brand associated with domestic appliances might lack sufficient appeal for potential consumers. However, Dyson's previous success when marketing new products may be repeated in the electric car market.

There is also likely to be significant competition in the luxury electric car market. For example, Jaguar is about to launch the iPace, a competitor to Tesla's Model S. Porsche, Audi and BMW all have new luxury electric car models due to be on sale by late 2020. Several other companies are set to enter the market for luxury electric cars.

Finding buyers is another challenge. For example, Tesla had to spend heavily on setting up its own retail network to compete with the established distribution channels of the large car manufacturers.

(e) With reference to the information provided, discuss the significance of barriers to entry and exit in the electric car market for new entrants, such as Dyson.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

7 In 2018 total new car sales in China were 23.7 million.

(a) With reference to Figure 2, calculate the 4-firm concentration ratio for the car market in China in 2018. You are advised to show your working.

(2)

(b) With reference to the third paragraph of Extract B, explain what is meant by a 'takeover'.

(4)

(c) With reference to Figure 1 and Extract A, analyse **two** reasons for the fall in car sales in China since 2017.

(6)

(d) With reference to Extract A, examine the likely effects of the Chinese Government's subsidy on the profits of an electric car manufacturer.

Illustrate your answer with an appropriate diagram.

(8)

(e) With reference to Extract A and Extract B and your own knowledge, discuss the types of non-price competition that could be used by car manufacturers to increase the sales of cars.

(14)

Sources for use with Section B.

The Chinese car market

Figure 1 New car sales in China, 2009–2019 (millions)

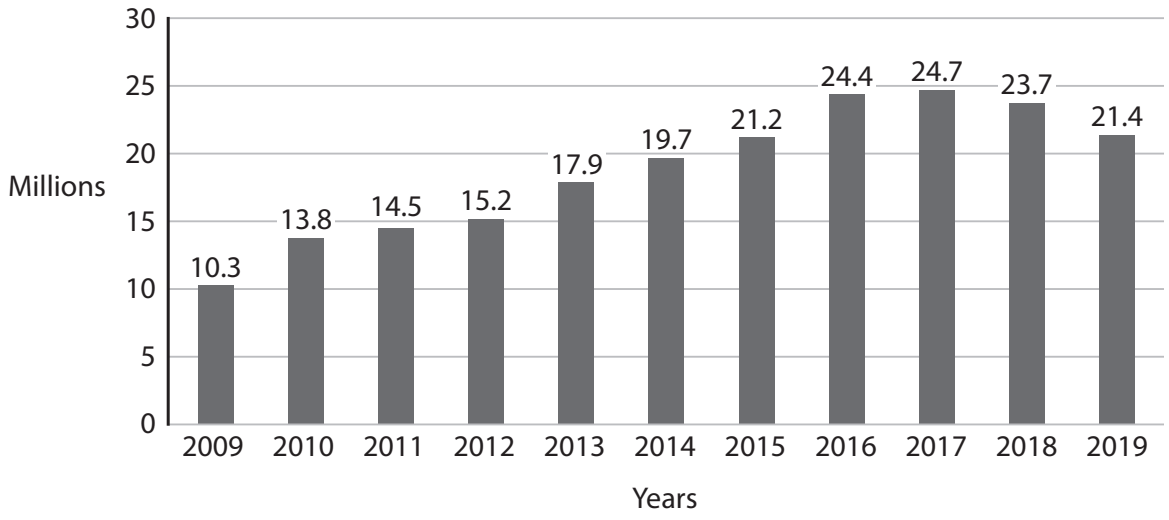
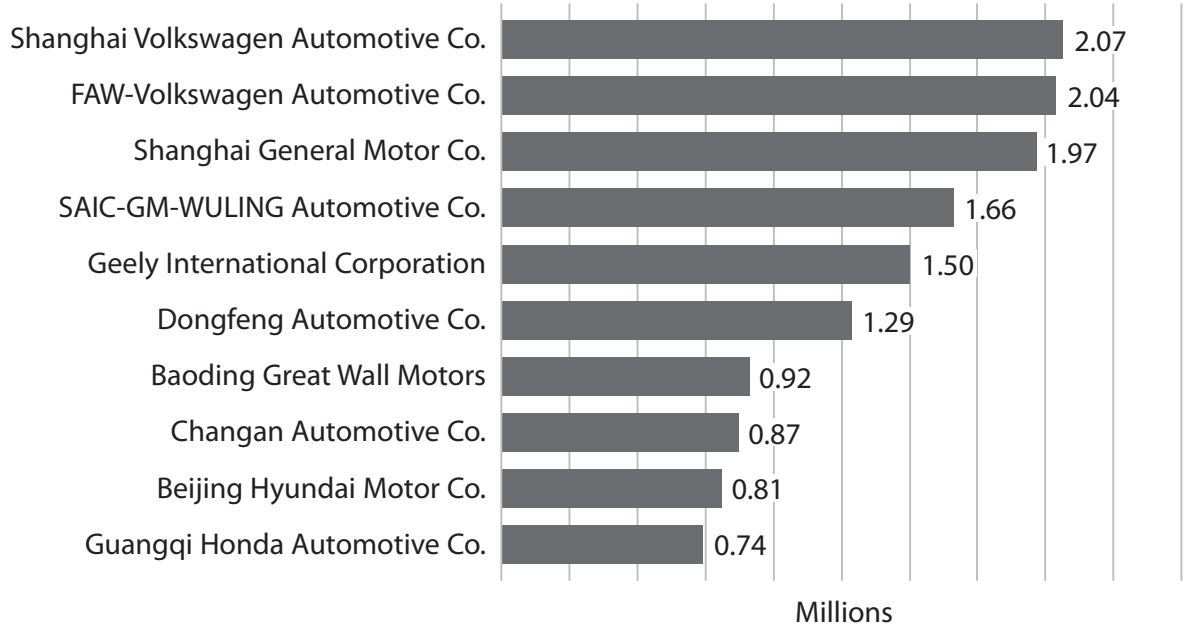


Figure 2 Major car manufacturers' sales in China, 2018 (millions)



Extract A Developments in the Chinese car market

In 2019 more cars were sold in China than in any other country. In that year, the Chinese car market accounted for 30% of total global car sales. Chinese manufacturers produced 42% of the cars sold in China in 2019. In 2018 23.7 million cars were sold in China, compared to only 4.4 million in Japan, 15.6 million in Europe and 17.2 million in the United States.

In 2018 car sales in China declined by 4%, the first reduction in 20 years. One reason for this was the slowdown in China's rate of economic growth. In 2009 real GDP rose by 9.4%, but in 2018 the rate of growth had fallen to 6.6%.

The decline in sales is also because of the increased availability of substitutes. Chinese car buyers are increasingly looking for low-cost alternatives to buying new cars. Many consumers are switching from car ownership to using car-hailing taxi apps instead. There are now over 100 different car-hailing platforms in China with over 330 million consumers. The price of these services is very low and the app makes them very easy to order. China is becoming the largest car-hailing taxi market in the world.

Growth in the electric and hybrid car market is promising, as younger consumers demand more environmentally friendly transportation. The Chinese Government is heavily subsidising electric cars, offering up to 90 000 yuan per car, in an attempt to encourage more production. The aims of the subsidies are to reduce air pollution to meet carbon performance targets and to improve the quality of electric cars. The Government is also increasing the number of public charging points available for electric cars. Local governments incentivise consumers to purchase electric cars by offering free licence plates and free parking.

Extract B Competition in the Chinese car market

A connected-car is one that has its own internet connection. This allows the car to share internet access and data with other devices inside and outside the car. The global connected-car market is expected to grow by 270% by 2022. Market research by Kantar TNS suggested 79% of the Chinese consumers planned to buy a connected-car in the future.

In 2018 BMW, a leading German luxury car manufacturer, started a joint venture with Alibaba Group, a Chinese multinational firm specialising in technology. Their aim was to develop a range of luxury connected-cars. Drivers are able to shop online, watch movies, listen to music and book appointments in their new BMW. Quality and innovation are very important in the Chinese car market. Consumers are very influenced by reputation and social media when choosing a car to purchase.

Chinese car manufacturer Geely is the main producer of connected-cars. Geely has a 6.3% market share of the total Chinese car market. The business produces highly connected-cars with ultra-modern design. The company targets its cars at younger consumers. The company is trying to expand internationally and recently bought the majority share in Lotus, a British sports car brand. The takeover should help Geely increase its sales in Europe. However, its main objective is to grow its market share in China.

(e) With reference to Extract A and Extract B and your own knowledge, discuss the types of non-price competition that could be used by car manufacturers to increase the sales of cars.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage point change in the four-firm concentration ratio between 2020 and 2021.

(2)

(b) With reference to Extract A, analyse **two** reasons why India has become the world's second largest smartphone market.

(6)

(c) With reference to Extract B, explain what is meant by 'economies of scale'.

(4)

(d) With reference to Figure 2 and Extract B, examine the likely impact on the profits of Samsung of opening a smartphone factory in India.

Use an appropriate diagram in your answer.

(8)

(e) With reference to Extract C, Figure 2 and your own knowledge, discuss the benefits of non-price competition for consumers and businesses in the Indian smartphone industry.

(14)

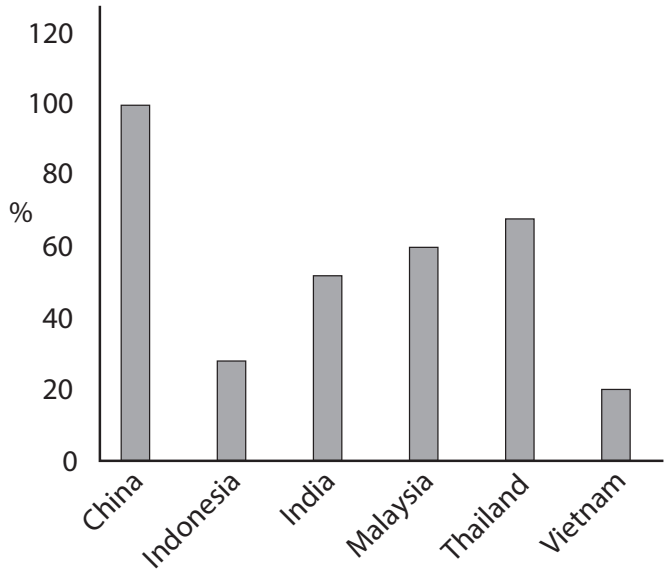
Sources for use with Section B

The Indian mobile phone market

Figure 1 Market shares of mobile phone companies in India, 2020 and 2021

	2020	2021
Xiaomi	26%	21%
realme	11%	17%
Samsung	20%	16%
vivo	15%	13%
OPPO	10%	9%
Others	18%	24%

Figure 2 Hourly labour cost for selected countries as a percentage of China's hourly labour costs, September 2018



Extract A The Indian smartphone market

In October 2021 India's population was 1.38 billion, the second largest in the world after China. India's per capita real income increased from US$ 1 000 in 2015 to US$ 1 301 in 2020. It is predicted that incomes will continue to rise steadily over the next few years. India's large population and increasing disposable incomes have made it the world's second largest smartphone market. Over half the population of India owns a smartphone. It is expected that the market will grow from US$ 25.1 billion in 2018–19 to US$ 80 billion in 2025–26.

Extract B The production of smartphones in India

The manufacture of smartphones in India has increased significantly, making it the second largest manufacturing country after China. If production continues to rise at its current rate, India will soon become the global leader in smartphone production.

The Indian Government has been encouraging foreign direct investment (FDI) through the "Make in India" programme. This scheme offers tax relief for any companies manufacturing in India. The scheme also introduced a 12.5% tax on any imported phone components needed in the manufacturing process. This has caused an increase in the local production of handsets and phone components. Also, it is estimated that wages for skilled workers are 15% less in India than in China. As a result, Samsung Electronics, a South Korean company, opened the world's largest smartphone factory in India. The company will benefit from economies of scale and from reduced transport costs when selling its products in India, the Middle East and Africa. Foxconn, a Taiwanese company, moved its production of the new Apple iPhone from China to India to reduce long-run average costs.

There are several challenges facing smartphone producers in India. For example, the supply of components is insufficient to meet the level of demand. This forced some businesses to import more expensive and heavily taxed components from China. In addition, the power supply is not always reliable, reducing output and efficiency. Transportation can also be slow and costly. Poor roads and railways mean that it takes a long time for manufactured goods to reach the coast to be transported to other countries.

Extract C Competition in the smartphone industry

The smartphone industry in India is dominated by a few large businesses because smaller businesses find it difficult to compete on quality, functions and variety of smartphones. The large smartphone businesses mainly use non-price competition in order to increase market share. These strategies include advertising and branding, innovation, design and after-sales service.

(e) With reference to Extract C, Figure 2 and your own knowledge, discuss the benefits of non-price competition for consumers and businesses in the Indian smartphone industry.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in Deliveroo's total revenue between 2017 and 2021. You are advised to show your working.

(2)

(b) With reference to Figure 2, explain the market structure of the UK food delivery market in 2021.

(4)

(c) With reference to Extract B, analyse **two** factors that influence the demand for online food delivery.

(6)

(d) With reference to Figure 1 and the first paragraph of Extract B, examine **two** reasons why Deliveroo is making a loss.

Illustrate your answer with an appropriate diagram(s).

(8)

(e) With reference to the information provided, discuss the strategies used by food delivery businesses to increase their market shares.

Refer to game theory analysis in your answer.

(14)

Sources for use with Section B

The food delivery market

Figure 1 Deliveroo's annual total revenue and loss, £ million, 2017–2021

Year	Total revenue	Loss
2017	277	199
2018	476	232
2019	771	317
2020	1 163	223
2021	1 824	298

Figure 2 Market share (%) of food delivery businesses in the UK, 2017–2021, (percentage share based on revenue)

	2017	2021
Just Eat	68	40
Deliveroo	12	27
Uber Eats	6	27
Dominos	5	3
Others	9	3

Extract A Deliveroo's market share in the UK

Deliveroo is a food delivery business operating mainly in western Europe. Consumers use an app to order food from a restaurant. Once the food has been prepared, a Deliveroo courier collects the food and delivers it to the consumer.

Deliveroo has three main competitors in the UK's food delivery market: Just Eat, Uber Eats and Dominos. All businesses provide consumers with an app to access their services.

During the global health crisis, Deliveroo experienced significant growth in its market share. This was because it differentiated itself by introducing home deliveries of groceries together with orders for takeaway meals. By the end of the crisis, Uber Eats and Just Eat had also introduced grocery deliveries to households.

Furthermore, the three largest businesses in the UK have been engaged in a price war and expensive advertising campaigns. The aim of these strategies was to increase market share and to force other competitors to leave the market.

Extract B Costs and revenues

In 2021 Deliveroo made a loss of £298 million. Marketing costs and fixed costs increased from £358.5 million in 2020 to £628.7 million in 2021. Costs are expected to continue to rise in the short-run because of the increase in the price of fuel and high rates of inflation across Europe. In the first six months of 2022, although Deliveroo's revenue was increasing, this was at a slower rate than the increase in its costs of production.

The average value of an order for a takeaway meal fell in many countries because consumers reduced the number of luxury items they purchased. In the European Union in June 2022 the annual growth in wages was 4.5% but the annual inflation rate was 9.6%.

However, demand for online food delivery and takeaway meals is expected to increase rapidly between 2023 and 2030. There are several reasons for this expected increase in demand including:

- An increase in the number of people living in cities. For example, from 2015 to 2025, there is expected to be a 7.6% increase in the population living in cities in the UK
- Greater consumer preference for online ordering associated with an increase in internet connectivity and smartphone usage. For example, online ordering and food delivery is growing at an annual rate of between 15% and 20% in the UK
- Increased advertising by food delivery businesses. For example, Just Eat's marketing expenditure in the first half of 2021 totalled £252 million compared with £83 million in the first half of 2020.

(e) With reference to the information provided, discuss the strategies used by food delivery businesses to increase their market shares.

Refer to game theory analysis in your answer.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION B

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 2, calculate the percentage change in the price of the Model 3 Rear Wheel Drive vehicle between January and October 2022.

(2)

(b) With reference to Extract A, analyse **two** reasons why sales of electric vehicles in China increased.

Illustrate your answer with a supply and demand diagram.

(6)

(c) With reference to Figure 1 and Extract B, explain the market structure that best describes the electric vehicle market in China.

(4)

(d) With reference to the first two paragraphs of Extract B, examine the impact of Tesla producing its electric vehicles in China on its costs and profits.

Illustrate your answer with a costs and revenues diagram.

(8)

(e) With reference to the information provided and your own knowledge, discuss the impact of Tesla reducing its prices on the behaviour of other electric vehicle manufacturers.

(14)

Sources for use with Section B

The electric vehicle market in China

Figure 1 Market share for electric vehicle passenger sales, based on sales revenue, 2021

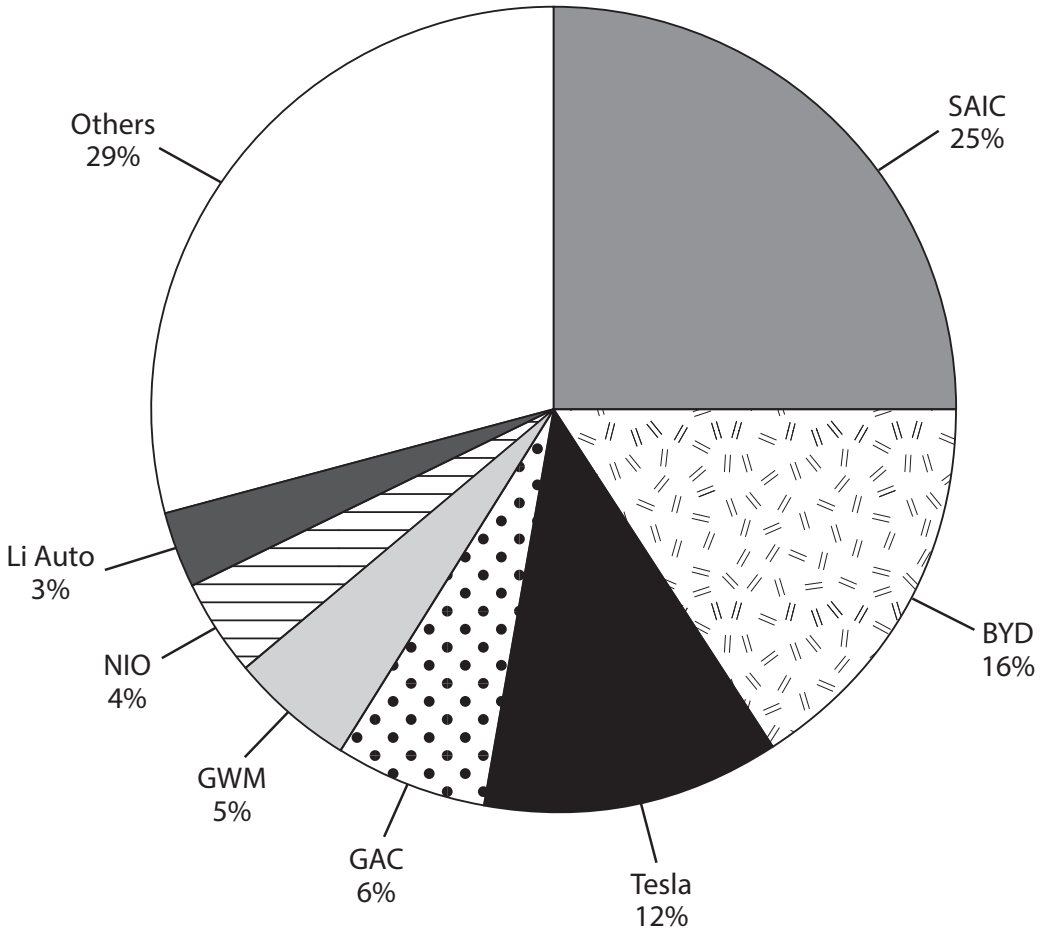


Figure 2 Tesla electric vehicle prices, 2022 (Yuan, 000s)

Model of vehicle	January 2022	October 2022
Model 3 Rear Wheel Drive	280	266
Model 3 Performance	368	350
Model Y Rear Wheel Drive	317	289
Model Y Performance	418	398

Extract A Changes in the Chinese electric vehicle market

In 2020 the Chinese Government adopted many new measures to reduce CO_2 emissions, in order to meet its climate change goals by 2030. For example, the Government has increased the number of charging points and raised the tax on non-electric vehicles. The global increase in the price of fuel has also led to an increase in demand for electric vehicles. Between 2021 and 2022 the sales of electric vehicles in China increased by 83% to 5.92 million.

Extract B Tesla in China

Tesla, a US-owned vehicle company, has attempted to increase its sales in China to take advantage of the increasing demand for electric vehicles. In 2019 the company opened a factory in Shanghai. It became the first fully foreign-owned vehicle manufacturer in the country. By producing vehicles in China, Tesla was able to take advantage of government incentives, such as subsidies, aimed at promoting the domestic electric vehicle industry, as well as benefiting from low-cost labour. This new factory was expected to increase Tesla's competitiveness in the Chinese market by making its vehicles more affordable for consumers. China has become a key manufacturing centre for Tesla. Its factory in Shanghai produced over 710 000 vehicles in 2022. This represented 52% of the company's worldwide output.

However, production has been difficult in China. Tesla faced supply chain disruptions as a result of the global health crisis of 2020 to 2022. This resulted in a reduction in output and an increase in its costs of production. Tesla also had to pay taxes on imported components and finished vehicles.

In October 2022 Tesla reduced the price of several of its electric vehicles. The two main reasons for these price reductions were:

- a fall in its production costs arising from government subsidies to electric car manufacturers
- improved efficiency from manufacturing in Shanghai.

The lower prices of Tesla's electric vehicles had a significant impact on its competitors. Domestic and other international manufacturers responded by reducing their prices for electric vehicles as they competed for market share.

(e) With reference to the information provided and your own knowledge, discuss the impact of Tesla reducing its prices on the behaviour of other electric vehicle manufacturers.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7.

Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the change in Uniqlo's total costs between 2021 and 2022. Show your workings.

(2)

(b) With reference to the first paragraph of Extract A, explain what is meant by the term 'organic growth'.

(4)

(c) With reference to the second paragraph of Extract A, analyse **two** reasons why Uniqlo has been very successful in establishing itself in international markets.

(6)

(d) With reference to Extract B, examine the likely impact of a reduction in Uniqlo's costs of production on its total profits.

Illustrate your answer with an appropriate diagram.

(8)

(e) With reference to Extract C, Figure 2 and your own knowledge, discuss the likely barriers to entry for a business wishing to enter the global fashion retail market.

(14)

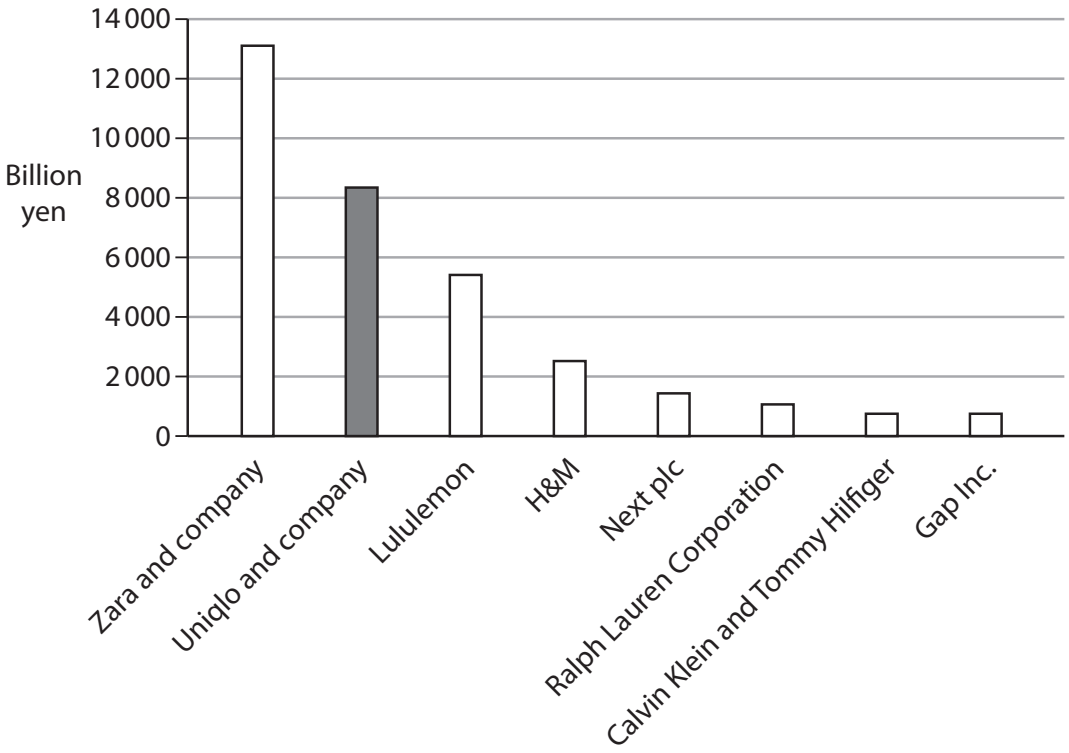
Sources for use with Section B

The global fashion retail market

Figure 1 Uniqlo's total revenue and profit, billion yen, 2020–2022

Year	Revenue (billion yen)	Profit (billion yen)
2020	2 008	975
2021	2 132	1 073
2022	2 301	1 206

Figure 2 Global fashion retailers, ranked by market value, billion yen, February 2023



Extract A Uniqlo's successful growth strategy

Uniqlo is a Japanese fashion retailer. The company was set up in 1984 and it initially focused on the manufacturing and selling of casual, affordable clothing in Japan. In the 2000s Uniqlo started to sell in other countries such as the USA, China, UK, Australia and South Korea. Uniqlo expanded through a process of organic growth. The company opened stores in large cities within each country.

Uniqlo has been very successful in establishing itself in international markets. The business competes with other brands such as Zara and H&M by offering lower prices. Uniqlo has also used non-price competition to offer innovative products that meet its consumers' needs, such as ultra-lightweight and heat-generating fabrics (HeatTech). It also works with well-known designers and celebrities, such as Alexander Wang. The business has invested heavily in advertising and it was the first business in this market to use fast-moving digital images in its stores.

Extract B Uniqlo's revenues and costs

Between 2021 and 2022 Uniqlo's revenue increased by 7.9%. Demand for its products has steadily increased. One reason is that global financial pressures have caused consumers to demand quality items at lower prices.

In 2023 two factors may contribute to a reduction in Uniqlo's costs of production. It aims to negotiate lower prices from its suppliers, including for materials such as cotton and dyes. It is also replacing workers by investing in technology and automation.

However, in March 2023 Uniqlo had to increase wages for some employees by 40% in order to attract highly skilled labour. In addition, there was a global increase in the costs of raw materials.

Extract C The global fashion retail market

Uniqlo, H&M and Zara compete in the 'fast fashion' retail market. Fast fashion is where the businesses respond to the latest trends by supplying new affordable fashion items to the market very quickly. The retailers all offer low prices because they have significant bargaining power over their suppliers. They also provide desirable items because of their high-quality market research and their innovative designs. The businesses compete both online and in stores globally. The profits they make enable them to engage in extensive advertising campaigns.

In 2021 China was Uniqlo's largest international market with 917 stores. Uniqlo had a 1.4% share of the Chinese clothing market, larger than any other business. The rest of the market is made up of many small firms.

(e) With reference to Extract C, Figure 2 and your own knowledge, discuss the likely barriers to entry for a business wishing to enter the global fashion retail market.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION B

Study Figure 1 and Extracts A, B and C in the Source Booklet before answering Question 7.
Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the 4-firm concentration ratio of the global fast-food industry.

You are advised to show your workings.

(2)

(b) With reference to Extract C, explain what is meant by organic growth.

(4)

(c) With reference to Extract A, analyse **two** reasons why the global fast-food market is expected to grow.

(6)

(d) With reference to the last paragraph of Extract B, examine the likely impact on McDonald's profits by switching 'to suppliers that use more ethical and sustainable methods of production'.

Illustrate your answer with an appropriate diagram.

(8)

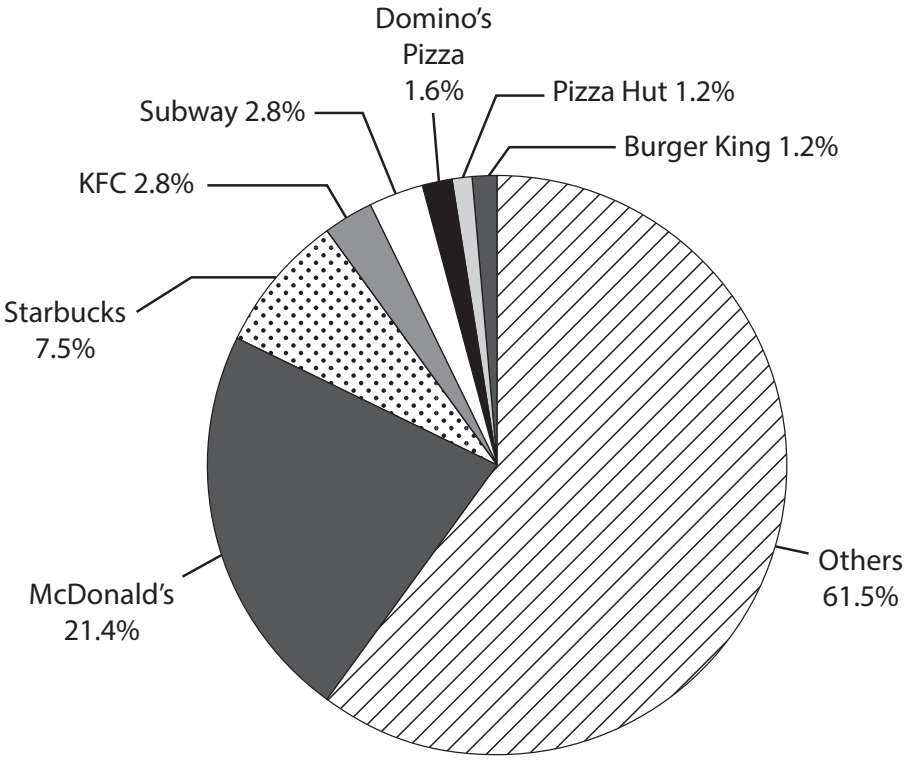
(e) With reference to Figure 1, Extract C and your own knowledge, discuss the likely effects of McDonald's opening CosMc's on its competitors.

(14)

Sources for use with Section B

The fast-food industry

Figure 1 Global market share of companies in the fast-food industry, 2023



Extract A The global fast-food market

The global increase in fast-food consumption has been caused by several factors:

- a rise in the number of people living in cities. For example, between 2010 and 2021, the population living in cities increased from 3.59 billion to 4.59 billion
- changes in people's lifestyles has led to limited time for individuals to spend preparing meals
- the affordability of fast food has made it popular as a result of slow wage growth and increased living costs
- the large marketing expenditures and branding strategies of the companies in the fast-food industry. For example, in 2020, fast-food companies spent $4.5 billion on advertising
- greater use of mobile applications by consumers to order fast food for home delivery. For example, in 2023, Zomato was downloaded 52 million times and Uber Eats 41 million times.

However, in many countries there is an increased awareness of health risks associated with consuming fast food, such as heart disease and obesity. This has led to changes in consumer behaviour as evidenced by an increase in demand for fresh food and organic food that use locally sourced ingredients.

Extract B McDonald's

McDonald's Corporation is an American business that operates over 40 275 restaurants worldwide. It produces a range of fast foods including burgers, fries, salads and drinks. In 2023 its assets were valued at $170 billion and it was the fourth-largest employer globally, employing over 1.9 million workers. McDonald's has over 70 million customers daily, selling an average of 80 burgers every minute.

In recent years, McDonald's has had to adapt its products to meet changing consumer preferences. McDonald's has made significant changes to provide healthy options for its customers. For example, it has expanded its menu to include salads, fruit bags and lower-calorie alternatives.

Moreover, McDonald's has switched to suppliers that use more ethical and sustainable methods of production. As a result, McDonald's costs of production have increased. The purpose of this change of suppliers was to make a positive impact on the planet. For example, McDonald's now uses:

- deforestation-free supply chains for beef
- sustainable fisheries for fish
- sustainable palm oil production
- locally-sourced ingredients to reduce its carbon footprint.

Extract C McDonald's opens CosMc's

In December 2023 McDonald's opened a new café called CosMc's. It sells a variety of drink and food options. CosMc's has a menu of drinks such as coffees and teas, with the ability to customise them. There are also limited food choices for on-the-go eating. McDonald's aims to compete with Starbucks in the growing beverage market and plans to open CosMc's in 10 different locations, mainly in Texas, USA, by December 2024. McDonald's is planning to establish 10 000 new CosMc's cafés worldwide by 2027.

Acknowledgements

Figure 1 adapted from:
https://www.zippia.com/advice/burger-king-statistics/

Extract A adapted from:
https://www.foodbusinessnews.net/articles/22941-fast-foods-future
https://www.fortunebusinessinsights.com/fast-food-market-106482
https://www.reportlinker.com/market-report/Food-Services/9301/Fast-Food?term=fast%20food%20statistics&matchtype=b&loc_interest=&loc_physical=1006925&utm_group=standard&utm_term=fast%20food%20statistics&utm_campaign=ppc&utm_source=google_ads&utm_medium=paid_ads&utm_content=transactionnel-3&gad_source=1&gclid=Cj0KCQiAtaOtBhCwARIsAN_x-3KQ6IPGiHO3NjUBbVH-lBGUv39amVw5J1Drqhoe_faIcV_B46MrgW8aAnhVEALw_wcB

Extract B adapted from:
https://corporate.mcdonalds.com/corpmcd/home.html
https://officechai.com/learn/the-biggest-employers-in-the-world-by-workforce/
https://www.enterpriseappstoday.com/stats/mcdonalds-statistics.html
https://www.theguardian.com/business/2007/jul/05/lifeandhealth.consumerandethicalliving

Extract C adapted from:
https://www.independent.co.uk/voices/mcdonalds-cosmcs-cafe-independent-coffee-shops-capitalism-b2461310.html
https://www.independent.co.uk/life-style/cosmcs-mcdonalds-menu-spinoff-b2460726.html

(e) With reference to Figure 1, Extract C and your own knowledge, discuss the likely effects of McDonald's opening CosMc's on its competitors.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION C

Answer TWO questions from this section.

8 In South Africa, in 2019, insurance, mobile phones and retail banking were markets that had high concentration ratios. For example, the 4-firm concentration ratio was 96% for mobile phones and 74% for insurance.

Evaluate the disadvantages of an oligopolistic market for producers and consumers. Refer to an industry of your choice in your answer.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In 2020 the low-cost airline Flybe shut down. A decrease in demand for European flights led to Flybe's revenue falling below its costs of production.

Evaluate whether a firm should always shut down if its costs of production are greater than its revenue. Refer to an industry of your choice in your answer.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 In 2018 the South African Government passed the National Minimum Wage Act.

Evaluate the likely microeconomic effects of the introduction of a national minimum wage on businesses and workers in the tourism industry.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In 2020 three pharmaceutical firms Lexon, King Pharmaceuticals Ltd and Alissa Healthcare Research Ltd, were found to have illegally shared information in order to keep prices artificially high. Each firm was fined £1.2 million for this collusion by the UK competition authorities.

Evaluate the possible benefits of collusive behaviour between firms.

Use a simple game theory model in your answer.

(Total for Question 8 = 20 marks)

9 In 2019 the New Zealand Government created a new organisation to regulate the local monopolies that supply water. This organisation imposed a price cap that resulted in these water companies making insufficient profit for investment in improving water quality.

Evaluate methods that a government could use to control monopoly behaviour.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 JBS is the largest meat processing firm in the world, as measured by value of sales. Its revenue was $814.5 million in 2020. After a significant increase in sales to China in quarter 4 2020, its total revenue from sales to China rose by 60%.

Evaluate the view that revenue maximisation is always the main objective of a firm.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In 2021, the UK-based firm PhotonLens, which produces virtual reality smart glasses, merged with the Chinese firm Shadow Creator, which specialises in virtual reality software.

Evaluate the benefits of growth by merger.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 The tax authority in Singapore offers a tax incentive of up to S$100 000 to new businesses in their first three years of trading. The objective of this scheme is to promote competition.

Evaluate methods that a government could use to promote competition in a market.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 The Indian premium smartphone industry is dominated by three firms: Apple, Samsung and OnePlus. These firms compete mainly using non-price competition.

Evaluate the use of non-price and price competition in oligopolistic markets.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In 2018 the US-owned business Toys "R" Us shut down after not being able to cover its costs.

Evaluate the view that a business will always shut down if it is not able to make a normal profit.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 The tyre market in India is dominated by three large businesses, MRF, Apollo Tyres and JK Tyres, with a combined market share of 70.4%. The price of tyres has remained relatively stable over time.

With reference to an industry of your choice, evaluate the likely disadvantages for a business operating in an oligopolistic market structure.

Illustrate your answer with a payoff matrix diagram.

(Total for Question 9 = 20 marks)

10 Jeff Bezos owns 12.7% of Amazon shares and works as the Executive Chair of the board of directors. By contrast, Daniel Kretinsky owns 22% of the shares in the UK's Royal Mail Service but he does not work for the company.

Evaluate the likely impact of the divorce of ownership from control on business objectives.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In 2023 the US Department of Justice began an investigation into claims that Google had used its market power to limit competition and to increase the amount charged to advertisers.

Evaluate policies that a government could adopt to control monopolies.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In 2023 the highest-paid lawyers in Switzerland earned, on average, three times more than the lowest-paid lawyers.

Evaluate possible reasons for wage differentials in an occupation of your choice.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 In July 2023 the Competition and Markets Authority fined Leicester City Football Club £880 000 for colluding with JD Sports. The club was found guilty of price fixing and restricting the selling of Leicester City-branded clothing in the UK.

Evaluate the likely effects of collusion on businesses **and** consumers in an industry of your choice.

Illustrate your answer with reference to game theory.

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In October 2023, Lidl was the fastest-growing supermarket by revenue in the UK. The business opened 25 new stores in 2023 and plans to open a further 50 by 2025.

Evaluate the benefits of organic growth to a business such as Lidl.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In 2023 the Government of Mexico intervened in the country's labour market by:

- increasing the daily minimum wage by 20% to 207.44 pesos
- setting a maximum of 48 hours per week for a full-time employee.

Evaluate the economic benefits of government intervention in labour markets.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 In 2022 the South Korean competition authority fined 15 shipping companies $63 million. These companies were found guilty of fixing prices by colluding.

Evaluate the benefits of collusion in a market of your choice.

Illustrate your answer with a simple game theory model.

(Total for Question 10 = 20 marks)

SUB-TOPIC 3.3.3.6

MONOPOLY

Sub-topic 3.3.3.6 · 11 questions · 138 marks · lowest tariff first

6 In 2022 the average price of a standard cinema ticket in Johannesburg, South Africa, was R60 in the daytime and R105 in the evening.

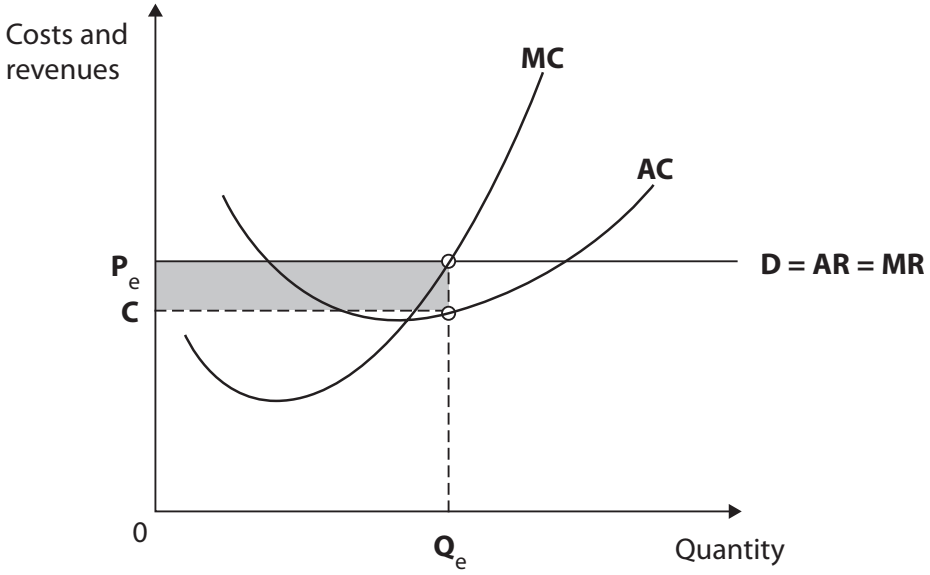
Which **one** of the following is the most likely reason for this price difference?

- ☒ **A** The demand for cinema tickets is more price inelastic in the daytime than in the evening
- ☒ **B** The demand for cinema tickets is more price elastic in the daytime than in the evening
- ☒ **C** The supply of cinema tickets is perfectly price elastic
- ☒ **D** The supply of cinema tickets is more price elastic in the evening than in the daytime

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

3 The diagram shows the short-run profit maximising equilibrium for an agricultural business operating in a perfectly competitive market.



Ceteris paribus, which **one** of the following is the most likely outcome in the long-run?

- ☒ **A** The agricultural business will make normal profit
- ☒ **B** The agricultural business will shut down
- ☒ **C** The agricultural business will increase its output
- ☒ **D** The agricultural business will increase its price

(Total for Question 3 = 1 mark)

4 In 2022 Google's global market share of the internet search engine market was 84%.

Which **one** of the following is the most likely outcome of Google operating at its profit maximising output?

- ☒ **A** Average revenue is equal to marginal cost
- ☒ **B** Marginal revenue is greater than average revenue
- ☒ **C** Marginal revenue is equal to total cost
- ☒ **D** Average revenue is greater than average cost

(Total for Question 4 = 1 mark)

SECTION A

Answer ALL questions in this section.

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

1 A pineapple producer in Costa Rica, operating in a perfectly competitive market, is currently making supernormal profits.

Which **one** of the following is the most likely outcome in the long-run?

☒ **A** The producer will make more supernormal profit

☒ **B** The producer's output will decrease but industry output will increase

☒ **C** The producer will leave the market

☒ **D** The market concentration will increase

(Total for Question 1 = 1 mark)

2 In 2023 Cineworld sold tickets for standard seats to watch movies at £9.99 in the UK. Students only paid £7.99 for the same seats.

Which **one** of the following best describes this pricing strategy?

☒ **A** Marginal cost pricing

☒ **B** Limit pricing

☒ **C** Price discrimination

☒ **D** Predatory pricing

(Total for Question 2 = 1 mark)

3 In 2023 the Government of the Philippines introduced a maximum price for rice of 41 pesos ($0.72) per kilogram.

Ceteris paribus, which **one** of the following is the most likely impact of the introduction of this maximum price for rice on producers?

☒ **A** Producer surplus will increase

☒ **B** Fixed costs will decrease

☒ **C** Dynamic efficiency will increase

☒ **D** Average revenue will decrease

(Total for Question 3 = 1 mark)

4 The table shows the total costs of a garment manufacturer at different levels of output.

Output	Total costs ($)
0	100 000
6 000	160 000
12 000	210 000
18 000	250 000
24 000	280 000

Which **one** of the following is the average variable cost if the garment manufacturer is producing 12 000 items?

- ☒ **A** $8.33
- ☒ **B** $9.17
- ☒ **C** $10.00
- ☒ **D** $17.50

(Total for Question 4 = 1 mark)

5 The table shows the price for an adult ticket at a particular cinema in Dhaka in 2024.

Time	Price (BDT)
Afternoon	300
Evening	450

Which **one** of the following best describes the reason for this price difference?

- ☒ **A** Demand is more price elastic in the afternoon
- ☒ **B** Demand is more price inelastic in the afternoon
- ☒ **C** Supply is perfectly elastic in the evening
- ☒ **D** Supply is more elastic in the evening

(Total for Question 5 = 1 mark)

SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in Uber India's revenue from 2016 to 2018. You are advised to show your working.

(2)

(b) With reference to Extract B, explain what is meant by 'privatisation'.

(4)

(c) With reference to Extract B, examine **two** likely effects of deregulation and privatisation.

(8)

(d) With reference to Figure 2 and Extract A, analyse the likely effect of predatory pricing on the profits of a ride-hailing taxi firm.

(6)

(e) With reference to Extract C and your own knowledge, discuss the likely effects on consumers of the price discrimination strategy.

Illustrate your answer with an appropriate diagram(s).

(14)

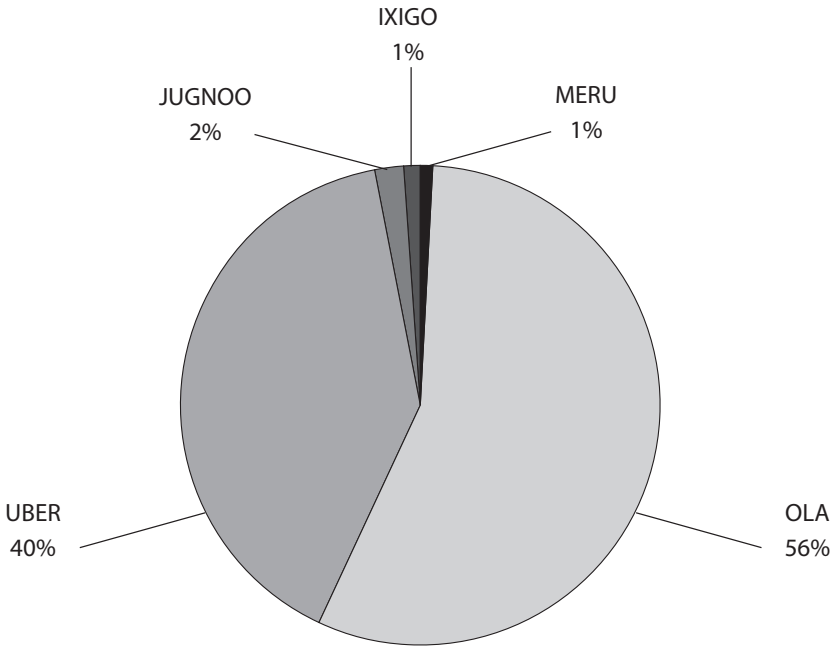
Sources for use with Section B.

The business behaviour of large firms

Figure 1 Uber India's revenue for year ending in March in rupees billion (Rs)

2016	3.7
2017	4.1
2018	5.3

Figure 2 Market share of ride-hailing taxi firms in India, December 2017



Extract A Predatory pricing in India?

The Chief Executive of Ola, India's biggest ride-hailing taxi firm, has heavily criticised the pricing policies of Uber. He claims that Uber has been adopting a predatory pricing strategy. A spokesperson for Uber denied this, stating that her company competes fairly to attract customers.

The two major ride-hailing taxi firms have been engaged in continuous price competition since Uber entered the Indian market in 2013. Since then both firms have repeatedly cut fares in big cities to levels either equal to or below the cost of each ride. For example, in March 2016 Ola offered rides in small cars for just Rs6 ($0.09) per kilometre, in addition to a flat rate charge. This price cut was made as a response to a price reduction by Uber.

Extract B End of state-owned coal monopoly in India

In 2017 the Indian Government announced its decision to deregulate and privatise parts of India's coal mining industry. This would end the long-standing monopoly of state-owned Coal India Ltd. Certain mines will be auctioned and contracts then awarded to private sector mining firms. As well as enabling domestic firms to enter the industry, the decision could also lead to global mining companies such as Rio Tinto, BHP Billiton and Vale entering the industry.

It is claimed these changes will lead to increased investment and create more direct and indirect employment in coal mining areas. However, representatives of mining trade unions fear that it may lead to job losses.

Extract C Price discrimination in Zambia

Zambia Sugar is responsible for over 90% of total sugar production in Zambia. In 2017 the Government's Competition and Consumer Protection Commission (CCPC) found that Zambia Sugar had engaged in price discrimination against several household sugar and industrial sugar* customers. The firm was charging Zambian consumers of household sugar 40% more than the export price for the same product. This price difference was not linked to any changes in Zambia's exchange rate.

In addition, some manufacturers were charged lower prices for the same industrial sugar compared to others. These price differences could not be explained by differences in the quantities of sugar purchased.

The CCPC fined the firm 76 million Zambian Kwacha (ZK) for unfair pricing. Zambia Sugar was told that it should end its price discrimination strategies and set fair prices for both household sugar and industrial sugar in future.

* where sugar is an ingredient in further production

(e) With reference to Extract C and your own knowledge, discuss the likely effects on consumers of the price discrimination strategy.

Illustrate your answer with an appropriate diagram(s).

(14)

(Total for Question 7 = 34 marks)

(TOTAL FOR SECTION B = 34 MARKS)

SECTION C

Answer TWO questions from this section.

8 In July 2017 the German retailer Metro Group demerged into two independent companies. Its wholesale and food division became New Metro and a separate consumer electronics business, CECONOMY, was formed.

Evaluate the possible benefits of a demerger for the business **and** its workforce.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 By 2017 Ethiopia was one of very few African countries that had not privatised its telecommunications market and introduced competition. The state-owned company, Ethio Telecom, was the only firm in the market.

Evaluate the likely benefits of a monopoly to its consumers.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 In 2018 the Malaysian Government increased the monthly minimum wage for garment and textile workers from MYR 1 000 to MYR 1 500.

Evaluate the benefits of an increase in the minimum wage on businesses **and** workers.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In 2019 the Indian Government announced plans to privatise up to 25 airports across India. These airports are not the largest in India, but they each have annual passenger numbers between 1 million and 1.5 million.

Evaluate the possible benefits of privatisation for the consumer.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In the UK, for any given rail journey, there are usually more than five different ticket prices depending on the time and day of travel.

Evaluate the view that price discrimination is always beneficial for producers.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 In New Zealand, in 2018, it was estimated that the average worker employed in the private sector earned 30% less than the average worker in the public sector.

Evaluate the reasons why wage differences exist.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 Visinema, an Indonesian company that produces TV shows and feature films, is expanding into neighbouring countries. The company is also planning to acquire several Indonesian animation studios.

For an industry of your choice, evaluate why many businesses have growth as their main objective.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In July 2020 the mobile phone company, MTN Ghana, had a 70% market share in Ghana. The competition authorities in Ghana stated that this was preventing new firms from entering the market and was having a negative effect on the quality of service.

For an industry of your choice, to what extent is a monopoly market structure *inefficient*?

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 In February 2020 the Indian Government announced plans for university degrees to be fully accessed online. This was to make higher education more accessible and to increase the skills of India's young people. Previously only 20% of a degree could be studied online.

Evaluate measures to reduce the occupational and geographical immobility of labour.

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In January 2022 the Australian firm Peak Minerals demerged from Vertex Minerals. The main reason for the demerger was to enable Peak Minerals to focus on copper and gold mining production in Western Australia.

Evaluate the possible benefits of a demerger.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In February 2020 the European Commission fined the Spanish hotel group Meliá €6.678 million for charging consumers from different EU countries different prices for the same rooms.

Evaluate the possible benefits of price discrimination to both the business and consumers.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 In January 2022 the Government of Greece announced plans to raise the national minimum wage by 2% to €773 per month. However, many restaurant owners are worried about the impact of this increase in the minimum wage on their businesses.

Evaluate the likely microeconomic effects of an increase in the national minimum wage on an industry of your choice.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In 2015 Egypt's Government introduced a maximum wage of $5 800 per month. This was 35 times greater than the minimum wage of public sector workers. Many Chief Executives were earning far more than this maximum wage at the end of 2014. As a consequence, 200 executives in the banking sector resigned.

Evaluate the impact of imposing a maximum wage.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In 2022 the French Government planned to pay nearly €10bn to nationalise EDF Energy. This business had a 90% market share. The Government aims to ensure stability of energy supplies and to prevent significant price fluctuations.

Evaluate the impact of a profit maximising monopolist being nationalised.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 According to a 2021 World Bank report, small and medium-sized enterprises accounted for 98.5% of the businesses in Malaysia. The report stated that these businesses were reluctant to invest in the technology that would enable them to expand because many of them wanted to remain small.

Evaluate why the objectives of small and medium-sized enterprises may differ from those of large enterprises.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 60% of the world's cocoa is produced by 2.5 million farming families in Ghana and Cote d'Ivoire. Much of this cocoa is sold to multinational companies for processing into chocolate. However, cocoa workers receive only 6% of the price of a bar of chocolate.

Evaluate measures that a government can use to protect employees **and** suppliers in a product market of your choice.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 Sabesp is a natural monopoly supplying water in São Paulo, Brazil.

Evaluate the benefits of a natural monopoly supplying a product or service in an industry of your choice.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 9 = 20 marks)

10 In 2024 Prembly Group, a digital security business based in Nigeria, merged with Peleza, a business specialising in making background security checks, based in Kenya.

Evaluate the benefits of the growth of a business by merger in an industry of your choice.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SUB-TOPIC 3.3.3.7

MONOPSONY

Sub-topic 3.3.3.7 · 6 questions · 47 marks · lowest tariff first

6 Prior to 2016 there was a competitive labour market for nurses in Argentina. Following the introduction of a universal healthcare system there is now a monopsony employer of nurses in the country.

Which **one** of the following combinations is the most likely impact of the introduction of this monopsonistic labour market?

		Wages	Number of employees
☒	**A**	Lower	Lower
☒	**B**	Lower	Higher
☒	**C**	Higher	Lower
☒	**D**	Higher	Higher

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

3 From September 2019 to September 2021 the US labour force participation rate fell.

Which **one** of the following is most likely to have caused this fall in the supply of labour?

- ☒ **A** An increase in benefit payments
- ☒ **B** An increase in net migration
- ☒ **C** An increase in the wage rate
- ☒ **D** An increase in productivity

(Total for Question 3 = 1 mark)

4 A car manufacturer employs 40 engineers at a wage rate of $570 per week. To attract an additional worker, the car manufacturer must raise the wage rate for all engineers to $590 per week.

What is the marginal cost of employing this additional worker?

- ☒ **A** $20
- ☒ **B** $820
- ☒ **C** $1 390
- ☒ **D** $24 190

(Total for Question 4 = 1 mark)

5 Between February 2020 and February 2021 approximately 65 000 businesses shut down in New Zealand. The majority of these closures were caused by a fall in revenue as a result of the global health crisis.

Which **one** of the following would cause a firm to shut down in the short-run?

- ☒ **A** Average revenue is above its average total cost of production
- ☒ **B** Average revenue is below its average total cost of production
- ☒ **C** Average revenue is above its average variable cost of production
- ☒ **D** Average revenue is below its average variable cost of production

(Total for Question 5 = 1 mark)

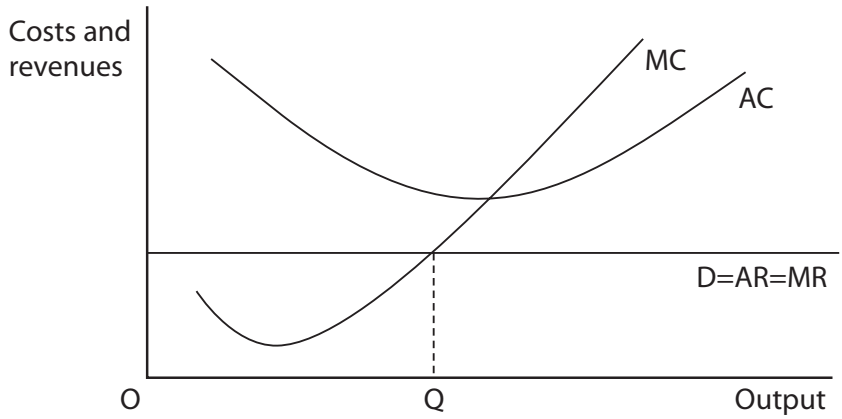
3 A firm employs 50 workers in its factory. Each worker is paid a weekly wage of $1 500. To attract an additional worker the firm needs to raise the wage from $1 500 a week to $1 600 a week for each of its employees.

Which **one** of the following is the marginal cost of employing the additional worker?

- ☒ **A** $100
- ☒ **B** $6 600
- ☒ **C** $75 000
- ☒ **D** $81 600

(Total for Question 3 = 1 mark)

4 The diagram shows the equilibrium output of a profit-maximising firm operating in a perfectly competitive market.



Which **one** of the following can be deduced from this diagram?

	Profits of the firm in the short-run	Number of firms in the industry in the long-run
☒ **A**	Loss	Increase
☒ **B**	Normal	Decrease
☒ **C**	Normal	Increase
☒ **D**	Loss	Decrease

(Total for Question 4 = 1 mark)

SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 1 and Figure 2, calculate Tata Steel's total costs for steel production in 2019.

(2)

(b) Explain what is meant by the term 'monopsony employer' (Extract C, line 11).

(4)

(c) With reference to Extract B, examine the likely effects of the proposed merger between Tata Steel and Thyssenkrupp on the profits of European car manufacturers.

Illustrate your answer with an appropriate diagram.

(8)

(d) With reference to Extract C, analyse **two** reasons why the proposed merger between Tata Steel and Thyssenkrupp was blocked by the European Competition Commission.

(6)

(e) With reference to Extract A, Extract B and your own knowledge, discuss the benefits to Tata Steel and Thyssenkrupp of the proposed horizontal integration.

Illustrate your answer with an appropriate diagram.

(14)

Sources for use with Section B.

Tata Steel

Figure 1 Tata Steel's total revenue, 2015–2019, in billion Rupees (Rs)

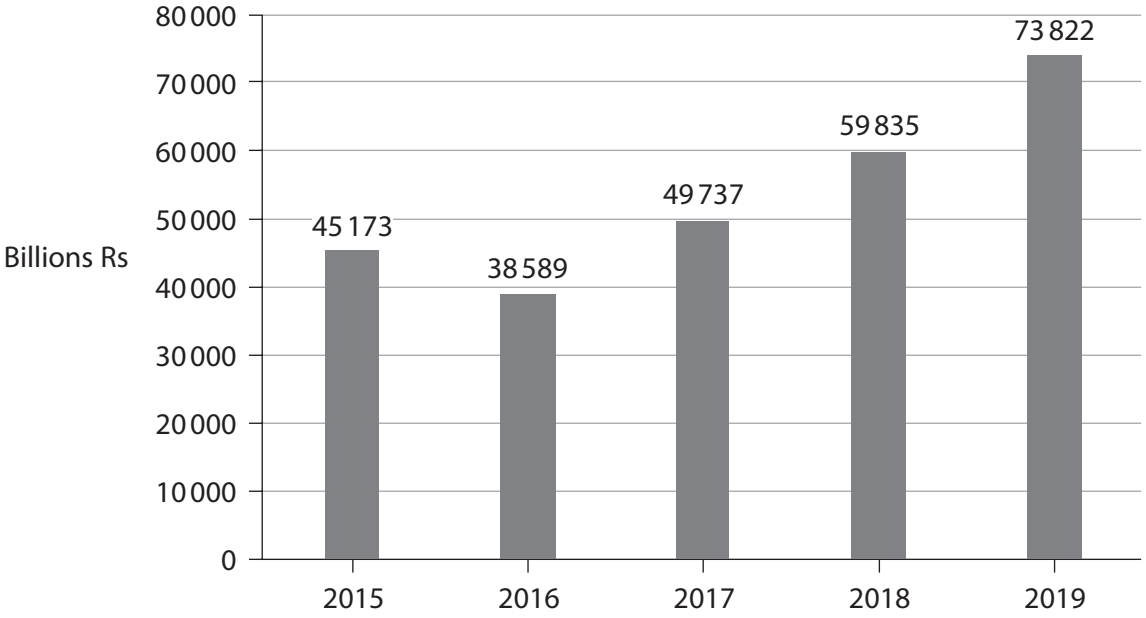
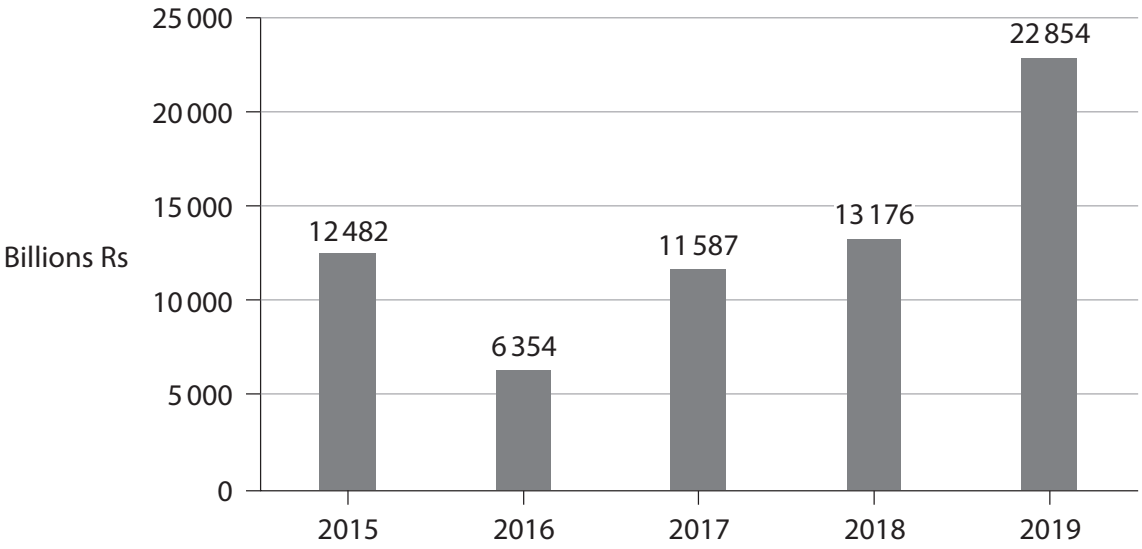


Figure 2 Tata Steel's profit, 2015–2019, in billion Rupees (Rs)



Extract A The Indian steel industry

India is the world's second largest steel producer. The growth in the Indian steel industry has been stimulated by the availability of iron ore and low-cost labour. Firms in this industry are dynamically efficient, using the latest technology in their production process.

Tata Steel is the largest steel producer in India with the capacity to produce 13 million tonnes per year. It is also one of the largest steel-producing companies globally and operates in 26 countries with major sites in India, the Netherlands and the UK. It employs 85 500 workers globally.

Extract B Merger proposal

The German steel producer, Thyssenkrupp, is Europe's second largest producer of high-value steel, followed by Tata Steel. In 2017 these companies planned to merge their European manufacturing operations. This integrated business would have 48 000 workers and generate €15 billion in sales.

The merged company would be based in the Netherlands and become the second largest European steel manufacturer. Even after this merger, ArcelorMittal SA would still be the largest European steel manufacturer.

The merger was proposed after the European steel industry had a 25% tariff (tax on imports) placed on its sales to the USA, its largest market. Since the tariffs were imposed, steel manufacturers experienced a fall in annual profits of between 8% and 17%.

The merged firm expected that improvements in efficiency would result in savings of over €400 million. It is planned to reduce staff by a total of 4 000 in administration and manufacturing. It also hoped that it could benefit from lower long-run average costs.

Extract C Merger blocked

In June 2019 the European Competition Commission blocked the proposed merger between Tata Steel and Thyssenkrupp. It concluded that the merger would cause a reduction in competition which would result in a significant increase in the price of steel. During the investigation the Commission received feedback from car manufacturers and firms in the packaging industry. These industries believed the merger would give Tata Steel and Thyssenkrupp more dominance in the market. This would be likely to result in higher costs of production that would make it difficult for firms in these industries to remain profitable.

Employees of Tata Steel and Thyssenkrupp were concerned that the merger would create a monopsony employer of steel workers in the UK and the Netherlands. Employees expected job losses and lower real wages. This would have a negative effect on their standard of living as they would have no alternative employer for their skill set.

7 (a) With reference to Figure 1 and Figure 2, calculate Tata Steel's total costs for steel production in 2019.

(2)

(b) Explain what is meant by the term 'monopsony employer' (Extract C, line 11).

(4)

SECTION C

Answer TWO questions from this section.

8 The Government of Norway fully subsidises university education. Universities in Norway have social objectives rather than a profit maximising objective. By contrast, in the USA, students pay fees to study at profit maximising universities.

Evaluate the view that the objectives of state-owned enterprises and private sector organisations always differ.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 The global supermarket chain, Walmart, operates 10 500 stores in 24 countries. It has monopsony power when buying agricultural products and employing labour in these countries. A 2021 study suggested that Walmart buys these agricultural products at a lower price than when they are sold to other businesses.

Evaluate the likely impacts of monopsony power on employees and suppliers.

Refer to a firm with monopsony power in your answer.

(Total for Question 9 = 20 marks)

10 In 2022, the Canadian airline WestJet completed a takeover of Sunwing Travel Group, an airline and luxury holiday provider. WestJet's objective was to sell luxury flights and holidays to more destinations.

Evaluate the benefits of growth by takeover for a business in an industry of your choice.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SECTION C

Answer TWO questions from this section.

8 In 2023 British Sugar was the only purchaser of sugar beet from 3 000 farmers in the UK.

Evaluate the benefits of a monopsony to firms **and** consumers.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In 2007 the Government of Indonesia set up the Kredit Usaha programme. The aim of this programme was to support small businesses by offering subsidies and low-cost loans. In 2022 the amount that a business could borrow was increased significantly.

Evaluate measures that a government could introduce to promote competition and contestability.

(Total for Question 9 = 20 marks)

10 In 2023 Mars, a confectionery manufacturer, completed the takeover of Hotel Chocolat, a UK luxury chocolate company, for £534 million.

Evaluate the benefits of a takeover for businesses **and** consumers.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 10 = 20 marks)

SUB-TOPIC 3.3.3.8

CONTESTABILITY

Sub-topic 3.3.3.8 · 6 questions · 41 marks · lowest tariff first

3 Which **one** of the following is most likely to cause the supply of engineers to the aerospace industry to be inelastic?

- ☒ **A** Jobs in the aerospace industry require a high level of skill
- ☒ **B** Aerospace engineers are very responsive to changes in wage rates
- ☒ **C** The government provides support for training programmes
- ☒ **D** There is a fall in demand for aerospace industry products

(Total for Question 3 = 1 mark)

4 Which **one** of the following characteristics always applies to a highly contestable market?

- ☒ **A** There is a large number of small firms
- ☒ **B** There are high sunk costs
- ☒ **C** There are low barriers to entry
- ☒ **D** There is imperfect information

(Total for Question 4 = 1 mark)

5 In 2019 the minimum wage rate in Spain was increased by 22%.

If the elasticity demand for labour currently earning the minimum wage is –0.6, then the demand for these workers will

- ☒ **A** rise by 13.2%
- ☒ **B** fall by 13.2%
- ☒ **C** rise by 36.7%
- ☒ **D** fall by 36.7%

(Total for Question 5 = 1 mark)

5 A German electricity company aims to maximise its total revenue.

At which **one** of the following would total revenue be maximised?

- ☒ **A** The level of output at which marginal cost is equal to marginal revenue
- ☒ **B** The level of output at which average variable cost is equal to marginal cost
- ☒ **C** The level of output at which average revenue is equal to zero
- ☒ **D** The level of output at which marginal revenue is equal to zero

(Total for Question 5 = 1 mark)

6 A diamond mining company is considering whether to set up operations in Botswana.

Which **one** of the following would be a barrier to entry into this industry?

- ☒ **A** High level of government subsidies
- ☒ **B** High sunk costs
- ☒ **C** Low level of government regulation
- ☒ **D** Low concentration ratio

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION A

Answer ALL questions in this section.

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

1 It is estimated that Japan's population of working age will fall from 65.3 million in 2017 to 60.8 million in 2025.

Ceteris paribus, which **one** of the following might result from this fall in Japan's population of working age?

- ☒ **A** A decrease in job vacancies
- ☒ **B** An increase in the rate of unemployment
- ☒ **C** A decrease in immigration into Japan
- ☒ **D** An increase in wage rates

(Total for Question 1 = 1 mark)

2 In 2022 the Government of Canada updated its competition policy in order to increase market contestability.

Ceteris paribus, which **one** of the following would increase market contestability?

- ☒ **A** An increase in legal costs to start a business
- ☒ **B** An increase in legislation to control mergers
- ☒ **C** An increase in patent protection
- ☒ **D** An increase in regulatory capture

(Total for Question 2 = 1 mark)

SECTION B

Study Figure 1 and Extracts A, B and C in the Source Booklet before answering Question 7.

Write your answers in the spaces provided on the following pages.

7 (a) With reference to Figure 1, calculate the percentage change in bicycle sales between 2022 and 2023.

You are advised to show your workings.

(2)

(b) With reference to the first two paragraphs of Extract B, explain what is meant by 'a reduction in contestability'.

(4)

(c) With reference to Extract B and your own knowledge, analyse **two** reasons why some bicycle retailers remain small.

(6)

(d) With reference to Figure 1, Extract A and Extract B, examine **two** reasons why some bicycle retailers were forced to close.

(8)

(e) With reference to Extract C, discuss methods that Halfords could use to increase its profitability.

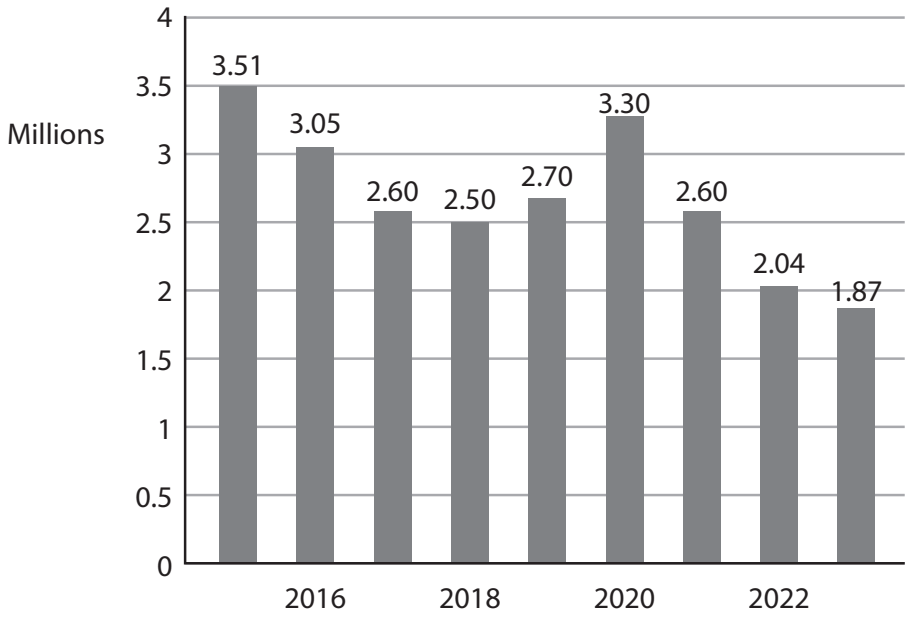
Illustrate your answer with a costs and revenues diagram.

(14)

Sources for use with Section B

The UK bicycle industry

Figure 1 Number of bicycles sold in the UK, millions, 2015–2023



Extract A The UK bicycle market

The UK bicycle market is facing a challenging period with declining sales. In 2023, sales were at their lowest in over 10 years. Since 2020, this decline was mainly caused by:

- a decrease in consumer demand after the boom in bicycle sales during the global health crisis
- high inflation rates.

However, in 2023, sales of some types of bicycles increased. For example, electric bikes (e-bikes) are becoming a more popular choice. Mintel, a market research business, forecast a 12% increase in bicycle sales in 2024. This increase in demand is expected to be caused by a combination of factors, including a recovery in consumer spending and significant price reductions by retailers.

Extract B Competition in the UK bicycle market

There were 2 234 bicycle retailers in the UK in 2023. This was a decrease of 2.1% compared with 2022. The majority of these retailers are independently owned. However, a few large businesses dominate the market, including Evans Cycles, Chain Reaction Cycles, Wiggle and Halfords.

A rise in online shopping has been a challenge for many small-scale bicycle retailers. Online sales initially provided an opportunity for small-scale businesses to increase their market shares. However, the larger businesses quickly dominated the online market by investing heavily in advertising and branding, and by offering online discounts. These strategies have resulted in a reduction in contestability.

In 2023, an increasing number of bicycle retailers shut down. As the global health crisis eased, people started returning to their old routines and the demand for bicycles decreased. This left retailers with many unsold bicycles. To sell the excess supply, the large businesses reduced their prices. As a result, many small-scale retailers could not compete with these lower prices.

However, there are still opportunities for small-scale bicycle retailers to succeed. These businesses offer unique expertise and specialist services such as bike fitting and selling a niche range of bicycles. Some of these businesses have also been successful in adapting quickly to the growing demand for e-bikes.

Extract C Halfords

Halfords is the largest bicycle retailer in the UK, with a market share of approximately 20%. It has been successfully selling new and innovative products, such as electric scooters (e-scooters). Halfords is also a market leader for e-bikes.

In the first quarter of 2024, Halfords' profit before tax fell by 18% compared with the previous year. Revenue fell because poor weather caused a decrease in sales of bicycle products. Total costs had also increased by 12.7%. This was mainly caused by:

- a 10% increase in the national minimum wage
- significant increases in transport costs.

Halfords aims to overcome these challenges and continue to grow its business by:

- focusing on its services business e.g. bike servicing, which is less affected by economic downturns
- investing in its online presence to reach more consumers
- increasing its price competitiveness
- expanding its sales of e-bikes and e-scooters.

7 (a) With reference to Figure 1, calculate the percentage change in bicycle sales between 2022 and 2023.

You are advised to show your workings.

(2)

(b) With reference to the first two paragraphs of Extract B, explain what is meant by 'a reduction in contestability'.

(4)

SECTION B

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 7. Write your answers in the space provided on the following pages.

7 (a) With reference to Figure 2, calculate the change in AstraZeneca's total costs between 2021 and 2022.

You are advised to show your workings.

(2)

(b) With reference to Extract B line 14, explain the term 'dynamic efficiency'.

(4)

(c) With reference to Extract A, analyse **two** ways that pharmaceutical companies may benefit from external economies of scale.

(6)

(d) With reference to the last paragraph of Extract B, examine the impact of the increase in fixed costs on AstraZeneca's profit.

Illustrate your answer with an appropriate diagram(s).

(8)

(e) With reference to the information provided and your own knowledge, discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry.

(14)

Sources for use with Section B

The pharmaceutical industry

Figure 1 Largest pharmaceutical companies in Ireland, based on global revenue, $ billion, 2022

Rank	Company	Global revenue ($bn)
1	Pfizer	100.30
2	Roche	69.77
3	Merck & Co	59.28
4	AbbVie	58.05
5	Bayer	53.88
6	Johnson & Johnson	52.60

Figure 2 AstraZeneca's total global revenue and profit, $ million, 2021 and 2022

	2021 ($m)	2022 ($m)
Total revenue	36 541	42 998
Profit	1 056	3 757

Extract A The pharmaceutical industry in Ireland

Many large pharmaceutical companies have chosen to establish themselves in Ireland. The most important reason is the country's low rate of corporation tax which is set at 12.5% compared to 21% in the USA and 25% in the UK. Another reason for locating in Ireland is the speed at which new products are approved by Ireland's pharmaceutical regulatory authority.

Over 85 pharmaceutical companies operate in Ireland, enabling businesses located there to benefit from external economies of scale. These companies employ approximately 30 000 highly skilled workers. The Government of Ireland has invested heavily in improving roads and railways. In 2021 it announced plans for a further €35 billion investment into the country's transport system. There are many research partnerships between businesses and universities that share research and development (R&D) costs. These universities also help to ensure that students leave with the skills required to work in the pharmaceutical industry.

Extract B AstraZeneca

AstraZeneca is a UK-Swedish owned multinational pharmaceutical company that operates in over 100 countries around the world. In 2022 it was the tenth largest global pharmaceutical company, producing high quality medical equipment and pharmaceuticals for hospitals.

AstraZeneca has a good reputation for R&D. In 2022 it invested $9.8 billion in R&D. This enabled it to:

- develop three new medicines
- continue research on medical advancements
- improve productive efficiency.

In 2023 AstraZeneca announced plans to invest $400 million in building a new factory in Dublin, Ireland. This was a change from its previous plan to open a new factory in the UK. The company stated that it needed to reduce costs to be price competitive. At the same time this investment was necessary for the company to achieve dynamic efficiency.

One of the biggest problems facing AstraZeneca is the cost and time involved in producing new medicines. Also, the regulatory environment is complex because all pharmaceuticals must undergo clinical trials before medicines can be approved. The fixed costs associated with complying with these regulations have increased significantly. A low pricing strategy is critical to attract consumers because brand loyalty is low.

Extract C The global pharmaceutical industry

Although there are many companies in the pharmaceutical industry, they all own patents for their products. In the European Union these can last for up to 20 years. A business in this industry might spend up to 25% of its revenue on R&D. In 2022 Johnson & Johnson spent $14.6 billion, Roche spent $14.8 billion and AstraZeneca spent $9.8 billion. This investment is risky because there is no guarantee of medical breakthroughs. Consequently, there are many mergers and frequent collaborations between pharmaceutical companies. For example, in 2022 there were 1 733 mergers and acquisitions in the industry.

(e) With reference to the information provided and your own knowledge, discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry.

(14)

(Total for Question 7 = 34 marks)

TOTAL FOR SECTION B = 34 MARKS

SECTION C

Answer TWO questions from this section.

8 In 2023 British Sugar was the only purchaser of sugar beet from 3 000 farmers in the UK.

Evaluate the benefits of a monopsony to firms **and** consumers.

Illustrate your answer with an appropriate diagram(s).

(Total for Question 8 = 20 marks)

9 In 2007 the Government of Indonesia set up the Kredit Usaha programme. The aim of this programme was to support small businesses by offering subsidies and low-cost loans. In 2022 the amount that a business could borrow was increased significantly.

Evaluate measures that a government could introduce to promote competition and contestability.

(Total for Question 9 = 20 marks)

10 In 2023 Mars, a confectionery manufacturer, completed the takeover of Hotel Chocolat, a UK luxury chocolate company, for £534 million.

Evaluate the benefits of a takeover for businesses **and** consumers.

Illustrate your answer with an appropriate diagram(s).

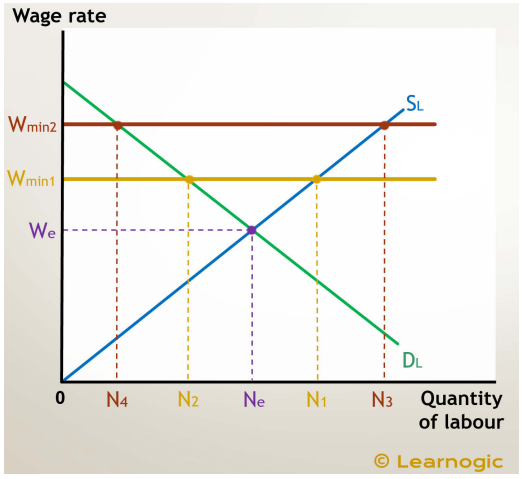
(Total for Question 10 = 20 marks)

MARK SCHEMES

official mark schemes, in the same order as the questions

5	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** **B** *is not correct because the profit motive and an increase in competition resulting from privatisation would increase productive efficiency* **C** *is not correct because an increase in competition resulting from privatisation would lead to greater consumer choice* **D** *is not correct because privatisation involves the sale of shares to individuals and institutions*	**(1)**
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** *is not correct because if TR is rising at a constant rate then MR will be constant* **C** *is not correct because if TR is rising at a constant rate then MR will be constant and positive* **D** *is not correct because if TR is rising at a constant rate then MR will be constant and positive*	**(1)**

Question	With reference to Extract B line 14 explain the term 'dynamic efficiency'. **Answer**	Mark
7(b)	**Knowledge 2 Application 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** 1 mark for any of the following related to dynamic efficiency: • When firms develop new or better products **/** Where firms develop/find better/or cheaper methods of producing goods and services **/** Achieving productive efficiency **/** Where firms invest/innovate in new technology **(1)** 1 mark for any of the following related to dynamic efficiency: • Resulting in improved productivity **/** Where the long-run average costs/average total costs falls (may be shown diagrammatically)**/** Over time/ in the long-run **(1)** **Application:** Up to 2 marks for application to Extract B **(1+1)** e.g.: • AstraZeneca has a good reputation for R&D **(1)** • $400 million into building a new factory in Dublin **(1)** • In 2022 AstraZeneca invested $9.8 billion in R&D **(1)** • The business developed three new medicines **(1)** • AstraZeneca continues research on medical advancements **(1)** • 'investment was necessary' **(1)** **NB do not reward allocative efficiency over time**	**(4)**

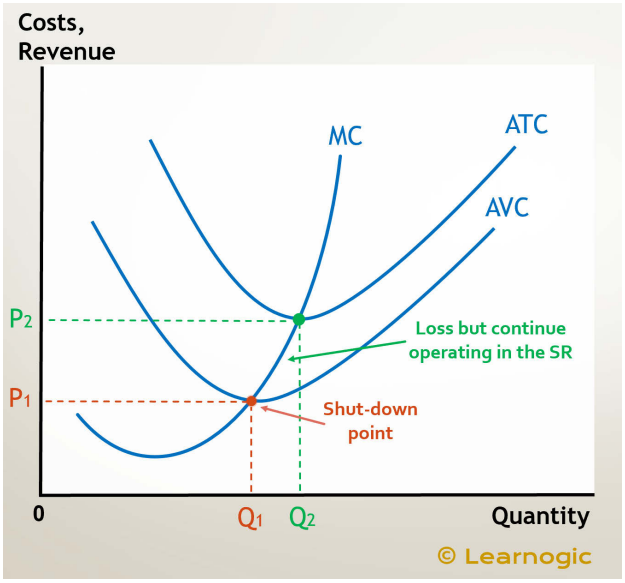
	• Unemployment rises from N_1-N_2 to N_3 to N_4  **N.B Minimum wage diagram must show an increase in the minimum wage, not the introduction** **Application** Up to 2 marks for application to Extract B • The minimum wage for garment workers was 8 000 taka per month **(1)** • The Government has been under pressure from trade unions to increase this rate to 22 000 taka per month **(1)** • The minimum wage for garment workers has not increased since 2018 **(1)** • Garment manufacturers argue that they do not have the funds to pay a higher minimum wage **(1)**	

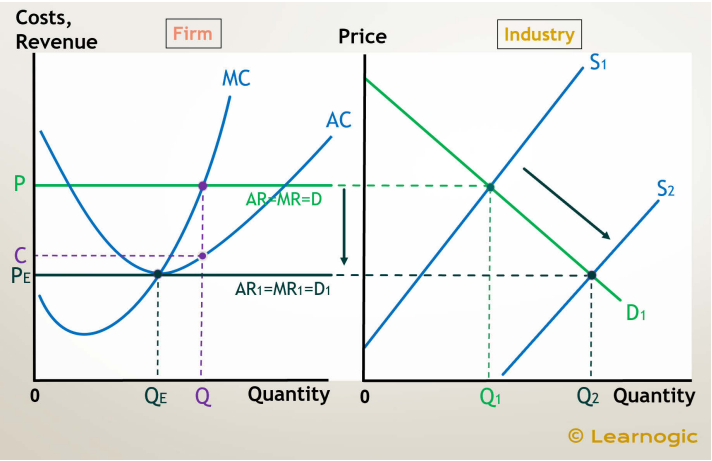
Question	With reference to Extract A and your own knowledge, discuss the likely effects of Government policies on the productive efficiency of SMEs **Indicative content**
7(e)	**Indicative content guidance** **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis (8 marks) – indicative content** • Productive efficiency occurs when the business is operating at its MES/lowest point on its AC curve • Training would improve the quality of management, enabling better decision-making and improving productive efficiency. Training the workforce would increase output and productivity, reducing production costs and increasing productive efficiency

	• The SME foundation's funding for R&D may create process innovations that could help to reduce the average cost of production • Creation of industrial parks creates external economies of scale for businesses that can allow them to lower their LRATC and move towards their MES • Investing in the quality of infrastructure within industrial parks will make running SMEs easier due to better broadband connections and power supplies lowering average costs for SMEs • Establishing loan schemes to support SMEs could result in more SMEs in being created/started increasing competition resulting in lower prices/higher productivity/more choice • Providing subsidies to SMEs lowers their average cost	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence
	Evaluation (6 marks) – indicative content • Many of these policies would only have an impact in the long-run because of time lags involved in training • The quality of labour is low and may not have sufficient skills to produce the newly innovated products/ if training is inefficient the quality of labour may not improve sufficiently • Research and development may help identify new areas of product development. However, if there are insufficient skills/capital the new products may not be developed • Subsidies are not available for all markets limiting the improvements in efficiency to all markets • Lower production costs may not be passed on to the consumer in the form of lower prices • The impact of the industrial parks will depend on the number of businesses willing/able to locate in these areas • Funds would be more effective if allocated to large enterprises that are more likely to experience economies of scale	
Level	**Mark**	**Descriptor**

	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question	Evaluate the view that a business will always shut down if it is not able to make a normal profit. Illustrate your answer with an appropriate diagram(s).
	Indicative content
8	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** Indicative content **Short-run shut down point**  • In the short-run Toys "R" Us would continue to operate even if it is making a loss as long as it is covering its average variable costs. At any point below this the business must shut down because it is not able to cover its variable costs of production.

Question Number	Indicative content
9	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4**: Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** • Conditions for perfect competition – large number of buyers & sellers, perfect information, no barriers to entry or exit, homogeneous products • Conditions for monopolistic competition (MC) – as above, but differentiated products and few or no barriers • Understanding of allocative, productive and dynamic efficiency - productive (lowest point of AC) allocative (p=MC) dynamic (technical) PERFECT COMPETITION • Firms are price takers – hence perfectly elastic demand • Diagram to show that market forces lead to downward pressure on price - Any supernormal profit in short-run is removed in long-run with new entrants - Rightward shift in market supply curve, shift downwards in firms' AR=MR=D curve i.e. lower price from P to P_E 

- Diagram shows that, in the long-run, a perfectly competitive firm achieves both productive and allocative efficiency and makes normal profit (p = AC = MC)

MONOPOLISTIC COMPETITION

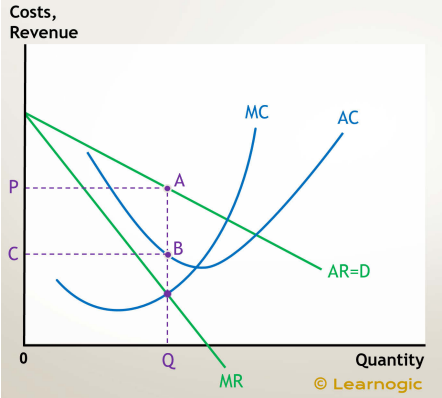
- The firm is a price maker (differentiated product) and hence faces a downward sloping demand curve. Demand tends to be relatively elastic (large number of competing firms)

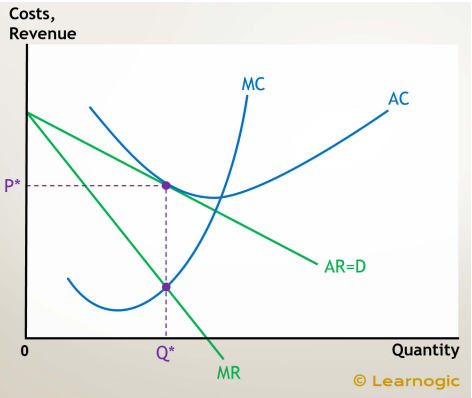
Short-run monopolistic competition

- MC firms can make supernormal profits where MC =MR

Long-run monopolistic competition

- No barriers means AR shifts downwards until only normal profits are earned and price is lower at profit max level of output





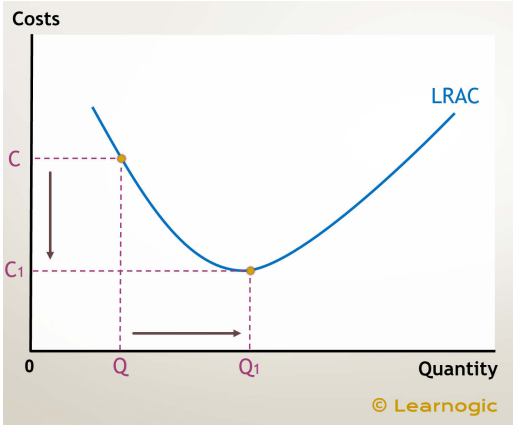
- Diagrams show absence of efficiency in both short and long-run
  - output below lowest point of AC (where MC=AC), so not productively efficient
  -price above MC, so not allocatively efficient
- Proliferation of brands under MC may lead to confusion for consumers so a possible loss of efficiency
- Price is likely to be higher and output lower under monopolistic competition than under conditions of perfect competition

Points above should be illustrated with relevant examples

Restrict to a maximum of level 3 for Knowledge, Application and Analysis if no diagram provided.

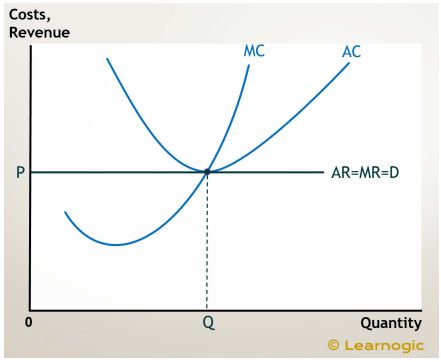
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Complete absence of dynamic efficiency under perfect competition (homogeneous products, no barriers) - so no incentive to innovate and carry out product development • Under monopolistic competition possible dynamic efficiency at least in the short-run. Availability of super normal profit and some barriers because of branding/differentiation • Entry of new firms into both types of market structure in the long-run means that both types of firm are likely to be x-efficient	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the impact that the size of a business has on its efficiency. Illustrate your answer with an appropriate diagram(s). **Indicative content**
10	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • Larger businesses, such as Nestlé, might be more productively efficient than smaller businesses (producing at the MES) • Nestlé has access to more resources and economies of scale, which can lead to increased efficiency compared to smaller food-producing businesses • Large production runs in producing food and beverages will lower unit costs, and will enable fixed costs to be spread over a larger output. This may enable the business to produce at the productively efficient level of output  • The large businesses produce at Q_1 compared to Q and is able to produce at a lower cost C_1 • Large businesses, such as Nestlé, have specialised division of labour or capital equipment e.g. specialist packaging machines. These might improve efficiency in production, lowering average cost when producing at a higher level of output • Large businesses might be more dynamically efficient • The large business likely to have more price setting ability in the market allowing them to set higher prices and make supernormal profits. The supernormal profits can be reinvested into improving production or better-quality capital, investing in research and development

	• Small businesses in perfect competition/monopolistic competition are unable to make supernormal profits in the long-run and are therefore unable to invest in improving dynamic efficiency • Large businesses that are cross-subsidising might be more allocatively efficient than smaller firms as they can reallocate profits to lower the prices of essential goods **NB: award a maximum of level 3 if no appropriate diagram is drawn** **Accept reverse argument as KAA**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • A large business may suffer from diseconomies of scale making them less productively efficient • If suffering from x-inefficiency, the large firms' average costs will rise increasing productive inefficiency • Small businesses may operate in a niche market where they are able to set high prices and make super normal profits that can be reinvested back into dynamic efficiency • Large businesses may have less incentive to innovate and find more efficient ways of doing things because of their dominant market position and economies of scale • A large business may suffer from inertia and be slow to respond to changes in the market or to new opportunities because of their size and investments in their existing operations • A small business can be more productively and dynamically efficient than large firms because they are often more flexible and responsive to market changes. They have lower overhead costs, less bureaucratic decision-making processes, and can quickly change their production processes to meet the needs of customers • A smaller business might be more allocatively efficient (P=MC). A business in perfect competition has to take the market price where P=MC=AC=AR=MR therefore are allocatively efficient because of their lack of price setting ability. A larger business has price setting ability and can set at a price above MC 

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section A

Question	Quantitative skills assessed	Answer	Mark
1		C	**(1)**
2	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes.	D	**(1)**
3		A	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	B	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical tabular and numerical forms.	D	**(1)**
6	**QS8**: Make calculations of elasticity and interpret the result.	A	**(1)**

Section A

Question Number	Quantitative skills assessed	Answer	Mark
1		**The only correct answer is A** **B** *is not correct because the increase in house prices in Sydney relative to other parts of Australia would reduce geographical mobility of labour* **C** *is not correct because the increase in house prices in Sydney relative to other parts of Australia would reduce geographical mobility of labour* **D** *is not correct because the increase in house prices in Sydney affects geographical mobility of labour*	**(1)**
2	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** *is not correct because this is the 3-firm concentration ratio* **C** *is not correct because this is the sum of the market shares of the largest 3 firms and 'others'* **D** *is not correct because this is the 5-firm concentration ratio*	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because the takeover would decrease contestability* ***B*** *is not correct as the takeover will combine the two businesses and is likely to increase total costs* ***C*** *is not correct because the takeover would reduce competition in the market*	**(1)**
2	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct as it does not use the correct firms in calculation* ***A*** *is not correct as it does not use the correct firms in the calculation* ***D*** *is not correct because it includes 'others' in the calculation*	**(1)**
3	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct as the increase in minimum wage would cause unemployment* ***B*** *is not correct because there is a contraction of demand* ***C*** *is not correct because there is an extension of supply*	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1		The correct answer is **B** **A** is incorrect because this would increase the geographical mobility of labour **C** is incorrect because this would increase the geographical mobility of labour **D** is incorrect because this would increase the geographical mobility of labour	**(1)**
2	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The correct answer is **D** **A** is incorrect because price is greater than MC **B** is incorrect because the firm would remain in the industry as ceteris paribus it would be making supernormal profit **C** is incorrect because the firm is not producing at the lowest point on the AC curve	**(1)**
3	**QS6:** Calculate cost, revenue and profit (marginal, average and total) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The correct answer is **C** **A** is incorrect because this is average fixed costs at 300 units **B** is incorrect because this is average variable costs at 400 units **D** is incorrect because this is average total costs at 300 units	**(1)**
4	**QS1:** Calculate, use and understand ratios and fractions **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The correct answer is **B** **A** is incorrect because this is the four-firm concentration ratio **C** is incorrect because this is the four-firm concentration ratio plus others **D** is incorrect because this is the six-firm concentration ratio	**(1)**

Section B

Question Number	In 2018 total car sales in China were 23.7 million. With reference to Figure 2, calculate the 4-firm concentration ratio for the car market in China 2018. You are advised to show your working. Answer	Mark
7(a)	**Application 2** **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Up to 2 marks for calculation:** • 2.07m + 2.04m + 1.97m +1.66m = 7.74m **(1)** • (7.74 million ÷ 23.7 million) x 100= 32.66%**(1)** **NB: Award full marks for correct answer regardless of working.** **Also allow: 32.65%/32.67%/33%** **Award 1 for 32.66/32.65/32.67/33**	**(2)**

Section B

Question	With reference to Figure 1, calculate the four-firm concentration ratio for the US car market in 2019. **Answer**	Mark
7(a)	**Application 2** **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculation: • 16.9 + 14 + 14 +13 **(1)** = 57.9% **(1)** NB: Award full marks for correct answer (57.9%) regardless of working. Award 1 mark without the percentage sign award e.g. 57.9 **(1)**	**(2)**

Question	With reference to Extract A, explain what is meant by 'horizontal integration'. **Answer**	Mark
7(b)	**Knowledge 2 Application 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** Up to 2 marks for the definition of horizontal integration: When two firms merge at the same stage of the production process **(1)** in the same industry **(1)** **Application:** Up to 2 marks for application to context of PSA Group and Fiat Chrysler merger • PSA Group and Fiat Chrysler merge to create Stellantis **(1)** • PSA Group and Fiat Chrysler merge to create the world's third biggest car manufacturer by volume **(1)** • PSA Group and Fiat Chrysler both produce cars **(1)**	**(4)**

Section B

Question	With reference to Figure 1, calculate the percentage point change in the four-firm concentration ratio between 2020 and 2021. **Answer**	Mark
7(a)	**Application 2** **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. 1 mark for calculation in 2020: 26+11+20+15 = 72% OR 1 mark for calculation in 2021: 21+17+16+13 = 67% 1 mark for the change in CR: 67% - 72% = -5 **NB: Award full marks for correct answer (-5) regardless of working.** **NB: Accept 5 without minus sign**	**(2)**

Section B

Question	With reference to Figure 1, calculate the 4-firm concentration ratio of the global fast-food industry. You are advised to show your workings. **Answer**	Mark
7(a)	**Application 2** **Quantitative skills assessed:** **QS2: Calculate, use and understand percentages, percentage changes and percentage point changes** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** 2 marks for calculation of concentration ratio: e.g. 21.4 + 7.5 + 2.8 + 2.8 = **(1)** 34.5% **(1)** **NB: Award full marks for correct answer (34.5%) regardless of working** **NB: If no percentage sign only award 1 mark**	**(2)**

Question	With reference to Figure 2 and Extract A, explain what is meant by the term 'concentration ratio'. **Answer**	Mark
7(b)	**Knowledge 2 Application 2** **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** Up to 2 marks for the definition of the concentration ratio: • Concentration ratio is the market share of the largest firms **(1+1)** • The n firm concentration ratio would show the market share of the top "n" firms **(1+1)** **Application:** Up to 2 marks for application to Figure 2 and/or Extract A e.g. • The six largest suppliers had a 82.3% of the market by the end of 2021 **(1)** • The six largest suppliers had a 74.4% of the market in Q4 2020 **(1)** • The four firm concentration ratio was 64.8% in Q4 2021 **(1)** • The concentration ratio of the larger gas suppliers increased **(1)** • The concentration ratio of the top six increased from 74.4% to 82.3% **(1+1)** • The six firm concentration ratio has increased **(1)** by 7.9 Percentage points **(1)**	**(4)**

Question Number	Quantitative skills assessed	Answer	Mark
1	**–**	**The only correct answer is B** ***A*** *is not correct because they are in the same industry* ***C*** *is not correct because they are at the same stage of the production process* ***D*** *is not correct because they are at the same stage of the production process*	**(1)**
2	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because the firm is able to cover its average variable costs* ***B*** *is not correct because the firm has not covered its's average total costs* ***C*** *is not correct because the firm can cover average total costs and make normal profit*	**(1)**
3	**QS8:** Make calculations of elasticity and interpret the result.	**The only correct answer is A** ***B*** *is not correct because this would imply that the supply of aerospace engineers is elastic* ***C*** *is not correct because an increase in government support into training programmes would make the supply of labour more elastic* ***D*** *is not correct because a fall in the demand for aerospace products would impact the demand for labour not the elasticity of supply of labour*	**(1)**

4	**QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is B** A is incorrect because more passengers are a likely to cause a rise in employment C is incorrect because it is unlikely to cause a rise in unemployment since costs have decreased D is incorrect because it is unlikely to cause a rise in unemployment since costs have decreased	**(1)**
5	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is A** B is incorrect because this was unemployment at the lower minimum wage C is incorrect because demand would contract from Q_2 to Q_1 D is incorrect because supply would extend from Q_3 to Q_4	**(1)**
6	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is D** A is incorrect because the firm will be allocatively efficient and only normal profit will be made in the long-run B is incorrect because the firm will be allocatively efficient C is incorrect because the firm will make normal profit	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** **A** is incorrect because the firms are at the same stage of production **B** is incorrect because the firms are at the same stage of production **D** is incorrect because the firms are in the same industry	**(1)**
2	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** is incorrect because marginal costs are rising **B** is incorrect because there are diseconomies of scale **C** is incorrect because marginal costs are rising	**(1)**
3	**QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** is incorrect because this is the increase in the wage for the original 50 workers **C** is incorrect because this is the total cost of employing 50 workers **D** is incorrect because this is the total cost of employing 51 workers	**(1)**
4	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** A is incorrect because the number of firms would fall B is incorrect because the firm is making a loss C is incorrect because the firm is making a loss and the number of firms would fall	**(1)**
5	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** is incorrect because at this level of output profits would be maximised **B** is incorrect because at this level of output total revenue will not be maximised **C** is incorrect because at this level of output average revenue will be greater than zero	**(1)**
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** is incorrect because this indicates that barriers to entry are low **C** is incorrect because this would encourage entry into the industry	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is C** A is incorrect because the firms are in the same industry B is incorrect because the firms are at the same stage of production D is incorrect because the firms are at the same stage of production	**(1)**
2	**QS6: Calculate cost, revenue and profit (marginal, average, totals)** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is B** A is incorrect because this is the MR at $12 C is incorrect because this is the average revenue at $12 D is incorrect because this is the average revenue at $14	**(1)**
3	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is A** B is incorrect as the business will make normal profit C is incorrect because the business will reduce output D is incorrect because the price will fall	**(1)**
4	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is D** A is incorrect because average revenue would be greater than marginal cost B is incorrect because marginal revenue would be lower than average revenue C is incorrect because marginal revenue would be less than total cost	**(1)**
5	**QS8: Make calculations of elasticity and interpret the result.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is A** B is incorrect because this would result in an elastic demand for construction workers C is incorrect because this would result in an elastic demand for construction workers D is incorrect because this would influence the supply of construction workers	**(1)**
6	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is B** A is incorrect because price would be below average cost C is incorrect because price leadership occurs when businesses follow the price of	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** is incorrect because this would not be affected by technical economies of scale **B** is incorrect because this would not be affected by technical economies of scale **C** is incorrect because economies of scale affect long-run average costs	**(1)**
2	**QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** is incorrect because this is the marginal cost of increasing the number of haircuts from 3 to 4 **C** is incorrect because this is the average variable cost of 3 haircuts **D** is incorrect because this is the average fixed cost of 4 haircuts	**(1)**
3	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** is incorrect because the demerger would have no effect on external economies of scale **B** is incorrect because the demerger would result in GSK becoming more specialised **C** is incorrect because GSK would be unlikely to want its long-run average costs to increase	**(1)**
4	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** B is incorrect because supernormal profit will encourage market entry C is incorrect because normal profit will be made in the long-run D is incorrect because normal profit will be made in the long-run	**(1)**
5	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** A is incorrect because supernormal profit and price will change	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** is incorrect because supernormal profit will be eliminated **C** is incorrect because the producer will make normal profit and therefore remain in the market **D** is incorrect because market concentration will fall as new firms enter the market	**(1)**
2	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** **A** is incorrect because a marginal cost pricing strategy is where MC=AR B is incorrect because a limit pricing strategy is where all consumers would pay the same price **D** is incorrect because a predatory pricing strategy sets the price below the average variable cost for all consumers	**(1)**
3	**QS4:** Construct and interpret a range of standard graphical forms **QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** is incorrect because the producer surplus will decrease B is incorrect because fixed costs will not change C is incorrect because this is likely to cause a decrease in dynamic efficiency	**(1)**
4	**QS4:** Construct and interpret a range of standard graphical forms **QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** B is incorrect because this is average variable cost C is incorrect because this is average fixed cost at an output of 10 000 D is incorrect because this is the average total cost at an output of 20 000	**(1)**
5	**QS8:** Make calculations of elasticity and interpret the result **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** **B** is incorrect because this affects the price elasticity of supply of labour **C** is incorrect because this affects the price elasticity of supply of labour **D** is incorrect because this affects the supply of labour	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** **B** is incorrect because this is the lowest point on the AC curve **C** is incorrect because this is where change in TC is constant **D** is incorrect because this is the equilibrium for revenue maximisation	**(1)**
2	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** **A** is incorrect because Sony and Honda are two different companies **B** is incorrect because they are privately owned companies **D** is incorrect because the two companies are at different stages of production in different markets	**(1)**
3	**QS8:** Make calculations of elasticity and interpret the result **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** is incorrect because the demand for labour would be elastic **B** is incorrect because this impacts the elasticity of supply of labour **C** is incorrect because this impacts the elasticity of supply of labour	**(1)**
4	**QS4:** Construct and interpret a range of standard graphical forms **QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B A** is incorrect because the firm would shut down in the short-run **C** is incorrect because the firm is covering ATC and therefore would not shut down in the long-run **D** is incorrect because the firm is covering ATC and therefore would not shut down in the long-run	**(1)**

5	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** **A** is incorrect because MC pricing is not where price is set below average variable cost **B** is incorrect because limit pricing is not where price is set below average variable cost **D** is incorrect because price discrimination is not where price is set below average variable cost	**(1)**
6	**QS4:** Construct and interpret a range of standard graphical forms **QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** is incorrect because this is the average revenue curve **C** is incorrect because this is the total fixed cost curve or an AR curve for a perfectly competitive firm **D** is incorrect because this is a total revenue curve for a firm operating in an imperfectly competitive market	**(1)**

3	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** *is not correct because a firm in a monopolistically competitive market does not produce at the lowest point on the AC curve* **B** *is not correct because there is freedom of entry in a monopolistically competitive market so any short-run supernormal profits would be competed away in the long-run* **C** *is not correct because is not correct because a firm operating on a monopolistically competitive market does not produce at the output at which price = MC*	**(1)**
4	**QS8:** Make calculations of elasticity and interpret the result.	**The only correct answer is C** **A** *is not correct because a fall in net migration would cause a fall in the supply of labour* **B** *is not correct because a decrease in productive efficiency would affect output and not the elasticity of supply of labour* **D** *is not correct because a rise in trade union membership could cause a fall in the supply of labour*	**(1)**

5	**QS6:** Calculate cost, revenue and profit (marginal, average and totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** **A** *is not correct because this is an inaccurate calculation* **C** *is not as this is an inaccurate calculation* **D** *is not correct because this is average total costs at 4000 units*	**(1)**
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** **B** *is not correct because it is not producing at the lowest point on the AC curve in the short run* **C** *is not correct because these firms make normal profits in the long run* **D** *is not correct because price is not equal to marginal cost in the short run*	**(1)**

4	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms **QS6:** Calculate cost, revenue and profit (marginal, average, totals)	**The only correct answer is B** ***A*** *is not correct as there are increasing returns to scale* ***C*** *is not correct as diminishing returns have already set in* ***D*** *is not correct as diminishing returns have already set in*	**(1)**
5		**The only correct answer is A** ***B*** *is not correct as this would affect the demand for labour* ***C*** *is not correct as this would increase the supply of labour* ***D*** *is not correct as this would affect the demand for labour*	**(1)**
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because monopolistically competitive firms are productively inefficient and make normal profits in the long-run* ***C*** *is not correct as they make normal profits in the long-run*	**(1)**

		D *is not correct as monopolistically competitive firms are not allocatively efficient*	

Section B

Question	With reference to Figure 1, calculate the percentage change in the average world price of coffee beans from 1 July 2017 to 1 May 2019. You are advised to show your working. **Answer**	Mark
7(a)	**Application 2** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. Up to 2 marks for calculation: 1.57 – 2.31 ÷ 2.31 **(1)** -0.32 x 100 = -32% **(1)** **Award full marks for correct answer (-32, -32.03, -32.035, -32.0346) regardless of working.** **Award only 1 mark if they do not identify that it has decreased/is negative**	**(2)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is C** A is incorrect because average revenue would never be below marginal revenue B is incorrect because this is not the shutdown point D is incorrect because the firm would continue to operate	**(1)**
2	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is D** A is incorrect because MR is not equal to 0 B is incorrect because this is not the lowest point on the ATC curve C is incorrect because the firm is making supernormal profit	**(1)**
3	**QS6: Calculate cost, revenue and profit (marginal, average, totals)** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is C** A is incorrect as this is the average revenue for Q4 2020 B is incorrect as this is the average revenue for Q4 2017 D is incorrect as this is the average revenue for Q4 2018	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1		**The only correct answer is A** B is incorrect constant returns to scale should not stop entry into the market C is incorrect because low advertising costs should make it easier for firms to compete in the market D is incorrect because high supernormal profits should encourage new firms to enter	**(1)**
2	**QS4: Construct and interpret a range of standard graphical forms** **QS6: Calculate cost, revenue and profit (marginal, average, totals)** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is C** A is incorrect because the firm is not producing at the productively efficient level B is incorrect because price is equal to MC D is incorrect because firms make normal profit in the long-run	**(1)**
3		**The only correct answer is A** B is incorrect as this would cause more available labour to enter the country B is incorrect as incentives to work would increase D is incorrect as this would not affect the supply of labour	**(1)**
4	**QS6: Calculate cost, revenue and profit (marginal, average, totals)** **QS9: Interpret, apply and analyse information in written,**	**The only correct answer is C**	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS4: Construct and interpret a range of standard graphical forms** **QS6: Calculate cost, revenue and profit (marginal, average, totals)** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is C** A is incorrect because decreasing returns to scale would relate to the long-run average cost curve B is incorrect because fixed costs would not be included in marginal costs D is incorrect because diseconomies of scale would relate to the long-run average cost curve	**(1)**
2	**QS6: Calculate cost, revenue and profit (marginal, average, totals)**	**The only correct answer is A** B is incorrect because this is the average fixed cost C is incorrect because this is the average total cost D is incorrect because this is the average revenue	**(1)**
3	**QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is C** A is incorrect because this is likely to increase unemployment B is incorrect as this affects the geographical mobility of labour D is incorrect because this is likely to increase unemployment	**(1)**
4	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is B** A is incorrect because the equilibrium output is not at the lowest point of the AC curve	**(1)**

		C is incorrect because the revenue curves would be perfectly elastic D is incorrect because the firm is making normal profit	
5	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is D** A is incorrect because the firm is likely to increase employment B is incorrect because the price would be lower than at the profit maximising output C is incorrect because total fixed costs would not fall when output increases	**(1)**
6	**QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is A** B is incorrect because high wage rates would affect the price elasticity of supply of labour C is incorrect because if the demand for labour is elastic then the demand for the product will be elastic D is incorrect because this would discourage firms from employing workers	**(1)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is D** A is incorrect because this is impacted by the demand for labour B is incorrect because the rate of unemployment should fall C is incorrect because an increase in immigration would increase the population	**(1)**
2	**QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms**	**The only correct answer is B** A is incorrect because high legal costs reduce contestability C is incorrect because patent protection would reduce contestability D is incorrect because regulatory capture is a form of government failure	**(1)**
3	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is A** B is incorrect because there can only be super-normal profits in the short-run C is incorrect because it is not operating at the MES D is incorrect because price is not equal to marginal cost	**(1)**
4	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is C** A is incorrect because higher rent would cause supernormal profits to decrease B is incorrect because higher rent would cause supernormal profits to decrease but the price remains constant D is incorrect because the supernormal profit would decrease and the price remains constant	**(1)**

Question	With reference to Figure 1 and Extract A, explain what is meant by the term 'monopolistic competition' **Answer**	Mark
7(b)	**Knowledge 2 Application 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** 1 mark for the reference to number of firms e.g.: • Monopolistic competition occurs when there are many small businesses in the same market **(1)** 1 mark for one appropriate characteristic e.g.: • Products that are similar/not homogenous/slightly differentiated/ • Freedom of entry and exit/ • Imperfect knowledge/information/ • Businesses face a downward sloping demand curve/highly elastic demand curve/ • Employ low skilled workers – therefore low entry barriers/ • Short-run supernormal profit/long-run normal profit/ • Businesses in monopolistic competition differentiate their products through non-price competition **(1)** **Application:** 1 mark for application to Figure 1 e.g.: • There are 6 103 medium-sized businesses/ 14.3% of total number of businesses • There are 33 050 small-sized businesses/ 77.2% of total number of businesses **(1)** • There are 39153 SMEs / 91.5% of total number of businesses **(1)** 1 mark for application to Extract A: • Many SMEs compete in the agriculture, garment and textile industries • Most businesses in these industries operate in monopolistically competitive markets **(1)** • Restricted differentiation of (agricultural, garment and textile) products between business in these markets **(1)**	**(4)**

		a dominant business in the market D is incorrect because short-run profit maximisation occurs where marginal cost is equal to marginal revenue	

Question	With reference to Figure 2, explain the market structure of cloud infrastructure providers. **Answer**	Mark
7(b)	**Knowledge 2 Application 2** **Quantitative skills assessed: QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** One mark for identifying oligopoly **(1)** And one mark for understanding of the market structure e.g. An oligopoly is when a few large firms dominate the market/ There is interdependence in the market/ An oligopoly market structure is an imperfect market structure/ Oligopolies have some market power **(1)** **Reward for identifying legal monopoly (1) with understanding (1)** **Application** up to 2 marks for application to Figure 2 • Calculating: ○ two-firm concentration ratio is 51%/ ○ three-firm concentration ratio is 59%/ ○ four-firm concentration ratio 65%/ ○ five-firm concentration ratio is 70% **(1+1)** • Amazon web services has a 33% market share **(1)** • Microsoft Azure has an 18% market share **(1)**	**(4)**

		D is incorrect because this suggests that it is relatively easy for firms to enter the industry	

Section B

Question	With reference to Figure 1, calculate the percentage change in Deliveroo's total revenue between 2017 and 2021. **Answer**	**Mark**
7(a)	**Application 2** **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculation: (1824-277)=1547 **(1)** (1547/277)x 100 =558.48% **(1)** **NB: Award full marks for correct answer (558.48, 558.5, 558, 559) regardless of working. Award full marks if % is omitted.**	**(2)**

Question	With reference to Figure 2, explain the market structure of the UK food delivery market in 2021. **Answer**	**Mark**
7(b)	**Knowledge 2 Application 2** **Quantitative skills assessed:** **QS1:** Calculate, use and understand ratios and fractions **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** 1 mark for the identification of the market structure: • Identification of oligopoly **(1)** 1 mark for identification of a characteristic of this market structure • A small number of firms dominate the market/interdependence/imperfect information/ differentiated goods/high barriers to entry/ high concentration ratio **(1)** **Application:** Up to 2 marks for application to context of the food delivery market **(1+1)** e.g.: • The 3-firm concentration ratio was 94%**(2)**	**(4)**

	• The 4-firm concentration ratio was 97% **(2)** • Deliveroo and Uber Eats combined market share was 54% in 2021 **(1)** • Just Eat had the largest market share (40%) **(1)**	

Question	With reference to Extract B, analyse **two** factors that influence the demand for online food delivery. **Answer**	**Mark**
7(c)	**Knowledge 2 Application 2 Analysis 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** Up to 2 marks for identifying two factors influencing the demand for online food delivery and 1 analysis mark for each linked expansion: • Change in consumer preferences **(1K)** less demand for luxury items as people focus on buying essential items **(1AN)** • Change in real incomes **(1K)** e.g. real wages fell by 5.1% in June 2022 in the EU causing a fall in demand for online food deliveries **(1AN)** • Change in the number of people living in cities **(1K)** when more people move to cities there will be greater demand for online food deliveries **(1AN)** • Change in advertising/marketing expenditure **(1K)** e.g. increase in marketing expenditure is likely to raise consumer awareness and lead to an increase in demand **(1AN)** • Change in technology **(1K)** improvements in internet connectivity and smart phone usage have made online ordering more popular **(1AN)** • Increasing access to technology **(1K)** making online ordering easier and available to a wider range of consumers **(1AN)** **Application** Up to 2 marks for use of the context e.g. • The average value of an order for a takeaway meal fell **(1)** • From 2015 to 2025, there is expected to be a 7.6% increase in the population living in cities in the UK **(1)** • In the European Union in June 2022 the annual growth in wages was 4.5% **(1)** but the annual inflation rate was 9.6% **(1)** • Just Eat's marketing expenditure in the first half of 2021 totalled £252 million **(1)** • Online ordering and food delivery is growing at an annual rate of between 15% **(1)** and 20% in the UK **(1)**	**(6)**

Question	With reference to Figure 1 and Extract B, explain the market structure that best describes the electric vehicle market in China. **Answer**	Mark
7(c)	**Knowledge 2 Application 2** **Quantitative skills assessed:** **QS2: Calculate, use and understand percentages, percentage changes and percentage point changes** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** 1 mark for identification of oligopoly **(1)** 1 mark for identification of a characteristic of oligopoly e.g. • a few dominant firms/ • a high concentration ratio/ • interdependence/ • high barriers to entry/ • imperfect information/ • differentiated goods/ • non-price competition **(1)** **Application up to 2 marks for application to Figure 1 or Extract B (1+1):** Figure 1 • The three-firm concentration ratio is 53%/ The four-firm concentration ratio is 59%/ The five-firm concentration ratio is 64%/ The six-firm concentration ratio is 68% **(1+1)** Extract B: • The lower prices of Tesla's electric vehicles had a significant impact on its competitors/ Domestic and other international manufacturers responded by reducing their prices for electric vehicles as they competed for market share **(1)**	**(4)**

	Evaluation Up to 2 marks for evaluative comments, eg: • Mining trade unions fear that privatisation and deregulation may lead to job losses if Coal India, for example, needs to become more efficient (rationalise) in order to compete **(1+1)** • Privatisation and deregulation may make very little difference to employees if Coal India continues to dominate the market **(1+1)** • Changes may have a negative effect on the environment if private sector firms prioritise profit above environmental factors **(1+1)** • Changes may have a negative impact on health and safety issues if private sector mining firms prioritise profit **(1+1)** • Price of coal may not fall **(1)** if Coal India continues to dominate the market/if large international mining companies are able to exert monopoly power **(1)**	**(8)**

Question Number	Answer	Mark
7 (d)	**Knowledge 2 Application 2 Analysis 2** Quantitative skills assessed: **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for an understanding of predatory pricing eg: • Predatory pricing is a deliberate strategy of driving competitors out of the market **(1)** by setting very low prices or selling below AVC **(1)** • Predatory pricing is a strategy used by monopoly firms or firms with a degree of monopoly power **(1)**	

	Analysis Up to 2 marks for linked explanation: • In the short-run both Ola and Uber are likely to experience a fall in profits and may even suffer losses **(1)** a loss will certainly occur where price is below AVC/ATC **(1)** • Pricing below profit max where MC = MR **(1)** so profit is bound to fall **(1)** • Ola or Uber may be unable to sustain a lengthy period of price cutting **(1)** One of the firms may be forced out of the market or they cease to adopt predatory pricing strategies **(1)** Up to 2 marks for an accurate diagram to show predatory pricing **Application** Up to 2 marks for application to context of India's ride-hailing market: • If Ola or Uber remove competition they will be able to raise their price again **(1)** and secure higher long term profits **(1)** • Low prices and possibly making losses may force some or all of the smaller rail-hailing market eg: - Jugnoo, Ixigo and Meru **(1)** • The 3 small firms only have 4.2% of the market between them **(1)** • Diagram related to context (labelling) **(1)**	**(6)**

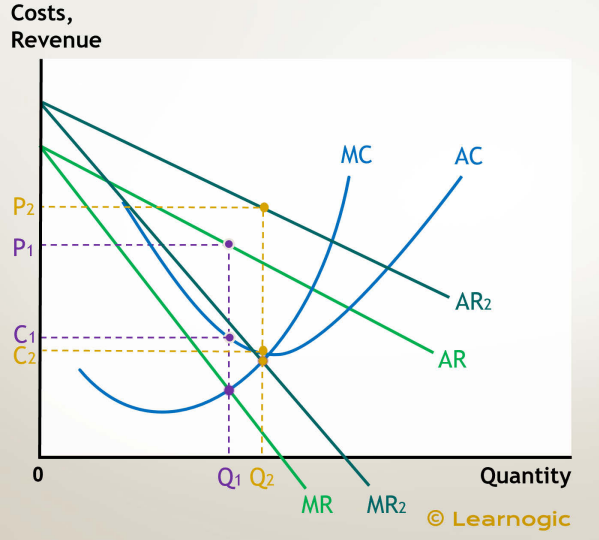
Question	With reference to Extract A, analyse **two** barriers that Stellantis are likely to experience when trying to increase market share in China. **Answer**	Mark
7(c)	**Knowledge 2 Application 2 Analysis 2** **Quantitative skills assessed: QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** **1 mark for a definition of barriers to entry-** factors that prevent or make it difficult for new firms to enter a market **(1)** **Up to 2 marks for identifying two barriers and 1 mark for linked expansion of each e.g.** • Lack of knowledge/experience/ language/cultural awareness of the market **(1)** makes it more difficult for Stellantis to adapt cars to meet consumer's needs **(1)** • High levels of competition in the Chinese market **(1)** increases marketing costs and risks **(1)** • Brand loyalty **(1)** consumers will have habitual consumption of cars making it difficult to sell in the market **(1)** • High sunk costs **(1)** makes it more expensive to enter the new market/gain market share **(1)** **Application** Up to 2 marks for application to Extract A • In 2020 the two firms had a total 1% market share in China **(1)** • Chinese car firms had a 40% market share **(1)** • The Chinese car market is dominated by many well-established firms including Volkswagen/Honda/Toyota **(1)**	**(6)**

Question	With reference to Extract A, analyse the impact on consumers of **two** methods by which Amazon competes with other retailers. **Answer**	Mark
7(c)	**Knowledge 2 Application 2 Analysis 2** **Quantitative skills assessed: QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, analysis and application** For each of the two methods identified: 1 mark for application to Extract A, 1 knowledge mark for identification of one method of competition and 1 mark for linked analysis e.g. • Amazon focuses on convenience **(1AP)** by providing access to its goods and services online **(1K)** making it more convenient for consumers than having to travel to a store **(1AN)** • Amazon competes with low prices **(1AP)** making it more price competitive **(1K)** encouraging consumers to switch from alternative products/increase in consumer surplus **(1AN)** • Amazon offers faster delivery **(1AP)** by providing better customer services **(1K)** customers receive their goods without delay **(1AN)** • Amazon focuses on choice for its consumer **(1AP)** by providing alternatives/more options **(1K)** helps Amazon meet its consumers' needs **(1AN)**	**(6)**

Question	With reference to Figure 2 and Extract A, analyse **two** barriers to entry that might prevent a new firm from entering the UK energy market. **Answer**	Mark
7(c)	**Knowledge 2 Application 2 Analysis 2** **Quantitative skills assessed: QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** **Up to 2 knowledge marks for identifying two reasons and 1 analysis mark for each linked expansion e.g.** • Few dominant firms **(1K)** make it harder for a new firm to compete because of brand loyalty **(1AN)** • Significant increase in the wholesale price of natural gas **(1K)** causing an increase in cost of production for new entrants **(1AN)** • Economies of scale **(1K)** allows incumbent firms to achieve lower average costs enabling them to lower prices if new firms enter **(1AN)** • Increased regulation **(1K)** increases costs to a new firm wanting to enter the market to meet new production standards **(1AN)** • Price cap **(1K)** may deter new firms from entering the market if it is unlikely they may be able to make a profit **(1AN)** **Application** Up to 2 marks for application to Extract A and/or Figure 2 e.g. • 31 small suppliers have left the market **(1)** • Six large companies account for 74.4% of the market in Q4 2020/ 82.3% Q4 2021 **(1)** • Market share of small-sized gas suppliers decreased from 7.2% in Q4 2020 to 3.2% in Q4 2021 **(1)** • Reference to wholesale price of gas increasing using data from Figure 2 **(1)** • Price cap was £1 277 in 2021/£1 971 in 2022 **(1)** **NB if more than two barriers considered, credit the best two**	**(6)**

Question	With reference to Extract B, examine **two** barriers to entry into the US coffee shop market.	Mark
7(d)	**Knowledge 2 Application 2 Analysis 2 Evaluation 2** **Quantitative skills assessed: QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and Analysis** **Up to 1 mark for the correct definition of barriers to entry** Definition of Barriers to entry – obstacles that prevent new firms from entering the market **(1)** **up to 2 knowledge marks for identification of two barriers to entry and 1 mark for the linked expansion of each barrier to entry (2+2)** • A number of well-known firms operating in the coffee chain market **(1K),** making it more difficult for a new firm to establish itself because of brand loyalty, this increases barriers to entry **(1AN)** • Firms compete using non-price competition such as advertising. **(1K)** This increases the costs of operating in the market and may prevent new firms entering if they cannot afford to cover the costs of large advertising campaigns **(1AN)** • New firms will need to develop high quality coffee beans to compete with established coffee chains **(1K)** This requires expertise that a new firm may not have **(1AN)** • Firms will need to compete using social media **(1K)**. This requires knowledge of social media and the ability to finance the campaign. This would increase barriers to entry to new firms **(1AN)** **Application** Up to 2 marks for relevant application to Extract B (1+1) • Starbucks, Tim Hortons, Dunkin' Donuts, Dutch Bros Coffee and Peet's Coffee operate in the market **(1)** • US coffee shop market is likely to be oligopolistic **(1)** • Starbucks large with 27 000 stores worldwide **(1)** • The firms compete using special offers, large advertising budgets and loyalty schemes **(1)**	

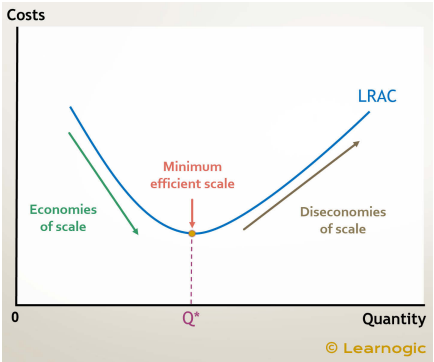
	• Investing heavily in developing mobile phone apps and online ordering systems **(1)** • Social media advertising is the most effective form of marketing for coffee shops **(1)** **Evaluation** **Up to 2 marks for evaluative comments (2+0 or 1+1), e.g.:** • A large number of successful, small independent coffee shops in the USA **(1)** A new firm can enter the market as it does not need to operate at the same size and scale as the bigger coffee chains **(1)** • Product differentiation such as different drinks and food options, require limited skills **(1)** reducing barriers to entry **(1)** • New firms can locate in different areas to well-known coffee chains **(1)**. These areas might be lower cost, reducing start-up costs and barriers to entry **(1)** • Social media marketing may be free if using apps such as Instagram and Facebook **(1)** reducing the costs of advertising **(1)**	**(8)**

Question	With reference to the information provided, discuss the reasons for the increase in Starbucks' profits in 2019. For **one** of these reasons, illustrate your answer with an appropriate cost and revenue diagram.
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis (8 marks) – indicative content** • Definition of profits = total revenue - total costs • Starbucks revenue increased by 7.24% in 2019 • Starbucks profits increased by 7.11% to $17.98 billion • Globally sales of coffees have increased by 2%, this would increase both the average revenue and marginal revenue curves outwards, increasing profits • Many new shops opening in China • Attracting younger coffee drinkers • Diagram to show an increase in both average revenue and marginal revenue shifting outwards with a new equilibrium price and quantity showing profit increasing  • AR and MR increase to AR2 MR2 with a higher area of profit from P1C1 x 0Q1 to P2C2 x 0Q2 • The price of coffee beans has fallen to $1.57 per kg in May 2019 reducing the costs of production for coffee shops. This would cause the marginal cost and average costs curve to fall, increasing profits

Question	With reference to the information provided, discuss the significance of barriers to entry and exit in the electric car market for new entrants, such as Dyson. **Indicative content**
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** • Definitions of barriers to entry and barriers to exit - Barriers to entry: A cost of production which must be borne by a firm that wants to enter an industry but is not borne by businesses already in the industry - Barriers to exit: Something that prevents or impedes the ability of a firm to leave an industry • Barriers to entry and exit occur in imperfect markets • Barriers to entry and exit reduce contestability in the electric car market • High sunk costs e.g. high capital costs, advertising, means it is expensive to enter the market and those costs are not easily recoverable if a firm needs to exit the market • Branding is important in relation to attracting consumers. This possibly entails high levels of expenditure on advertising and promotion for new entrants, especially Dyson which is well known for domestic appliances • Patents create a legal barrier, meaning Dyson will have to be careful with regard to designs • Car production is more suited to large-scale production and existing firms benefit from economies of scale • Tesla has the advantage of being the first in the market • The electric car market requires a high level of investment to enter the market. Apple decided against producing cars for that reason • The likely entry of well-known and established car manufacturers, such as Jaguar, Porsche, Audi and BMW, may make it difficult for Dyson to enter and be able to compete successfully • Backwards vertical integration, where car manufacturers such as Tesla control electric car battery production • Dyson may have to set up its own retail network (as did Tesla) which is another major cost (forward vertical integration)

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Dyson has a good reputation for quality and innovation and it has been very successful over a long period of time • Dyson has had previous success when marketing new products • Dyson may have accumulated significant reserves/profits, enabling it to finance the development of a new electric car • Dyson can learn from Tesla's mistakes • Electric car market is rapidly growing, therefore there is scope for new entrants to be successful • Non-price factors may be significant in determining sales • Barriers may become less significant as the market becomes more competitive • Barriers may be less significant for Dyson and other entrants in the longer term	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question	In July 2017 the German retailer Metro Group demerged into two independent companies. Its wholesale and food division became New Metro and a separate consumer electronics business, CECONOMY, was formed. Evaluate the possible benefits of a demerger for the business **and** its workforce. Illustrate your answer with an appropriate diagram(s). **Indicative content**
8	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed** **QS4**: Construct and interpret a range of standard graphical forms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** • Understanding of demerger- separation of one business into two or more independent businesses/this would apply in the case of the dissolution of a previous merger Award relevant diagram e.g.  **Benefits for the business**: • Lower LRAC as the business was previously experiencing diseconomies of scale • Greater efficiency/less x-inefficiency • Increase in profits (or reduced losses) as a result of lower LRAC • An increase in funds through the sale of assets - which may be used to invest in R & D or to pay off debts • Avoid intervention from competition authorities - the business may have been dominant in certain markets • Focusing on the core business may lead to higher profits • Specialised workforce enable efficiency/productivity gains • Reduced risk of culture clash between different parts of the business

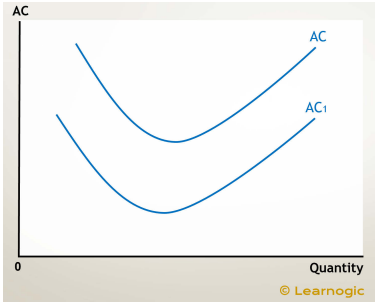
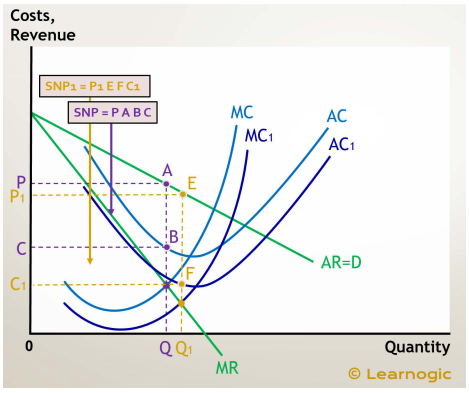
Question Number	With reference to Extracts A and B and your own knowledge, discuss the types of non-price competition that could be used by car manufacturers to increase the sales of cars. Indicative content
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application, Analysis (8 marks) – indicative content** • Non-price competition involves ways to increase sales and attract custom through methods other than price • Methods of non-price competition include: product differentiation, advertising and branding, quality, endorsement, product placement, after sales service • Car manufacturers operate in an oligopolistic market with high levels of interdependence • Innovation and quality are important to the Chinese consumer • 79% of consumers plan to purchase a connected-car in the future • Chinese consumers are highly influenced by reputation of the firm and social media when choosing to purchase a car • Younger consumers are attracted to cars with a more modern design • Non-price competition is important as it increases demand and revenue • Non-price competition can increase the profits for Chinese car manufacturers • Number of joint-ventures able to offer product differentiation e.g. Alibaba and BMW **Maximum L2 if no reference to car manufacturers**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.

		Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Some types of non-price competition are likely to be more expensive than others e.g. advertising at prime time on TV may be more expensive than branding • Some types of non-price competition may be more effective (in increasing demand and making demand less price elastic) than others e.g. connected-cars; high quality may be more effective than branding • The most significant factor when buying a car for many young Chinese consumers is the environment. Therefore, other forms of non-price competition may not as significant • Price is the most important factor as new cars are expensive and this is causing their demand to fall • New car sales have declined in China as consumers seek low-cost alternatives • There are lots of available substitutes to cars • Consumers are using car-hailing apps instead of cars as they are more price competitive • Electric cars are becoming more price competitive as the government is subsidising them and other car manufacturers will need to lower their price to compete.	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question Number	In 2019 the Indian Government announced plans to privatise up to 25 airports across India. These airports are not the largest in India, but they each have annual passenger numbers between 1 million and 1.5 million. Evaluate the possible benefits of privatisation for the consumer. Illustrate your answer with an appropriate diagram(s). Indicative content
8	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis (12 marks) – indicative content** Privatisation is the transfer of assets from public to private ownership •Privatised firms have an incentive to cut costs in order to maximise profits and the firm moves closer to productive efficiency/reduce X-inefficiency   • Reduced costs as privatised firms will increase efficiency (falling MC and AC), leading to lower prices and increased output • Lower costs may be reflected in lower prices for consumers of flights, increasing consumer surplus

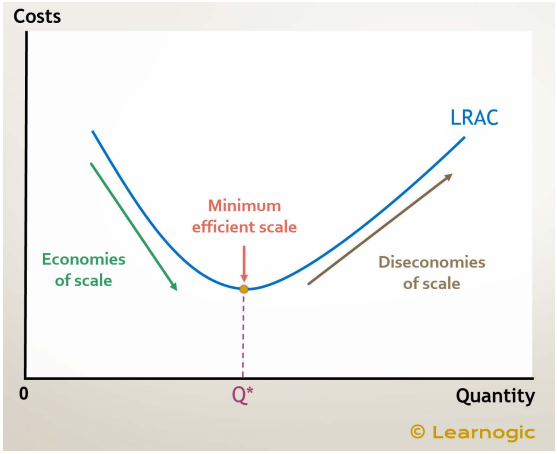
Question	With reference to Extract C, Figure 2 and your own knowledge, discuss the benefits of non-price competition for consumers and businesses in the Indian smartphone industry. **Indicative content**
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis (8 marks) – indicative content** • Non-price competition occurs when firms use such factors as packaging, delivery, or customer service rather than price to increase demand for their products. • The Indian mobile phone industry is an oligopoly with the combined market share of the top 4 at 67% in 2021. Therefore they are unlikely to compete on price **Benefits to consumers:** • Better quality goods: Businesses are competing through innovation and design. This enables consumers to benefit from more choice/better quality goods, improving consumer welfare • Increased awareness through advertising. This enables consumers to make informed/rational decisions/maximising utility • Branding: this enables consumers to recognise the smartphones produced by each manufacturer • After-sales service: this enables consumers to resolve problems when using smartphones • New products may be developed through non-price competition allowing consumers to benefit from a greater range of smartphones with better technology **Benefits for businesses:** • Higher profits: non-price competition makes demand more price inelastic because of the better quality products. Businesses can charge higher prices and increase their profits • Avoids costly price wars • Better branding/customer loyalty as businesses are able to differentiate themselves from other smartphone producers. This can help businesses increase their sales and market share • Product differentiation through non-price competition helps these businesses to set their own prices **NB Level 3 response requires benefits to both business and consumers**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

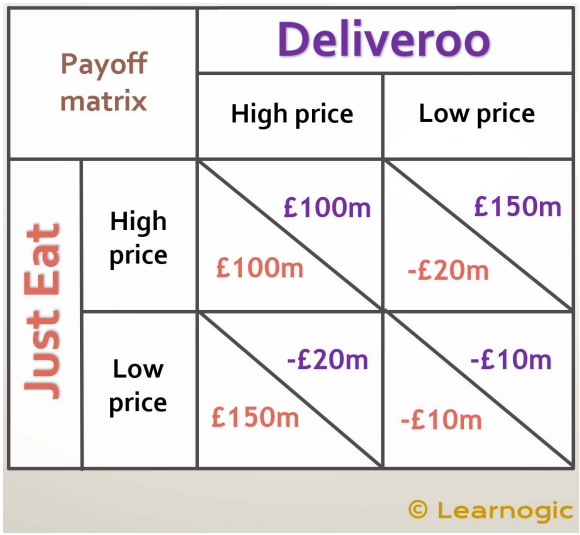
	Evaluation (6 marks) – indicative content **Consumers:** • Non-price competition may lead to higher prices for consumers as businesses will need to cover their innovation costs, reducing consumer surplus • Consumers would most likely benefit from lower prices in a price war/price competition • Non-price competition increases the complexity of the purchase • Non-price competition acts as a barrier to entry reducing choice **Businesses:** • Non-price competition can be expensive. Businesses investing in new technology and innovation will increase their costs of production which may cause profits to fall • Investing in innovation and technology can be risky and takes a long time. If unsuccessful, businesses may face increased costs and be unable to recover them with higher sales • Smaller firms may not be able to operate in this market as non-price competition acts as a barrier to entry for them • Non-price competition could contribute to allocative inefficiency as prices rise

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question	Evaluate the possible benefits of a demerger. Illustrate your answer with an appropriate diagram(s). **Indicative content**
8	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • Definition of demerger – separation of a firm into two or more businesses Possible benefits include: • Lower LRAC as the business was previously experiencing diseconomies of scale  • By demerging, Peak Minerals is able to lower output reducing diseconomies of scale and moving closer to its MES • The business becomes more efficient – less x-inefficiency in the company as Peak Minerals are able to focus on the core strengths of the business, such as copper, reducing costs • Expected synergies between Peak Minerals and Vertex Minerals did not occur - hence the firm may reduce its LRAC

Question	Indicative content With reference to the information provided, discuss the strategies used by food delivery businesses to increase their market shares. Refer to game theory analysis in your answer.
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** Understanding of non-price competition e.g. • Increase in advertising: aim is to increase demand and to make demand less price elastic • Offering more services to consumers e.g. differentiation through deliveries of grocery shopping along with takeaway orders • Use of app. Making it quicker and easier for customers to order takeaways Understanding of price competition • Deliveroo aims to increase market share - reference to sales volume/revenue maximisation through lowering prices • Reference to predatory pricing as an example of price war 'to force other competitors to leave the market' • Limit pricing to increase barriers to entry/forcing others to leave the market to increase market share • 'A price war' : suggests that there was no collusion between the businesses. Reference to game theory, with or without the diagram, to explain effect of no collusion between firms:



- The diagram above demonstrates that a price war would result in both businesses making a loss – reference to data in Figure 1

NB response must make reference to game theory in answer to achieve level 3

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (6 marks) – indicative content

- Price competition likely to result in losses (use of game theory)
- In long-run one or more businesses might exit the industry
- Advertising likely to be very expensive – costs incurred might be less than the extra revenue gained
- Non-price competition might be ineffective in increasing market share
- Game theory suggests that there will be an incentive for businesses to collude to maximise profits

	• Collusion and predatory pricing are illegal in most countries and businesses could be fined	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question	Evaluate the impact of imposing a maximum wage. Illustrate your answer with an appropriate diagram(s). **Indicative content**
8	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • Definition of maximum wage: wage ceiling above which workers cannot be paid • Diagram to illustrate maximum wage below market equilibrium

Question	(e) With reference to the information provided and your own knowledge, discuss the impact of Tesla reducing its prices on the behaviour of other electric vehicle manufacturers. **Indicative content**	
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** Tesla has engaged in price competition • Price competition is a type of competition where businesses compete against each other by offering lower prices for their goods or services • Tesla has tried to attract more customers and increase market share by offering a lower cost alternative to other electric car producers • Tesla's current market share of 12% is below that of SAIC (25%) and BYD (16%) • Price leadership encouraged other electric car vehicle manufacturers to lower their prices • There might be a price war in the Chinese car market • Reward appropriate game theory matrix, supported with explanation • Some manufacturers may use non-price competition as means of increasing their market shares e.g. advertising, branding, product differentiation • Tesla may be using limit pricing- the reduced prices are in place to limit the profits- this may reduce the likelihood of competitors entering the market to seek profit • Predatory pricing is where the firm prices below its AVC in order to put pressure on the competition to leave the market as they will be loss making- this may result in loss of competitors/competitors exiting the market • Competitor may report Tesla to competition authorities for predatory pricing	

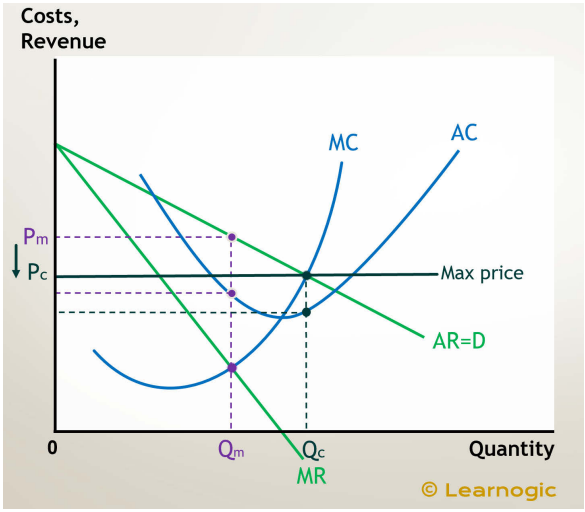
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (6 marks) – indicative content

- If electric vehicle manufacturers are able to differentiate their vehicles from Tesla they may not need to compete over price
- There may be little impact on other vehicle manufacturers if they have a strong reputation for reliability, safety and quality
- Other vehicle manufacturers in China benefit from government subsidies and low wage costs. Therefore they can also lower prices and are not significantly impacted
- If Tesla/other vehicle manufacturers experience increase in costs in the long-run they may have to increase their prices
- Lower prices may decrease super-normal profits reducing the available capital to spend on non-price competition
- Firms are interdependent and therefore they will all copy each other's non-price competition strategy
- Vehicle manufacturers do not benefit if a price war starts as they may all lose revenue, reducing the incentive to continue to reduce prices
- SAIC is in a stronger position to withstand competition from Tesla given that its market share is more than double that of Tesla
- Predatory pricing is illegal and Tesla may be fined/ lose consumer confidence

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question	Evaluate policies that a government could use to control and regulate monopolies, such as PTCL. Illustrate your answer with an appropriate diagram(s). **Indicative content**
8	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • Price regulation: prevents monopolies from charging a price much higher than the price set under competitive market conditions. The government will set a maximum price below the current price (P_m to P_c) to increase allocative efficiency and reduce supernormal profits • Limiting the amount of profit monopolies such as PTCL are allowed to make. A maximum level of profit can be set equal to what the regulator thinks a firm would earn in a competitive market.  • Performance targets: would increase the quality of services e.g. internet services provided in Pakistan. The government would monitor the quality of the service, e.g. speed, reliability and coverage and set targets to improve, this increases the performance of the business and improves the experience for the consumer • Quality standards: the government could enforce standards e.g. to ensure that PTCL improves the quality of the internet by imposing fines on PTCL if it does not improve the quality of its service

	Evaluation **Up to 2 marks for evaluative comments (1+1 or 2 + 0), e.g.:** • To attract highly skilled labour Uniqlo has had to increase wages by 40% **(1)** This will increase MC and AC reducing profits **(1)** • It is costly to invest in technology and automation **(1)** • Global raw material costs are rising **(1)** • Significance of cost increase **(1)** • It takes time to implement new technology (**1)**	

Question	**Indicative content** With reference to Extract C, Figure 2 and your own knowledge, discuss the likely barriers to entry for a business wishing to enter the global fashion retail market.
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** • Barriers to entry are any obstacle that makes it difficult for new firms to enter and compete in the fashion retail market • Barriers to entry can limit the entry of new competitors, reducing market competition and potentially enabling existing firms to maintain higher prices or market shares • Large firms are well-established, making them hard to compete with. Zara is the largest global retailer followed by Uniqlo. These brands have a high degree of brand loyalty • Uniqlo, H&M and Zara all offer low prices making it harder for new firms to compete and make a profit • The businesses have significant bargaining power over their suppliers enabling them to achieve economies of scale and reduce their average costs • The profits made in the fashion retail industry can be invested into market research and innovative design enabling these businesses to offer higher quality goods hence increasing the costs for new businesses entering the market • Businesses such as Zara and Uniqlo have a high market value. They are able to access funds for large amounts of investment • The businesses compete in stores that are costly to open and run

	• To operate in the fashion retail industry, businesses need to engage in advertising campaigns to establish themselves and compete. These can be very costly and not always effective • There is strong brand loyalty in the industry as companies such as H&M and Zara are well-established brands • New businesses may face supply chain challenges • Uniqlo, H&M and Zara invest heavily in advertising, this can be considered a sunk cost if ineffective	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • The fashion industry in countries such as China, has a large number of firms in it, reducing brand loyalty. Uniqlo only has a 1.4% market share • There are limited capital requirements compared to industries that require substantial investment in manufacturing facilities or technology • There is easy market access because there are many online shopping and social media platforms on which clothes can be sold • Rapidly changing trends reduce brand loyalty to any one firm providing opportunities for new entrants to introduce fresh and innovative designs • There are many niche market opportunities that can be targeted by new entrants that do not compete with the larger businesses such as Uniqlo and Zara • Limited intellectual property rights reduce legal barriers to entry	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments.

		No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question	Evaluate policies a government could adopt to control monopolies. Illustrate your answer with an appropriate diagram(s). **Indicative content**
8	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • A monopoly is a sole supplier that exists in the market with high barriers to entry • A business may have monopoly power if it controls a high percentage of the market • Monopoly power enables a business to set prices, limit output and restrict competition • Profit regulation by imposing limits on the amount of profit a monopoly can earn, to ensure the business does not exploit its market power and to promote increased allocative efficiency and consumer welfare • Price regulation is a maximum allowable price for a particular good or service. This limits the amount that a monopoly can charge consumers and protects consumers from excessively high prices set by a profit-maximising monopolist

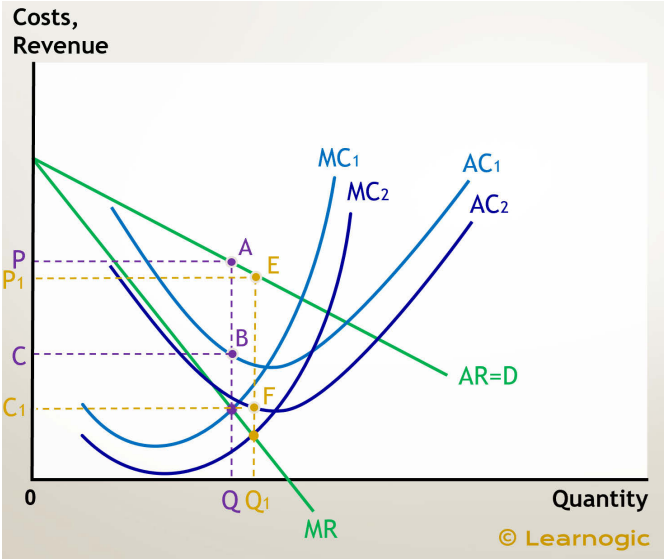
Question	With reference to Figure 1, Extract C and your own knowledge, discuss the likely effects of McDonald's opening CosMc's on its competitors. **Indictive content**
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** **Competitors:** • In 2023 McDonald's had the largest market share at 21.4%, much larger than Starbucks at 7.5% • Fall in revenue/profits: McDonald's aims to compete with Starbucks in fast food restaurants. If consumers substitute CosMc's drinks for Starbucks' drinks, demand, revenue and profits would fall for Starbucks • Rising costs: competitors may face rising costs from increased advertising/differentiation. Or falling demand may reduce economies of scale • Change in pricing strategy: competitors selling coffee may choose to lower prices/or use limit pricing to compete with McDonald's • Product differentiation: competitors might also offer a greater variety of coffees and teas to compete with McDonald's directly • Increase in non-price competition: Competitors may increase their marketing and advertising to maintain brand loyalty. • Price competition- McDonalds benefits from substantial economies of scale allowing it to operate with lower average costs enabling it to charge lower prices- may push firms towards their shut down points. **NB Negative effects may be taken as KAA and positive effects as evaluation, or vice versa**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence
	Evaluation (6 marks) – indicative content • McDonald's market power suggests that the opening of CosMc's will have a significant impact on competitors • With 61.5% of the market being 'others' it suggests that consumers may prefer to use small independent cafes • It depends on the brand loyalty of consumers to competitors such as Starbucks • If Starbucks and CosMc's are not close substitutes the impact might be limited (reference to XED) • It is going to take a long time to have an impact, only 10 locations opened by December 2024 • There is likely to be a greater impact by 2027 when 10 000 new CosMc's cafés may be open • If pricing strategies/differentiation are successful there would be limited impact in the long-run	

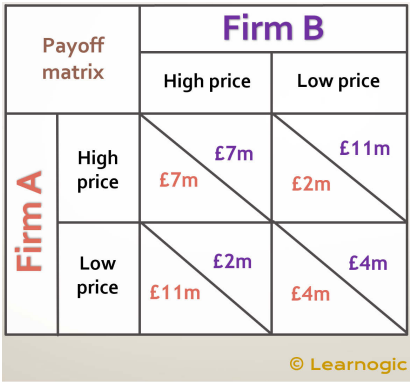
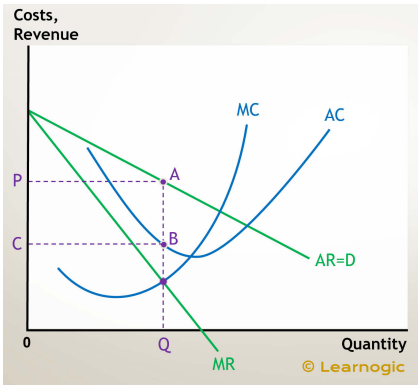
Level	Mark	Descriptor
	0	No rewardable material.

Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question	Evaluate the benefits of a monopsony to firms **and** consumers. Illustrate your answer with an appropriate diagram(s). **Indicative content**
8	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** A monopsony is a market condition in which there is only one buyer **For Firms**: • Lower costs: Monopsonies can negotiate lower input prices such as sugar, leading to cost savings, reducing MC_1 to MC_2 and AC_1 to AC_2 (shown on a diagram) for British Sugar • Lower costs due to lower costs of labour as a monopsony employer can pay lower wages • The monopsonist may be able to gain purchasing economies of scale by buying in bulk • Increased profits: Lower input costs contribute to higher profit margins for monopsonistic firms such as British Sugar (diagram showing a higher area of supernormal profit ABCP to EFC_1P_1)  • Market power: Monopsonies such as British Sugar enjoy enhanced bargaining power with suppliers due to their dominant position. This can enable them to negotiate price, supply and quality • Guaranteed demand from monopsony: Farmers supplying sugar to British Sugar will benefit from more stable demand for their sugar, improving stability in the market and their ability to plan for future supply

Section C

Question Number	Indicative content
8	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, application, analysis (12 marks) – indicative content** An oligopoly is when a few large firms dominate the market and there is interdependence between the firms Oligopolies may set prices using game theory  If there is no collusion, then the outcome will be low price, low price. No firm will change its price from this as it would lose revenue/profit  Colluding firms act as a monopoly with price setting ability generating supernormal profits

	Disadvantages for Consumers: • A small number of producers limits competition, this limits choice for the consumer, reducing consumer welfare, e.g. limited number of mobile phone companies to choose from • Interdependence between firms may increase barriers to entry and high barriers to entry reduce the ability for new firms to compete. This reduces choice and consumer welfare • Firms may engage in anti-competitive practices such as price fixing or form cartels. These lead to higher prices, reducing consumer surplus. Disadvantages for Producers: • A large producer in the market may use price leadership to stop any price competition. This may stop other firms entering the market, as barriers to entry have increased. • Interdependence between firms may increase barriers to entry and reduce the ability for new firms to compete, e.g. no new entrants into the insurance industry • If few large firms dominate, they may all achieve economies of scale, making it difficult for new firms to enter the market and compete • Lack of competition may encourage more regulation in the market • Danger of price-cutting wars leading to lower profits or losses • Need for non-price competition which may require large marketing/advertising budget • Uncertainty in the market, e.g. ability to break the cartel agreement **NB if no industry referred to candidate can achieve a maximum of Level 3** **NB if no diagram candidate can achieve a maximum of Level 3.** **NB if producers or consumers are omitted the candidate can achieve a maximum of Level 3**

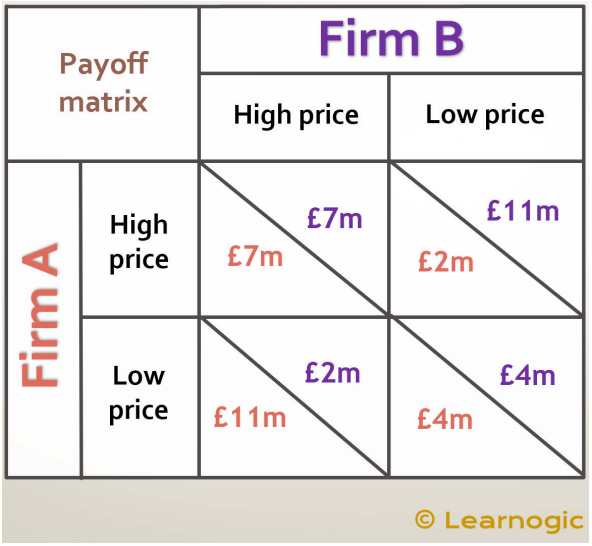
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content Possible benefits to consumers • If price wars occur, prices might fall for the consumer • Firms may achieve economies of scale, reducing costs and prices for the consumer, increasing allocative efficiency and consumer surplus. • Firms will need to compete to gain market share improving quality and lowering prices Possible benefits to producers • Collusion/cartels could lead to an increase in profits of firms • If goods are not homogenous there might be price competition and choice • Larger firms are more able to achieve dynamic efficiency, improving production and/or quality increasing sales • Greater profits from large firms enables them to have greater investment funds • Price wars reduce contestability • Competition laws may protect small businesses from being exploited • Small firms can still operate in some markets • Limited competition is preferable to a monopoly

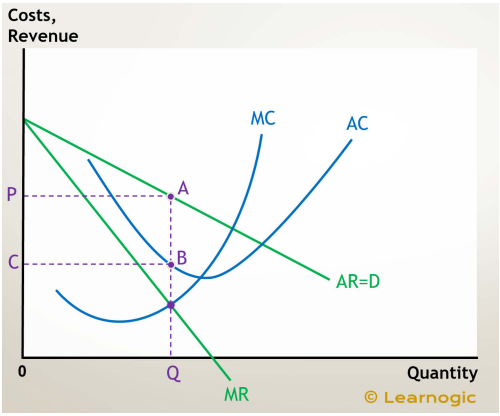
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question	Evaluate the possible benefits of collusive behaviour between firms. Use a simple game theory model in your answer. **Indicative content**
8	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** Indicative content • Definition of collusion – where firms agree to cooperate in their pricing and output policies. • Applies where the market is an oligopoly and the firms are interdependent. • Collusion provides the pharmaceutical companies with the ability to fix prices and limit output that wouldn't be possible if the firms were competing • Ability for each firm to increase its supernormal profit as consumers have to pay higher prices for goods • Collusive behaviour might increase entry barriers so enabling existing firms to increase their supernormal profits • Barriers enable firms to restrict competition increasing revenue and profits • Reduces unpredictability and uncertainty in the pharmaceutical market which may lead to higher levels of investment from firms/firms can save money by not competing helping to reduce costs and increase profits • Candidates provide an appropriate diagram e.g. below



- Firm colluding will agree to sell at the high price, high price outcome to increase revenues
- Without collusion both firms will sell at the low price, low price outcome with lower revenues
- Collusive firms may act like a monopolist to increase supernormal profits. (May draw cost and revenue diagram)



- Super-normal profits are made at PABC
- If the profits of the pharmaceutical firms increase, this may enable them to invest in more research and development, leading to new pharmaceutical drugs being produced
- Prices may be less volatile, making it easier for healthcare providers to plan their expenditure on pharmaceutical products
- Possible benefit to consumers is that sharing of information between firms can help with product development e.g. vaccine development, or safety data

NB if no game theory model candidate can achieve a maximum of level 3

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Higher prices after the agreement reducing consumer surplus • Less choice if firms reduce output, reducing standards of living • Exposure of illegal price fixing by the government may increase costs to the firm if they have to pay heavy fines (£1.2 million) • It negatively impacts firms trying to enter the pharmaceutical market as barriers to entry have increased • Breakdown of trust between colluders may lead to breakdown of any collusive agreements • Short run may be sustained but more problematic in the long run • Lack of coordination • New entry into the market	

	• Collusive behaviour resulting in more non-price competition could increase costs of firms

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate methods that a government could use to control monopoly behaviour. Illustrate your answer with an appropriate diagram(s). **Indicative content**
9	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • A monopoly market structure is when there is one single dominant supplier in the market. These firms possess price setting ability • Government intervention is in response to a market failure • Monopolies tend to charge a higher price than in a competitive market. • The introduction of a price cap/maximum price- price ceiling above which firms cannot charge • Diagram to show impact of maximum price on a monopoly diagram

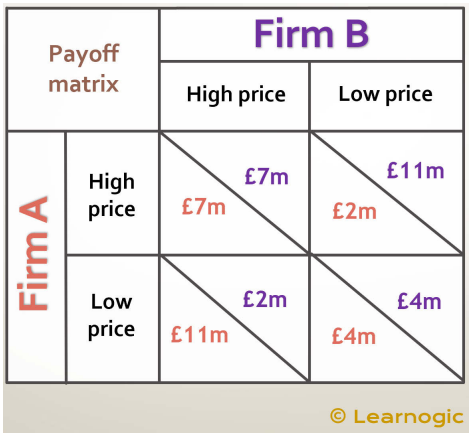
Question	Evaluate the use of non-price and price competition in oligopolistic markets. Illustrate your answer with an appropriate diagram(s). **Indicative content**
10	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** **Knowledge, Application and Analysis (12 marks) – indicative content** • Non price competition may include improvements in the features, quality and design of the product; such as new technology in smart phones, advertising and branding, celebrity endorsement, after-sales service . • These forms of non-price competition are designed to increase demand for smartphones and make demand less price elastic • Non-price competition may increase revenue for firms e.g. Apple, Samsung and OnePlus • Non-price competition may increase choice for consumers as there are more phone providers in India • As only a few large phone companies dominate the premium phone market, each firm has a high market share. Producing at a larger output enables the firms to spread their long-run average costs across a higher output than in competitive markets. This enables the firms to reduce xtheir prices to compete on price. This increases consumer surplus • The phone companies like Apple may use their supernormal profits to invest in technology enabling the quality of the products to be improved so benefitting consumers • Limit pricing, predatory pricing, price wars analysed • Diagrams showing pricing decisions and impact on profits. Use of game theory diagram – analysis may be used as KAA or Ev as appropriate **NB Price and non-price competition must be included to achieve Level 3** **NB if no diagram/pay-off matrix candidate can achieve a maximum of Level 3**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Non-price competition increases the costs of production which may result in a reduction in profits if there is little impact on demand • Non-price competition generates sunk costs for oligopoly • Price competition may result in a reduction of profits for the firms, limiting their ability to invest and product quality may be reduced • Price wars/predatory pricing may result in some firms leaving the industry so reducing choice for the consumer • If the oligopolies collude or form a cartel then price competition will not occur • Interdependence means reaction from competitors are unpredictable	

	• Some practices are illegal, e.g. predatory pricing resulting in possible government action

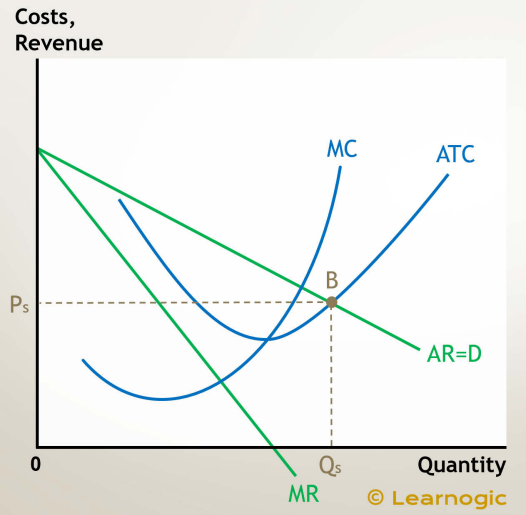
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

		Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	With reference to an industry of your choice, evaluate the likely disadvantages for a business operating in an oligopolistic market structure Illustrate your answer with a payoff matrix diagram. **Indicative content**	
9	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** • An oligopoly is a market structure in which a small number of businesses dominate the market and compete with each other, such as the commercial aircraft industry • Each business has significant market power, meaning it can influence the market price and affect the behaviour of its competitors • Oligopolists sell similar goods, and there are substitutes available making consumers' demand more price elastic • Businesses in oligopolistic markets are interdependent. If there is no collusion they would reach the low price, low price quadrant. This would limit their ability to make supernormal profits  • New businesses may find it difficult to enter/survive the market because established businesses may engage in anti-competitive practices such	

	as predatory pricing/limit pricing or exclusive dealing agreements to prevent competition • Increased pressure to compete using non-price competition such as quality, innovation, and marketing strategies to remain competitive and maintain market share. This might lead to increasing costs/sunk costs reducing profits • Regulatory scrutiny as anti-competitive behaviour can harm consumers and the overall economy. This can lead to costly legal battles and fines for businesses found to be engaging in anticompetitive behaviour • Small firms would be at a disadvantage compared to larger rivals because they are less able to exploit economies of scale and so have higher long-run average costs **NB if no industry explained candidate can achieve a maximum of level 3**		
Level	**Mark**	**Descriptor**	
	0	No rewardable material.	
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.	
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.	
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.	
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.	
	Evaluation (8 marks) – indicative content • Interdependence between firms, may encourage collusion. If this occurs (high price, high price quadrant) then supernormal profit may be increased • If goods are differentiated, price may be sticky allowing for some price-setting ability in the market		

	• Businesses in oligopolistic markets might make high supernormal profit because these markets are dominated by a few large businesses and competition is limited • High barriers to entry if established businesses engage in non-price competition and anti-competitive practices to prevent new businesses from entering the market. This can help established firms maintain their market share and profits • Stability can be higher in oligopolistic markets as there are fewer businesses competing for market share. This greater certainty makes budgeting and planning easier for businesses. Also, this stability might encourage businesses to increase investment		
Level	**Mark**	**Descriptor**	
	0	No rewardable material.	
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.	
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.	
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.	

Question	Evaluate the likely impact of the divorce of ownership from control on business objectives. Illustrate your answer with an appropriate diagram(s). Indicative content
10	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (12 marks) – indicative content** • The divorce of ownership from control occurs when there is a separation of ownership and control in a company such as the UK's Royal Mail. • Shareholders such as Daniel Kretinsky, own the company, like Royal Mail, and elect a board of directors to oversee management and make important decisions on their behalf. • The day-to-day running of the Royal Mail is carried out by professional managers who may or may not have significant ownership in the company • This separation of ownership from control may create potential conflicts of interest between shareholders and management. For example, management may be more focused on maximising their own bonuses or job security, rather than acting in the best interests of the shareholders. Similarly, shareholders may prioritise short-term profits over the long-term success of the company • Managers often want to meet sales maximising objectives and shareholders often aim to profit maximise profits. This causes satisficing behaviour • Sales maximisation at AR=ATC 

	Evaluation (8 marks) – indicative content • Prioritisation of reasons for wage differentials • Anti-discrimination laws might limit the size of wage differentials in an occupation • Paternity leave would cause men to also have gaps in their work, making the pay more equal between men and women • Government Policies: Government regulations, such as minimum/maximum wage laws, can influence wage differentials by setting a floor/ceiling on wages or affecting the take-home pay of workers • Trade unions may bargain for higher wages for lower-paid employees reducing the wage differential • Significance of reasons changes over time • Combination of reasons contribute to wage differentials

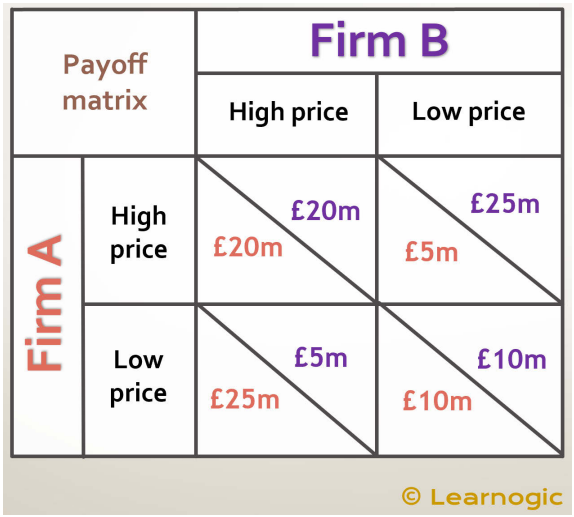
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the likely effects of collusion on businesses **and** consumers in an industry of your choice. Illustrate your answer with reference to game theory. **Indicative content**
10	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** • **QS4:** Construct and interpret a range of standard graphical forms. • **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

- Collusion occurs when businesses agree to cooperate in their pricing and output policies
- This occurs when the market is an oligopoly and enables the businesses to act as a single business to fix prices and limit output, such as JD Sport and Leicester City Football Club

Effects on businesses

- Game theory suggests that the businesses can benefit from collusion by maximising joint profit e.g. in the following diagram the firms can make a joint profit of £20m as shown in the diagram



- The collusion may create barriers to entry to the market that enable the firms to restrict competition, such as limiting the supply of Leicester City sportswear
- Collusion reduces unpredictability and uncertainty in the market as prices and output are guaranteed. This may lead to increased investment as the level of risk is reduced

Effects on consumers

- Economic inefficiency causing higher prices: as prices are set above competitive levels this would lead to a deadweight loss in the economy
- Price fixing leads to a fall in allocative efficiency and economic welfare and to a fall in consumer surplus
- Reduced competition resulting from collusion may limit product choices for consumers

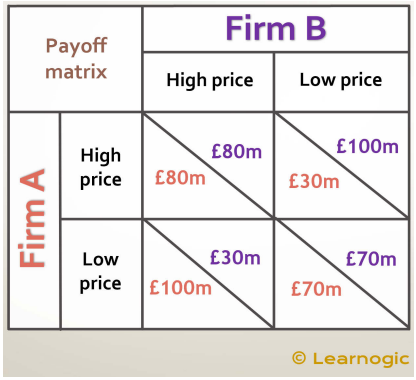
Effects on other businesses in the industry

- Collusion is likely to limit the ability of non-colluding firms to compete on price, quality, or innovation
- Higher barriers to entry for new firms trying to enter the market

	• Pressure exerted on suppliers to maintain high input prices or engage in collusive behaviour themselves **NB: If no reference to game theory candidate can achieve a maximum of level 3** **Candidates must include effects on both businesses and consumers to achieve a level 4** **Accept advantages as KAA and disadvantages as evaluation or vice versa**	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content Evaluation • Benefits are more likely to apply to businesses that collude rather than consumers because the producer surplus is rising at the expense of the consumer surplus • Benefits to businesses may occur in the short-run only, if one or more colluding businesses break away from the agreement	

	• Collusion may be illegal. If caught the business may have to pay a fine and face damage to its reputation e.g. Leicester City FC having to pay £880 000 • The increase in supernormal profits of the colluding businesses may allow for greater dynamic efficiency as they have an increased ability to invest in quality and choice for consumers • Price stability will enable consumers to plan future expenditure • Effect on consumers depends on the value of PED. For example, if substitutes are available the impact will be reduced • The entry of new firms into the industry may break existing collusive agreements • Unstable market dynamics because the collusion agreement can break down at any time. When this happens, it can lead to sudden price wars • Some forms of collusion may be beneficial to both producer and consumer e.g. R&D cost savings and efficiencies or developing improved industry standards

	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the benefits of collusion in a market of your choice. Illustrate your answer with a simple game theory model. **Indicative content**
10	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** • Collusion occurs when there is an agreement or cooperation between companies in an industry to restrict competition • Collusion often leads to companies fixing prices **Benefits:** • Pay-off matrix explaining why the companies would benefit from moving away from the low price/low price to the high price/high price outcome  • Increased profits for companies: Colluding companies can set higher prices collectively removing the competition between them. This leads to higher revenue and profits for each company involved. The reduction in the competition between shipping companies ensured their prices remained high, increasing profits • Stability and predictability: companies may agree on production levels and pricing strategies. This stability can benefit both companies and consumers by reducing uncertainty making it easier to budget and plan • Cost savings: Colluding companies may cooperate to save costs such as joint production facilities, shared research or shared distribution networks. This can lead to lower production costs and potentially lower prices for consumers • Innovation incentives: higher profits earned from collusion can provide the companies with the resources to invest in research and development, leading to increased innovation resulting in dynamic efficiency/technical economies of scale • Market entry barriers: Collusion can create barriers to entry for new competitors, as existing companies may work together to maintain their

	market dominance. This benefits the incumbent companies as it protects their market share and profits **NB: Award a maximum Level 3 to answers that do not include a game theory model** **NB: A candidate can achieve a maximum of level 3 if no reference to a market**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Regulatory and legal consequences: If the companies are caught engaging in collusive practices, they can face large fines e.g. $63 million which increase costs and can cause damage to the reputation of the companies • Allocative inefficiency: Higher prices for shipping increasing the allocative inefficiency in the market as consumer surplus is reduced leading to a misallocation of resources • Less incentive for efficiency: companies may have reduced incentives to cut costs and improve efficiency since they are not facing competitive pressure. This can lead to a reduction in productive efficiency/increase in x-inefficiency • Reduced innovation: Colluding companies may have less motivation to invest in research and development or adopt new technologies, as they may feel less pressure to compete with other companies	

	• Reduced choice: Higher barriers to entry and lack of competition reduces the choice for the consumers • Potential for collusion breakdown: Companies have an incentive to cheat on the collusion agreement and undercut their competitors to gain a larger market share. This can lead to a breakdown in collusion, resulting in price wars and increased uncertainty in the market

	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

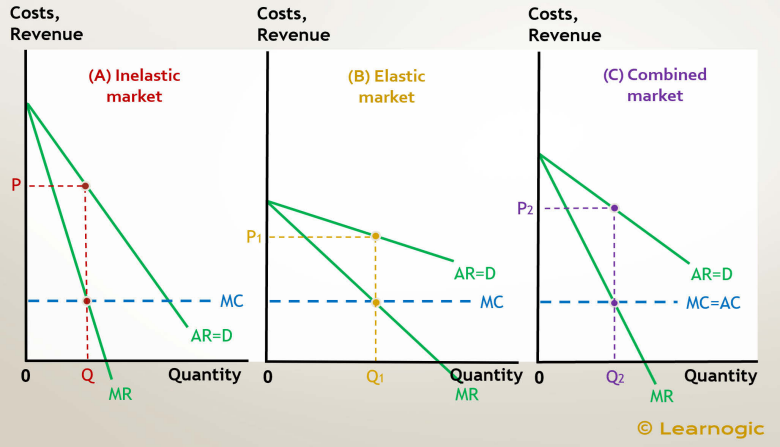
5	**QS4: Construct and interpret a range of standard graphical forms** **QS6: Calculate cost revenue and profit (marginal, average, totals)** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is C** A is incorrect because this is the AFC at 20 000 shirts B is incorrect because this is the AFC at 15 000 shirts D is incorrect because this is the AFC at 5 000 shirts	**(1)**
6	**QS8: Make calculations of elasticity and interpret the result** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is B** A is incorrect because the demand is more price elastic in the daytime than the evening. C is incorrect because the supply of seats in a cinema would be perfectly inelastic D is incorrect because the elasticity of supply will not vary between the daytime and evening	**(1)**

Section B

Question	With reference to Figure 2, calculate the percentage change in the price of the Model 3 Rear Wheel Drive vehicle between January and October 2022. **Answer**	Mark
7(a)	**Application 2** **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculation: (266-280) = -14 (1)/ (266-280)/ 280 X100 (1) (-14/280) x 100 = -5% (1) **NB: Award full marks for correct answer (5% or 5) regardless of working** **NB: Award full marks if negative sign is missing**	**(2)**

Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** **A** is incorrect because this is an external economy of scale **B** is incorrect because this is an external economy of scale **C** is incorrect because this is not an economy of scale	**(1)**
2	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** **A** is incorrect because this is when MR=0 B is incorrect because this is when MC=MR **D** is incorrect because the firm will make some supernormal profit to pay as dividends	**(1)**
3	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** **A** is incorrect because PES of labour would not change C is incorrect because this would not decrease the skills of construction workers D is incorrect because the wage rates of construction workers are likely to increase	**(1)**
4	**QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** is incorrect because this is the average fixed costs for 12 000 items **C** is incorrect because this is the average variable costs for 6 000 items **D** is incorrect because this is the average total cost for 12 000 items	**(1)**
5	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** **B** is incorrect because demand is more price elastic in the afternoon **C** is incorrect because supply is perfectly inelastic **D** is incorrect because supply is perfectly inelastic	**(1)**
6	**QS4:** Construct and interpret a range of standard graphical forms **QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** **B** is incorrect because marginal revenue is negative after an output of 0X **C** is incorrect because marginal revenue is equal to zero at an output of 0X **D** is incorrect because total revenue is maximised at an output of 0X	**(1)**

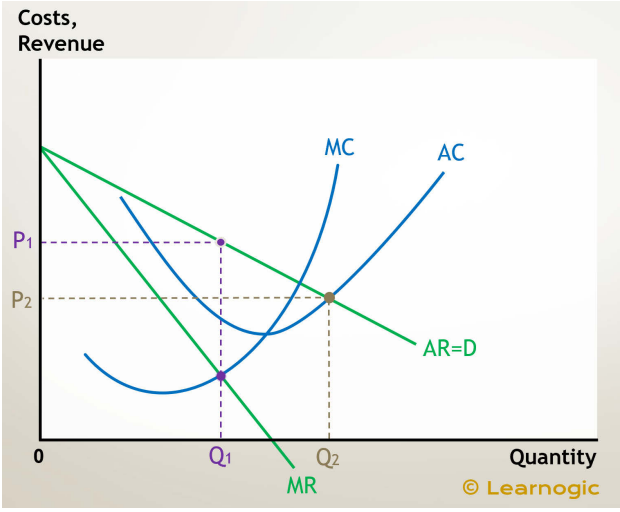
Question Number	Indicative content
7 (e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application, Analysis (8 marks) – indicative content** • Definition of price discrimination (third degree) – where a firm is charging different prices to different users for the same product/service • Conditions necessary for price discrimination - monopoly power (Zambia Sugar has over 90% of the market), different PED's, able to separate different consumer groups (domestic and overseas consumers) • A firm gains higher profits from price discrimination when it charges a higher price to consumers with inelastic demand and a lower price to consumers with elastic demand • Diagrams showing price dicrmination  • Consumers who are <u>negatively affected</u> by price discrimination - consumers with **inelastic** demand - domestic consumers who were paying 40% more than consumers of Zambia Sugar's exports - consumers of industrial sugar who were paying higher prices than others • Consumers in Diagram A will lose out through price discrimination (extraction of consumer surplus by Zambia Sugar)

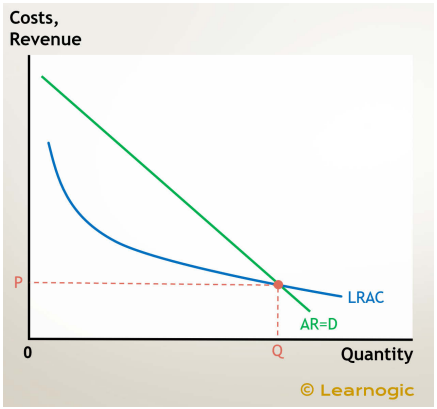
	• Consumers who may <u>benefit</u> from price discrimination - consumers with **elastic** demand (Diagram B) - consumers of Zambia Sugar's exports - consumers of industrial sugar who were paying lower prices than others Restrict to a maximum of Level 2 for Knowledge, Application and Analysis if no diagram is provided

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (6 marks) – indicative content • Price discrimination may not have a long-term effect on consumers. Zambia Sugar was fined ZK76 million by the CCPC and told that it must stop price discrimination and set fair prices • If price discrimination ends Zambia Sugar will earn lower profits and this may lead to a drop in product quality • Zambia Sugar may set uniform prices by raising them to the higher levels paid by those consumers whose demand is inelastic, especially as it has significant market share • Depends on the degree to which the CCPC is prepared to enforce its decision • Market conditions may change eg barriers to entry are lowered (more contestable market) and other sugar producers are attracted into the market

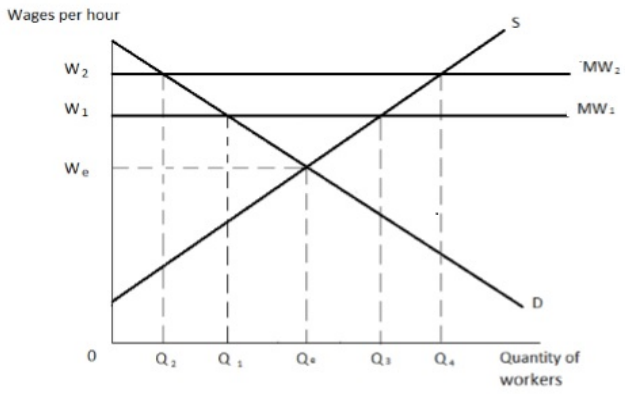
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

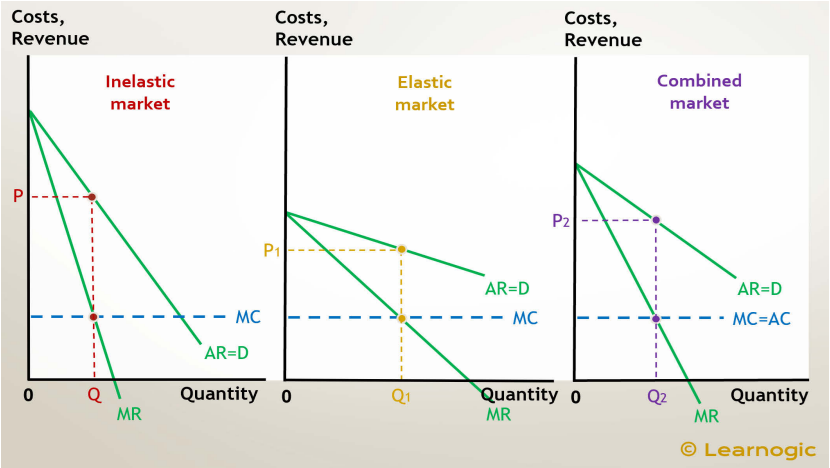
Question	By 2017 Ethiopia was one of very few African countries that had not privatised its telecommunications market and introduced competition. The state-owned company, Ethio Telecom, was the only firm in the market. Evaluate the likely benefits of a monopoly to its consumers. Illustrate your answer with an appropriate diagram(s). **Indicative content**
9	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4**: Construct and interpret a range of standard graphical forms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** • Understanding of monopoly – the firm is the sole supplier in the market **Benefits to consumers** • A monopoly could offer new services with the knowledge that it will have no competition • Dynamic efficiency: Ethio Telecom might use supernormal profits for investment in new technology • If the monopoly is required by a government to produce the allocatively efficient level of output, then the price will reflect marginal cost and ensure that the goods produced reflect consumer demand • Some consumers may benefit if the monopolist price discriminates. This may reduce deadweight loss associated with a single price monopolist • A monopoly may need to keep prices low and continue to introduce new products in order to deter new entrants (contestable market) - price lowered from P1 to P2 and only normal profit made Award relevant diagram e.g. 

	• Falling LRAC diagram. Greater productive efficiency – production will be at a lower point on LRAC curve than if there were more firms in the market. This may lead to a reduction in prices for consumers and higher consumer surplus • If the monopoly is state-owned it may have an obligation to keep prices low and provide subsidised products/services to consumers  **Restrict to a maximum of 9 marks for Knowledge, Application and Analysis if no diagram provided.**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • Consumers might suffer from higher prices, so moving away from the allocatively-efficient level of output • A monopoly might result in X-inefficiency, resulting in higher costs and higher prices • Profits may be used for dividends rather than for investment and innovation in the products or services of the business • Lack of competition may lead to less incentive to innovate and develop. Hence lack of choice. In terms of technological change, telecommunications is a fast moving market. The lack of competition could mean that products are out-dated and of relatively poor quality • A state-owned monopoly may not have a profit motive and may be inefficient • Any profits made by a state-owned monopoly may not be reinvested into the business because the government may cream off profits • The size of benefit/problems depends on level of regulation	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

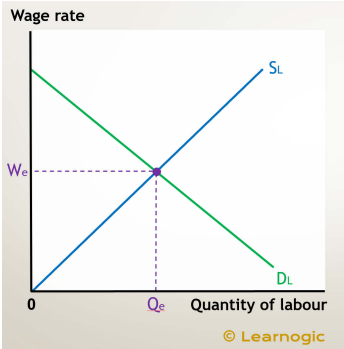
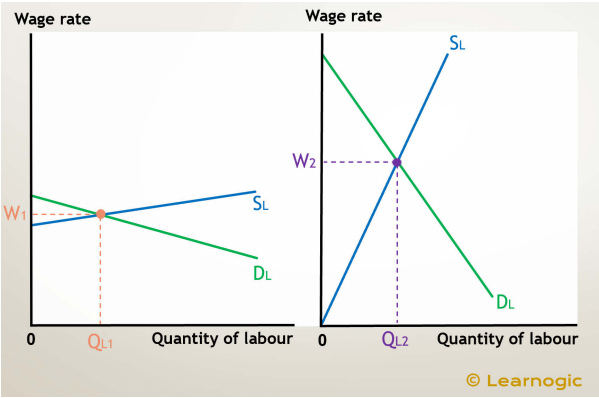
Question	In 2018 the Malaysian Government increased the monthly minimum wage for garment and textile workers from MYR1 000 to MYR1 500. Evaluate the benefits of an increase in the minimum wage on businesses **and** workers. Illustrate your answer with an appropriate diagram(s). **Indicative content**
10	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS4**: Construct and interpret a range of standard graphical forms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of minimum wage - the lowest wage that a business is legally required to pay its workers **Benefits to businesses** • Workers may be better-motivated and hence more productive. Labour productivity increases • An increase in efficiency may result in a fall in unit labour costs, more than offsetting the rise in the minimum wage rate • Lower unit labour costs may mean that the business becomes more competitive • Workers are more likely to stay employed with their current employer. Lower labour turnover rates means more experienced and loyal workers. Lower recruitment and training costs on replacement workers • Consumers may be on higher incomes which may result in an increased demand for the firm's products/services. Revenue and profit may rise • Businesses may replace workers with capital. Hence efficiency and profit may rise Award relevant diagram e.g. 

Question Number	In the UK for any given rail journey, there are usually more than five different ticket prices depending on the time and day of travel. Evaluate the view that price discrimination is always beneficial for producers. Illustrate your answer with an appropriate diagram(s). Indicative content
9	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** • Price discrimination occurs when a firm charges different prices for the same product in different segments of the market e.g. business travellers and tourists • Conditions necessary for price discrimination - monopoly power, different PED's in sub-markets, able to separate different consumer groups e.g. age, students and travelcard holders • A firm gains higher profits from price discrimination when it charges a higher price to consumers with inelastic demand and a lower price to consumers with elastic demand • REWARD MARKS FOR RELEVANT DIAGRAMS - showing separation of markets 

	Benefits to the producer • Greater overall revenue and profits • Producer is able to extract consumer surplus and turn it into producer surplus • Lower prices in the market segment in which demand is elastic, makes the market less contestable, reducing the threat of competition • Cross-subsidies may allow all areas of the business to survive • Increase in economies of scale because of higher output • Higher dividends to shareholders • Increased profits would enable the firm to increase investment or could be distributed to the owners of the firms **Restrict to a maximum of Level 3 if no appropriate diagram provided** **Accept reverse argument for KAA**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.

Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • The increase in cost of keeping markets separate could exceed the additional revenue from price discrimination • Firms are exploiting consumers in markets where demand is inelastic who may not have an alternative which could lead to negative publicity or government action e.g. to price caps • Exploitation of consumers might attract the attention of regulatory authorities who might take action e.g. heavy fines • Higher prices are allocatively inefficient • Difficulty in discriminating between 5 or more markets • Businesses may not use additional profits to improve quality • Price discrimination might be difficult to maintain if it leads to the entry of new firms into the market • Price discrimination might be difficult to maintain if the PEDs are fairly similar in each of the sub-markets	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question Number	In New Zealand in 2018, it was estimated that the average worker employed in the private sector earned 30% less than the average worker in the public sector. Evaluate the reasons why wage differences exist. Illustrate your answer with an appropriate diagram(s). Indicative content
10	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (12 marks) – indicative content** • This labour market equilibrium may differ between markets and this will cause the wage rate to differ as the equilibrium determines the wage rate  **Or** 

	• If the supply or demand for labour changes in a market, this will also change the equilibrium price of labour. Therefore, the supply or demand of labour in a market will cause the wage to differ • The level of education/skill required for the job. Jobs which require more training and education offer higher wages because the supply of workers with this training and skills will be lower than the supply of unskilled workers • Wages in the private sector could be lower than the public sector because public sector pay is funded from taxation and not dependent on profit • In some parts of the private sector firms may have monopsony power and so be able to pay lower wages than firms in other sectors • Other factors such as age, gender and ethnic background may account for wage differences • Trade union may be able to increase the wage rate through collective bargaining • Workers may have non-financial benefits that account for some of the difference e.g. hours of work, holidays, security • Workers may have financial benefits that account for some of the difference e.g. pensions, private healthcare, longer holidays • If the demand for labour is inelastic wages would be higher than if elastic • Wages tend to be higher in the sector that has more inelastic demand and /or inelastic supply • Wage differences may occur if there are immoblities present in the labour market causing shortages in the supply of labour **Restrict to a maximum of Level 3 if no appropriate diagram provided** **Accept reverse argument for KAA**

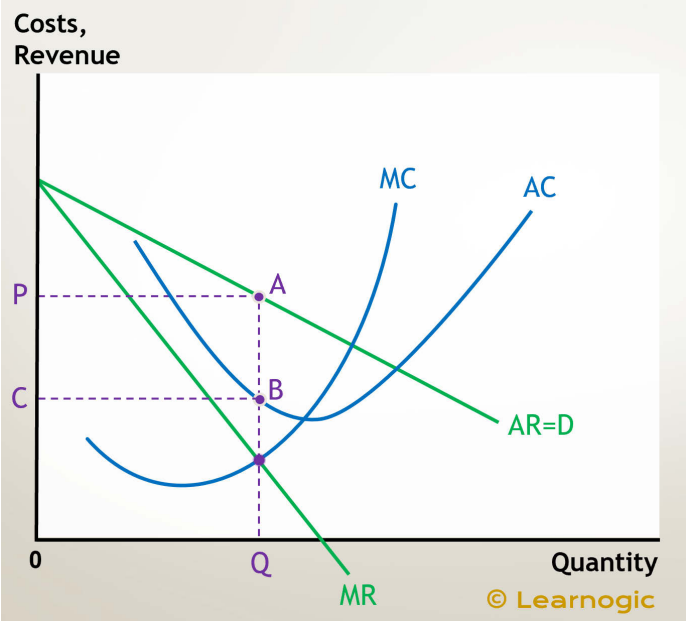
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.

		Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • If labour is homogenous wage differences may not be different • If workers and employers have perfect knowledge of the labour market wages will be more similar • High mobility of labour enables workers to move between jobs and areas keeping wages stable • If there is no (age/gender/ethnic) discrimination in the market, everyone should be paid the same for the same job • Relative significance of relevant reasons • Private sector in some countries may be able to offer higher wages due to higher levels of profit • In the public sector, the government may have monopsony in the labour market and so can drive down the price of labour as workers have a lower price setting ability • The wage differential in NZ between workers in the public and private sectors may be temporary e.g. due to a downturn/recession • Government may limit pay rises for public sector workers e.g. to reduce budget deficit	
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.

		No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	For an industry of your choice, to what extent is a monopoly market structure *inefficient*? Illustrate your answer with an appropriate diagram(s). **Indicative content**
9	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content

- A monopoly market structure is when there is one single dominant supplier in the market. These firms possess price setting ability
- Allocative efficiency occurs when P=MC, productive efficiency occurs when the business is producing at the lowest point of it LRATC curve, X-inefficiency occurs when a business allows average costs to rise, dynamic efficiency occurs when a business is investing to reduce it costs
- Firms with monopoly power, such as MTN Ghana, face limited competition therefore it has price setting ability
- MTN Ghana can abuse their dominant position by offering low quality products to consumers to save on costs of production. As consumers have limited other options but to purchase from them, consumer welfare decreases
- Monopolies will not be allocatively efficient as the lack of competition, such as MTN Ghana controlling 70% of the market, allows them to charge higher prices (P>MC) than in a more competitive industry
- Monopolies benefit from high producer surplus, reducing consumer surplus and causing a deadweight welfare loss

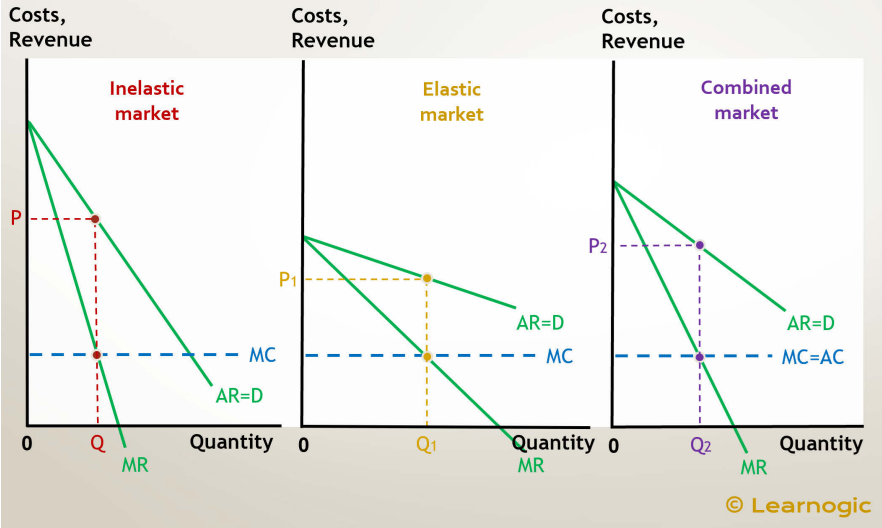


	• A monopoly may be productively inefficient if it restricts output below the lowest point on the AC curve • A monopoly may restrict output and produce at a point below the lowest point of the AC. The monopoly produces at 0Q • 0Q is profit-maximising output, shaded area is supernormal profit • A monopoly will be x-inefficient. The lack of competition and inelastic demand enables the business to increase the price without a proportionate fall in quantity demanded. If costs increase the monopoly can allow prices to increase to cover the rising costs **Accept reverse argument as KAA** **Restrict to a maximum of Level 3 if no appropriate diagram provided**	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content	

	• Monopolies are large firms and have a greater capacity to be productively efficient and achieve economies of scale. The fall in LRAC may cause the price to fall for consumers, improving consumer welfare • Monopolies have greater potential for dynamic efficiency –financial resources for investment in R & D and product innovation for consumer benefit • A monopolist in a contestable market may choose to set the price low to deter potential entrants (making close to a normal profit) where P is closer to MC and therefore closer to allocative efficiency • A monopolist may be able to cross subsidise loss-making parts of its business and cover the losses with the supernormal profits made in other parts of the business. This increases consumer choice • If the monopoly is a natural monopoly it is more efficient to have a single seller in the market achieving economies of scale, than to have firms competing • Regulation may ensure efficient operation of monopolists • Monopoly power is dependent on the firm's share of the market and the market shares of its competitors

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate measures to reduce the occupational and geographical immobility of labour. **Indicative content**

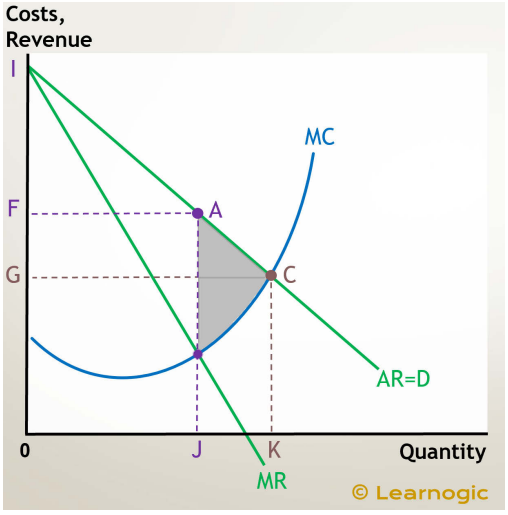
Question	Evaluate the possible benefits of price discrimination to both the business and consumers. Illustrate your answer with an appropriate diagram(s). **Indicative content**
9	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • Definition of price discrimination – where a firm is charging different prices to different users for the same product/service • Conditions necessary for Price Discrimination: - monopoly power - PEDs must be different in each sub-market - it must be possible for the business to be able to keep the sub-markets separate, so that there is no switching between sub-markets  Output 0Q and high price 0P where demand is price inelastic Output 0Q1 and lower price of 0P1 where demand is price elastic Higher total profit when compared with combined market **Possible benefits to the business** • Charging higher prices to those consumers whose demand is relatively inelastic and lower prices to those consumers whose demand is relatively elastic . Increases revenue for the business

	• Extraction of consumer surplus to increase producer surplus benefits the business as profits rise • Selling to a larger market increases revenue for the business • The business may be able to use resources more efficiently, such as increasing use of space during off-peak times (e.g. hotels, train companies and restaurants) • The business may be able to use resources more efficiently, such as increasing use of space during off-peak times (e.g. hotels, train companies and restaurants) **Possible benefits to consumers** • Consumers in the sub-market in which demand is price elastic will benefit from lower prices and higher consumer surplus e.g. low-income groups • This may result in more options e.g. staying in different cities or resorts • Higher profits may encourage further investment by firms which can improve quality and possibly lower prices due to effects of dynamic efficiency • Without price discrimination, the business may make losses and exit the industry reducing consumer choice Cross-subsidisation of different business activities to avoid losses means some consumers are able to purchase the good/service • Improved quality of service for price-inelastic consumers (less crowding on peak services) **NB if no diagram candidate can achieve a maximum of level 3** **NB Level 4 response requires benefits to both business and consumers**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content **The business:** • Higher revenue/profits depend on the extent to which the firm can maintain the conditions necessary for price discrimination • May only apply in the short-run. If a new business enters the market because of the supernormal profit being made, price discrimination may not be possible • If costs of separating the sub-markets are high then the extra revenue gained may be limited • If the impacts are judged to be anticompetitive, there are regulatory bodies in place, then the business may be fined • Damage to reputation of business **Consumers:** • Consumers with inelastic demand will be paying higher prices resulting in a loss of consumer surplus • A significant number of different prices can be confusing and potentially costly for consumers • Price discrimination may make it more difficult for consumers to make rational choices

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the impact of a profit maximising monopolist being nationalised. Illustrate your answer with an appropriate diagram(s). **Indicative content**
9	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • Nationalisation is the transfer of a business or industry from private to state ownership or control • Nationalised businesses do not have to make a profit, which could reduce the price of energy for the consumer in France from F to G, if marginal cost pricing is adopted • Output would also increase from J to K • Consumer surplus would increase from AFI to CGI • Producer surplus/supernormal profit would fall  • With nationalisation there would be a more secure supply of energy in France, even when costs are rising. This would ensure that energy companies would not exit the market • Natural monopoly diagram could also be included • Profits made by a nationalised business may be used for investment or to finance public services • Nationalised businesses may receive more finance for investment to ensure the stability of energy supplies. This might increase the level of dynamic efficiency in the energy market

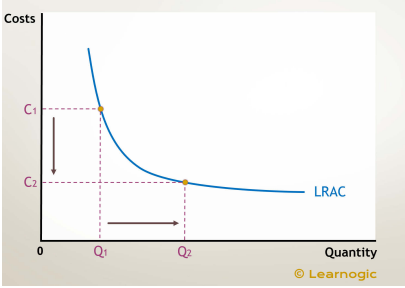
	• The nationalised EDF is likely to be more regulated than a private energy business as it is run using tax revenues. This could lead to more productive and allocative efficiency • The energy produced might make more use of green technology as the government may have environmental objectives **NB if no diagram candidate can achieve a maximum of level 3** **Positive impacts of nationalisation may be regarded as KAA and negative impacts as evaluation or vice versa**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • A nationalised business may be more inefficient than a profit maximising monopolist, as it lacks a profit motive. Therefore there may be a reduction in allocative/productive/dynamic efficiency • Lack of efficiency may increase costs of production for energy, these would be passed onto the consumer with higher energy prices • There is no guarantee that nationalisation would ensure stability of supplies • Marginal cost pricing could result in losses if EDF is a natural monopoly	

	• There might be an increase in diseconomies of scale caused by poor management as the French Government are not expert in energy provision allowing costs to rise • X-inefficiency may cause costs to increase caused by complacency and lack of competition, actual AC above potential AC • The energy firms might be under-funded as a result of the government preferring to invest in other aspects of the economy • EDF may run at a loss/deficit, which may force the government to divert funds from key areas of the French economy to provide support • Nationalised firms are not able to access commercial loans, restricting their access to finance, hindering investment

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate why the objectives of small and medium-sized enterprises may differ from those of large enterprises. Illustrate your answer with an appropriate diagram(s). **Indicative content**
10	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms.**

Question	Evaluate the benefits of a natural monopoly supplying a product or service in an industry of your choice. Illustrate your answer with an appropriate diagram(s). **Indicative content**
9	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** **Benefits may occur to the firm, consumers or workers** • A natural monopoly occurs when there are falling long-run average costs so it is productively efficient to have one firm in the market rather than many firms:  • LRAC continues to fall because of economies of scale • A natural monopoly is able to spread all the infrastructure costs across a much larger output than if there was competition. Reaching a lower minimum efficient scale makes it more productively efficient • This could lead to a reduction in prices for consumers of water and higher consumers' surplus • Avoids duplication/waste of resources in an industry • Dynamic efficiency: Sabesp would make higher supernormal profit than in a competitive market. This may be used for investment in improving water supply, leading to lower LRAC in the long-run and improved quality for consumers • The business may have greater buying/monopsony power so could pass this onto the consumer • Many natural monopolies are owned and run by the government who may have objectives of high levels of employment and/or setting a price so that allocative efficiency is reached **NB: A candidate can achieve a maximum of level 3 if there is no appropriate diagram** **NB: A candidate can achieve a maximum of level 3 if no context is provided**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • If poorly regulated, a natural monopoly may abuse its dominant position and increase prices reducing allocative efficiency • The lack of competition may act as a disincentive to invest, reducing dynamic efficiency • Consumers might suffer from less choice therefore they may not be able to fully meet their needs • With falling long-run average costs, allocatively efficient pricing (P=MC) would result in a loss. A private firm is unlikely to set its price at this point • A natural monopoly may suffer from X-inefficiency, resulting in higher costs and higher prices • A private natural monopoly may use its supernormal profits to pay its shareholders rather than for investment and innovation

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

5		The correct answer is **D** **A** is incorrect because this is not related to the impact of government intervention **B** is incorrect because this would improve the impact **C** is incorrect because this would improve the impact	**(1)**
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The correct answer is **A** **B** is incorrect because the number of employees would be lower **C** is incorrect because wages would be lower **D** is incorrect because wages and the number of employees would be lower	**(1)**

	graphical, tabular and numerical forms.	A is incorrect because this is the difference in the wage rates B is incorrect because this is the additional $20 paid for 41 workers D is incorrect because this is the total cost of wages	
5	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is D** A is incorrect because the firm would be making supernormal profits B is incorrect because this is the long-run shut-down position C is incorrect because the firm will continue to operate in the short-run	**(1)**
6	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is B** A is incorrect because this occurs where MR=0 C is incorrect because this occurs where MC=MR D is incorrect because this occurs between profit maximisation and sales volume maximisation	**(1)**

Question Number	Answer	Mark
7 (b)	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge 2, Application 2** **Knowledge:** 1 mark for definition of monopsony employer: • Monopsony employer - where there is only one employer/buyer of labour in the market **(1)** **PLUS ONE MARK FOR DEVELOPMENT** • Monopsony employer has buying or bargaining power in the labour market **(1)** • Monopsony employer can exploit its bargaining power with employees to negotiate lower wages **(1)** **Application –** Up to 2 marks for application to context of Tata steel • Tata Steel and Thyssenkrupp would become a monopsony employer of steel workers in the UK and the Netherlands **(1)** • Employees expected job losses **(1)** and lower real wages if the merged company's monopsony strength grew **(1)** • Steel workers would have no alternative employer for their skill set **(1)**	**(4)**

Question	Evaluate the likely impacts of monopsony power on employees and suppliers. Refer to a firm with monopsony power in your answer. **Indicative content**
9	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • The definition of monopsony - a monopsony is where there is a single buyer in the market • The definition of monopsony power – where a firm has significant buying power over its suppliers **Impact on suppliers** • Lower prices for their goods because there is no-one else to sell their product to • Decreasing revenue for the suppliers • This causes a fall in supernormal profits for the suppliers and potentially puts them out of business if prices fall too low • Lower producer surplus for suppliers that may prevent them from investing as much, reducing dynamic efficiency • Less negotiating ability over contracts, which may prevent suppliers from being able to sell their agricultural products to other supermarkets • Lack of bargaining power may allow monopsonists to pass costs onto suppliers, reducing profit margins • Increased dependence on one main customer, making them more vulnerable if that customer were to go out of business **Impact on employees** • The monopsony employer has buying power over its potential employees. This gives it wage-setting power in the industry's labour market • Employment might be lower in the industry as there are less opportunities for workers • Monopsonies may pay lower wages and provide poorer working conditions compared to a competitive labour market **NB Maximum level 3 if no reference to a firm with monopsony power**

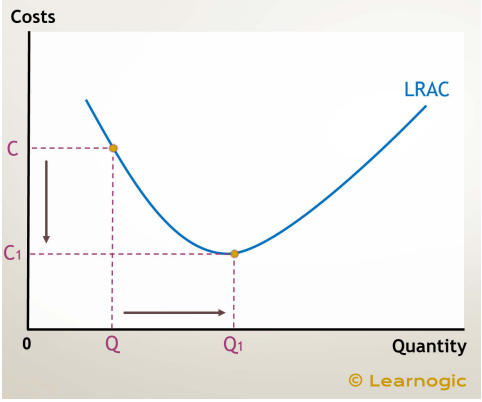
	Maximum of level 3 if only one economic agent is discussed **Accept reverse argument**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content **Suppliers:** • Monopsony may offer more stable contracts guaranteeing demand for the suppliers, this may encourage more investment and dynamic efficiency from the suppliers • If the monopsony is socially responsible, suppliers may be paid a fair amount for their products • If monopsony power is weak/not significant, prices might not be that different to a competitive market • There is often government intervention in monopsony markets that prevents the monopsony from abusing its dominance • Farmers may organise into cooperatives to increase their bargaining power against the monopsony • Businesses will attempt to find other alternative routes to market eg, farmers market or farm shop **Employees:** • Job security is likely to be higher than in more competitive markets • Walmart/the firm may not be the only employer of workers therefore they may pay higher wages than a pure monopsony • If a trade union exists, wages may be higher depending on the relative bargaining power of the union/monopsony • Many monopsony employers are governments that do not profit-maximise and may seek to prioritise other objectives such as well-being

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.

Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the benefits of growth by takeover for a business in an industry of your choice. Illustrate your answer with an appropriate diagram(s). **Indicative content**
10	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Growth by takeover occurs when one firm acquires another • A takeover may allow a firm to enter new markets e.g. WestJet selling more luxury holidays and flights. This will increase revenue and market share for the firm • A takeover may enable a firm to achieve economies of scale e.g. purchasing, technical, financial, managerial  Economies of scale occur as output increases from Q to Q_1 and long-run average costs fall from C to C_1

	For Consumers: • Potential lower prices/increased consumer surplus: Lower input costs may be passed on to consumers, resulting in potentially lower prices for goods and services and an increase in consumer surplus (GAP_1 to GEP_1) • Market stability: Monopsonies can provide stability by managing supply chains efficiently and avoiding price fluctuations. • Higher profits results in more investment and more dynamic efficiency resulting in better quality goods **NB: A candidate can achieve a maximum of level 3 if no diagram** **NB: A candidate can achieve a maximum of level 3 if only one economic agent is discussed**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content **Firms** • Reduced bargaining power: farmers selling their sugar beet to British Sugar have a lower ability to negotiate favourable terms and prices • Lower profits: Monopsonies such as British Sugar drive down the prices they are willing to pay, resulting in lower revenue for suppliers/ farmers and lower profits • Increased barriers to entry: Monopsonies can create significant barriers to entry for new firms, discouraging competition in the market for sugar • Dependence on a single buyer: Relying on British Sugar can expose farmers to increased risks, as any changes in British Sugar's demand or preferences would greatly impact the farmer, potentially causing cost increases or shut-down • Firms/ farmers/ suppliers may form a collective agreement with other sellers and improve their negotiating position • Regulatory intervention- may intervene to ensure consumer benefit is maximised but this may have negative effect on the monopsony **Consumers** • Higher prices: British Sugar may not pass on the cost savings to its customers. If it is the only seller of sugar it might increase the price reducing consumer surplus • Quality reduction: Farmers selling to British Sugar may prioritise cost reduction over quality or innovation, potentially leading to lower-quality products or services for consumers • Limited choice: The monopsony determines the available variety and choices for consumers, limiting their options in the market • Limited availability results in shortages as suppliers paid lower price

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

4	–	**The only correct answer is c** ***A*** *is not correct because a high number of small firms can still operate in a market with a small number of large firms and significant entry barriers* ***B*** *is not correct because high sunk costs increase barriers to entry* ***D*** *is not correct because imperfect information makes it more difficult for firms to enter the market*	**(1)**
5	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS8:** Make calculations of elasticity and interpret the result.	**The only correct answer is B** ***A*** *is not correct because demand for workers falls when wages rise* ***C*** *is not correct because the calculation is incorrect and the demand for workers falls as wages rise* ***D*** *is not correct because the calculation is incorrect.*	**(1)**
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because an increase in the costs of production would cause a contraction in the demand for labour* ***B*** *is not correct because a decrease in the productivity of labour would cause a contraction in the demand for labour* ***D*** *is not correct because a decrease in net migration would decrease the supply of labour*	**(1)**

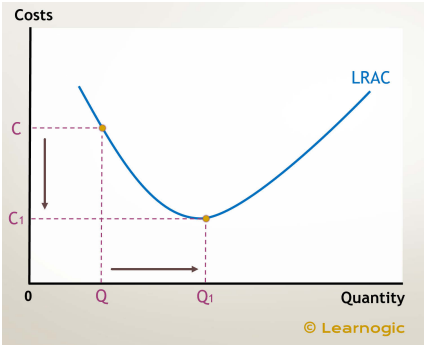
Question	With reference to the first two paragraphs of Extract B, explain what is meant by 'a reduction in contestability'. **Answer**	Mark
7(b)	**Knowledge 2 Application 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** Up to 2 marks for an understanding of a reduction in contestability e.g.: • An increase in **(1)** barriers to entry into/exit from the market **(1)** Award 1 mark for an understanding of contestability e.g.: • Reference to barriers to/exit from the market/sunk costs/'hit and run' competition **(1)** **Application:** Up to 2 marks for application to Extract B **(1+1):** • Larger businesses quickly dominated the online market **(1)** • Investing heavily in advertising/branding **(1)** • Offering online discounts **(1)** • A rise in online shopping **(1)**	**(4)**

Question	With reference to the information provided and your own knowledge, discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry. Indicative content
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** Barriers to entry are factors that make it difficult or expensive for new companies to enter an industry to compete profitably with existing companies. • High R&D costs: Developing new medicines involves extensive research and clinical trials, might spend up to 25% of their revenue. In 2022 Johnson & Johnson spent $14.6 bn, Roche spent $14.8 bn and AstraZeneca spent $9.8 bn • Strong competition: a number of very large firms dominating the pharmaceutical industry in Ireland, including Pfizer with global revenue of $100.3 bn • Regulatory approval processes: The pharmaceutical industry is highly regulated, and the Regulatory Authority will need to approve products, making it more difficult for new firms to enter • Intellectual property protection: Patents provide up to 20 years legal protection in the EU, giving the established firms monopoly power over their products • Economies of scale: Established pharmaceutical companies benefit from economies of scale, allowing them to produce medicines at lower costs per unit. New entrants may struggle to achieve similar efficiency • Distribution networks: Established companies have well-developed channels for distributing and marketing their products, while new entrants may face challenges in establishing such networks • Complexity of medicine development: This involves large amounts of industry knowledge and may deter new entrants that lack experience and expertise • Pricing strategies e.g. limit pricing or predatory pricing may deter new entrants • High number of mergers, acquisitions and collaborations between incumbent firms • High sunk costs, e.g. advertising and promotion, that are irrecoverable when leaving the pharmaceutical industry may discourage new entrants

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • A new entrant might be able to collaborate with existing pharmaceutical companies • In Ireland over 85 companies exist in the market indicating a high level of contestability • There is limited brand loyalty in the market making it easier for new companies to compete • The significance of barriers to entry change over time • An existing multinational company might diversify into the pharmaceutical industry	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

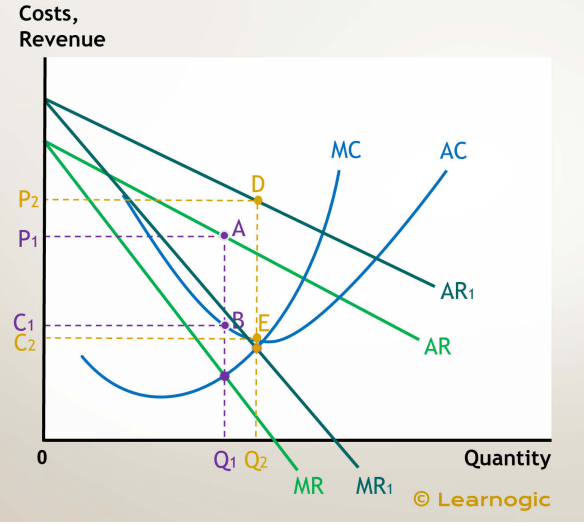
Section C

Question	Evaluate the benefits of organic growth to a business such as Lidl. Illustrate your answer with an appropriate diagram(s) **Indicative content**
8	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** • Organic growth is the expansion of a business achieved through internal means. It involves increasing sales, market share, and overall business activities using its own resources • Organic growth is where a business increases its size without merger or takeover **Benefits:** • Retain control and culture: Lidl may operate differently from other supermarkets. This can be crucial for maintaining the identity and brand loyalty of the business. • Increasing scale through organic growth enables achievement of economies of scale: By increasing output, long-run average total costs fall, increasing efficiency (LRATC fall as output rises)  • Retain all profits: Growing organically allows a business, such as Lidl, to retain all the additional profits gained from increased sales and revenue (increase in AR1-AR2 and MR1 to MR2 causing an increase in profits). No need to share profits with businesses involved in mergers takeovers

Question	Evaluate measures that a government could introduce to promote competition and contestability. **Indicative content**
9	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** Market contestability refers to the ease with which new firms can enter and leave a market. Students may use a costs and revenue diagram to show reduced costs or increase supply in the market. • Subsidy: by offering subsidies it will lower production costs to encourage the entry of new firms into the market by reducing barriers to entry and increasing incentives • Reduced tax burdens: these would reduce costs of entry into the market and make it easier for small businesses to compete with larger, established businesses, increasing competition • Support for small businesses: Indonesia's Government is offering low-cost loans to help small businesses to compete more easily with medium-sized and large businesses • Foreign Direct Investment (FDI): FDI allows foreign businesses to enter the market and compete. A government can offer tax incentives to encourage businesses to enter, as their costs will be reduced • Deregulation: eliminates unnecessary barriers and restrictions, making it easier for new businesses to enter the market • Privatisation: a government could transfer state-owned enterprises to private ownership, opening up industries to competition • Competitive tendering for public sector contracts: encourages private firms to bid for projects, promoting a competitive environment • Trade liberalisation: reduces barriers to international trade, allowing foreign businesses to enter domestic markets. This increases the number of firms in the market, promoting competition and contestability

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
		Evaluation (8 marks) – indicative content • Tax incentives may not be high enough to overcome the barriers to entry if there are significant start-up costs in the industry • The time scale of any measures could determine how effective they are in promoting competition and contestability • Effectiveness depends on the scope and scale of the government measures • Measures will result in opportunity costs for the government • Government failure: imperfect knowledge, administrative costs, unintended consequences • Large foreign businesses may force smaller domestic firms out of the industry reducing competition • If foreign businesses are very efficient, their entry may act as a barrier to other firms in the long-run • Privatisation may create a private monopoly thereby reducing contestability and competition • Cost of measures may outweigh benefits • Businesses may fail anyway even with govt help • Economic conditions - growth phase or recession may have a significant impact on determining success of measures

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the benefits of a takeover for businesses **and** consumers. Illustrate your answer with an appropriate diagram(s). **Indicative content**
10	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** **Benefits for businesses:** Revenue Growth: a takeover can help a business to achieve a higher market share, granting it more pricing power and access to new markets. For example, Mars being able to sell more products in the luxury chocolate market. This increases revenue and profit (MR/AR to MR1/AR1) and increase in supernormal profit as shown.  Increased synergies, a takeover may enable a sharing of expertise. This can improve efficiency and output Cost reduction: a takeover can lead to economies of scale and the acquisition of new skills, leading to cost savings as AC will fall and output will rise. Some takeovers can also take advantage of lower corporate tax rates in certain countries. Can be shown on a diagram: