GCE

Economics

H460/01: Microeconomics

Advanced GCE

Mark Scheme for June 2019

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Annotation	Meaning
BP	Blank Page – this annotation must be used on all blank pages within an answer booklet and on each page of an additional object where there is no candidate response.
✓	Correct – mark awarded
✗	Incorrect
BOD	Benefit of doubt
KU	AO1 – Knowledge and understanding
APP	AO2 – Apply knowledge and understanding
AN	AO3 - Analyse
EVAL	AO4 - Evaluation
NAQ	Not answering question
SEEN	Noted but no credit given
TV	Too vague
OFR	Own figure rule
CON	Confused
?	Unclear

Subject–specific Marking Instructions

INTRODUCTION
Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.
You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking:**

Notes for New Examiners.
Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.
Rubric Infringement
Candidates may infringe the rubric in the following way:

- answering two questions from Section B or C.

If a candidate has written two answers for Section B or C, mark both answers and award the highest mark achieved.

USING THE MARK SCHEME
Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide ‘correct’ answers. The Mark Scheme can only provide ‘best guesses’ about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

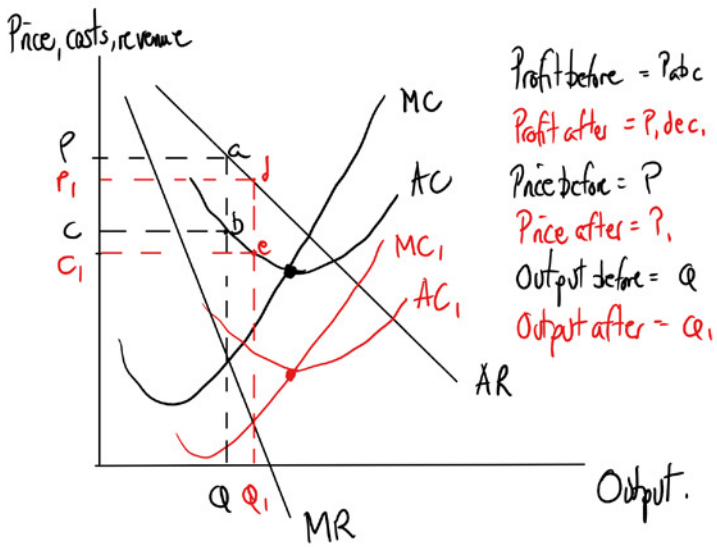
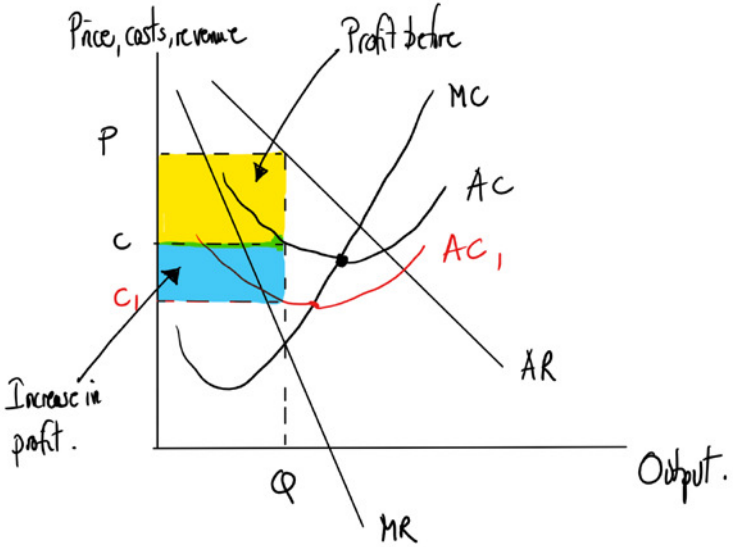
Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

Levels of response / Level descriptors	Knowledge and understanding/ Application	Analysis	Evaluation
Strong	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
Reasonable	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
Limited	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Question			Answer	Marks	Guidance
1	a		**Calculate the participation rate in the UK labour market for the period from June to August 2017.**		
			Participation rate = 32,341 / 41,153 = 78.6% (2) Participation rate = $\frac{\text{Economically active population}}{\text{Population of working age}}$ (1) Economically active population (000s) = 30,923 + 1,418 = 32,341 (1) Population of working age (000s) = 30,923 + 1,418 + 8,812 = 41,153 (1)	**2** (AO2*2)	Annotate with ✔ 2 marks for the correct answer: • accept 78%, 79% or answer in decimal/ratio form 1 mark where the answer is incorrect but there is some correct working shown including: • formula for the participation rate • economically active population • population of working age

Question			Answer	Marks	Guidance
1	b		**Identify and explain why the change in average weekly earnings in nominal terms is greater than in real terms.**		
			• Real earnings / wage growth = nominal earnings / wage growth – inflation (1) • Nominal data does not allow for inflation (1), so if inflation is positive, real earnings will grow more slowly (1). • Real data takes inflation into account (1), so if inflation is positive real earnings will grow more slowly (1). • If prices are increasing (1) earnings will be worth less in real terms (1) • Inflation (1) reduces the real spending power of money (1). • Nominal data will overstate the rise in earnings (1) when prices are rising (1).	**2** (AO1*1 AO2*1)	Annotate with ✔ 1 mark for identification of rising prices / inflation 1 mark for explaining how inflation causes real earnings/ wages to rise less rapidly than nominal earnings / wages

Question			Answer	Marks	Guidance
1	c		**What does Fig. 2 suggest will happen to the dependency ratio in the UK between 2015 and 2045?**		
			• The dependency ratio is the ratio of dependents to the working population (1) • The dependency ratio will increase (1) • This is because the number of dependents (aged below 16 and over 64) is growing faster than those aged 16-64 (1) • It will increase from 58.5% to 72.7% (1) **OR** by 14.2 percentage points (1) **OR** by 24.4% (1) - accept range from 56% to 61% and 70% to 74% - accept calculations as decimals eg rises from 0.6 to 0.73	**2** (AO1*1 AO2*1)	1 mark for a definition of the dependency ratio 1 mark for what will happen to the dependency ratio (it will increase) 1 mark for reference to Fig. 2 – this does not have to involve a calculation Max 2 marks Annotate with ✔

Question			Answer	Marks	Guidance
1	d		**A firm in a monopolistically competitive market decides to introduce more casual employment practices, such as zero-hour contracts. Explain, using a diagram, the effect of this decision on the firm's equilibrium position in the short run.**		
			• The introduction of casual employment practices, such as zero hours contracts, will lead to a fall in average costs (1) • There will be a fall in price and an increase in output if **all** labour is treated as a variable cost (1). • There will be no change in price and output if **all** labour is treated as a fixed cost and AC only falls (1) • There will be an increase in profit (1). • The firm may move from a loss-making situation to a profit-making situation (1). ***Market demand and supply diagram is not accepted, but where candidates take this approach they can gain marks for an explanation which includes lower prices and higher output.***  	4 (AO1*2 AO2*2)	Candidates do not have to make their assumption about the nature of labour costs explicit. Up to 2 marks for a diagram (*max 1 mark if axes unlabelled*) which shows: • equilibrium price and output **before** the introduction of zero-hours contracts (1) • a fall in AC **OR** AC **and** MC (1) • equilibrium price and output **after** the introduction of zero-hours contracts where AC **and** MC both fall (1) • profit / increase in profit **after** the introduction in zero-hours contracts (1) Annotate with ✔ 

Question			Answer	Marks	Guidance
1	e		**Evaluate whether income inequality in the UK is a cause for concern.**		
			Level 2 (5–8 marks) **Good knowledge and understanding** of the concept of income inequality and of the significance of income inequality in the UK. **Good** – **Strong analysis** of the impacts of income inequality in the UK. • **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 the significance of income inequality in the UK 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)	Income inequality can be seen as an example of labour market failure and occurs when there is a wide gap between rich and poor households. Increasing inequality in the UK is a cause for concern because: • it depresses demand since those on lower incomes tend to spend a greater proportion of their income than those on high incomes; • those on low incomes have less access to basic goods and services; • in the face of stagnating wages, households rely increasingly on debt to maintain their lifestyles, as seen by the evidence of 8.3m people with unmanageable debt mentioned in the stimulus material and household debt standing at 150% of income; • the increasing number of people said to be 'just about managing' has led to greater demand on charities, such as food banks, and the welfare state; • it leads to social problems with certain groups in society, such as racial minorities, women and single parents more likely to be affected. This may affect social cohesion; • it impacts on outcomes for physical and mental health, education, life expectancy, geographical mobility of labour – which reduces MRP of labour; • it may reduce enterprise in the economy as those on low incomes are unable to access finance to start new businesses Increasing inequality in the UK may not be a cause for

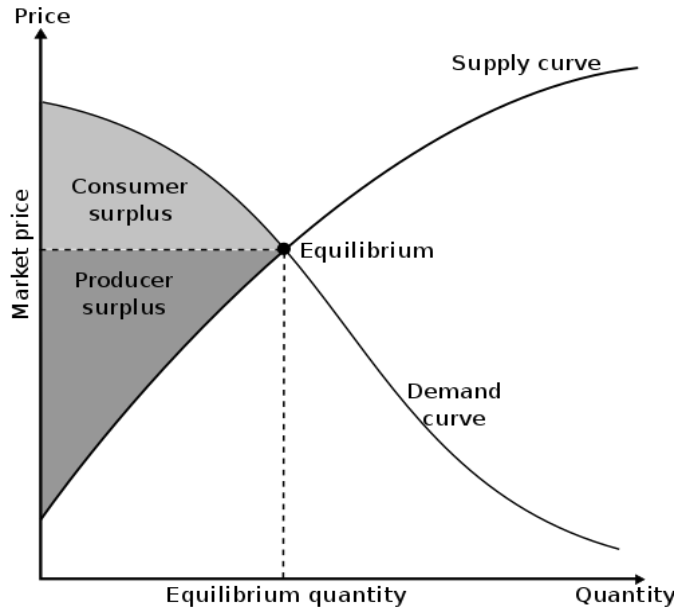
			Level 1 (1–4 marks) **Limited – Reasonable knowledge and understanding** of the concept of income inequality in the UK. **Limited – Reasonable analysis** of the impacts of income inequality in the UK. • **Limited analysis** will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. • **Reasonable analysis** will have correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Limited evaluation** of the impacts of income inequality in the UK in the form of an unsupported statement or **no** evaluation. **0 marks** No response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		concern because: • the tax and benefit system reduces the degree of income inequality; • Fig. 3 shows that the tax & benefit system has reduced the ratio of income for the top decile to the bottom decile from a factor of 19 to only 8; • it may also be less of a problem because there is universal access to education and health care regardless of income; • the living wage and the welfare state provide safety nets for those in relative or absolute poverty; • where there are changes to education and training schemes, living wage rates and the welfare state; • high incomes of the richest in society can lead to a 'trickle down' effect for the less well-off and that the higher taxes paid by those in the top decile can pay for improvements in the welfare state; • it can be argued that a degree of income inequality is necessary to create incentives to work; • reducing income inequality by raising benefits for those on the lowest incomes risks creating poverty and unemployment traps. The extent to which income inequality is a cause for concern depends on the degree of inequality - Fig. 3 suggests that the problem is severe (along with evidence in the UK which shows the richest 10% earning about 30% of gross income). It is more of a cause for concern because the rise in income inequality is in part a consequence of government policies which have reduced the benefits available under the welfare state.
			Descriptor	**Award mark**	
			Consistently meets the criteria for this level	At top of level	

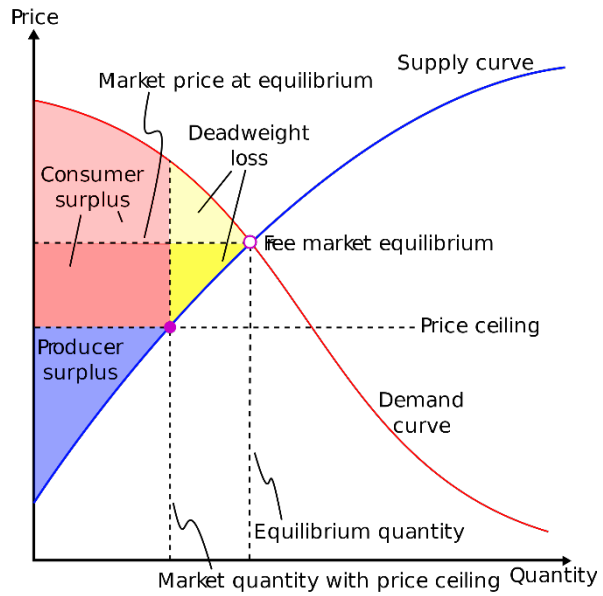
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

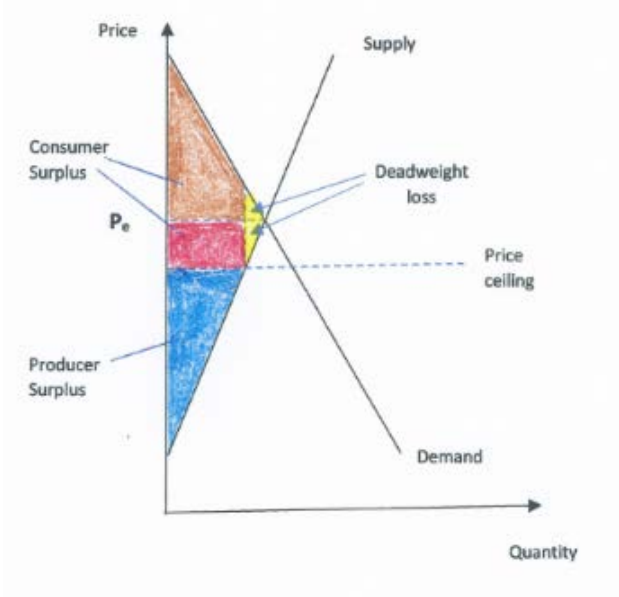
Question			Answer	Marks	Guidance
1	f	*	**Evaluate, using evidence from the stimulus material, the impact of an increase in labour market flexibility in the UK.**		
			Level 3 (9–12 marks) **Good knowledge and understanding** of labour market flexibility and its impact in the context of the UK economy, supported by the evidence in the stimulus material and the candidate's own knowledge and understanding. **Good** – **Strong analysis** of how an increase in labour market flexibility may affect the UK economy. • **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. **Good – Strong evaluation** of the consequences of an increase in labour market flexibility, weighing up points of view/comparing alternatives. • **Strong evaluation** should include a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.*	**12** (AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)	Flexible labour markets refer to: • Flexibility of hours worked, skills expected of people within the workplace, part-time working, variable or zero-hours & temporary contracts • Ease of hiring and firing of workers • Increased locational flexibility of labour- to respond to changing regional patterns of employment demand • These practices allow employers to vary levels of output in response to changing market conditions. Benefits from labour market flexibility may be seen in the current low levels of unemployment, even though the economy is weak and the success of growth in jobs, especially in the self-employed and part-time sectors. The desire by many for zero-hour contracts is also a positive factor. It has given workers more choice over their work-life balance as well as dealing with child care or care of the elderly. However, it may be argued that the uncertainty about hours and incomes created by the 'gig economy' may create long term disadvantages. The proportion of workers only taking temporary or part-time jobs because a permanent or full-time job is unavailable, the number of households 'just about managing' and the growing household debt figures may be worrying statistics for a government considering policies to make the labour market ever more flexible. Equity issues may also be considered. Reference may be made to other issues, including:

			Level 2 (5–8 marks) **Good knowledge and understanding** of labour market flexibility and its impact in the context of the UK economy, supported by the evidence in the stimulus material and the candidate's own knowledge and understanding. **Reasonable analysis** of how an increase in labour market flexibility may affect the UK economy. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis **Reasonable evaluation** of the consequences of an increase in labour market flexibility. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 1 (1–4 marks)** **Limited – Reasonable knowledge and understanding** of labour market flexibility in the context of the UK economy, supported by the evidence in the stimulus material and the candidate's own knowledge and understanding. **Limited analysis** of how an increase in labour market flexibility may affect the UK economy. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. **Limited evaluation** of the consequences of increased labour market flexibility in the form of an unsupported statement or **no** evaluation. *The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.*		• The impact on the minimum/living wage • The power of trades unions. • The ease to hire and fire workers and the use of zero-hour contracts which enable firms to choose how much to employ workers • The impact on the welfare system as a result of workers/households having less regular or predictable levels of income. Evidence in the stimulus material which may be used includes: • there is still some slack in the labour market even though unemployment is at a 42-year low • employment fell in the 16-24 age group where labour flexibility is in large demand • there was unequal employment growth across the country which may be a result of labour market flexibility or policies to support it • the significant growth in the gig economy in many sectors of the UK economy • opposition to the gig economy and zero-hour contracts by the trades unions **0 marks** No response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.

			Descriptor	Award mark
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

Question			Answer	Marks	Guidance
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.**		
			Level 5 (21–25 marks) **Good – Strong knowledge and understanding** of a price ceiling, how it operates and the effect it would have on the level of consumer and producer surplus in a market. **Strong analysis** of how a price ceiling may affect consumer and producer surpluses 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 impact of a price ceiling on consumer and producer surpluses considering extent and how this may be affected and reaching a supported judgment. *There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.*	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Consumer surplus is the difference between the value to buyers (shown by the demand schedule) and what they actually pay. Producer surplus is the difference between the market price and the price at which a producer is prepared to supply (shown by the supply schedule).  A price ceiling which lowers the price below the equilibrium level will lead to an increase in the consumer

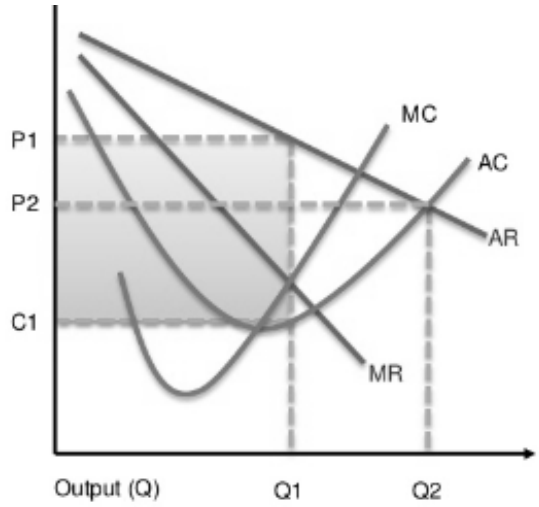
			Level 4 (16–20 marks) **Good knowledge and understanding** of a price ceiling, how it operates and the effect one would have on the level of consumer and producer surplus in a market. **Strong analysis** of how a price ceiling may affect consumer and producer surpluses will have **consistently** well-developed 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. **Good** evaluation of the impact of a price ceiling on consumer and producer surpluses will weigh up both sides/comparing alternatives but without reaching a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.*		surplus but a fall in the producer surplus.  The above diagram shows how some of the producer surplus has been switched to become consumer surplus. However, a proportion of both surpluses has 'disappeared' after the price ceiling is imposed - the deadweight loss. This is a loss due to inefficiency which comes about due to government intervention in a perfect market. However, the relative change in the size of consumer and producer surplus will depend on price elasticity of both demand and supply (as well as how low the price ceiling

			Level 3 (11–15 marks) **Good knowledge and understanding** of a price ceiling, how it operates and the effect one would have on the level of consumer and producer surplus in a market. **Good analysis** of how a price ceiling may affect consumer and producer surpluses. There is correct analysis 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. **Reasonable evaluation** of the impact of a price ceiling on producer and consumer surpluses considering extent and alternatives. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.*		is, relative to the equilibrium price).  The impact of a price ceiling on consumer and producer surplus depends on the market in which it is imposed and

			Level 2 (6–10 marks) **Good knowledge and understanding** of a price ceiling, how it operates and the effect one would have on the level of consumer and producer surplus in a market. **Reasonable analysis** of how a price ceiling may affect consumer and producer surpluses. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** of the impact of a price ceiling on producer and consumer surpluses without considering extent and alternatives. *The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.* **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** of a price ceiling and consumer **or** producer surplus in a market. **Limited or no analysis** of the impact of a price ceiling on consumer **or** producer surplus. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of the impact of price controls in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.* **0 marks** No response worthy of credit.		the response of the government to market shortages: • in the food industry, products may have price inelastic demand and supply will also be highly price inelastic so the impact on consumer surplus may be more significant; • shortages in the market may be overcome by the provision of government subsidies to producers which will shift the supply curve to the right (subsidies for the production of renewable energy); • a price ceiling imposed in markets where there is monopoly power (energy markets) may not lead to a welfare loss if it corrects market failure caused by P>MC; • In the housing market consumer surplus may not rise / producer surplus may not fall if consumers are prepared to pay more than the controlled rent in a black market for rented property.

			Descriptor	Award mark
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

Question			Answer	Marks	Guidance
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. *There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.*	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	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.

			Level 4 (16–20 marks) **Good 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. **Good evaluation** of the advantages **OR** disadvantages of a perfectly contestable market, weighing up both sides/comparing alternatives but without reaching a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.* **Level 3 (11–15 marks)** **Good knowledge and understanding** of a perfectly contestable market and how it functions. **Good analysis** of the advantages **OR** disadvantages of a perfectly contestable market. There is correct analysis 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. **Reasonable evaluation** of the advantages **OR** disadvantages of a perfectly contestable market considering both sides/comparing alternatives. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 2 (6–10 marks)**		In the diagram below, a pure monopoly might maximise profit at price P_1. If a market is contestable, there is downward pressure on price, because the existence of supernormal profits provides a signal for new firms to enter the market and if the existing monopolist is producing at too high a price or has allowed its average costs to rise, then entrants can undercut the monopolist and some of the monopoly profit will be competed away. Normal profit equilibrium occurs when average revenue equals average cost (at Q_2, P_2). Price, costs, revenue 

			Good knowledge and understanding of a perfectly contestable market and how it functions. **Reasonable analysis** of the advantages **OR** disadvantages of a perfectly contestable market. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** of the advantages **OR** disadvantages of a perfectly contestable market considering both sides/comparing alternatives. *The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.* **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** of a perfectly contestable market and how it functions. **Limited or no analysis** of the advantages **OR** disadvantages of a perfectly contestable market. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of the advantages **OR** disadvantages of a perfectly contestable market in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.* **0 marks** No response worthy of credit.		The advantages of contestable markets therefore include: • lower prices (allocative efficiency) • higher consumer surplus • increased incentives for firms to cut costs (x-efficiency) • increased incentives for firms to respond to consumer preferences (allocative efficiency The disadvantages to a contestable market may include: • incumbent firm(s) may deliberately limit profits made to discourage new entrants – 'limit entry pricing'. New entrants are likely to have higher average costs so if the incumbent drops its price below P_1 this may now be above the new entrant's average costs. The incumbent can drop its price as low as P_2 to achieve this and still make normal profit. This may limit competition and decrease efficiency measures. • firms may attempt to erect artificial barriers to entry, for example, aggressive marketing or predatory pricing which may be seen as inefficient. • the lack of supernormal profit may reduce the incentive of the firms to invest and innovate so quality may be lower – dynamic efficiency not achieved. • in reality, no market is perfectly contestable, but it is also true that virtually every market is contestable to some degree. Barriers to contestability exist when there are sunk costs, expenses that cannot be recovered once a firm has entered the industry. When sunk costs are high, a market is more likely to produce a price and output similar to monopoly (with the risk of allocative and productive inefficiency).
			Descriptor	**Award mark**	

			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

Question			Answer	Marks	Guidance
4	*		**Within any economy there is a great deal of specialisation by firms in the production of particular products, such as manufacturing of cars by BMW, Nissan and Toyota in the UK. Each manufacturer employs the division of labour. So some workers design cars, some test them, others market them and the assembly itself is divided into many different tasks.** **Evaluate the extent to which specialisation and the division of labour might help in addressing the basic economic problem.**		
			Level 5 (21–25 marks) **Good – Strong knowledge and understanding** of specialisation and the division of labour and how it is relevant to the basic economic problem. **Strong analysis** of how specialisation and the division of labour might help in addressing the basic economic problem 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** as to the extent to which specialisation and the division of labour might help in addressing the basic economic problem, weighing up both sides/comparing alternatives and reaching a supported judgment. *There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.*	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	The basic economic problem is one of scarcity where the unlimited wants of society cannot be matched by the finite resources in existence. Specialisation is when an individual or country concentrates on a product or task. Division of labour is a type of specialisation where the production of a good is broken up into separate tasks each performed by one person or a small group of people. The benefits from both specialisation and division of labour may be shown using a PPF diagram where an individual or country can increase its efficiency and achieve a point above its current productive potential. Specialisation may help in addressing the basic economic problem in the following ways: • **Higher output**: A higher output at lower unit costs means more wants and needs might be satisfied with a given amount of scarce resources • **Variety**: Consumers have improved access to a greater variety of higher quality products, i.e. they have more and better choice both from their own economy and from the production of other countries • **A bigger market**: Specialisation and international trade increase the size of the market offering opportunities for economies of scale • **Competition and lower prices**: Increased competition for domestic producers acts as an incentive to minimise costs and innovate to remain

			Level 4 (16–20 marks) **Good knowledge and understanding** specialisation and the division of labour and how it is relevant to the basic economic problem. **Strong analysis** of how specialisation and the division of labour might help in addressing the basic economic problem 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. **Good evaluation** as to the extent to which specialisation and the division of labour might help in addressing the basic economic problem will weigh up both sides/comparing alternatives but without reaching a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.*		competitive. Competition helps to keep prices down Division of labour may help in addressing the basic economic problem in the following ways: • Division of labour can help to raise output per person, thereby reducing costs per unit because lower skilled workers are easily trained and quickly become capable through constant repetition of a task – “practice makes perfect” – or “learning by doing”. Low unit costs allow firms to remain competitive in the markets in which they operate. Division of labour may **not** help in addressing the basic economic problem in the following ways: • There are limits to the breaking down of production into many small tasks. Perhaps the greatest is that the division of labour may eventually reduce efficiency and increase unit costs, because repetitive work lowers worker motivation and productivity. Workers begin to take less pride in their work and quality suffers. Some of these laborious tasks have been automated and, with the advent of robotics, this negative aspect may be less significant nowadays. • The division of labour also runs the risk that if one machine breaks down (or an individual is absent) then the entire production process stops. Some workers receive narrow training and may not be able to find alternative jobs if they find themselves out of work (they may suffer structural unemployment). Another disadvantage is that mass-produced standardised goods tend to lack variety. The extent to which specialisation and the division of labour might help in addressing the basic economic

			Level 3 (11–15 marks) **Good knowledge and understanding** specialisation and the division of labour and how it is relevant to the basic economic problem. **Good analysis** of how specialisation and the division of labour might help in addressing the basic economic problem. There is correct analysis 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. **Reasonable evaluation** as to the extent to which specialisation and the division of labour might help in addressing the basic economic problem, considering both sides/comparing alternatives. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.*		problem depends on a number of factors: • It may be argued that there is a trade-off. Specialisation may have created many standardised jobs and products such as Starbucks, McDonalds and even Apple as examples of what makes specialisation 'bad'. • Nevertheless, it may be argued that society's adoption of specialised production and the trading of the consequent surplus has been a significant breakthrough when it comes to answering the question, "How to produce?" • Consequently, it has helped immeasurably in addressing the basic economic problem.

			Level 2 (6–10 marks) **Good knowledge and understanding** specialisation and the division of labour and how it is relevant to the basic economic problem. **Reasonable analysis** of how specialisation and the division of labour might help in addressing the basic economic problem. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** as to the extent to which specialisation and the division of labour might help in addressing the basic economic problem, considering both sides/comparing alternatives. *The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.* **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** specialisation and the division of labour and how it is relevant to the basic economic problem. **Limited or no analysis** of how specialisation and the division of labour might help in addressing the basic economic problem. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** as to the extent to which specialisation and the division of labour might help in addressing the basic economic problem in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.*		**0 marks** No response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.

			Descriptor	Award mark
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

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

			Good knowledge and understanding of horizontal integration and how it may affect economic agents. **Strong analysis** of the positive **or** negative consequences for economic agents of horizontal integration will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good evaluation** of the positive **or** negative consequences for economic agents of horizontal integration which weighs up both sides/comparing alternatives but without reaching a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.* **Level 3 (11–15 marks)**		function. This may attract better quality marketing people as well as sharing specific expertise across the two companies. It will also give the merged organisation much greater buying power with marketing agencies and marketing outlets. For example, BA and Iberia could advertise flights together. This ultimately will mean that marketing costs, although growing, will do so at a slower rate than output. • The (larger) merged firm may also gain finance or purchasing economies of scale. It may be able to gain easier (and cheaper) access to finance, as well as being able to negotiate favourable rates with suppliers, such as fuel, food and entertainment services on the planes. • The vast majority of these benefits are gained by the firm. Lower unit costs and any associated growth are likely to increase profits. At the same time, managers (for whom salaries and promotion opportunities may be linked to efficiency and growth) may see significant benefits. • If efficiency gains are passed on to the consumer there may be lower prices and more efficient service. • The higher profits may lead to higher dividend income for shareholders. • The impact on the government may include higher tax revenue (both from profits and consumer incomes) from more successful companies, increased export expenditure possible from a larger firm. There are a number of negative consequences of a horizontal merger for households, employees, firms and the government: • Some jobs may be lost but there may be more

			Good knowledge and understanding of horizontal integration and how it may affect economic agents. **Good analysis** of the positive **or** negative consequences for economic agents of horizontal integration. There is correct analysis 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. **Reasonable evaluation** of the positive **or** negative consequences for economic agents of horizontal integration, considering both sides/comparing alternatives. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 2 (6–10 marks)**		opportunities for specialised jobs in management, marketing and procurement. • Dominant firms may lead to less choice and the negative aspects of price discrimination and any rationalisation may create unemployment. • There may be some increase in domestic unemployment (due to both rationalisation and the possibility of jobs moving abroad) and a need to implement competition policy to counteract overly powerful firms. • Larger firms often suffer poor communication and co-ordination problems because they find it difficult to maintain an effective flow of information between departments or divisions. BA and Iberia may suffer due to language and culture barriers. • 'X' inefficiency may arise due to the loss of management efficiency that occurs when firms become large and operate in uncompetitive markets. The combined airline may face little competition on some of its routes. • Large firms may experience inefficiencies related to the principal-agent problem. This problem is caused because the size and complexity of most large firms means that their owners often delegate decision-making to appointed managers, which can lead to inefficiencies. The impact of the merger will ultimately depend on the effect on productive efficiency. The gains from economies of scale will not go on for ever, as we may assume that the LRAC is U-shaped. Economic theory suggests that average costs will eventually bottom out (constant returns) before rising due to diseconomies of scale.

			Good knowledge and understanding of horizontal integration and how it may affect economic agents. **Reasonable analysis** of the positive **or** negative consequences for economic agents of horizontal integration. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** of the positive **or** negative consequences for economic agents of horizontal integration, considering both sides/comparing alternatives. *The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.* **Level 1 (1–5 marks)**		

			Reasonable knowledge and understanding of horizontal integration and how it may affect economic agents. **Limited or no analysis** of the positive **or** negative consequences for economic agents of horizontal integration. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of the positive **or** negative consequences for economic agents of horizontal integration in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.* **0 marks** No response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		
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Assessment Objectives Grid

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)		2(2)			**2**	**(2)**
1(b)	1	1			**2**	
1(c)	1(1)	1(1)			**2**	**(2)**
1(d)	2(2)	2(2)			**4**	**(4)**
1(e)	1	1	3	3	**8**	
1(f)	1	1	5	5	**12**	
2/3	6 (2)	6 (2)	6 (2)	7 (2)	**25**	**(8)**
4/5	6	6	6	7	**25**	
TOTAL	**18 (5)**	**20 (7)**	**20 (2)**	**22 (2)**	**80**	**(16)**

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