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OCR A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

Business Objectives

OCR A-level Economics H460 — Topic MICRO 3

32 questions · 138 marks · Mark schemes included

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

HOW TO USE THIS BOOKLET

Questions run from the lowest mark tariff to the highest, so similar questions sit together.

Click any row below to jump straight to that question.

On every question page, click the header (top right) to jump to its mark scheme, and click again to jump back.

Mark schemes are collected together at the end of this booklet, cropped from the genuine OCR mark-scheme grid.

32 questions · 138 marks · lowest tariff first

QUESTION	SOURCE	MARKS	PAGE
1. Section A (MCQ), Q11	H460/03 Themes in Economics · June 2019	1 mark	5
2. Section A (MCQ), Q19	H460/03 Themes in Economics · June 2019	1 mark	6
3. Section A (MCQ), Q22	H460/03 Themes in Economics · June 2019	1 mark	7
4. Section A (MCQ), Q28	H460/03 Themes in Economics · June 2019	1 mark	8
5. Section A (MCQ), Q5	H460/03 Themes in Economics · June 2019	1 mark	9
6. Section A (MCQ), Q19	H460/03 Themes in Economics · June 2022	1 mark	10
7. Section A (MCQ), Q22	H460/03 Themes in Economics · June 2022	1 mark	11
8. Section A (MCQ), Q3	H460/03 Themes in Economics · June 2022	1 mark	12
9. Section A (MCQ), Q4	H460/03 Themes in Economics · June 2022	1 mark	13
10. Section A (MCQ), Q10	H460/03 Themes in Economics · June 2023	1 mark	14
11. Section A (MCQ), Q19	H460/03 Themes in Economics · June 2023	1 mark	15
12. Section A (MCQ), Q26	H460/03 Themes in Economics · June 2023	1 mark	16
13. Section A (MCQ), Q3	H460/03 Themes in Economics · June 2023	1 mark	17
14. Section A (MCQ), Q1	H460/03 Themes in Economics · May 2024	1 mark	18
15. Section A (MCQ), Q21	H460/03 Themes in Economics · May 2024	1 mark	19
16. Section A (MCQ), Q6	H460/03 Themes in Economics · May 2024	1 mark	20
17. Section A (MCQ), Q7	H460/03 Themes in Economics · May 2024	1 mark	21
18. Section A (MCQ), Q8	H460/03 Themes in Economics · May 2024	1 mark	22
19. Section A (MCQ), Q14	H460/03 Themes in Economics · October 2021	1 mark	23
20. Section A (MCQ), Q21	H460/03 Themes in Economics · October 2021	1 mark	24
21. Section A (MCQ), Q29	H460/03 Themes in Economics · October 2021	1 mark	25
22. Section A (MCQ), Q3	H460/03 Themes in Economics · October 2021	1 mark	26
23. Section A, Q1(c)	H460/01 Microeconomics · May 2022	2 marks	28
24. Section A, Q1(d)(i)	H460/01 Microeconomics · May 2022	2 marks	31
25. Section A, Q1(a)	H460/01 Microeconomics · October 2021	2 marks	34
26. Section B, Q32	H460/03 Themes in Economics · May 2024	3 marks	38
27. Section B, Q35	H460/03 Themes in Economics · October 2020	3 marks	39
28. Section A, Q1(d)	H460/01 Microeconomics · May 2019	4 marks	41
29. Section C (Essay), Q5*	H460/01 Microeconomics · June 2023	25 marks	47
30. Section C (Essay), Q5*	H460/01 Microeconomics · May 2019	25 marks	52
31. Section B (Essay), Q2*	H460/01 Microeconomics · October 2020	25 marks	57
32. Section B (Essay), Q3*	H460/01 Microeconomics · October 2021	25 marks	62

QUESTIONS

32 questions · 138 marks · lowest tariff first

1-MARK QUESTION

22 questions in this booklet

6

10 Which of the following assumptions is made in the quantity theory of money?

- A Interest rate is fixed
- B Money supply is fixed
- C Price level is fixed
- D Velocity of money is fixed

Your answer

[1]

11 In which of the following cases are firms most likely to be productively and allocatively efficient?

- A Monopolistically competitive market in the long run with firms making normal profit
- B Natural monopoly
- C Perfectly competitive market in the short run with firms making supernormal profit
- D Perfectly contestable market

Your answer

[1]

10

17 Which component of the balance of payments accounts for dividends from foreign stocks and shares?

- A Capital account
- B Credit account
- C Current account
- D Financial account

Your answer

[1]

18 The demand for a good is expected to decrease from 52 000 to 46 000 when average incomes increase from £20 000 to £24 000. What is the income elasticity of demand for the good?

- A -1.73
- B -0.78
- C -0.58
- D 1.73

Your answer

[1]

19 When would the quantity of labour supplied increase more than proportionally to an increase in the wage rate?

- A It is easy to substitute labour for capital
- B Labour costs take up a high proportion of total costs
- C There is a high level of skill required in the job
- D The job requires minimal training

Your answer

[1]

11

20 When will remittances make a significantly positive contribution to a country's GDP?

- A The financial account of the balance of payments is in surplus
- B The level of emigration is high
- C The level of immigration is high
- D The rate of unemployment is low

Your answer

[1]

21 In 2016 Argentina experienced negative economic growth, with output falling by 2.3% to \$571.3bn. Population growth was 1% over the same period. Calculate the change in GDP per capita in Argentina between 2015 and 2016 if in 2015 Argentina had a population of 43.42 million people.

- A -\$444
- B -\$440
- C -\$178
- D \$172

Your answer

[1]

22 Which condition will a sales volume maximising firm use to determine its level of output?

- A $AC = AR$
- B $AR = AVC$
- C $MC = MR$
- D $MR = 0$

Your answer

[1]

23 What can the government do to finance a budget deficit?

- A Devalue the exchange rate
- B Increase export subsidies
- C Issue government bonds
- D Reduce the money supply

Your answer

[1]

15

- 28 In the 2017 UK General Election, the Conservative Party proposed a reform to social care that would involve individuals whose combined savings and property are valued at more than £100 000 paying for the cost of care they incur in their old age. The likely impact of this would be to reduce the amount of inheritance passed on to future generations. Which of the following would be affected by this in the long run?

- A Both income and wealth inequality
- B Income inequality only
- C Neither income or wealth inequality
- D Wealth inequality only

Your answer

☐

[1]

- 29 Which of the following explains price elasticity of demand along a straight line demand curve?

- A Demand becomes more price elastic as the price increases
- B Demand becomes more price inelastic as the price increases
- C PED is constant as the price increases
- D PED is unit elastic as the price increases

Your answer

☐

[1]

4

5 What is the reward for capital?

- A Interest
- B Profit
- C Rent
- D Wages

Your answer

[1]

6 What is the accelerator effect?

- A An increase in aggregate demand causes a greater final change in real GDP
- B As economic growth pushes the economy towards full capacity the rate of inflation increases rapidly
- C Increases in expected demand will increase the level of investment in the economy
- D Sacrificing the production of consumer goods for capital goods in the short run can increase the rate of economic growth in the long run

Your answer

[1]

7 Which theory argues a high savings ratio is fundamental to achieving economic growth?

- A Harrod-Domar model
- B Heckscher-Ohlin model
- C Marshall-Lerner condition
- D Prebisch-Singer hypothesis

Your answer

[1]

10

- 19 The separation between ownership and control means managers are likely to be more incentivised to pursue sales revenue maximisation over profit maximisation. What type of firm is this most likely to describe?

- A Public limited company
- B Public sector company
- C Small business
- D Voluntary organisation

Your answer

☐

[1]

- 20 Money fulfils a number of important functions, including acting as a medium of exchange. What characteristic would prevent money from fulfilling this function?

- A Durable to use
- B Portable to carry
- C Scarce in supply
- D Volatile in value

Your answer

☐

[1]

- 21 Who is most likely to be categorised as being unemployed?

- A 19 year old full time student.
- B 38 year old father who chooses to stay at home to be a home-maker.
- C 42 year old former bank worker who is economically active.
- D 68 year old who worked in the steel industry and who is now claiming the state pension.

Your answer

☐

[1]

11

- 22 A firm is considering increasing its output from 239 to 240 units of a good. What is the marginal cost of doing this?

Quantity	Average Cost
238	£360
239	£356
240	£362
241	£371
242	£382

- A £1.51
B £6
C £1796
D £86 880

Your answer

[1]

- 23 What is most likely to cause the international price competitiveness of a country's goods and services to decrease?

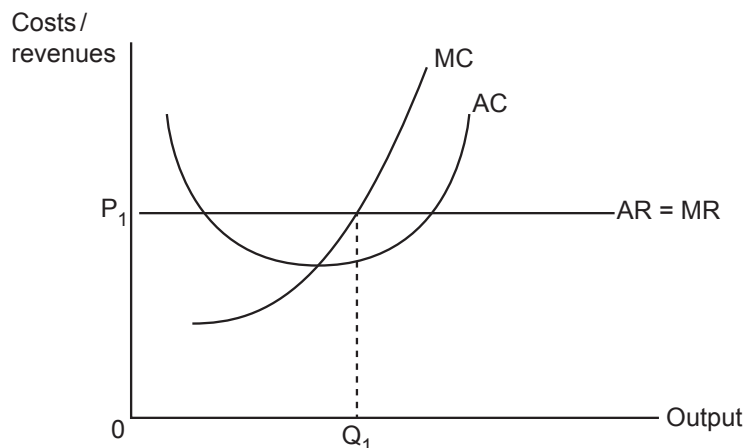
- A Exchange rate depreciates
B Minimum wage decreases
C Productivity increases
D Trade union power increases

Your answer

[1]

3

- 3 The diagram below shows a firm producing Q_1 units of output at a price of P_1 at a particular point in time. What is likely to happen next?



- A New firms enter the market, causing a shift in the average and marginal cost curves
- B New firms enter the market, causing a shift in the average and marginal revenue curve
- C Some firms leave the market, causing a shift in the average and marginal cost curves
- D Some firms leave the market, causing a shift in the average and marginal revenue curve

Your answer

☐

[1]

- 4 What is the relationship between accounting and economic profit?

- A Accounting profit will be equal to economic profit
- B Accounting profit will be larger than economic profit
- C Economic profit will be larger than accounting profit
- D There is no relationship between accounting profit and economic profit

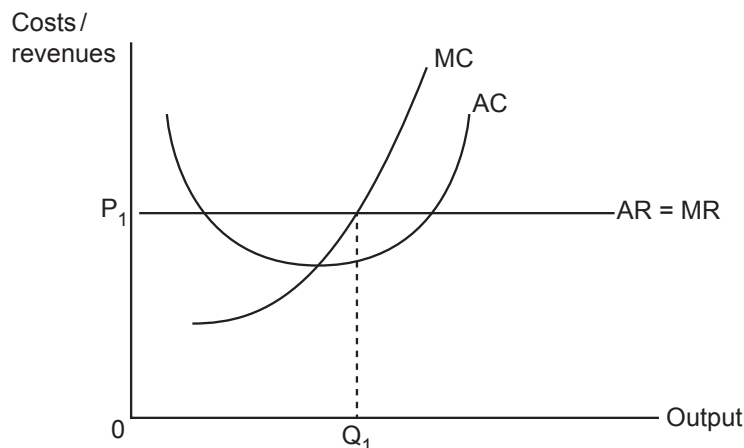
Your answer

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Your answer

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Your answer

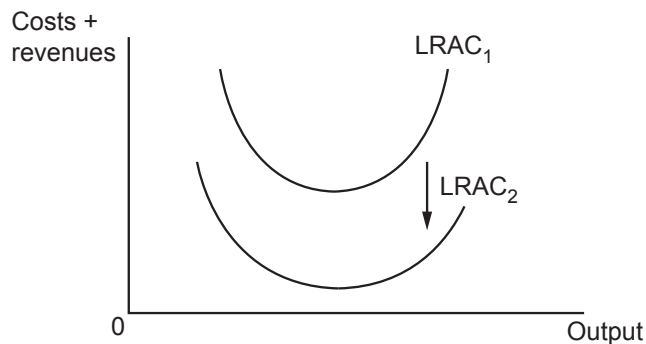
☐

[1]

6

- 10 A firm experiences a shift in its long run average cost curve from $LRAC_1$ to $LRAC_2$ in the diagram.

What is the most likely cause of this?



- A An increase in input prices resulting from new firms entering the market
- B An increase in the availability of skilled labour as a result of growth in the industry
- C Coordination problems arising as a result of an increase in the scale of production
- D Greater division of labour occurring as a result of the growth of the firm

Your answer

☐

[1]

- 11 What is **one** of the causes of government failure?

- A Externalities of consumption or production
- B Policy short-termism
- C The free rider problem
- D The principal-agent problem

Your answer

☐

[1]

11

- 19 A firm is deciding whether or not to increase output by one unit.

What is this an example of?

- A Economies of scale
- B Opportunity cost
- C Profit maximisation
- D The marginal principle

Your answer

[1]

- 20 What is most likely to cause a decrease in the size of the national income multiplier?

- A A decrease in the top rate of income tax
- B A decrease in interest rates
- C An increase in consumer and business confidence
- D An increase in the value of the domestic currency

Your answer

[1]

14

- 25 An individual recently lost their full-time job as an architect earning £60 000 a year.

They are seeking a similar job whilst temporarily on a zero hours contract at a distribution centre, where their hours have ranged from 4 to 18 hours a week.

Under which measure of unemployment would they be classed as being unemployed?

- A Claimant Count
- B Claimant Count and Labour Force Survey
- C Labour Force Survey
- D Neither Claimant Count or Labour Force Survey

Your answer

[1]

- 26 A firm produces 85 units of output.

The fixed costs associated with running the business total £4000 with an average variable cost of £3.20.

If average variable cost is unchanged, what is the change in average total cost when the firm increases production to 86 units of output?

- A Decreases by £46.51
- B Decreases by £0.55
- C Remains the same
- D Increases by £3.20

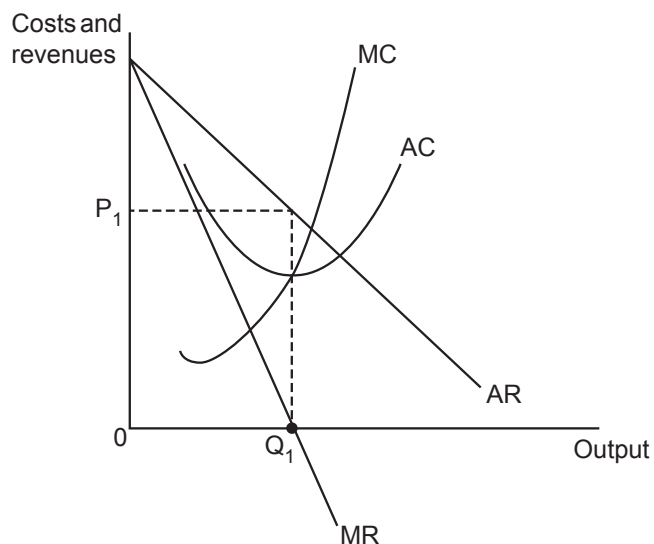
Your answer

[1]

3

- 3 A firm is producing Q_1 units of output at a price of P_1 in the diagram below.

What objective is it likely to be pursuing?



- A Profit maximisation
- B Profit satisficing
- C Sales revenue maximisation
- D Sales volume maximisation

Your answer

[1]

- 4 650 units of a good are demanded by consumers. If the income elasticity of demand is 0.4, what will the new quantity demanded of the good be if income decreases by 3%?

- A 601 units
- B 631 units
- C 642 units
- D 658 units

Your answer

[1]

2

Section A

Write your answer to **each** question in the box provided.

1 What is the reward to enterprise?

- A Interest
- B Profit
- C Rent
- D Wages

Your answer

[1]

2 The marginal propensity to withdraw (mpw) in an economy is 0.6.
There is an injection of £150bn into the economy.

What is the final increase in GDP?

- A £90 billion
- B £100 billion
- C £250 billion
- D £375 billion

Your answer

[1]

3 Which of these is a function of money?

- A Divisibility
- B Durability
- C Limited supply
- D Unit of account

Your answer

[1]

11

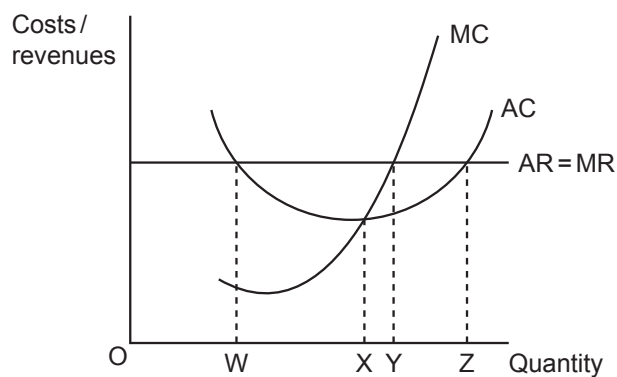
20 Moral hazard is a situation where:

- A Buyers and sellers have different information which results in market failure
- B Firms or households are more likely to take risks if they are insured against any negative impact of their actions
- C Goods are under demanded by consumers and therefore underprovided by markets
- D People are able to consume a good without paying for it

Your answer

[1]

21 The diagram shows a firm in a perfectly competitive market making supernormal profit in the short run.



What is the allocatively efficient level of output?

- A W
- B X
- C Y
- D Z

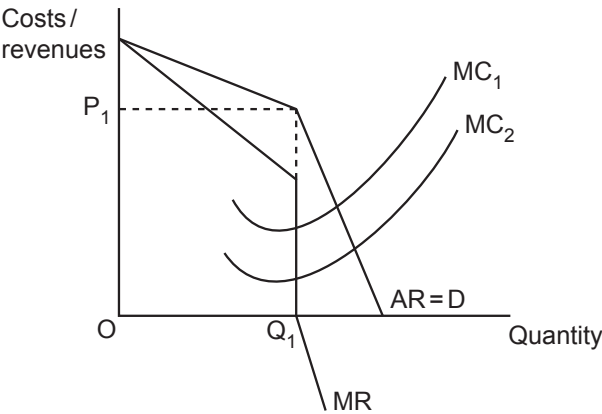
Your answer

[1]

4

6 An oligopoly firm faces costs and revenues as shown below.

If marginal cost falls from MC_1 to MC_2 what is the effect on price, output and profit?



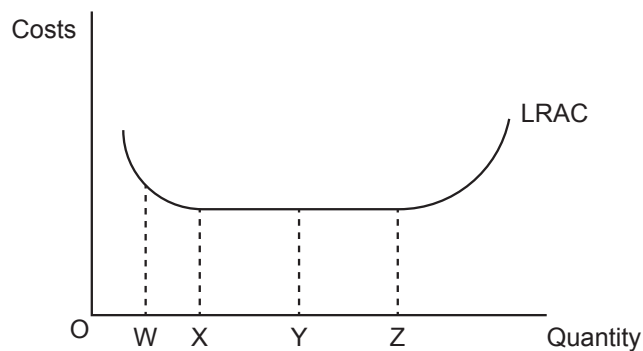
	Price	Output	Profit
A	Decrease	Increase	Increase
B	Decrease	Increase	Unchanged
C	Increase	Decrease	Unchanged
D	Unchanged	Unchanged	Increase

Your answer

[1]

5

- 7 Which point on the diagram represents the Minimum Efficient Scale (MES)?



- A W
- B X
- C Y
- D Z

Your answer

☐

[1]

- 8 Which of these characteristics describes a market under monopolistic competition?

- A High entry barriers, differentiated goods, many firms
- B Low entry barriers, differentiated goods, normal profit in the long run
- C Low entry barriers, few firms, normal profit in the long run
- D Low entry barriers, many firms, supernormal profit in the long run

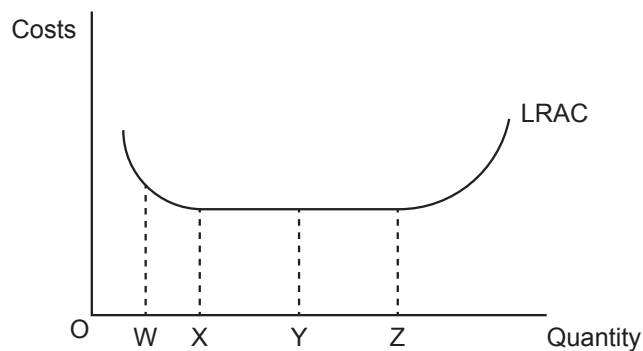
Your answer

☐

[1]

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Your answer

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- D Low entry barriers, many firms, supernormal profit in the long run

Your answer

☐

[1]

8

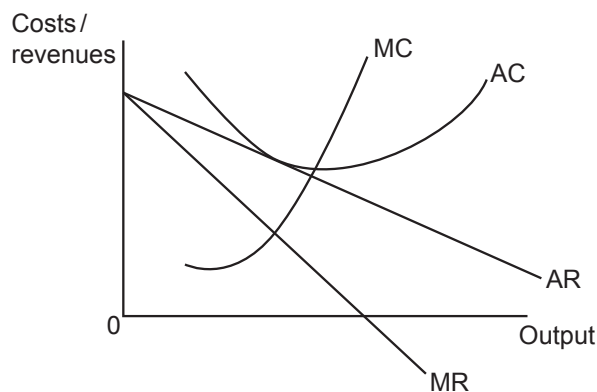
13 What does the neo-classical approach to aggregate supply suggest will be the impact of expansionary demand side policy in the long run?

- A It will be purely inflationary
- B It will cause economic growth and reduce the rate of inflation
- C It will cause economic growth at the cost of higher inflation
- D It will result in non-inflationary growth

Your answer

[1]

14 What is the diagram below most likely to illustrate?



- A Monopolistic competition in the long run
- B Monopolistic competition in the short run
- C Monopoly in the long run
- D Monopoly in the short run

Your answer

[1]

11

- 20 A zoo charges £29.17 + VAT (payable at 20%) for admission, giving a total price of £35. The monthly running costs of the zoo are £675 000, with 30 000 visitors each month. In July 2020 the government announced a temporary reduction in the rate of VAT charged to zoos from 20% to 5%. If the zoo continued to price entrance at £35 and visitor numbers remained constant, what would the impact on its profit be?

- A Increases by £124 900
- B Increases by £200 100
- C Increases by £325 000
- D Remains unchanged

Your answer

[1]

- 21 What is the most likely impact of an exchange rate appreciation?

- A Aggregate demand shifts to the right
- B Contraction along the aggregate demand curve
- C Long run aggregate supply shifts to the left
- D Short run aggregate supply shifts to the right

Your answer

[1]

- 22 In March 2020, India announced it was increasing its fuel excise duty. What type of tax is this?

- A Direct
- B Indirect
- C Progressive
- D Proportional

Your answer

[1]

14

28 What does the data in the table indicate has happened in the economy from 2016 to 2020?

Year	Gini-coefficient
2016	0.52
2017	0.49
2018	0.53
2019	0.58
2020	0.59

- A Environmental degradation has decreased
- B Environmental degradation has increased
- C The distribution of income has become more equal
- D The distribution of income has become more unequal

Your answer

[1]

29 What type of firm is most likely to engage in profit satisfying?

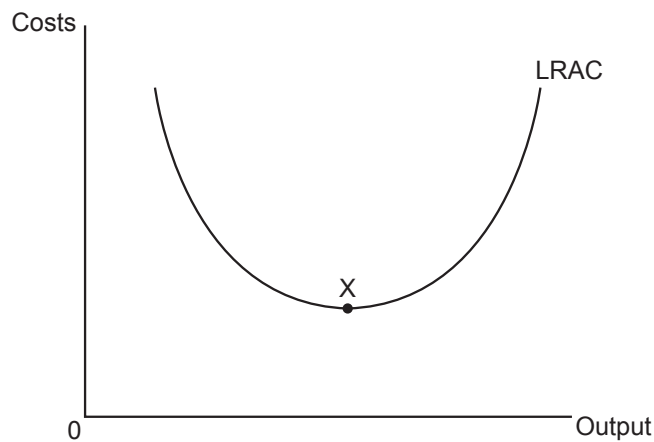
- A Charity
- B Public limited company
- C Public sector
- D Sole trader

Your answer

[1]

3

- 3 What does point X on the diagram below represent?



- A Constant returns to scale
- B Diseconomies of scale
- C Economies of scale
- D Minimum efficient scale

Your answer

[1]

- 4 In 2020 Sony announced the launch of the PlayStation 5 games console. It was estimated that at a price of £500 Sony would sell 87 million consoles. Analysts suggested these sales would increase to 122 million if the price was reduced to £400. What is the price elasticity of demand?

- A -2.01
- B -1.61
- C -0.50
- D 0.71

Your answer

[1]

2-MARK QUESTIONS

3 questions in this booklet

2

SECTION A

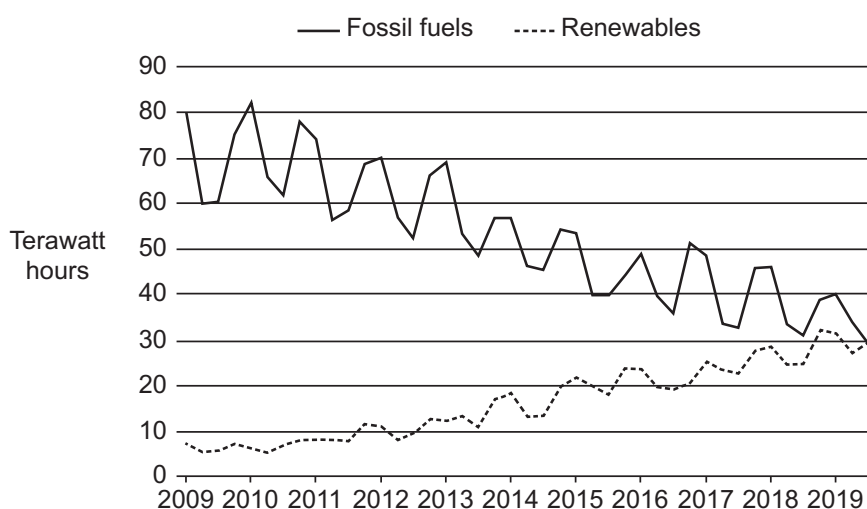
Read the following stimulus material and answer **all** parts of Question 1 which follow in this section.

Changing consumer trends in the UK?

Renewable energy sources, including wind, solar power and biomass, now provide more electricity to UK homes and businesses than fossil fuels, such as coal and gas. This was first achieved in the third quarter of 2019, see Fig. 1.

Fig. 1

UK electricity generation per quarter (measured in Terawatt hours)



Source: CarbonBrief

- 5 Coal is now used for less than 1% of electricity generation in the UK, with only four coal-powered plants remaining, ahead of a ban in 2025. Gas is the largest fossil fuel (38%) in the UK energy system. In terms of renewable energy sources, wind power is the UK's largest, making up 20% of the UK's electricity, followed by 12% from biomass and 6% from solar power. Nuclear power provides the remainder of the UK's electricity.

- 10 Kwasi Kwarteng, the government minister for energy and clean growth, said the renewables record is, "...yet another milestone on our path towards ending our contribution to climate change altogether by 2050. We've cut emissions by 40% while growing the economy by two thirds since 1990. Now, with more offshore wind projects on the way at record low prices we plan to go even further and faster in the years to come."

- 15 One of the largest firms in the UK is Shell, a multinational company. It provides 10% of the UK's oil and gas, employs about 6,000 people and serves over 5 million customers every week at more than 1,000 fuel service stations. It has the third largest number of fuel service stations, behind Tesco and BP.

- 20 However, Shell now faces the prospect of no more petrol cars, lorries running on liquid gas, and solar or wind powered homes and businesses. Even the fuel service station is changing, with most now seen as a retail outlet where people can do their food shopping, pick up a parcel or drink a coffee. Managers at Shell have taken all of these changes very seriously, as they attempt to reinvent the company which is also faced with new climate change targets. Some experts have compared the changes to a new industrial revolution.

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3

25 Shell's managers have already taken some big decisions. Shell has bought a company which makes electric vehicle (EV) charging points for homes and workplaces. It has also bought a supplier of electricity and gas in the UK. Shell's managers see a time when the business will supply all of an individual's energy needs.

30 Shell is trying to take the lead in EV charging points for battery-powered cars. At present, less than 2% of cars on UK roads are battery-powered. However, by 2040 a third of all vehicles could be electric. Shell believes it is well placed to take advantage of this growing market, as it has already launched a 'rapid recharge service' which uses 100% renewable energy. It announced the opening of its 50th EV charging station in October 2019. Given its large number of fuel service stations and its strong position in the market, Shell plans to install hundreds more charging stations around the UK.

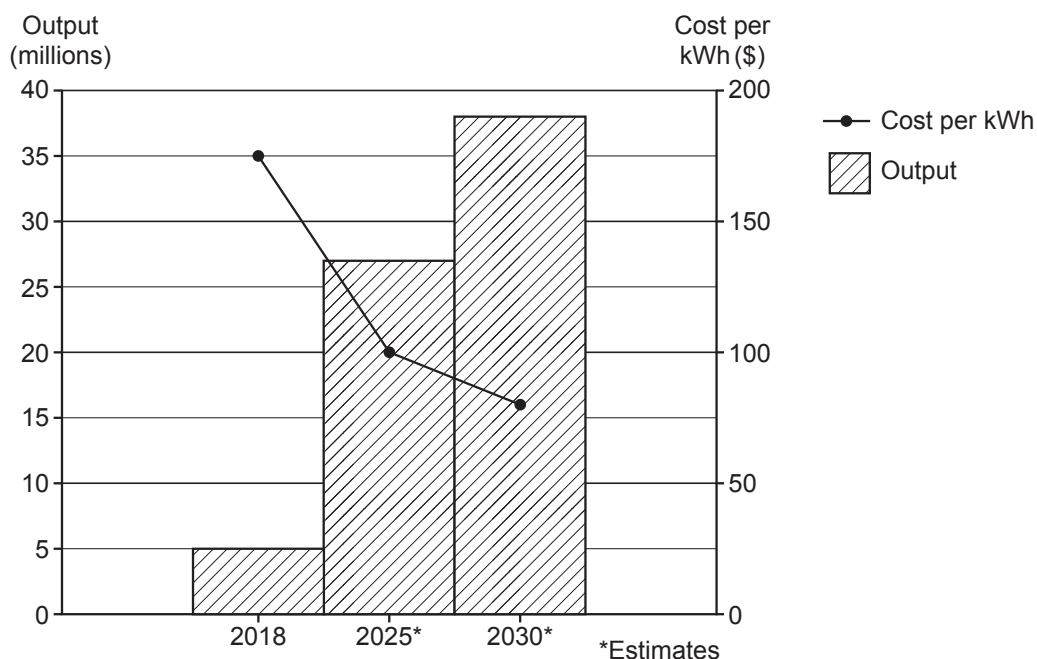
35 The growth in EV charging stations will be necessary if the UK government's 'Road to Zero' strategy, to ban the sale of new petrol cars by 2030, is to be successful. As part of this strategy, more taxes may be imposed to change the marginal private cost of using petrol cars, so that the price paid is closer to the marginal social cost inflicted on society. Once the price of battery-powered cars falls to a level closer to that of petrol cars, the use of a subsidy may also be beneficial.

40 One of the largest costs of running a petrol car is the petrol. The demand for petrol appears to be significantly price inelastic. A 2019 review of over 100 pieces of research about the price elasticity of demand for petrol found it to have a value of -0.26 in the short run and -0.58 in the long run.

45 Another limit on the growth of battery-powered cars is the cost of producing the batteries. Many experts say that a battery-powered car cannot be price competitive until the cost of a battery falls below \$100 per kilowatt hour (kWh), see Fig. 2.

Fig. 2

Global car battery production



Source: Daily Telegraph

Some experts argue that the structure of this market will affect progress as, along with the energy and power generation markets, it is really a natural monopoly.

5

(c) Refer to lines 40–42.

Calculate the percentage change in price required to achieve a 6.5% fall in demand for petrol in the short run.

..... [2]

(d) (i) Using the data in **Fig. 2**, explain how there are economies of scale in the global production of car batteries.

..... [2]

(ii) Evaluate, using evidence from the stimulus material, whether it is a disadvantage if the market for car battery production is a natural monopoly. [8]

[illegible]

2

SECTION A

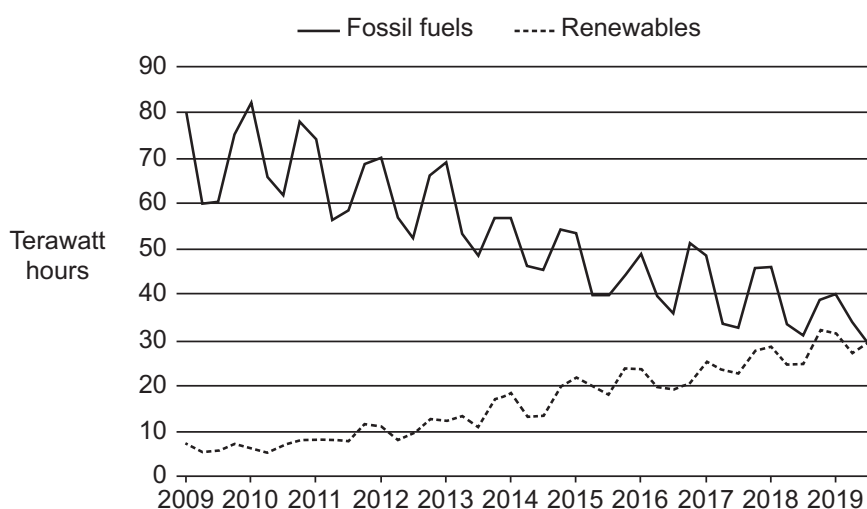
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25 Shell's managers have already taken some big decisions. Shell has bought a company which makes electric vehicle (EV) charging points for homes and workplaces. It has also bought a supplier of electricity and gas in the UK. Shell's managers see a time when the business will supply all of an individual's energy needs.

30 Shell is trying to take the lead in EV charging points for battery-powered cars. At present, less than 2% of cars on UK roads are battery-powered. However, by 2040 a third of all vehicles could be electric. Shell believes it is well placed to take advantage of this growing market, as it has already launched a 'rapid recharge service' which uses 100% renewable energy. It announced the opening of its 50th EV charging station in October 2019. Given its large number of fuel service stations and its strong position in the market, Shell plans to install hundreds more charging stations around the UK.

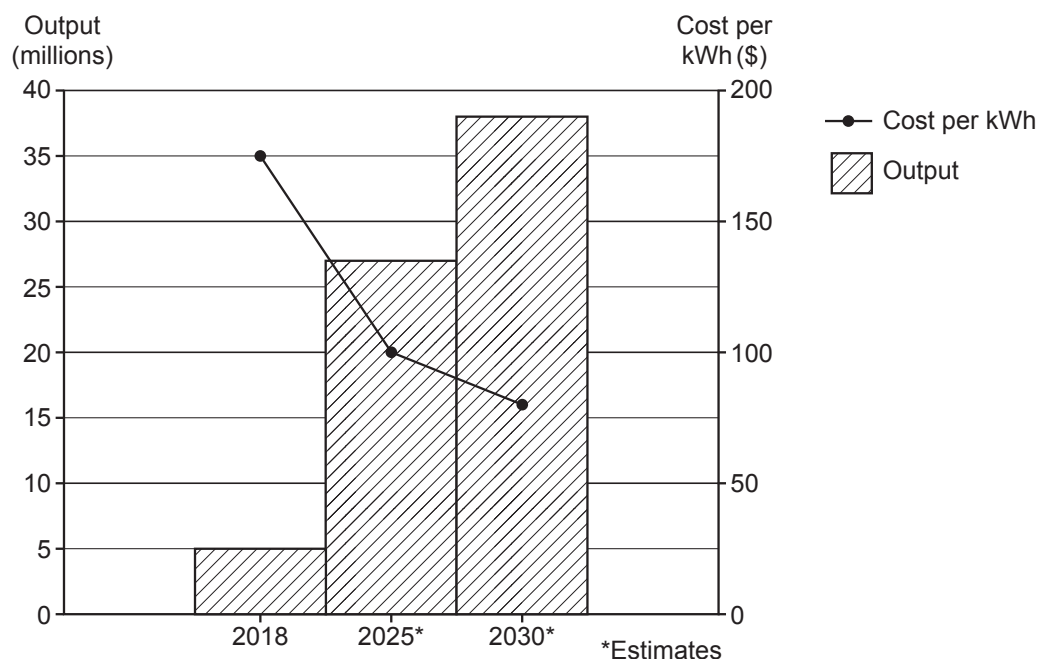
35 The growth in EV charging stations will be necessary if the UK government's 'Road to Zero' strategy, to ban the sale of new petrol cars by 2030, is to be successful. As part of this strategy, more taxes may be imposed to change the marginal private cost of using petrol cars, so that the price paid is closer to the marginal social cost inflicted on society. Once the price of battery-powered cars falls to a level closer to that of petrol cars, the use of a subsidy may also be beneficial.

40 One of the largest costs of running a petrol car is the petrol. The demand for petrol appears to be significantly price inelastic. A 2019 review of over 100 pieces of research about the price elasticity of demand for petrol found it to have a value of -0.26 in the short run and -0.58 in the long run.

45 Another limit on the growth of battery-powered cars is the cost of producing the batteries. Many experts say that a battery-powered car cannot be price competitive until the cost of a battery falls below \$100 per kilowatt hour (kWh), see Fig. 2.

Fig. 2

Global car battery production



Source: Daily Telegraph

Some experts argue that the structure of this market will affect progress as, along with the energy and power generation markets, it is really a natural monopoly.

5

(c) Refer to **lines 40–42**.

Calculate the percentage change in price required to achieve a 6.5% fall in demand for petrol in the short run.

..... [2]

(d) (i) Using the data in **Fig. 2**, explain how there are economies of scale in the global production of car batteries.

..... [2]

(ii) Evaluate, using evidence from the stimulus material, whether it is a disadvantage if the market for car battery production is a natural monopoly. [8]

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

2

SECTION A

Read the following stimulus material and answer **all** parts of Question 1 which follow in this section.

The UK air travel sector

The UK's biggest airline, easyJet, has reported profits before tax of £445m on revenues of almost £6bn, in the financial year ending September 2018. As the largest of the UK operators (see Table 1), easyJet faces strong competition from other 'budget' airlines (Flybe and Jet2), package holiday firms (TUI and Thomas Cook) and the previous market leader, British Airways. The recent growth of easyJet in the UK has been helped by the closure of Monarch in December 2017 and continued labour disputes at British Airways.

	2015	2016	2017
easyJet	58.6	63.3	68.3
British Airways	41.3	42.1	42.8
TUI	10.6	10.9	11.3
Jet2	5.9	6.7	9.7
Flybe	7.8	8.4	9.2
Thomas Cook	6.4	6.6	7.3
Monarch	5.7	5.4	3.4

Source: CAA

Table 1 – UK Passenger numbers (million)

Across the whole of Europe, easyJet flew a record 88.5 million passengers, up 10% on the previous year, and filled 93% of its seats – meaning only 13 seats are empty on an average flight. Over the year, this 'load factor' (the percentage of seats sold across all flights) has increased by 9.8%. Typically, airlines have been satisfied with a load factor of around 75%.

Revenue per seat for easyJet in 2018 was £62, leading to a profit of £6.53 on each seat. But the airline had an additional £65m cost from "a change in approach to IT development" and a £40m cost from taking over the landing slots of the failed Air Berlin, at Tegel airport in Germany.

A growing amount of easyJet's revenue comes from what it calls 'ancillary' sources. When a customer buys a ticket online, they are also able to book hotel accommodation, car hire and airport transfers. The business aims to grow its holiday sales, offer an improved customer loyalty programme and target the business-travel market, with "a more personalised product including new business fares".

Although it is now common throughout the airline industry, easyJet was one of the first airlines to introduce a 'dynamic pricing model' which sees the price of a ticket increase as the date of the flight moves nearer. Table 2 shows how the prices quoted on two separate routes were lower if booked on the 18 December 2018 compared to the 18 March 2019. As the weeks go by, the price quoted will increase as the date of travel moves nearer. There are always exceptions to the rule, due to other supply and demand factors, but, in general, the sooner a customer books the better price they get.

3

Route	Date when price was quoted	Date of travel		
		6 April 2019	1 June 2019	5 October 2019
London Gatwick to Gran Canaria	18 December 2018	£194	£74	£60
	18 March 2019	£259	£80	£76
London Luton to Barcelona	18 December 2018	£110	£42	£39
	18 March 2019	£122	£46	£42

Source: *www.easyjet.com* (accessed 18/12/18 & 18/03/19)

Table 2 – Ticket prices quoted on different dates (seat only)

On most routes, customers have a choice of airline, and in each case the service is largely identical. It is now common practice on these short and medium-haul routes that food, seat reservations and luggage are not included in the basic ticket price (see Table 3).

Airline	Basic price including all taxes	Seat reservation	One piece of check-in luggage
British Airways	£143	Included with luggage	£20
easyJet	£74	£6 to £18.50	£42
Thomas Cook	£73	£10	£48
TUI	£311	£11	£25

Source: *Company websites* (accessed 18/12/18)

Table 3 – Ticket prices quoted for London Gatwick to Gran Canaria (to travel on 1 June 2019)

30 Air travel is often said to be a demerit good. Politicians and economists have argued over the degree of control needed in the market and whether it is taxed enough. Most passengers entering or leaving the UK on a commercial flight will pay the Air Passenger Duty (APD) which was introduced by the UK government in 1993 for environmental reasons. However, a report published in 2018, called the 'Roadmap to decarbonising European aviation' considers other policies to reduce carbon emissions from air travel. The report criticises the lack of taxation of jet fuel across the world, saying: "Artificially cheap tickets through tax exemptions and government subsidies have propped up and propelled the industry." There is certainly a strong case for the current tax-free status of jet fuel to end.

40 Substitution, persuading travellers to switch from planes to trains, is another solution proposed in the report. It calls for, "greater competition in the rail sector in order to improve performance and drive down operating costs and fares". This suggestion would have been unthinkable 20 years ago. Today, speed and comfort have marginally improved for train travel (as there are now more fast routes). While, especially for shorter distances, flying has become increasingly unpleasant and time-consuming.

45 "It used to be a rule that, in order to compete with a one-hour flight, a train journey could be a maximum of three hours," says Mark Smith, of rail travel website Seat61. "That was allowing for an hour in the air and two for security, boarding and transfers. That simply is not the case anymore, with longer check-in and security times."

4

At the same time as taxing air travel with the APD, the UK government subsidises some routes. One example, introduced in March 2019, is on a new route between Newquay (in Cornwall) and London Heathrow. Around 170 000 passengers are predicted to use the service each year. Over the first four years, the Department for Transport and Cornwall County Council will each pay up to £1.7m, representing a subsidy of £10 per passenger for a return flight. The UK Transport Secretary at the time, Chris Grayling, said, “Maintaining and enhancing air routes that help bring together the UK is one of the key benefits. This new route will see the people of the south west profit from a direct connection into [Heathrow], building on the government’s ongoing commitment to the Newquay route, protecting choice and strengthening trade and travel opportunities for the whole UK.”

- 1 (a) Refer to **line 11**. Calculate, using information from the stimulus material, the average cost of a seat on an easyJet plane in 2018.

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..... [2]

- (b) Refer to **lines 14–18**. Explain, using evidence from the stimulus material, what is meant by joint demand.

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..... [2]

- (c) Using **Table 2**, explain the concept of utility.

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..... [2]

3-MARK QUESTIONS

2 questions in this booklet

17

A recent Environment Agency report highlighted problems with water companies dumping sewage into English rivers and seas. In 2021 Southern Water was fined £90m for dumping billions of litres of untreated sewage into the sea. The government’s Water Minister called for greater investment by private sector firms to prevent leakages. It is estimated that water companies lost over 1 trillion litres of water in 2021. 20

As summers look set to heat up further, pressure will mount on the efficiency of water supply. Whether England and Wales should continue to be two of the few countries in the world with a privatised water industry may be called into question.

31 Using the data in **Fig. 1.1** and information in **Extract 1**, calculate public sector expenditure on water supply as a proportion of GDP in 2021/22.

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..... [2]

32 Explain why privatisation may increase long run aggregate supply (LRAS).

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- 34 Using Fig. 2.1, explain what happened to the price of water and electricity between 1990 and 2018.

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- 35 Explain the likely objective of a water or electricity firm if it operated in the public sector.

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..... [3]

4-MARK QUESTIONS

1 question in this booklet

2

SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

The UK labour market in the 21st century

The UK labour market has experienced both a large increase and significant changes in the past 20 years. Data published in the UK's Labour Force Survey in October 2017 shows employment continuing to rise and unemployment falling, as seen in Fig. 1.

Fig. 1 – UK labour market statistics for June to August 2017

	Number (’000)	Change on previous quarter (’000)	Change on previous year (’000)
Employed	30 923	109	363
Unemployed	1 418	–63	–224
Economically Inactive (Aged 16–64)	8 812	–17	–13

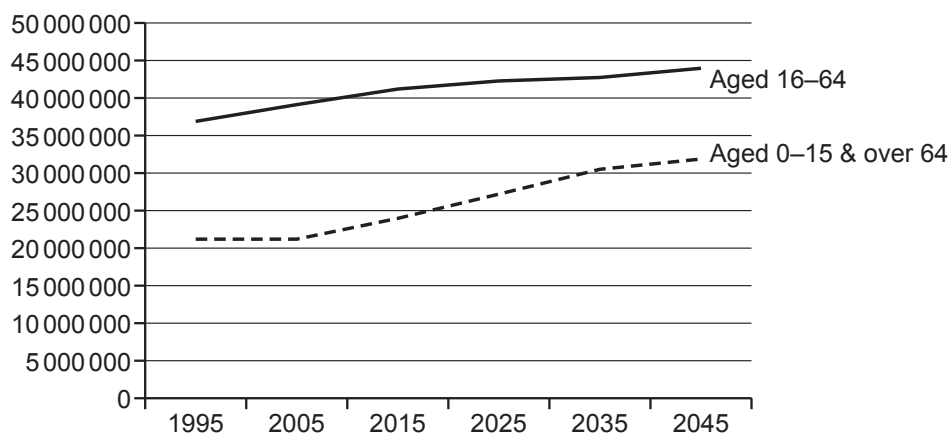
Source: ONS

- The unemployment rate was at a 42-year low, although there was still some slack in the labour market. Other evidence in the October 2017 data included:
- average weekly earnings for employees increased by 2.2% in nominal terms, compared with a year earlier.
 - average weekly earnings for employees decreased by 0.3% in real terms, compared with a year earlier.
 - employment growth was strongest for those aged 25–34 years and 50–64 years.
 - employment fell among young people aged 16–24 years.
 - growth in employment over the year was greater for women (up by 246 000) than for men (up by 71 000).
 - employment growth was not equal across the country, with the biggest increases in the West Midlands, London, Scotland and the South East but large falls in the South West, East Midlands and Wales.
 - the proportion of workers in temporary jobs because a permanent one was not available was 27.6%.
 - the proportion of people working part-time because they could not find a full-time job was 12.3%.

The UK economy has created nearly 6 million new jobs in the last 20 years which was necessary given the increase in the UK population over this period (see Fig. 2). Many of these extra jobs were primarily due to an increase in self-employment and employees in part-time work.

3

Fig. 2 – UK population estimates 1995–2045



Source: ONS

The 'gig economy'

Each day, just before lunch, couriers dressed in the distinctive green and black uniform of Deliveroo, the online food delivery company, arrive at the end of the street, park their bikes next to a bench and wait. Holding their smartphones, they wait for someone, somewhere in the city, to place an order with one of the nearby restaurants and cafés. When an order comes through, one of the couriers will pick it up and deliver it in exchange for a small fee. They will then return to the bench to wait for another call.

- 30 Welcome to the 'gig economy' which can be defined as, "a labour market characterised by the large number of short-term contracts or freelance work, as opposed to permanent jobs".

Plenty of people in early 21st-century Britain can identify with the experience of working for a company like Deliveroo. But even more people are employed on zero-hour contracts in a wide variety of jobs, from stacking shelves to waiting tables to caring for the elderly. According to the Office for National Statistics, around 900 000 workers rely on a job with a zero-hour contract. These people start every week not knowing how much work they will get or how much money they will earn. Informal or casual employment of this kind helps explain why the UK's unemployment rate has not grown out of control since the financial crash of 2008. This increased labour market flexibility has made it easier and less risky to employ workers, especially for monopolistically competitive firms who will expect to see a fall in their average costs.

However, opponents of the growth in casual employment, including the trade unions, claim that there are underlying problems associated with this labour model. Millions of people are "just about managing" and many are faring much worse. In the 12 months up to March 2017, the UK's largest food bank charity gave out more than one million emergency food parcels to people in desperate need. At the same time, household debt has grown to 150% of income. This debt has been fuelled by low wage growth and low interest rates which has made credit easily available. But the main issue for the estimated 8.3 million people living with unmanageable debt is needing to borrow money to survive.

4

- 50 It is no more than a coincidence that these concerns are happening in a year which recognises the 75th anniversary of the founding of the UK welfare state which was set up to focus on, among other issues, a problem that had grown since the early 1800s: that many workers struggled to earn regular and reliable wages throughout the entire year. However, some have come to regard the welfare state simply as a cost to be kept down rather than part of an economic and social strategy that aims to deliver security for all. Successive governments have cut benefits and
- 55 altered the tax system to move the burden away from more progressive direct taxation towards more regressive indirect taxation.

Fig. 3 shows the effect on different groups of households by comparing their original income earned from employment with their final disposable income after benefits and taxation have been taken into account.

Fig. 3 – Average incomes, taxes and benefits of households by decile group, 2015/16

	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	All households
Original income	6 286	13 988	17 410	25 754	31 424	39 293	47 963	59 622	68 968	117 960	42 867
+ Total cash benefits	6 387	7 748	8 313	6 319	4 494	3 729	2 368	2 283	2 004	1 544	4 519
Gross income	12 673	21 736	25 723	32 074	35 918	43 022	50 331	61 905	70 972	119 504	47 386
– Direct taxes	1 528	2 299	3 046	4 794	5 940	7 931	10 091	13 199	15 534	29 991	9 435
Disposable income	11 145	19 437	22 677	27 280	29 978	35 091	40 239	48 706	55 438	89 513	37 951

Source: ONS

5

Answer **all** the questions.

- 1 (a) Calculate the participation rate in the UK labour market for the period from June to August 2017.

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..... [2]

- (b) Refer to lines 6–9.

Identify and explain why the change in average weekly earnings in nominal terms is greater than in real terms.

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..... [2]

- (c) What does Fig. 2 suggest will happen to the dependency ratio in the UK between 2015 and 2045?

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..... [2]

6

- (d) A firm in a monopolistically competitive market decides to introduce more casual employment practices, such as zero-hour contracts.

Explain, using a diagram, the effect of this decision on the firm's equilibrium position in the short run.

[4]

- (e) Evaluate whether income inequality in the UK is a cause for concern. [8]

[illegible]

25-MARK QUESTIONS

4 questions in this booklet

SECTION C

4* Flood defences are considered by economists to be public goods. The £67.4 million Ipswich tidal flood barrier is just one of the many flood defence schemes which has been completed during the government's current capital investment programme. The scheme protects 1600 homes and 400 businesses from tidal flooding.

[25]

5* Aldi, a discount supermarket, entered the UK market for the first time in 1990. Since then it has expanded its operation and, in 2022, its market share was 9.3% making it the fourth largest supermarket in the UK.

[25]

[illegible]

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SECTION C

EITHER

- Evaluate the extent to which specialisation and the division of labour might help in addressing the basic economic problem. **[25]**

Question no.

[illegible]

SECTION B

Answer **EITHER** question 2 **OR** question 3.

EITHER

- 2*** In recent years, most towns and cities have seen a rapid growth in the number of coffee shops and sandwich bars, the majority of which are small and locally-owned.

Evaluate, using an appropriate diagram(s), whether such small firms, operating in a monopolistically competitive market, can be economically efficient. **[25]**

OR

- 3*** The percentage of employees in the UK choosing to be a member of a trade union, has fallen from 27% to 20% in the last 20 years. Across different industries, this figure ranges from 48% in the education sector to 3% in the food service sector.

Evaluate, using an appropriate diagram(s), whether trade union activity helps to encourage the efficient operation of the UK labour market. **[25]**

Question no.

[illegible]

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SECTION B

Answer **EITHER** Question 2 **OR** Question 3.

EITHER

- 2*** The gender pay gap for full-time workers in the UK has fallen from 17% to 9% in the past 20 years. However, the gap is still over 30% in many engineering and manufacturing jobs but is much smaller, or even negative, in many service sector jobs, including in the health sector.

Evaluate, using an appropriate diagram(s), whether wage differentials are mainly caused by the presence of a monopsonistic employer. [25]

OR

- 3*** The nature of the market experienced by internet-based firms, such as Amazon Marketplace, eBay and Alibaba, means that they may not have an objective of profit maximisation.

Evaluate, using an appropriate diagram(s), how a firm's objectives, other than profit maximisation, may affect its price and output decisions. [25]

Question

[illegible]

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MARK SCHEMES

official OCR mark schemes

11	D	A	Firms are too small to be able to be productively or allocatively efficient	AO2	
		B	In the natural monopoly case firms are unlikely to be operating productively efficiently as average costs are falling until a very large level of output		
		C	In this case a firm would be charging a price above the allocatively efficient price and will be producing beyond the productively efficient level of output		

19	D	A This is a determinant of wage elasticity of demand B This is a determinant of wage elasticity of demand C This would cause the quantity of labour supplied to respond less than proportionally to a change in the wage rate D Correct: labour supply will be wage elastic when workers can easily enter a profession when the wage rate rises as a result of not having to undertake lengthy training	AO1	
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22	A	A	Correct – a sales volume maximising firm will continue to produce output until only a normal profit is being made	AO1	
		B	This is the shutdown price		

28	A	A Correct – reducing the size of inheritance payments will reduce the amount of wealth passed between generations, reducing wealth inequality. As income can be earned from wealth, reduced wealth inequality will also reduce income inequality in the long run B Wealth inequality reflects the stock of assets – the distribution of this will be more equal if large stocks are not passed onto future generations C Both are impacted by a reduction in inheritance payments D Whilst income inequality is unlikely to be impacted in the short run there will be a long run impact, as wealth can generate income	AO1	
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5	A	A Correct: interest is the reward for capital	AO1	
		B Profit is the reward for enterprise		
		C Rent is the reward for land		
		D Wages are the reward for labour		

19	A	A Correct: The separation between ownership and control means managers are likely to be more incentivised to pursue revenue maximisation over profit maximisation because their salaries are based on revenue rather than profit. B Most likely to aim to maximise utility/social welfare. C The owner of the business is also likely to be the key decision maker. Assuming economic agents are rational, the small business owner as an entrepreneur will be seeking to maximise profit. D Most likely to aim to maximise utility/welfare of a particular target group.	AO1	
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22	C	A Incorrectly calculates marginal cost as AC/Q . B This is the change in the average cost. C Correct: $MC = (240 \times £362) - (239 \times £356) = £1796$ D This is total cost	AO2	✓
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3	B	A	The entrance of new firms reduces the market price and so shifts the AR curve down.	AO3	✓
		B	Correct: New firms are incentivised to enter the market because there are no barriers to entry and a supernormal profit is being made. When new firms enter this increases the supply in the market, decreasing the price and causing the AR and MR to fall.		
		C	The existence of supernormal profit incentivises firms to enter the market.		
		D	The existence of supernormal profit incentivises firms to enter the market.		

4	B	A	Accounting profit does not include opportunity cost as part of the cost calculations.	AO1	
		B	Correct: Accounting profit does not consider opportunity cost in the cost calculations – when economic profit includes this it means economic profit is smaller than accounting profit.		
		C	The inclusion of opportunity cost makes economic profit smaller than accounting profit.		
		D	They are both fundamentally calculating total revenue minus total cost; it is simply the case that		

10	B	A	This describes external diseconomies of scale, which would increase LRAC.	AO3	✓
		B	Correct: This is an external economy of scale, as the firm can experience a reduction in its costs of production without altering its level of output by employing more productive workers that have trained in the industry because it has grown in size.		
		C	This describes an internal diseconomy of scale, which is represented by a moment along the LRAC curve beyond the minimum efficient scale.		
		D	This describes an internal economy of scale, which is represented by a moment along the LRAC curve before the minimum efficient scale.		

19	D	A This is the decrease in long run average cost as a result of increasing the level of output. B This is taking into account the sacrifice of the next best alternative foregone when a choice is made. C Profit maximising firms will be making marginal decisions, but the fact that a firm is making a decision on the margin does not mean it is profit maximising – firms would need to make a decision on the margin if they were pursuing an alternative maximising objective. D Correct: This is an example of an economic agent taking decisions by considering the effect of small changes from the existing situation.	AO3	✓
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26	B	A This is the new average fixed cost.	AO2	✓
	B	Correct: Original average cost = $(4000 / 85) + £3.20 = £50.26$. New average cost = $(4000 / 86) + £3.20 = £49.71$. Average cost decreases by $£50.26 - £49.71 = £0.55$.		
	C	Whilst there is no change in average variable cost, there is a decrease in average fixed cost, meaning average total cost decreases.		
	D	This is the marginal cost of increasing output by one unit.		

3	C	A	This occurs when $MC = MR$.	AO3	✓
		B	This is a non-maximising objective when a firm is trying to please a variety of stakeholders.		
		C	Correct: When firms are producing when $MR = 0$ it is not possible to increase revenue by increasing or decreasing the level of output.		
		D	This occurs when $AR = AC$.		

INDICATIVE ANSWERS

- 1 The indicative content indicates the expected parameters for candidates' answers but be prepared to recognise and credit unexpected approaches where they show relevance.

21	C	A B C D This is the definition of the long-run profit-maximising quantity of output. This is a quantity of output where the firm makes a normal profit ($AC = AR$). This is productive efficiency ($MC = MR$). Correct: Allocative efficiency is where $MC = AR$. This is the sales volume maximising quantity of output.	AO1	
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6	D	A At the new profit maximising point ($MC2 = MR$) the price and output is the same as it was at the original profit maximising point ($MC1 = MR$). B At the new profit maximising point ($MC2 = MR$) the price and output is the same as it was at the original profit maximising point ($MC1 = MR$). C At the new profit maximising point ($MC2 = MR$) the price and output is the same as it was at the original profit maximising point ($MC1 = MR$). D Correct: When $MC1$ falls to $MC2$ the profit maximising quantity of output ($MC2 = MR$) remains the same as the MR curve is vertical at this point. The market output and price will remain at $P1$, $Q1$. The revenue will remain unchanged, but the costs would fall and the firm will increase its supernormal profit.	AO3	✓
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7	B	A B C D At this point the firm is still experiencing economies of scale and AC can fall further. Correct: MES is the lowest output at which the firm can obtain the lowest AC possible. MES is the lowest output at which AC is at its lowest. Point Y is in the middle of the LRAC curve but is not the lowest output where AC is at its lowest. MES is the lowest output at which AC is at its lowest. Point Z is an output where AC is at its lowest, but it is not the lowest quantity where this AC can be obtained.	AO1	✓
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8	B	A Entry barriers are not high in monopolistic competition. B Correct: These are all characteristics of monopolistic competition C There are many firms in monopolistic competition D Firms only make normal profits in the long run under monopolistic competition.	AO1	
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14	A	A	Correct: In the long run firms will only make a normal profit. There will be productive inefficiency because firms operate on a small scale of output.	AO1	
		B	In the short run it is possible for firms in monopolistic competition to make a supernormal profit or a loss.		
		C	A profit maximising monopolist is likely to make a supernormal profit, with $AR > AC$.		
		D	A profit maximising monopolist is likely to make a supernormal profit, with $AR > AC$.		

21	D	A	Net exports will decrease and consumption is also likely to fall, causing AD to shift left.	AO3	
		B	This occurs when AD falls as a result of an increase in the domestic price level.		
		C	This occurs as a result of an increase in the quality or quantity of factors of production – there is no direct impact on productive capacity of a change in the exchange rate.		
		D	Correct: An exchange rate appreciation reduces costs of production for domestic firms, who now have access to cheaper inputs from abroad. This shifts SRAS right.		

29	B	A	Charities seek to maximise the welfare of their beneficiaries – profit does not come into the equation.	AO1	
		B	Correct: A public limited company has a number of stakeholders with different objectives, making profit satisficing likely – a minimum level of profit will be achieved to please shareholders, whilst attention will also be focused on pleasing other stakeholders through meeting their objectives.		
		C	Public sector firms seek to maximise social welfare.		
		D	A sole trader is likely to pursue profit maximisation – there is no conflict between different objectives so there is no need to engage in satisficing behaviour.		

3	D	A	This occurs when a change in output leads to no change in LRAC – X is a unique point rather than a series of points.	AO1	✓
		B	This is when long run average cost increases as output increases.		
		C	This is when long run average cost decreases as output increases.		
		D	Correct: This represents the lowest level of output at which a firm can produce at its lowest possible long run average cost.		

1	c	Calculate the percentage change in price required to achieve a 6.5% fall in demand for petrol in the short run. PED = % change in demand / % change in price - 0.26 = - 6.5/X X = - 6.5/- 0.26 = 25% (increase in price)	2 (AO2*2) Annotate with  Award 2 marks for an answer of 25% or 25 Accept 25% <i>change in price</i> without reference to <i>increase in price</i> Award 1 mark for evidence of correct working Award 1 mark for an answer of -25%
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Question	Answer	Marks	Guidance
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1	d	i	Explain how Fig. 2 can be used to show that economies of scale may be achieved. Unit costs have fallen from \$175 to \$80 / by \$95 (1) as output has increased from 5m to 38m / by 33m (1)	2 (AO2*2) Annotate with  1 mark for recognising that unit costs have fallen as output has increased in the long-run 1 mark for correct use of unit costs and output data from Fig. 2 Accept data comparing any two date points
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1	a	Refer to line 11. Calculate, using information from the stimulus material, the average cost of a seat on an easyJet plane in 2018. Profit = TR – TC Profit per seat = AR – AC AC = AR – Profit per seat AC = £62 - £6.53 AC = <u>£55.47</u>	2 (AO2*2)	Annotate with  Award 2 marks for an answer of £55.47 (with or without working) Award 1 mark for evidence of identifying the correct data (£62 and £6.53)
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Question	Answer	Marks	Guidance
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32		Explain, why privatisation may increase long run aggregate supply (LRAS). <i>Award 1 mark for knowledge of privatisation or LRAS</i> <i>Award up to 2 marks for why privatisation may increase LRAS</i> • increase competition/profit motive • increase productivity/efficiency/investment/capital • Increase quality and/or quantity of factors of production/productive potential of the economy	3	Annotate with  AO1 (definitions) max 1 mark. AO2 (applying economic concepts) 2 marks Knowledge of LRAS or privatisation can be inferred (does not have to be a definition) eg profit motive Do not credit increases in productivity for a firm Do not credit decreases in costs of production (SRAS)
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35		Explain the likely objective of a water or electricity firm if it operated in the public sector. • A public sector firm will seek to maximise social welfare/utility/achieve allocative efficiency (1) • Government funds public services to deliver high levels of consumer satisfaction to the population (1) • This means they will consider private and external costs and benefits (1), unlike a private sector firm which will only care about profit (1). • Public sector firms aim to keep prices as low/quality as high as possible for consumers (1)	3 AO1 x 2 AO3 x 1 Candidates must recognise that the public sector is government funded to get the second mark exemplified here. A simple statement that private sector firms seek to maximise profit should not be credited unless compared to a public sector firm.
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1	d	A firm in a monopolistically competitive market decides to introduce more casual employment practices, such as zero-hour contracts. Explain, using a diagram, the effect of this decision on the firm's equilibrium position in the short run. - The introduction of casual employment practices, such as zero hours contracts, will lead to a fall in average costs (1) - There will be a fall in price and an increase in output if all labour is treated as a variable cost (1). - There will be no change in price and output if all labour is treated as a fixed cost and AC only falls (1) - There will be an increase in profit (1). - The firm may move from a loss-making situation to a profit-making situation (1). Market demand and supply diagram is not accepted, but where candidates take this approach they can gain marks for an explanation which includes lower prices and higher output.
4		Candidates do not have to make their assumption about the nature of labour costs explicit. Up to 2 marks for a diagram (max 1 mark if axes <i>unlabelled</i>) which shows: - equilibrium price and output before the introduction of zero-hours contracts (1) - a fall in AC OR AC and MC (1) - equilibrium price and output after the introduction of zero-hours contracts where AC and MC both fall (1) - profit / increase in profit after the introduction in zero-hours contracts (1) Annotate with ✓

5	*	Aldi, a discount supermarket, entered the UK market for the first time in 1990. Since then it has expanded its operation and, in 2022, its market share was 9.3% making it the fourth largest supermarket in the UK. Evaluate the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm. Level 5 (21–25 marks) Good – Strong knowledge and understanding of economies of scale. Strong analysis of the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm, weighing up both sides/comparing alternatives and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i>	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	<table><tr><th colspan="3">Annotation</th></tr><tr><td>Knowledge and Understanding</td><td> KU </td><td>End of response</td></tr><tr><td rowspan="2">Application</td><td> APP ✓</td><td rowspan="2">End of response</td></tr><tr><td> APP ✗</td></tr><tr><td>Analysis</td><td> AN </td><td>Grouped beside the body of the analysis</td></tr><tr><td>Evaluation</td><td> EVAL </td><td>Grouped beside the body of the evaluation</td></tr></table> Knowledge and understanding - economies of scale arise when a larger scale of production leads to a fall in long-run average costs - types of economies of scale – purchasing, technical, managerial, financial, risk-bearing, marketing, external Context(s) - the application of different economies of scale to retailing / supermarkets - the objectives of firms in retailing - market structure of retailing	Annotation			Knowledge and Understanding	KU	End of response	Application	APP ✓	End of response	APP ✗	Analysis	AN	Grouped beside the body of the analysis	Evaluation	EVAL	Grouped beside the body of the evaluation
Annotation																				
Knowledge and Understanding	KU	End of response																		
Application	APP ✓	End of response																		
	APP ✗																			
Analysis	AN	Grouped beside the body of the analysis																		
Evaluation	EVAL	Grouped beside the body of the evaluation																		

5	*	From 2007 to 2016, nearly 1,000 international mergers took place involving a UK business. Many of these were examples of horizontal integration. One of the largest was between British Airways and the Spanish airline, Iberia. Evaluate possible economic consequences for economic agents of a horizontal merger.
		Level 5 (21–25 marks) Good – Strong knowledge and understanding of horizontal integration and how it may affect economic agents. Strong analysis of the positive or negative consequences for economic agents of horizontal integration will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of the positive or negative consequences for economic agents of horizontal integration, weighing up both sides/comparing alternatives and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks)
		25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7) Horizontal integration occurs when two businesses join together at the same stage of production in the same industry. One of the main reasons driving this activity will be unit cost reduction via economies of scale. There are a number of positive consequences of a horizontal merger for firms, consumers, the government and shareholders: • Economies of scale occur when an increase in the scale of production leads to lower average costs in the long-run. This may occur for a number of reasons such as being able to use division of labour, utilise systems which are only suitable for large-scale production or the possibility of setting up specialist departments or building networks of suppliers and customers. These are examples of internal economies of scale. • The merger of two large international firms is likely to create opportunities to make significant savings from combining all or part of 'back office' functions such as ticketing, IT and support services. For example, at an individual airport, one set of staff instead of two could deal with checking in and baggage handling so reducing overheads. Another technical economy of scale may occur where the two airlines flew the same route. Using one larger plane instead of two smaller planes will cut average costs in the long-run. • Marketing economies of scale may be possible by creating a larger and more global marketing

2 *

In recent years, most towns and cities have seen a rapid growth in the number of coffee shops and sandwich bars, the majority of which are small and locally-owned.

Evaluate, using an appropriate diagram(s), whether such small firms, operating in a monopolistically competitive market, can be economically efficient.

Level 5 (21–25 marks)

Good – Strong knowledge and understanding of a monopolistically competitive market and efficiency in the context of small retail firms.

Strong analysis of how a monopolistically competitive market may be economically efficient. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.

Strong evaluation of whether a monopolistically competitive firm will be economically efficient considering extent and how this may be affected and reaching a supported judgment.

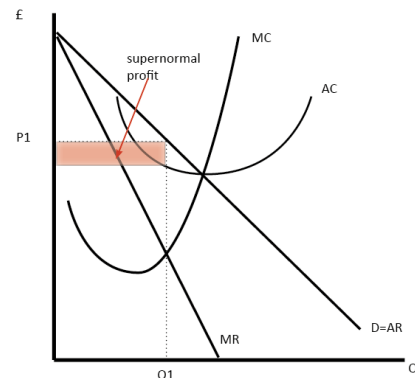
There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.

25

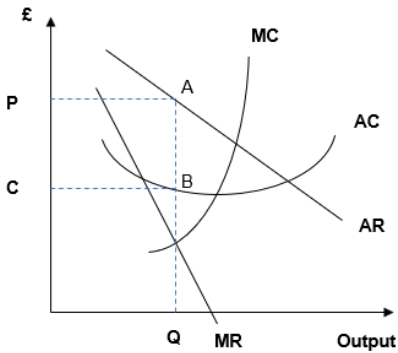
(AO1 x 6
AO2 x 6
AO3 x 6
AO4 x 7)

For a mark at the top of each level the response should be in context.

Monopolistic competition is a market structure which combines elements of monopoly and competitive markets. A monopolistic competitive market is one with freedom of entry and exit, but firms can differentiate their products. Therefore, they have the ability to set their own prices.



However, because there is freedom of entry, supernormal profits will encourage more firms to enter the market leading to normal profits in the long term.

3 *	“The nature of the market experienced by Internet-based firms, such as Amazon Marketplace, eBay and Alibaba, means that they may not have an objective of profit maximisation.” Evaluate, using an appropriate diagram(s), how a firm's objectives, other than profit maximisation, may affect its price and output decisions. Level 5 (21–25 marks) Good – Strong knowledge and understanding of non-profit maximising objectives and how they may affect decisions. Strong analysis of how non-profit maximising objectives may affect price and output decisions. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of how non-profit maximising objectives have a significant effect, weighing up both sides/comparing alternatives and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of non-profit maximising objectives and how they may affect decisions. Strong analysis of how non-profit maximising objectives may affect price and output decisions. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	For a mark at the top of each level the response should be in context. Many analysts may argue that digital marketing firms are one of the closest examples to perfect competition in the modern world. There are many firms offering a homogeneous product. There is freedom of entry and exit and perfect information, firms will only make normal profits in the long-run and prices will be kept low by competitive pressures. However, the markets mentioned are not perfectly competitive; there is some degree of branding and limited barriers to entry/exit. Although supernormal profit may be possible in the short-run, only normal profits will be made in the long-run. 
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