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OCR A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

Market Structures

OCR A-level Economics H460 — Topic MICRO 4

22 questions · 151 marks · Mark schemes included

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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.

22 questions · 151 marks · lowest tariff first

	QUESTION	SOURCE	MARKS	PAGE
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14.	Section A (MCQ), Q27	H460/03 Themes in Economics · October 2021	1 mark	18
15.	Section A, Q1(c)	H460/01 Microeconomics · October 2020	2 marks	20
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QUESTIONS

22 questions · 151 marks · lowest tariff first

1-MARK QUESTION

14 questions in this booklet

8

13 Which of the following is a harm caused by a high rate of inflation?

- A Imports become relatively more expensive
- B Investment decreases
- C Real wage flexibility occurs
- D The real value of debt increases

Your answer

[1]

14 Two firms, Y and Z, are competing in an oligopoly market. They are deciding whether to price their good at £10 or £5. Game theory can be used to analyse their behaviour. If collusion breaks down, which of the options below represents the profits firms will earn in the long run?

		Firm Z	
		£10	£5
Firm Y	£10	Option A £150m, £150m	Option B £30m, £250m
	£5	Option C £250m, £30m	Option D £80m, £80m

Your answer

[1]

13

26 A group of firms reaches an agreement on prices and output. What sort of collusion is this?

- A A cartel
- B Price leadership
- C Strategic alliances
- D Tacit collusion

Your answer

[1]

27 What is an example of an automatic stabiliser in response to a period of negative economic growth?

- A A decrease in the corporation tax rate
- B An increase in expenditure on education and training
- C An increase in expenditure on unemployment benefits
- D An increase in the income tax-free personal allowance

Your answer

[1]

28 What is likely to be an irrational act?

- A Consumption decreasing when the interest rate increases
- B Consumers demanding more of an inferior good when their income falls
- C Firms engaging in predatory pricing to increase their market share
- D Firms increasing the price of a product with price elastic demand

Your answer

[1]

9

15 Brazil has a progressive income tax system with the following income tax rates:

Income at or over (Brazilian real – BRL)	Up to (BRL)	Tax Rate (%)
0	22 849	0
22 850	33 920	7.5
33 921	45 012	15.0
45 013	55 976	22.5
55 977	and above	27.5

What is the marginal tax rate for an individual who gets a pay rise of 15 000 BRL having initially earned 51 000 BRL?

- A 11.7%
- B 22.5%
- C 25.8%
- D 27.5%

Your answer

[1]

16 What type of efficiency is a profit maximising monopoly most likely to display?

- A Allocative efficiency
- B Dynamic efficiency
- C Productive efficiency
- D X-efficiency

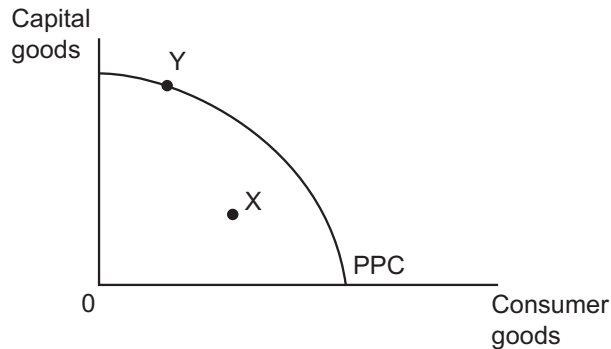
Your answer

[1]

10

- 17 Output in an economy moves from point X to point Y in the diagram.

What does this represent?



- A An increase in allocative efficiency
- B An increase in productive efficiency
- C An increase in the demand for capital goods
- D An increase in the opportunity cost of producing consumer goods

Your answer

[1]

- 18 What is the key insight from the Fisher equation using the quantity theory of money?

- A Inflation is caused by increases in the money supply
- B Money avoids the need for a double co-incidence of wants
- C Output will return to the full employment level of output in the long run
- D There is a trade-off between unemployment and inflation

Your answer

[1]

16

29 Which of these is only seen in a planned economy?

- A Government ownership and allocation of all resources
- B Inequality in the distribution of income and wealth
- C Profit maximising behaviour results in monopoly firms exploiting consumers
- D The price mechanism fails to achieve allocative efficiency

Your answer

[1]

30 What is the main role of the World Bank?

- A To act as the banker to governments
- B To promote free trade
- C To provide finance for long-term development projects
- D To provide short-term financing for countries experiencing balance of payments problems

Your answer

[1]

7

11 The quantity of output at which a monopoly firm will maximise revenue is where:

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

Your answer

[1]

12 A worker is paid £12 per hour to assemble bicycle parts in a factory.
The worker's productivity increases from 20 units per hour to 24 units per hour.

What is the change in the unit labour cost to the firm?

- A Decreases by £0.10
- B Decreases by £0.33
- C Decreases by £0.50
- D Increases by £0.83

Your answer

[1]

13 In a free market for labour if the supply of labour becomes more inelastic which of these will fall?

- A Economic rent
- B Marginal revenue product
- C Transfer earnings
- D Wages

Your answer

[1]

12

22 A firm wants to use third degree price discrimination.

Which of these factors would make it difficult for the firm to adopt this strategy successfully?

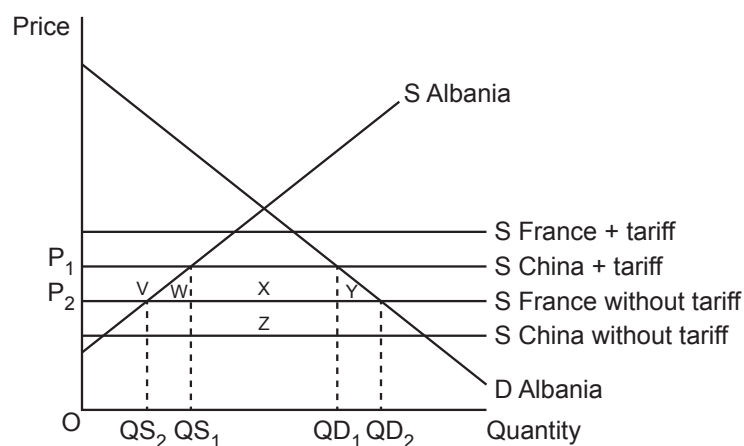
- A All consumers have the same price elasticity of demand for the good
- B Consumers from the lower price market are not able to sell to consumers from the higher price market
- C The firm is able to segment the market
- D The firm operates under imperfect competition

Your answer

[1]

23 If Albania were to join the European Union (EU) then tariffs on goods from EU countries such as France would be removed, however tariffs on goods from China would remain.

In the diagram the price of the good would fall from P_1 to P_2 as Albanian consumers could access supply from France without a tariff.



What would be the net impact to the Albanian economy because of this change?

- A $V + W + X + Y$
- B $V + X + Z$
- C $W + X + Y$
- D $W + Y - Z$

Your answer

[1]

13

24 What is the least liquid asset?

- A Central bank reserves
- B Sight deposits
- C Notes and coins
- D Time deposits

Your answer

[1]

25 A maximum price for rent is imposed in the London housing market.

What is the likely impact?

- A A decrease in consumer surplus
- B An excess demand for rental housing
- C An increase in government tax revenue
- D An increase in producer surplus

Your answer

[1]

26 What is a characteristic of both a market operating under perfect competition and a contestable market?

- A Freedom of entry and exit
- B Homogenous goods
- C Many firms
- D Price discrimination

Your answer

[1]

6

9 What is most likely to cause a decrease in wealth inequality?

- A A decrease in capital gains tax
- B A decrease in income inequality
- C An increase in house prices
- D An increase in the tax-free inheritance allowance

Your answer

[1]

10 What is most likely to lead to allocative efficiency being achieved in an industry that is a natural monopoly?

- A Collusion
- B Competition policy
- C Information provision
- D Regulation

Your answer

[1]

11 What is an example of a supply side policy measure?

- A Imposing a tariff
- B Increasing interest rates
- C Privatisation
- D Quantitative easing

Your answer

[1]

12 What is the impact of the Marshall-Lerner condition holding?

- A An exchange rate appreciation will only reduce a current account deficit in the long run
- B An exchange rate appreciation will reduce a current account deficit
- C An exchange rate depreciation will only reduce a current account deficit in the long run
- D An exchange rate depreciation will reduce a current account deficit

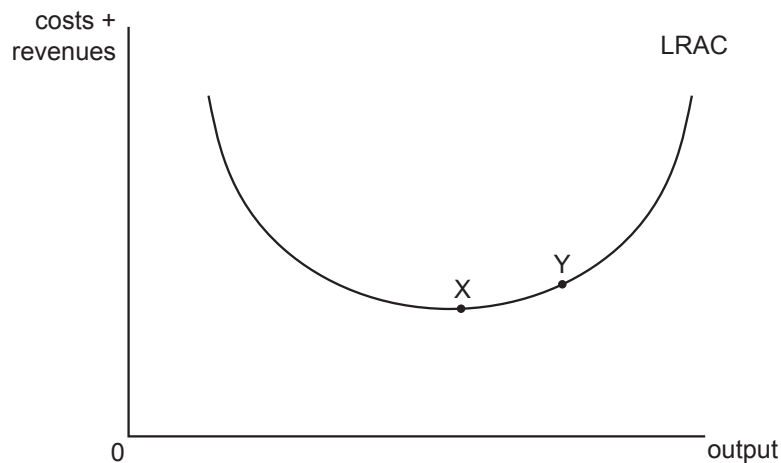
Your answer

[1]

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7

13 What is the most likely cause of a movement from X to Y in the diagram below?



- A A rival firm entering the market increases the cost of inputs into the production process
- B Organisational slack increases as a result of a firm developing monopoly power
- C The growth of the industry results in more individuals undertaking relevant education or training
- D Workers become less motivated after the firm they work for takes control of another firm in the industry

Your answer

☐

[1]

14 In response to a global recession, Central Banks in ten closely linked economies reduce interest rates by an average of 1.5%. What is the likely impact on one of these economies where its Central Bank decided to reduce interest rates by 0.5%?

- A Hot money will flow in, causing the exchange rate to appreciate
- B Hot money will flow in, causing the exchange rate to depreciate
- C Hot money will flow out, causing the exchange rate to appreciate
- D Hot money will flow out, causing the exchange rate to depreciate

Your answer

☐

[1]

8

15 What efficiencies occur in the model of perfect competition in the long run?

- A Allocative and dynamic efficiency
- B Allocative, dynamic and productive efficiency
- C Allocative, productive and X efficiency
- D Allocative, dynamic, productive and X efficiency

Your answer

[1]

16 What is classed as narrow money?

- A Commercial banks' deposits at the Bank of England
- B Government bonds with a maturity of less than five years
- C Money held in savings accounts
- D Retail deposits held current accounts

Your answer

[1]

17 What would cause unit labour costs to decrease?

- A A decrease in corporation tax
- B An increase in output
- C An increase in the National Living Wage
- D An increase in the quality of capital equipment

Your answer

[1]

10

21 When will supply side policy be ineffective?

- A The marginal propensity to save is high
- B The real interest rate is close to zero
- C There is a large negative output gap
- D There is significant demand-pull inflation

Your answer

[1]

22 Using the table below, what has happened to the three firm market concentration ratio in the global mobile telephone market between 2010 and 2019?

Firm	2010 Market Share (%)	2019 Market Share (%)
Apple	33.2	24.8
Huawei	0	10.6
Nokia	37.6	0.4
Others	18.8	32.9
Samsung	2.4	31.3

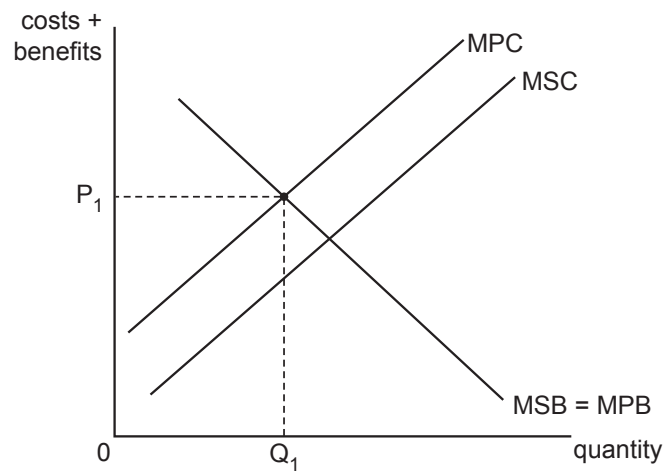
- A Decreased by 0.6%
- B Decreased by 6.1%
- C Decreased by 6.5%
- D Decreased by 16.7%

Your answer

[1]

11

23 What type of inefficiency is illustrated at (Q_1, P_1) in the diagram below?



- A Allocative
- B Dynamic
- C Productive
- D X

Your answer

[1]

24 What is a component of the Human Development Index?

- A Air quality
- B GDP per capita
- C Life expectancy
- D Proportion of population with tertiary education

Your answer

[1]

13

25 The table below shows the income tax brackets in France in 2020:

Taxable Income	Tax Rate
€0 – €10 064	0%
€10 065 – €27 794	14%
€27 795 – €74 517	30%
€74 518 – €157 806	41%
Over €157 807	45%

What is the average tax rate for an individual who earns €110 000?

- A 28.2%
- B 30.0%
- C 32.1%
- D 40.0%

Your answer

[1]

26 What is the problem caused by scarcity?

- A Allocative inefficiency will occur
- B Individuals have to make choices
- C Productivity falls as a result of boredom from repetition
- D There will be a missing market as no one is willing to pay for the good

Your answer

[1]

27 What does the kinked demand curve in the oligopoly model show?

- A A firm's revenue will decrease if it increases or decreases its price
- B A firm's revenue will increase if it decreases its price
- C A firm's revenue will increase if it increases its price
- D A firm's revenue will remain constant if it increases its price

Your answer

[1]

2-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.

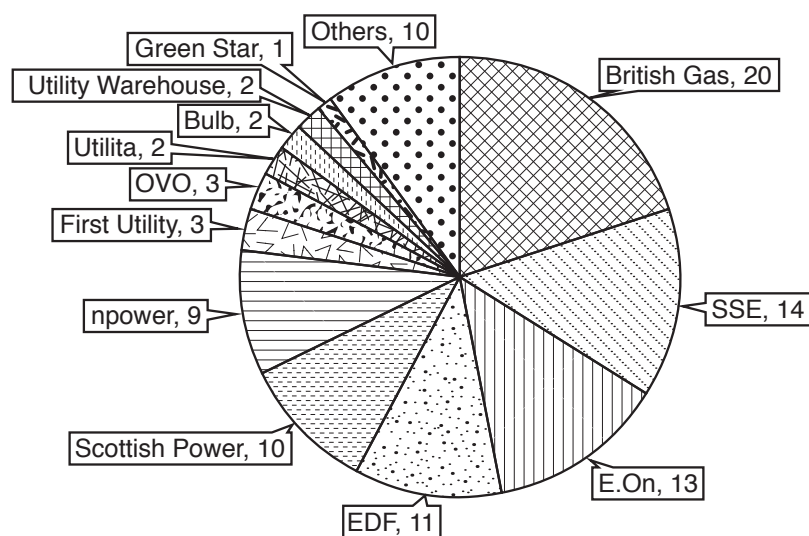
A bright future in Uganda

- Headmaster Samuel Mukisa is one of millions of people in Uganda who are plugging into the global solar-power boom. As his students study, a single rooftop solar panel generates power. It is a solar storage system which costs Mukisa a daily rate of 15 cents. The average Ugandan earns as little as \$1.50 (£1.14) a day. He pays his bill each fortnight and will do so for another year. When the payment plan is completed, Mukisa intends to upgrade to a second solar panel, so another class of students can shine.

For the 600m Africans living without access to power, fuel poverty is a socio-economic barrier. The World Bank estimates that if sub-Saharan Africa's economies had dependable electricity, GDP growth across the region could be up to 2% per annum higher than current rates.

- Uganda, with a population of 42m, has one of the youngest populations on average in the world, with 7 out of 10 people under the age of 25. Incomes in the country have increased by 26% in the last two years. The service sector has grown from 32% of the economy in 1990 to 55% in 2018, with a 15% expansion in the last two years. Today, it is estimated that 44% of Ugandans use the Internet, 70% have a mobile phone and 6% use social media. The growing demand for energy in Uganda is clear. Nevertheless, away from large cities, many individuals still operate in a barter economy. Rural agriculture based areas are still very common. However, their contribution to GDP is now only 24% of the total, down from 56% in 1990; a further reflection of the developing nature of the economy.
- The energy supply market in Uganda, as in many African countries, is highly localised, with only 15% of its citizens living in homes connected to the country's energy network. The rest have to rely on arranging their own supply, increasingly using solar power. This is very different to the UK, where most of the population are customers of one of the large national energy suppliers (see Fig. 1).

Fig. 1 – UK energy suppliers' market share, 2018 (%)



Source: OFGEM

3

- 25 Uganda is at the centre of the solar energy revolution in Africa. For development organisations, including the United Nations, and socially minded investors, the opportunities are exciting. Street lights, topped with solar panels, charge up through the bright daylight hours and illuminate the streets each night. For a growing number of energy companies, the huge number of people without reliable power represents the opportunity to access a growing market.
- 30 Local start-up firms have appeared quickly, many with the backing of international companies. In 2018, one multinational energy firm, Shell, invested in three start-ups, SolarNow, SteamaCo and Husk Power Systems. These three have raised a total of \$30m from Shell and other investors. Shell's charity foundation also backs a UK-based firm, BBOXX. BBOXX has expanded rapidly, providing clean energy solutions and pay-as-you-go solar power. It aims to have provided home solar power systems to 20m people in Africa by 2020.
- 35 If Shell hopes to gain a control in the market it will need to compete against a former rival. The French firm, Engie, has taken the most decisive step into Africa's home solar market, with the acquisition of Ugandan-based Fenix International. Fenix supplies power to around 250 000 homes in Uganda, through the solar kits it sells in partnership with a mobile network provider.
- 40 The popularity of the Fenix home energy system means that the company is growing. It plans to expand into other countries, to reach millions more people. "We intend to be in multiple markets across eastern, southern and western Africa," said Chief Executive, Lyndsay Handler. "It's still amazing to me that so many people in Uganda do not have access to power. We provide a decentralised, affordable home system that can completely transform lives. An opportunity to rethink the way that we can achieve universal access to energy," she said.
- 45 "Beyond wanting to have an impact, we have always wanted to prove to the world that you can have a positive impact and deliver commercial returns. There's an underlying drive to show that this is not just charity. You can build commercial returns in Africa. We want to be part of a story that encourages others to see Africa as a commercial market. There are entrepreneurial people, with ideas and opportunities. They need investment, not just handouts," she said.
- 50 One Fenix customer for the past three years is Ritah Namatovu. She is now able to work at night to support her four grandchildren, thanks to her solar energy kit. Namatovu's only concern is that the solar panel might one day be stolen from her roof. "The solar panel is an asset I now own. There are no blackouts. These panels look so small, but they are powerful," she said.

5

(c) Refer to Fig. 1.

Calculate the five-firm concentration ratio in the UK energy supplier market.

.....

.....

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..... [2]

(d) (i) Refer to lines 11–13.

Calculate the income elasticity of demand for the service sector in Uganda over the last two years.

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..... [2]

(ii) Evaluate the impact of the increase in reliable energy supplies on the service sector in Uganda. [8]

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8-MARK QUESTIONS

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SECTION A

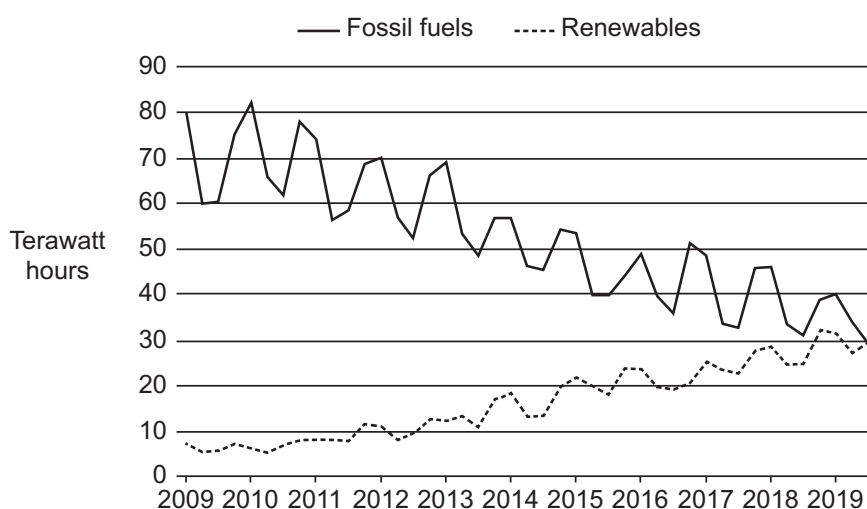
Read the following stimulus material and answer **all** parts of Question 1 which follow in this section.

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.

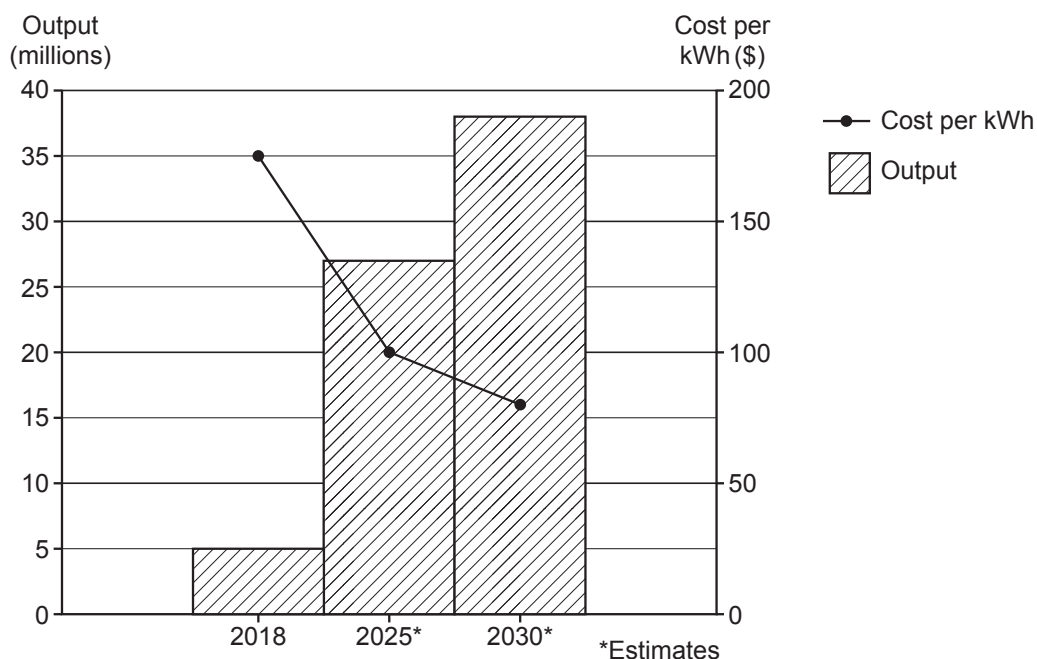
- 35 The growth in EV charging stations will be necessary if the UK government's 'Road to Zero' strategy, to ban the sale of new petrol cars by 2030, is to be successful. As part of this strategy, more taxes may be imposed to change the marginal private cost of using petrol cars, so that the price paid 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]

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Handwriting practice area with horizontal dotted lines.

12-MARK QUESTIONS

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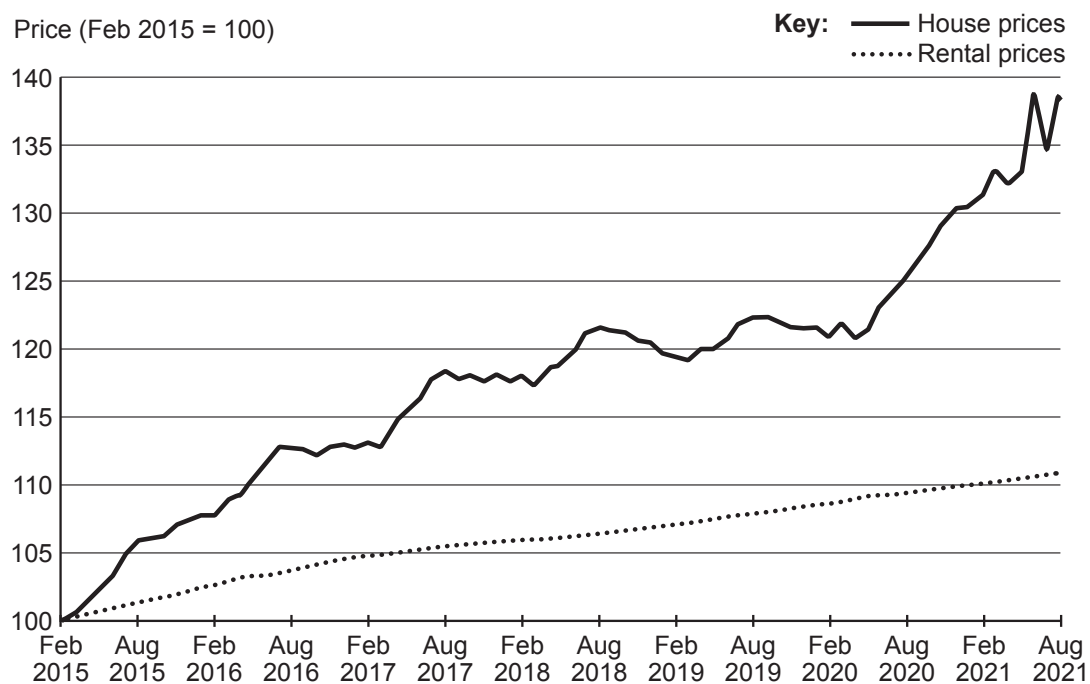
Section A

Read the stimulus material and answer **all** the parts of Question 1.

Is the UK housing market in crisis?

Between August 2020 and August 2021, average house prices in the UK rose from £239 000 to £280 825. 2021 was a record year for house sales in the UK. Very high demand continued, with many in the market saying that there is considerable shortage in supply. This prompted predictions that prices would continue to rise as they had since the start of 2020. (see Fig. 1).

Fig. 1
UK average house and rental price index



Partly due to competitive supply, trends in the market for houses also affected those wanting to rent properties. Record demand in 2021 for rental properties outside of London forced average rental prices up by 4.2%. At the same time, average rents in London fell by 7.8% in a year.

5

Converting empty shops into homes has been proposed as one way to increase the supply of housing and tackle the shortage of housing in the UK. A change to legislation in 2021 means that planning permission is no longer required to convert commercial buildings, such as shops, restaurants and gyms, into homes. However, critics highlight research which suggests that 89% of commercial buildings in the London Borough of Barnet could be lost due to the new legislation.

10

3

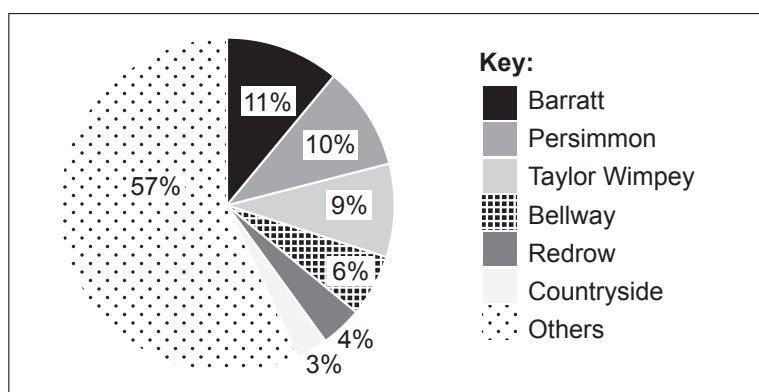
One private sector retailer taking advantage of changes in the law is John Lewis plc. During 2020 and 2021, John Lewis plc announced the permanent closure of 16 of its 50 UK department stores. In July 2021 it announced plans to convert some of its closed stores to create 100 000 new homes. 15

The City of London Corporation is the public sector organisation responsible for managing the historic centre of London, known as 'The Square Mile'. It is responding to housing shortages by planning to convert empty office space into 1500 homes.

Regulations mean that all new homes must be of a high quality and meet legal space standards and building regulations. However, concerns have been raised about many new developments. Some politicians have complained that while more homes are needed, the necessary infrastructure (such as roads, schools, and doctors) will not follow. 20

There are also worries about the concentration of power in the housebuilding industry (see Fig. 2). In 2019, four of the UK's largest housebuilders – Barratt, Countryside, Persimmon and Taylor Wimpey had a relatively large market share. Some economists and politicians suggested these companies were acting as a cartel, deliberately slowing down construction and controlling competition. 25

Fig. 2
Market share of UK housebuilders – 2019



According to the House of Lords' Economic Affairs Select Committee, "The UK's big developers [housebuilders] have become far too powerful with the result that profit margins can be as high as 30%." Instead of competing on quality and price, each housebuilder focuses on separate geographical locations giving potential house buyers little choice. As smaller housebuilding firms continue to go out of business, six of the largest housebuilders own more than one million sites ready for new building. 30

7

(e)* Evaluate, using evidence from the stimulus material, the extent to which the UK housing market can be considered to be an oligopoly. **[12]**

[illegible]

Handwriting practice area with horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

15-MARK QUESTIONS

1 question in this booklet

18

33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, whether a natural monopoly such as water supply should be run by private sector firms. **[15]**

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting practice. There are no margins, text, or other markings on the page.

Handwriting practice area consisting of 30 horizontal dotted lines.

Handwriting practice area with horizontal dotted lines.

25-MARK QUESTIONS

4 questions in this booklet

SECTION B

2* In 2020, the Competition and Markets Authority (CMA) found that three pharmaceutical companies had taken part in an illegal agreement resulting in the price of a life-saving medicine supplied to the NHS increasing by up to 1800%. This was one of many examples investigated by the CMA where consumers were being disadvantaged by collusion and the actions of monopolies.

[25]

3* A report for the charity Action on Smoking and Health (ASH) in January 2022 estimated that smoking in England imposed costs on the NHS totalling £2.4 billion and costs on businesses, from lost productivity, of £17.2 billion.

[25]

[illegible]

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SECTION B

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

EITHER

- 2*** Price ceilings have been used in a number of different markets, ranging from rented housing in New York to food in Venezuela and the cap on energy bills in the UK.

Evaluate, using an appropriate diagram(s), the impact a price ceiling may have on the level of consumer and producer surplus in a market. [25]

OR

- 3*** Netflix is the world's largest online video subscription service. By 2018, after only 10 years in existence, it had 137 million worldwide subscribers. 65% of online video viewers in the USA watch Netflix at least once a month.

Evaluate, using an appropriate diagram(s), the advantages and disadvantages of a perfectly contestable market. [25]

Question no.

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SECTION B

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

EITHER

- 2*** In 2018, the French bank, BNP Paribas, was found guilty of eliminating competition and fixing prices with rival firms between 2011 and 2013. It was the sixth major bank to face criminal charges as part of the same investigation in the USA and agreed to pay a fine of \$90m.

Evaluate, using an appropriate diagram(s), whether such collusion is the most significant disadvantage of an oligopolistic market. [25]

OR

- 3*** The education sector has the highest level of trade union membership in the UK, with over 50% of full-time teachers in a trade union. Approximately 90% of all teachers work in the state sector.

Evaluate, using an appropriate diagram(s), the impact of a bilateral monopoly on equilibrium in the labour market. **[25]**

Question

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Section B

2* There are more than 10 million dogs in the UK, with 34% of UK households owning a dog. In 2023, demand for the services of dog walkers increased in the UK. Dog walkers operate in a monopolistically competitive market, similar to that for hairdressing and painting and decorating.

[25]

3* In March 2020 the Welsh Government introduced a minimum price for alcohol of £0.50 per unit. According to the minimum pricing formula in Wales, a 70 cl bottle of vodka priced at £9.75 in England would have to be sold at a minimum price of £13.12 in Wales.

[25]

[illegible]

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MARK SCHEMES

official OCR mark schemes

14	D	A	This will be the outcome if collusion is successful, where firms' joint welfare is maximised.	AO3	/
		B	This may be a short run outcome in which firm Z chooses to break the collusive agreement before firm Y responds.		
		C	This may be a short run outcome in which firm Y chooses to break the collusive agreement before firm Z responds.		
		D	Correct: If collusion breaks down then both firms will revert to the Nash equilibrium, pricing low in order to avoid being outcompeted.		

26	A	A	Correct: This is a strict form of collusion where firms effectively set pricing and output decisions as if they were operating as a monopoly.	AO1	
		B	This is a form of tacit collusion where one firm tends to take the lead in setting prices and other firms follow.		
		C	This occurs when firms reach mutually beneficial agreements to work together in some way, such as in the airline industry where airlines pool resources and each fly different routes.		
		D	This occurs when firms refrain from competing on price but have no formal agreement.		

16	B	A	A monopoly firm is likely to use its market power to price above marginal cost.	AO1	
		B	Correct: Monopoly firms are likely to use their supernormal profits to invest in research & development, in doing so helping them to keep barriers to entry high and retain their monopoly power.		
		C	A monopoly firm will restrict output below the minimum efficient scale in order to keep prices high, in doing so maximising profit.		
		D	Firms are unlikely to produce at the lowest attainable average cost as the lack of competitive pressure will lead to organisational slack developing.		

17	B	A	The PPC does not provide any information about consumer preferences, so cannot inform us about the level of allocative efficiency.	AO3	✓
		B	Correct: The economy is now operating on the PPC, meaning all resources are fully and efficiently employed and productive efficiency is therefore achieved.		
		C	The PPC does not provide any information about consumer preferences and therefore the level of demand in an economy.		
		D	This would be illustrated by a change in the gradient of the PPC.		

29	A	A	Correct: All resources are allocated through a process of central planning in a command economy.	AO1	
		B	Command economies aim to achieve lower levels of inequality than are seen in market or mixed economies.		
		C	There are no private enterprises in command economies meaning profit maximising behaviour is not seen.		
		D	The price mechanism is not used in the allocation of resources in a command economy.		

11	D	A B C D	 This is the sales volume maximising output. This is the output where productive efficiency is achieved. This is the profit maximising output. Correct: MR = 0 is the output at which total revenue is maximised.	AO1	
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22	A	A B C D Correct: For firms to adopt a strategy of third-degree price discrimination they need to be able to segment the market between those consumers with price elastic demand and those with price inelastic demand. If all consumers have the same PED for the good the firm will not be able to segment the market in this way. This is necessary for firms to be able to prevent seepage and successfully charge different prices to different consumers. This is necessary for firms to be able to charge different prices to different consumers. This would help firms to adopt the strategy. It is a necessary condition for price discrimination that firms are price makers and have market power.
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26	A B C D Correct: Both perfect competition and contestable markets have freedom of entry and exit. Firms in a contestable market can have differentiated goods. A contestable market can have any number of firms. Price discrimination is not a strategy available to firms under perfect competition who are price takers.	AO1	
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10	D	A	This is most likely to occur in an oligopoly market and will cause allocative inefficiency.	AO3	
		B	This is unlikely to achieve allocative efficiency because in a natural monopoly it is more efficient to have just one firm in the market to avoid the wasteful duplication of resources.		
		C	This could lead to allocative efficiency when there is market failure caused by information failure.		
		D	Correct: If the government allows one firm to operate in the market but regulates it by, for example, setting pricing rules, the benefits of economies of scale can be enjoyed without firms using their monopoly power to exploit consumers.		

13	D	A	This is an external diseconomy of scale	AO3	✓
		B	This is X-inefficiency		
		C	This is an external economy of scale		
		D	Correct: This is an internal diseconomy of scale, as the growth in the size of the firm harms worker morale and leads to productivity falling, increasing long run average cost.		

15	C	A X-efficiency will also occur as firms would be driven out of the market if they were not operating on their lowest attainable average cost curve. Firms will not be dynamically efficient as they will not have the supernormal profit to invest in research & development. B Firms will not be dynamically efficient as they will not have the supernormal profit to invest in research & development. C Correct: Firms will produce at the minimum efficient scale, price equal to marginal cost and be operating on their lowest attainable average cost curve. D Firms will not be dynamically efficient as they will not have the supernormal profit to invest in research & development.	AO1	
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22	C	A	Incorrectly includes 'Others' as one of the 3 firms: $33.2 + 37.6 + 18.8 - 24.8 - 32.9 - 31.3 =$ decreased by 0.6%.	AO2	✓
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23	A	A	Correct: There is allocative inefficiency arising from underproduction because $MSB > MSC$, meaning the benefit gained by society from an extra unit of production is greater than the cost to society of producing an extra unit.	AO3	✓
		B	This is a long run concept that takes into account the extent to which product development is taking place in the long run – it cannot be shown on this diagram.		
		C	It is not possible to tell from this diagram whether firms are operating at their lowest long run average cost because there is no average cost curve.		
		D	It is not possible to tell from this diagram whether firms are operating with organisational slack because there is no average cost curve.		

27	A	A	Correct: Because demand is elastic for a price rise and inelastic for a price fall, revenue will fall when a firm changes its price.	AO3	
		B	Demand is price inelastic for a price fall so firms will see their revenue fall if they decrease price.		
		C	Demand is price elastic for a price rise so firms will see their revenue fall if they increase price.		
		D	A firm's revenue will change if it changes its price.		

1	c	Calculate the five-firm concentration ratio in the UK energy supplier market. The five largest firms have a market share of 20%, 14%, 13%, 11% & 10% (1) Five-firm concentration ratio = 68% (1)	2 (A02*2) Annotate with  Award 2 marks for an answer of 68% (with or without working) Award 1 mark for: - the five largest firms being identified (including by name) or - understanding of the five-firm concentration ratio, e.g. the market share of the five largest firms - answer of 68 (without %) - answer of 0.68
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1	d	ii	Evaluate whether it is a disadvantage if the market for car battery production is a natural monopoly. Level 2 (5–8 marks) Good knowledge and understanding of the concept of natural monopoly and disadvantages which affect it in the context of the market for car battery production Good – Strong analysis of the disadvantages of natural monopoly. • Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. • Strong analysis 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. • Reasonable – Strong evaluation of whether natural monopoly is a disadvantage, considering both sides and underpinned by appropriate theoretical analysis. • Good evaluation will weigh up both sides but without reaching a supported judgement. • Strong evaluation should include a supported judgement.	8 (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3) Knowledge and understanding • a natural monopoly is characterised by a market with substantial economies of scale. • this is often due to very high fixed costs of production but low marginal costs. Context • Fig. 2 suggests significant economies of scale over a long period of time • unit costs have fallen by more than half over 12 years as output has increased Analysis of disadvantages • incumbent firm will be able to price a new entrant out of the market because they are likely to enjoy economies of scale • incumbent firm has market power which, if it profit maximises, would lead higher prices and lower output and allocative inefficiency • lack of competition may mean that product development is slow • there may be a need for government regulation which may be costly and inefficient.
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1(e)* Evaluate, using evidence from the stimulus material, the extent to which the UK housing market can be considered to be an oligopoly.

Level / mark	Descriptor
Level 3 (9-12 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 2 (5-8 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 1 (1-4 marks)	Reasonable knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.

- 33* Evaluate, using an appropriate diagram(s) and the information in Extract 1, whether a natural monopoly such as water supply should be run by private sector firms.

Level / mark	Descriptor
Level 3 (11-15 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement
Level 2 (6-10 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement,
Level 1 (1-5 marks)	Reasonable knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement, or the absence of a judgement.

2	*	In 2020, the Competition and Markets Authority (CMA) found that three pharmaceutical companies had taken part in an illegal agreement resulting in the price of a life-saving medicine supplied to the NHS increasing by up to 1800%. This was one of many examples investigated by the CMA where consumers were being disadvantaged by collusion and the actions of monopolies. Evaluate, using an appropriate diagram(s), whether collusion and monopoly would always disadvantage consumers. Level 5 (21–25 marks) Good – Strong knowledge and understanding of collusion and monopoly and the impact on consumers. Strong analysis of the disadvantages to consumers of collusion and monopoly. 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 consumers are always disadvantaged by collusion and monopoly. <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></td><td>Grouped at end of response</td></tr><tr><td rowspan="2">Application</td><td> </td><td rowspan="2">End of response</td></tr><tr><td> </td></tr><tr><td>Analysis</td><td></td><td>Grouped beside the body of the analysis</td></tr><tr><td>Evaluation</td><td></td><td>Grouped beside the body of the evaluation</td></tr></table> Knowledge and understanding - a pure monopoly exists when a firm is the sole seller in a market (market share = 100%) - UK competition policy assumes that monopoly power can arise when a firm has a market share of 25% - a complex monopoly arises when a number of firms with a combined market share of over 25% operate very similar or identical price and non-price policies - collusion occurs when two or more firms agree to work together to reduce open competition in a market, for example by agreeing to set high prices in order to make greater profits. - disadvantages for consumers – higher prices, reduced choice - advantages for consumers – greater product	Annotation			Knowledge and Understanding		Grouped at end of response	Application		End of response		Analysis		Grouped beside the body of the analysis	Evaluation		Grouped beside the body of the evaluation
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3	*	Netflix is the world's largest online video subscription service. By 2018, after only 10 years in existence, it had 137 million worldwide subscribers. 65% of online video viewers in the USA watch Netflix at least once a month. Evaluate, using an appropriate diagram(s), the advantages and disadvantages of a perfectly contestable market.
		Level 5 (21–25 marks) Good – Strong knowledge and understanding of a perfectly contestable market and how it functions. Strong analysis of the advantages OR disadvantages of a perfectly contestable market 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 advantages OR disadvantages of a perfectly contestable market, 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) To ensure the demands of this question are comparable with others on the paper, advantages of a contestable market should be marked as analysis and disadvantages as evaluation. A perfectly contestable market assumes: • no barriers to entry so there is a constant threat of new entrants to the market to provide competition. In this case, the existence of a few or even only one firm in the industry may not lead to inefficiency; • the absence of sunk costs; • firms do not collude to fix prices; • perfect information and the ability for all suppliers to make use of the best available production technology in the market.

2	*	In 2018, the French bank, BNP Paribas, was found guilty of eliminating competition and fixing prices with rival firms between 2011 and 2013. It was the sixth major bank to face criminal charges as part of the same investigation in the USA and agreed to pay a fine of \$90m. Evaluate, using an appropriate diagram(s), whether such collusion is the most significant disadvantage of an oligopolistic market. Level 5 (21–25 marks) Good – Strong knowledge and understanding of collusion in the context of oligopolistic markets. Strong analysis of disadvantages of an oligopolistic market. 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 collusion is a significant disadvantage of an oligopolistic market. <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) For a mark at the top of each level the response should be in context. Knowledge and understanding - characteristics of an oligopolistic market - large number of small firms - a high degree of market concentration - differentiated products - high entry barriers - each firm must take account of its rivals' behaviour and reactions - each firm must act strategically in reacting to, and anticipating, a rival firm's decisions - a tendency for non-price competition leading to price rigidity - significant economies of scale - a potential for collusion - collusion occurs when firms act together to influence production and/or price levels, preventing fair competition. - types of collusion - overt – price fixing and market sharing agreements - tacit – avoidance of price competition, price leadership - others - loose strategic alliances, joint research projects or technology swaps. Context(s) - pharmaceuticals companies agreed not to compete when selling drugs to the NHS 2020 - concrete firms found to have agreed to fix prices and share UK market 2020 - modelling agencies in the UK colluded to fix fees
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2. where they show relevance.
- Using 'best fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
- Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
 - Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
 - Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline', but they have only achieved some of the qualities in the band descriptors.