



A-Level

Economics

ECON3 Business Economics and the Distribution of Income
Final Mark scheme

2140
June 2017

Version/Stage: v1.0

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from aqa.org.uk

June 2017

ECON3

Advanced Level Economics Unit 3**General Instructions**

Marks awarded to students should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

(i) An issue based approach. The mark scheme for parts **01, 02, 04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

(ii) A levels approach. This approach is used for parts 03 and 06 of the data response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which best fits the answer provided by the candidate. It is not intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker must identify where a particular skill is being demonstrated. The key to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

**AQA ADVANCED LEVEL (A2) ECONOMICS
LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**

A2 LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making supportive judgements
Level 5 22-25 marks (mid-point 24) Good analysis and good evaluation	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) Good analysis <u>but</u> limited evaluation OR Reasonable analysis and reasonable evaluation	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) Reasonable answer, including some correct analysis but very limited evaluation	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) Weak with some understanding	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) Very weak	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- An** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, students will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

Students should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Students will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

1 THE GLOBAL CONTEXT**Total for this Context: 40 marks**

01 Calculate, to **one** decimal place, the percentage of total privatisation receipts collected by Chancellor George Osborne, using the data in **Extract A, Figure 1**; **and** identify **one** significant feature of the graph shown in **Extract A, Figure 2**.

(5 marks)**The calculation**

For the correct answer (39.8%). The 'unit' (% or per cent) must be shown.	3 marks
For the correct answer without a unit shown.	2 marks
Any other answer between 39.0 and 40.0 (inclusive) irrespective of decimal places, with unit shown.	2 marks
Any other answer between 39.0 and 40.0 (inclusive) irrespective of decimal places, without unit shown.	1 mark
For showing the correct method but arriving at a wrong number, i.e. $\frac{57.7}{145} \times 100$ = wrong number	1 mark

Identifying one significant feature

For identifying a significant feature (1 mark) and providing relevant and accurate supporting data (1 mark) with 'unit' (£bn) stated (1 mark).	Up to 3 marks
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	0 marks

Significant features include:

- From 2001 to 2015 spending increased slightly (from £53.3bn to £56.1bn)
- Spending peaked at £65bn in 2011
- Spending rose continuously (from £47.0bn to £60.8bn) between 2003 and 2009
- From 2009 onwards there is no clear trend in spending upwards or downwards (£60.8bn in 2009, £56.1bn in 2015, rising and falling in between those years).

MAXIMUM FOR PART 01: 5 MARKS

02 Explain the phrase ‘subsidised prices below marginal cost’ (**Extract B**, lines 3-4) and analyse how subsidised prices could affect firms in an industry, such as steel, which has a global market.

[10 marks]

Explanation

For a relevant explanation of a subsidy, eg in terms of support payment from a government (**2 marks**) and marginal cost in terms of the cost added to total cost by producing an extra unit of output (**2 marks**).

Up to 4 marks

Maximum of 4 marks for the explanation

Analysis

Award one mark for each step in a logical chain of reasoning.

For example

- In its domestic market setting a firm might have a monopoly structure (**1 mark**), while internationally it might have to act very competitively, as a price taker (**1 mark**). Economic theory tells us that resources are efficiently allocated (**1 mark**) when price equals marginal cost (**1 mark**). Monopolies usually raise price above marginal cost (**1 mark**), signifying a transfer of resources from the consumer to the producer (**1 mark**); a subsidy that puts price below marginal cost (**1 mark**) signifies a transfer of resources from the taxpayer (**1 mark**) to the firm (**1 mark**). In the short run (**1 mark**) this might protect domestic firm from foreign competition (**1 mark**); or it might be used to help an exporting firm eliminate competition (**1 mark**). In the long run, firms that are protected by subsidies without improving their efficiency (**1 mark**) might be unable to compete when the subsidy is removed (**1 mark**).

Up to 8 marks for the analysis

For making appropriate use of diagrams, eg MC, MR, AR, AC and profits of a firm, before & after subsidy.

Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks

MAXIMUM FOR PART 02: 10 MARKS

03 ‘The UK government would be happy with state control of British railways “as long as it’s not the British state”’ (**Extract C** lines 19-21).

Evaluate, using the data and your knowledge of economics, the case for and against the UK government privatising public services while allowing foreign ownership of these services.

[25 marks]

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>Mid-point 19</i>
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10 to 16 marks <i>Mid-point 13</i>
Level 2	Weak with some understanding	4 to 9 marks <i>Mid-point 7</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2</i>

Issues and areas for discussion include

Introduction	<ul style="list-style-type: none"> • Definitions/descriptions of, eg <ul style="list-style-type: none"> ○ Privatisation ○ Public ownership
Developing the response to the question (application)	<ul style="list-style-type: none"> • Comments from own economic knowledge or based on the data, eg <ul style="list-style-type: none"> ○ Further comments on Extract A, (differences/ similarities between different governments) ○ Examples from Extract B of privatisations ○ Dangers of privatisation mentioned in Extract C

Developing the response to the question (analysis)	<p>NOTE There are two aspects to the question: privatisation vs. nationalisation, and domestic ownership vs. international ownership. To achieve Level 5 both aspects must be analysed and evaluated. Level 4 can be achieved by a thorough treatment of one aspect, as long as the other is addressed to some extent.</p> <ul style="list-style-type: none"> • Arguments for nationalisation/against privatisation, eg <ul style="list-style-type: none"> ○ Externalities ○ Inability of markets to make long term predictions ○ Health and safety issues arising from environmental problems ○ The need for coordinated international action ○ Merit goods, demerit good, public goods • Arguments for privatisation/against nationalisation, eg <ul style="list-style-type: none"> ○ Efficiency ○ Competition, enterprise, efficiency ○ Signalling, incentive, rationing functions of price • Advantages/disadvantages of international cooperation. • Implications of inward investment; skills/knowledge transfer, comparative advantage vs. self-sufficiency, import substitution
Evaluation	<ul style="list-style-type: none"> • Evaluation of some specific privatisations, e.g railways, nuclear power, water • Discussion of the quotation (whether the exclusion of British state ownership can be justified if owners are nationalised by their states, or have the backing of a foreign sovereign wealth fund) • Advantages and disadvantages of a mixed economy approach • Market failure versus government failure • Need for privatisation to be accompanied by effective regulation • Globalisation and globalism • Protection vs. free trade; free movement of capital <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
Also give credit for	<ul style="list-style-type: none"> • Relevant diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 FOR FURTHER CLARIFICATION.

MAXIMUM FOR PART 03: 25 MARKS

2 THE EUROPEAN UNION CONTEXT**Total for this Context: 40 marks**

04 Calculate, to the nearest whole number, the ratio of Chief Executive Officer (CEO) pay to the pay of a worker on the minimum wage, using the data in **Extract D, Figure 1**; and identify **one** significant feature of the graph shown in **Extract D, Figure 2**.

[5 marks]**The calculation**

For the correct answer, 357:1, or 357/1, or 357 to 1. The ratio “:1” or “/1” or “to 1” must be shown.	3 marks
For the correct answer (357) without ratio, or wrongly expressed as “1:” or “1/” or “1 to”.	2 marks
Any other answer between 356 and 358 (inclusive), with “:1” or “/1” or “to 1”.	2 marks
Any other answer between 356 and 358 (inclusive), without ratio, or wrongly expressed as “1:” or “1/” or “1 to”.	1 mark
For showing the correct method but arriving at an incorrect answer ie $\frac{4,960,000}{13,900}$ = incorrect answer.	1 mark

Identifying one significant feature

For identifying a significant feature (1 mark) and providing relevant and accurate supporting data (1 mark) with ‘unit’ (per cent or %) stated (1 mark).	Up to 3 marks
For a ‘trawl’ through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	0 marks

Significant features include:

- Between 2001 and 2015 the annual change in average weekly wages has fallen from 5.9% to 1.0%
- The lowest annual change in average weekly wages was 0.1% in 2014
- The highest annual change in average weekly wages was 5.9% in 2001
- Before 2010 annual changes in average weekly wages were consistently equal to or more than 2%
- Since 2009 annual changes in average weekly wages have been consistently equal to or below 2%.

MAXIMUM FOR PART 04: 5 MARKS

05 Explain the phrase ‘marginal revenue product’ (**Extract E**, line 13) **and** analyse how, according to economic theory, the wage rate is linked to a worker’s marginal revenue product. **(10 marks)**

<p>Explanation</p> <p>For defining/describing marginal revenue product in terms of the amount added to the total revenue of a firm (2 marks) by the output of an additional worker (2 marks)</p>	<p>Up to 4 marks</p>
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Analysis

Award 1 mark for each step in a logical chain of reasoning.

- For example**
- It might be assumed that labour markets are ‘perfect’ **(1 mark)** and that there is individual bargaining **(1 mark)**. The wage rate is the price of labour **(1 mark)**. This price is determined by the labour market **(1 mark)** and the employing firm acts as a price taker **(1 mark)**. The employer will take on extra units of labour as long as the value of its output **(1 mark)** is greater than the market wage **(1 mark)**. It follows that once the marginal cost of the last worker employed is equal to their MRP, no more will be employed **(1 mark)**. It follows that the wage received by workers equals their MRP **(1 mark)**.
 - A similar explanation, assuming an imperfect market, eg monopsonistic demand for labour.

Up to 8 marks for the analysis

<p>Make appropriate use of diagrams, eg MRP and market wage, in a price taking situation.</p>	<p>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks</p>
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MAXIMUM FOR PART 05: 10 MARKS

06 '75% of British workers had no idea of the importance of the EU in creating and guaranteeing many key rights at work' (**Extract F**, lines 5-7).

Evaluate, using the data and your knowledge of economics, whether governments should attempt to influence aspects of the labour market such as wage levels, wage differentials and working conditions, or whether such matters should be left to market forces.

(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>Mid-point 19</i>
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10 to 16 marks <i>Mid-point 13</i>
Level 2	Weak with some understanding	4 to 9 marks <i>Mid-point 7</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2</i>

Issues and areas for discussion include

Introduction	Definitions of <ul style="list-style-type: none"> • wage levels • working conditions • differentials.
Developing the response to the question (application)	<ul style="list-style-type: none"> • Comments from own economic knowledge or based on the data, eg further comments on wage rates and differentials, and wages increasing and recently flat-lining (Extract D) • EU context (Extract E) • Discussion of other aspects, such as bonus caps, wealth tax, fixed ratios between higher and low paid workers (Extract F) • Other possible policies, e.g. minimum wage, living wage
Developing the response to the question (analysis)	<ul style="list-style-type: none"> • Possible effects of government intervention/market forces on output and employment • Benefits of a government intervention, eg reduced inequality, higher morale • Increased costs of NMW/ other policies, effects on sectors/general economy • Other methods of raising wage levels, eg productivity enhancement, skills, education and training • Taxes, benefits and welfare to work • Short and long run considerations • Opportunity costs of government subsidies for the low paid • The economic disfunctionality of inequality • The case for market forces in resource allocation
Evaluation	<ul style="list-style-type: none"> • General arguments for and against government intervention in labour markets • Market failure versus government failure • Consideration of the issues from different points of view, eg employers, employees, taxpayers • Consideration of the affordability of government intervention • Arguments to do with competitiveness • The government's own position as a major employer (local and national government) • Efficacy of NMW compared with other policies • A high-wage economy versus a low-wage economy <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
Also give credit for	<ul style="list-style-type: none"> • Diagrams • An overall judgement on the issues raised

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 06: 25 MARKS

SECTION B

Essay 1

Total for this Essay: 40 marks

‘A third runway at Heathrow is essential for the success of the economy of London and the UK.’

‘A third runway at Heathrow would be an environmental disaster and cause huge market failure.’

07 Explain how an investment project, such as airport expansion, can be commercially successful and yet produce market failure.

(15 marks)

<p>For relevant definitions, eg commercial success, in terms of trade and profitability (2 marks), market failure, in terms of opportunity costs/ externalities (2 marks)</p>	<p>Up to 2 marks per point defined or explained to a maximum of 4 marks</p>
<p>For explanation – award 1 mark for each link in a logical chain of reasoning to a maximum of 15 marks.</p>	
<p>Possible explanations include</p> <ul style="list-style-type: none"> • A major international airport, such as Heathrow has multiplier effects on the local economy (1 mark). It is also important to the national economy as a transport hub (1 mark). The airport itself is these days likely to be a private sector enterprise (1 mark) and many other private sector organisations (shops, cafes, suppliers, contractors) will benefit from the economic activity (1 mark). If profitable, the whole enterprise will be a significant commercial success (1 mark). However, the government will be expected to provide infrastructure (1 mark) with an opportunity cost (1 mark). The taxpayer might not get an adequate return (1 mark). There are also environmental costs (1 mark) such as noise, air pollution and road congestion (1 mark for an example). Commercial success is measured by profits, whereas externalities and other market failures are difficult to measure (1 mark) therefore they can co-exist (1 mark). • An airport, such as Heathrow, as a major employer 	
<p>Use of diagrams to support explanations, eg Internal/external costs and benefits</p>	<p>Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.</p>
<p>Relevant real world examples and/or relevant reference to the UK and/or other economies.</p>	<p>1 mark per reference to a maximum of 2 marks</p>

MAXIMUM FOR PART 07: 15 MARKS

08 Evaluate the usefulness of cost-benefit analysis (CBA) in helping the government decide whether to support an investment project such as airport expansion.

(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>Mid-point 19</i>
Level 3	Reasonable answer, including some correct analysis but very limited evaluation.	10 to 16 marks <i>Mid-point 13</i>
Level 2	Weak with some understanding	4 to 9 marks <i>Mid-point 7</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2</i>

Issues and areas for discussion include

Introduction	<ul style="list-style-type: none"> • Definitions of, eg <ul style="list-style-type: none"> ○ costs ○ benefits ○ CBA
Developing the response to the question Application/ Analysis	<ul style="list-style-type: none"> • Methods of CBA and matters to be considered by CBA <ul style="list-style-type: none"> ○ Identifying all costs and benefits: monetary, non-monetary; positive and negative externalities; consumer & producer surplus <ul style="list-style-type: none"> ▪ Assigning monetary values to externalities (the general principle). Note: not expected to have a detailed knowledge of techniques such as discounting and shadow pricing but these might be discussed ○ Probability, risks, expected values <ul style="list-style-type: none"> ▪ Timing of costs and benefits, accounting for the time value of money (the general principle). Note: 'discounting' might be mentioned, but this term is not required by the specification. ○ Distribution of costs and benefits ○ Calculating Net Social Benefit /Net Present Value

<p>Evaluation</p>	<ul style="list-style-type: none"> • Critical discussion of CBA <ul style="list-style-type: none"> • Advantages of CBA, eg <ul style="list-style-type: none"> ○ More information available to decision makers ○ A wider economic view compared with an accountancy balance sheet • Disadvantages, eg <ul style="list-style-type: none"> ○ Value judgements on what to include/exclude ○ Difficulties of long term predictions ○ Difficulties of estimation ○ Problem of future-proofing (eg against technological developments) • Usefulness of CBA to decision makers • Application of CBA to the case of a third runway • A judgement of the Third Runway case, and/or • General advantages vs disadvantages of CBA <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<p>Also give credit for</p>	<ul style="list-style-type: none"> • Diagrams • An overall judgement on the issues raised • Examples

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 8: 25 MARKS

Essay 2**Total for this Essay: 40 marks**

During 2015, the European Commission investigated allegations that people booking at Disneyland Paris, and on the cruises of some shipping lines, paid substantially different prices for the same holiday. British and German customers appear to have paid more than French customers.

09 Explain the conditions that enable price discrimination to take place.

(15 marks)

For relevant definitions, eg price discrimination, in terms of different prices charged to different customers (**2 marks**) for the same product (**2 marks**) without the difference explained by cost differences (**2 marks**).

Up to 2 marks per point defined or explained to a maximum of 4 marks

For explanation – award 1 mark for each link in a logical chain of reasoning to a maximum of 15 marks.

Possible conditions include

- Some element of monopoly power (**1 mark**). The supplier needs some ability to make rather than take prices. (**1 mark**). It must be possible to identify different markets (**1 mark**) and keep markets separate (**1 mark**) to prevent seepage (re-selling) between markets (**1 mark**). Each market has a different price elasticity of demand (**1 mark**), this allows the supplier to charge whatever price their market will bear (**1 mark**).
- Methods of separating markets, eg
 - Distance
 - Time
 - Type of customer
- First, second, third degree price discrimination. (Note: these can be rewarded, if discussed, but they are not essential, as they are not required by the specification).

Use of diagrams to support the explanation, eg supply curves with associated demand (AR, MR) curves of differing elasticity

Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.

Relevant real world examples and/or relevant reference to the UK and/or other economies.

1 mark per reference to a maximum of 2 marks

MAXIMUM FOR PART 09 15 MARKS

10 Evaluate the view that price discrimination is always good for producers and bad for consumers, and should therefore be banned by regulators such as the EU Commission.

(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>Mid-point 19</i>
Level 3	Reasonable answer, including some correct analysis but very limited evaluation.	10 to 16 marks <i>Mid-point 13</i>
Level 2	Weak with some understanding	4 to 9 marks <i>Mid-point 7</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2</i>

Issues and areas for discussion include

Introduction	Basic definitions/descriptions, eg producer surplus/ consumer surplus; regulation
Developing the response to the question Application/ Analysis	<ul style="list-style-type: none"> • Advantages of price discrimination, eg <ul style="list-style-type: none"> ○ Producers receive higher profits which, if re-invested, might benefit consumers through higher efficiency ○ Increased affordability for consumers paying the lower prices (the low cost airline model, which has been replicated by some other industries) ○ PD might turn a loss making firm into a profitable one ○ PD might enable a good/service to be produced that otherwise would be lost • Disadvantages <ul style="list-style-type: none"> ○ PD turns consumer surplus into producer surplus, so represents a transfer of resources from a less powerful group to a more powerful one (re-distribution of income in reverse) ○ In extreme cases, everyone pays the maximum they are willing to pay; consumer surplus disappears ○ Consumers paying the highest prices might switch to goods/services that are less socially optimal, eg consumers

	<p>paying peak-time public transport fares who can afford to switch to private transport might be incentivised to do so.</p>
Evaluation	<ul style="list-style-type: none"> • Critical discussion of the quotation • Overall consideration of advantages vs. disadvantages • The case for and against regulation • The spread of price discrimination from low-cost airlines and railway journeys to other business models, eg hotels, taxi journeys, and according to the data, theme parks and cruise ships: is this good or bad for consumers/producers? • Discussion of the word 'always' in the question <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
Also give credit for	<ul style="list-style-type: none"> • Diagrams • An overall judgement on the issues raised • Examples.

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 10: 25 MARKS

Essay 3

Total for this Essay: 40 marks

Sony, one of the largest electronics and entertainment companies in the world, started out as a two-man operation in a back-yard garage. Facebook, now a huge global company, was created by two college students to enable their circle of friends to communicate with each other.

11 Explain the different ways a firm can grow in size.

(15 marks)

<p>For relevant definitions eg growth of firm in times of what to measure in terms of size, such as capital employed (2 marks), share valuation (2 marks), no. of employees (2 marks), etc.</p>	<p>Up to 2 marks per point defined or explained to a maximum of 4 marks</p>
<p>For explanation – Award 1 mark for each step in a logical chain of reasoning up to 15 marks.</p>	
<p>Examples of different ways include</p> <ul style="list-style-type: none"> • External growth (1 mark) whereby a firm grows by mergers/acquisitions (1 mark); this can take the form of horizontal integration (1 mark), ie joining with a firm at the same stage of production (1 mark); lateral integration (1 mark), ie diversifying into different markets (1 mark); vertical integration (1 mark) ie with firms at different stages of production (1 mark), backwards towards the supplier (1 mark), or forwards towards the consumer (1 mark) • Internal (organic) growth, expanding through an increase in the size of the market, or achieving greater market share • Barriers to entry, and how they can be overcome, eg through technological change 	
<p>Use of diagrams to help support explanations, eg short run and long run cost curves.</p>	<p>Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.</p>
<p>Relevant real world examples and/or relevant reference to the UK and/or other economies.</p>	<p>1 mark per reference to a maximum of 2 marks</p>

MAXIMUM FOR PART 11: 15 MARKS

12 Since economies of scale give major advantages to large firms, is there any future, without government intervention, for small firms in a global economy? Justify your answer.

(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>Mid-point 19</i>
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10 to 16 marks <i>Mid-point 13</i>
Level 2	Weak with some understanding	4 to 9 marks <i>Mid-point 7</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2</i>

Issues and areas for discussion include

Introduction	<ul style="list-style-type: none"> • Definitions, examples <ul style="list-style-type: none"> ○ Economies of scale ○ What is meant by “small” or “large” in this context
Developing the response to the question Application/Analysis	<ul style="list-style-type: none"> • Distinction between short run and long run • Diminishing returns and returns to scale • Advantages of large firms, eg <ul style="list-style-type: none"> ○ Types of economy of scale ○ Other advantages of size, eg opportunities for collusion, price making, monopoly, oligopoly, dominant firm price leadership • Disadvantages: diseconomies of scale; x inefficiency <ul style="list-style-type: none"> ○ Globalisation and concentrated markets ○ Government policy (eg sweetheart tax deals) • Advantages of small firms, eg <ul style="list-style-type: none"> ○ Niche markets ○ Barometric price leadership ○ Disruption, eg easyJet, Uber ○ Government policy favouring small firms (eg small business support, start-up grants; business advice agencies) ○ Government policy hindering small firms, eg business

	rates, VAT, red tape
Evaluation	<ul style="list-style-type: none"> • Ways in which small firms can fight back, e.g <ul style="list-style-type: none"> ○ Reducing costs (internet/ weightless economy ○ Technical change reducing the need for scale economies (eg nuclear power stations versus windmills) • The importance of small firms in the economy <ul style="list-style-type: none"> ○ As employers ○ As motors for growth ○ As innovators ○ As ethical producers ○ Serving specialised markets ○ Having the potential for growth – large firms start out small • Arguments for and against government intervention to support/ promote Small & Medium Enterprises • The question of whether government intervention is necessary • Overall view of advantages and disadvantages of large and small firms <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
Also give credit for	<ul style="list-style-type: none"> • Diagrams • An overall judgement on the issues raised • Examples.

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 12: 25 MARKS