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Mark Scheme (Results)

January 2024

International A Level in Economics (WEC13) Paper 1: Business Behaviour

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Section A

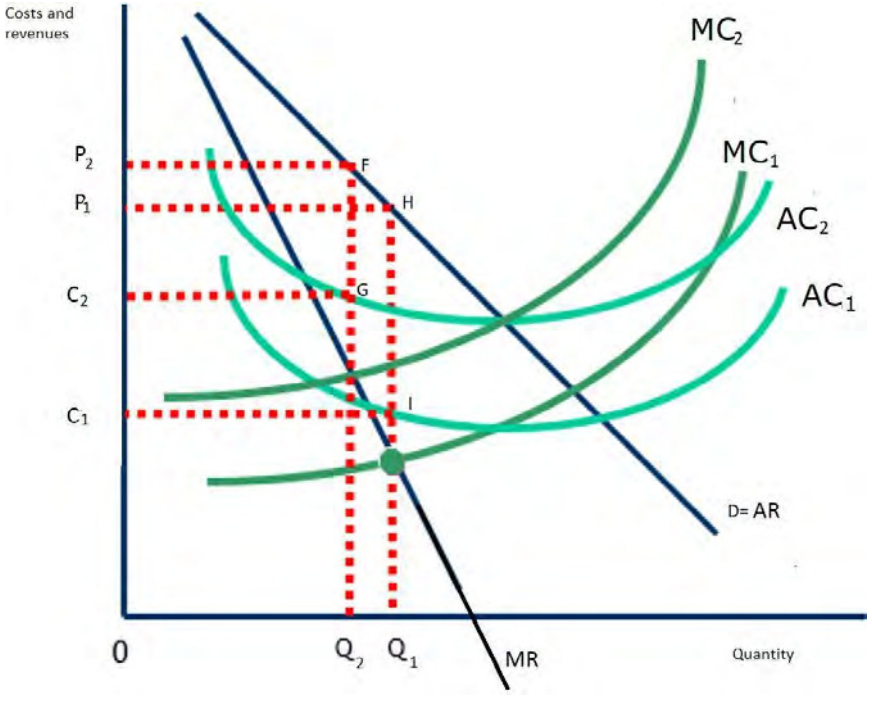
Question	Quantitative skills assessed	Answer	Mark
1	**QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	The only correct answer is C A is incorrect because the firms are in the same industry B is incorrect because the firms are at the same stage of production D is incorrect because the firms are at the same stage of production	**(1)**
2	**QS6: Calculate cost, revenue and profit (marginal, average, totals)** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	The only correct answer is B A is incorrect because this is the MR at $12 C is incorrect because this is the average revenue at $12 D is incorrect because this is the average revenue at $14	**(1)**
3	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	The only correct answer is A B is incorrect as the business will make normal profit C is incorrect because the business will reduce output D is incorrect because the price will fall	**(1)**
4	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	The only correct answer is D A is incorrect because average revenue would be greater than marginal cost B is incorrect because marginal revenue would be lower than average revenue C is incorrect because marginal revenue would be less than total cost	**(1)**
5	**QS8: Make calculations of elasticity and interpret the result.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	The only correct answer is A B is incorrect because this would result in an elastic demand for construction workers C is incorrect because this would result in an elastic demand for construction workers D is incorrect because this would influence the supply of construction workers	**(1)**
6	**QS4: Construct and interpret a range of standard graphical forms** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	The only correct answer is B A is incorrect because price would be below average cost C is incorrect because price leadership occurs when businesses follow the price of	**(1)**

		a dominant business in the market D is incorrect because short-run profit maximisation occurs where marginal cost is equal to marginal revenue	

Section B

Question	With reference to Figure 1 and Extract A calculate the number of workers employed by SMEs in Bangladesh. You are advised to show your workings. **Answer**	Mark
7(a)	**Application 2** **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculation: • 20.2% +20.7% = 40.9% of employed people by SMEs **(1)** • 60.8 million x 0.409= 24 867 200 people employed by SMEs **(1)** **NB: Award full marks for correct answer (24.9 million, 24.86 million / 24.867 million/ 24.8 million/25 million)** **NB: only award 1 mark if million omitted**	**(2)**

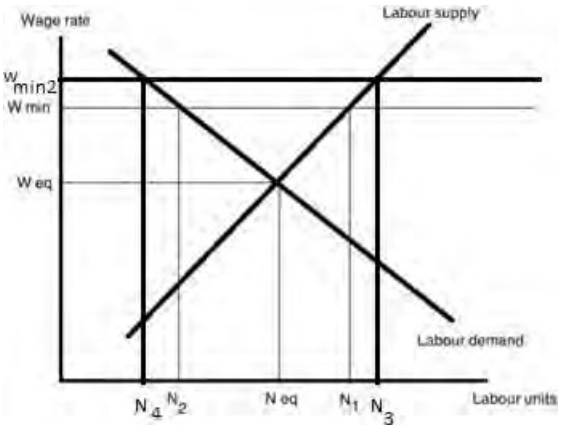
Question	With reference to Figure 1 and Extract A, explain what is meant by the term 'monopolistic competition' **Answer**	Mark
7(b)	**Knowledge 2 Application 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** 1 mark for the reference to number of firms e.g.: • Monopolistic competition occurs when there are many small businesses in the same market **(1)** 1 mark for one appropriate characteristic e.g.: • Products that are similar/not homogenous/slightly differentiated/ • Freedom of entry and exit/ • Imperfect knowledge/information/ • Businesses face a downward sloping demand curve/highly elastic demand curve/ • Employ low skilled workers – therefore low entry barriers/ • Short-run supernormal profit/long-run normal profit/ • Businesses in monopolistic competition differentiate their products through non-price competition **(1)** **Application:** 1 mark for application to Figure 1 e.g.: • There are 6 103 medium-sized businesses/ 14.3% of total number of businesses • There are 33 050 small-sized businesses/ 77.2% of total number of businesses **(1)** • There are 39153 SMEs / 91.5% of total number of businesses **(1)** 1 mark for application to Extract A: • Many SMEs compete in the agriculture, garment and textile industries • Most businesses in these industries operate in monopolistically competitive markets **(1)** • Restricted differentiation of (agricultural, garment and textile) products between business in these markets **(1)**	**(4)**

Question	With reference to Extract B, examine the impact of rising energy costs on the profits of a garment manufacturer in Bangladesh. Illustrate your answer with an appropriate diagram.	Mark
7(c)	**Knowledge 2 Application 2 Analysis 2 Evaluation 2** **Quantitative skills assessed:** **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.  **Knowledge** Up to 2 marks for drawing a diagram that shows knowledge of: • Original equilibrium price and output: Q_1P_1 **(1)** • Increase in costs showing upward shift from MC_1 to MC_2 and AC_1 to AC_2 **(1)** **Analysis** Up to 2 marks for illustrating or explaining the impact of the increase in costs on the profits of a garment manufacturer on diagram e.g.**:** • Fall in supernormal profits **(1)** from HIC_1P_1 to FGC_2P_2 **(1)** **Application** Up to 2 marks for reference to Extract B • 50% increase in energy costs **(1)** • Garment manufacturers are having to claim subsidies from the government Bangladesh**(1)** • Energy costs are a variable cost for garment manufacturers **(1)**	**(8)**

	Evaluation Up to 2 marks for evaluative comments (1+1 or 2+0) e.g.: • The Government of Bangladesh is providing subsidies to SMEs **(1)** which may limit the negative impact on profit **(1)** • Rising energy prices may not continue in the long-run **(1)** helping profits to recover in the long-run **(1)** • The 50% rise in energy costs is very significant **(1)** causing a substantial reduction in profit **(1)** • Significance of energy as a proportion of total costs **(1)** will determine the size of the shift in MC and AC **(1)** • Government subsidies may reduce costs **(1)** so there would be less impact on the profit of a garment manufacturing business **(1)** • Recent high rates of inflation may allow garment firms to also raise their prices **(1),** so the increased energy costs may not have such an impact on profits**(1)** • Some firms will leave the market so others will survive in the long run **(1)**	

Question	With reference to extract B, analyse two likely effects on the labour market for garment workers of the possible increase in the minimum wage to 22000 taka. **Answer**	**Mark**
7(d)	**Knowledge 2 Application 2 Analysis 2** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** **1 mark for identifying each effect and 1 mark for each linked expansion (2k+2An)** • Increasing minimum wages causes workers to lose their jobs **(1k)** SMEs cannot afford to employ as many individuals at the higher wage rate causing individuals to lose their jobs **(1An)** • An increased supply of labour/extension in labour supply **(Kn)** because the higher wage rate acts as an incentive for more people to join the labour force **(An)** • An increase in minimum wage may increase motivation **(Kn)** increasing output/productivity **(An)** • If used, correct diagram showing the increase in the NMW causing a contraction of demand N_2 to N_4 and an extension of supply N_1 to N_3 **(1+1)**	**(6)**

- Unemployment rises from N_1-N_2 to N_3 to N_4



N.B Minimum wage diagram must show an increase in the minimum wage, not the introduction

Application

Up to 2 marks for application to Extract B

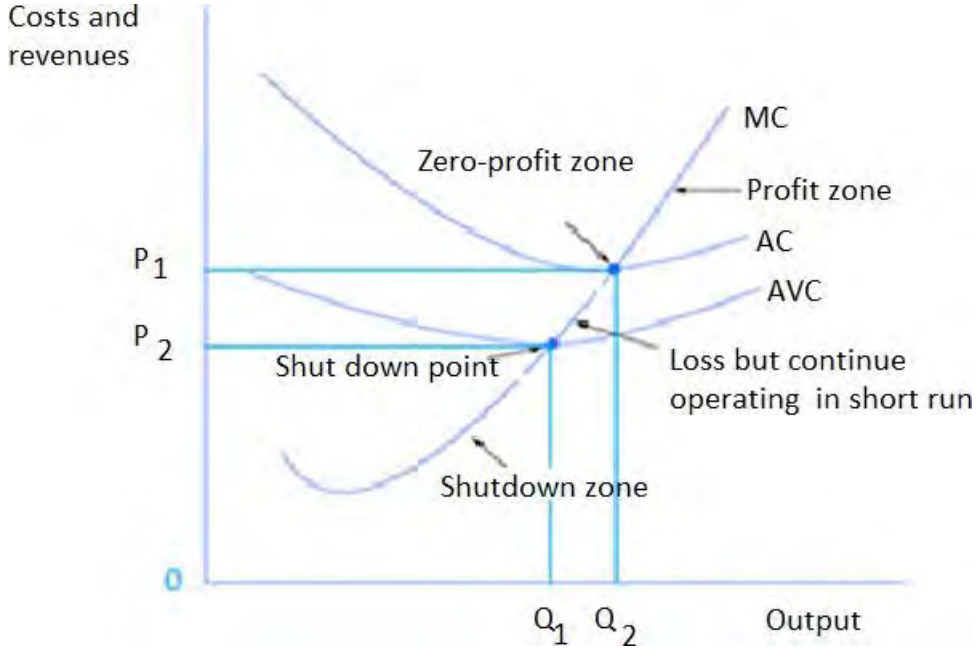
- The minimum wage for garment workers was 8 000 taka per month **(1)**
- The Government has been under pressure from trade unions to increase this rate to 22 000 taka per month **(1)**
- The minimum wage for garment workers has not increased since 2018 **(1)**
- Garment manufacturers argue that they do not have the funds to pay a higher minimum wage **(1)**

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

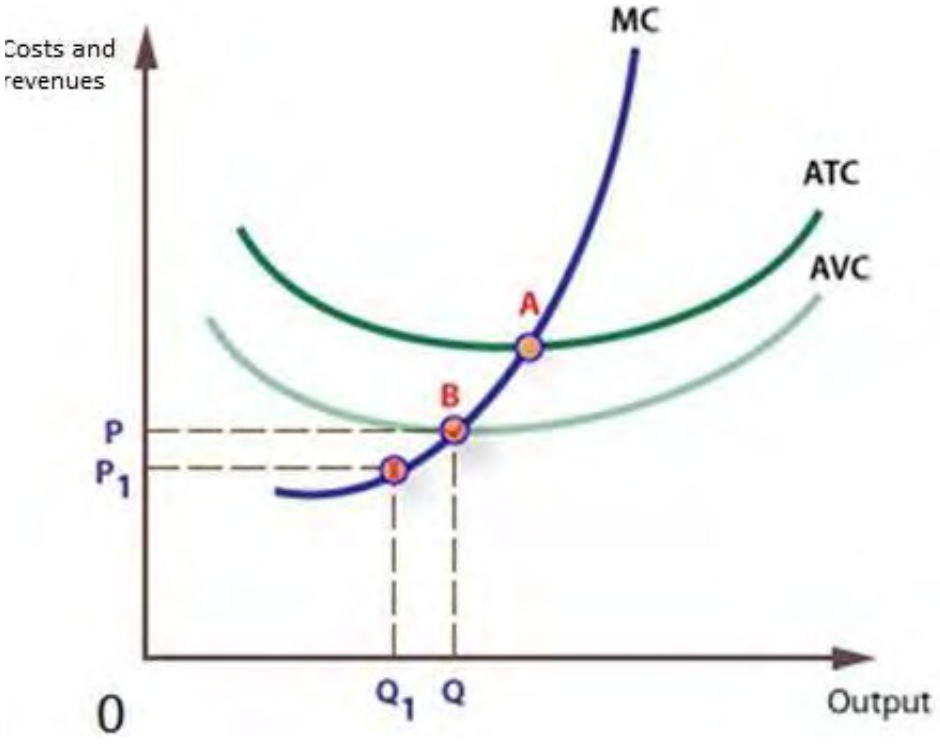
	• The SME foundation's funding for R&D may create process innovations that could help to reduce the average cost of production • Creation of industrial parks creates external economies of scale for businesses that can allow them to lower their LRATC and move towards their MES • Investing in the quality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

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

Section C

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

Long-run shut-down point



- In the long-run a business such as Toys "R" Us will keep producing at point A, as it is able to cover its average total costs. This includes its opportunity cost. The business would shut down at a price and output below this because it cannot cover its total costs of production. For example, in 2018 as Toys "R" Us couldn't cover its costs and so it was forced to close down.
- Resources employed in the output of toys could be better invested in the production of other goods and services
- In the short-run the market mechanism allows average revenues to increase if less efficient firms leave the market so the incumbent firms can achieve normal profit in the long run

NB if no diagram candidate can achieve a maximum of level 3

NB also accept imperfectly competitive market

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.

Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Objectives of businesses: if a business is establishing itself/trying to survive it may continue to operate even if it is making a loss, for example, during the global health crisis • If it is a state-owned business/charity, the business can run at a loss • Financial obligations that the business cannot meet if it shuts down, such as paying off debts or fulfilling contracts • Hope of recovery from the business's current situation and return to profitability • Loss of reputation • Legal Requirements. For example, if the business is in the middle of a project that it is contractually obligated to complete, it may need to stay open until the project is finished • The business might survive if it acquired by another business • The business might survive if the government provides a subsidy • A business might survive if it is part of a large conglomerate and there is cross subsidisation	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.

		Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	With reference to an industry of your choice, evaluate the likely disadvantages for a business operating in an oligopolistic market structure Illustrate your answer with a payoff matrix diagram. **Indicative content**	
9	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • An oligopoly is a market structure in which a small number of businesses dominate the market and compete with each other, such as the commercial aircraft industry • Each business has significant market power, meaning it can influence the market price and affect the behaviour of its competitors • Oligopolists sell similar goods, and there are substitutes available making consumers' demand more price elastic • Businesses in oligopolistic markets are interdependent. If there is no collusion they would reach the low price, low price quadrant. This would limit their ability to make supernormal profits • New businesses may find it difficult to enter/survive the market because established businesses may engage in anti-competitive practices such	

	Firm B High price	Low Price
Firm A High Price	(collusion) (A) £8m, (B) £8m	(A) £1m, (B)£10m
Low price	(A) £10m, (B) £1m	(non-collusion) (A) £3m, (B) £3m

	as predatory pricing/limit pricing or exclusive dealing agreements to prevent competition • Increased pressure to compete using non-price competition such as quality, innovation, and marketing strategies to remain competitive and maintain market share. This might lead to increasing costs/sunk costs reducing profits • Regulatory scrutiny as anti-competitive behaviour can harm consumers and the overall economy. This can lead to costly legal battles and fines for businesses found to be engaging in anticompetitive behaviour • Small firms would be at a disadvantage compared to larger rivals because they are less able to exploit economies of scale and so have higher long-run average costs **NB if no industry explained candidate can achieve a maximum of level 3**		
Level	**Mark**	**Descriptor**	
	0	No rewardable material.	
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.	
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	Evaluation (8 marks) – indicative content • Interdependence between firms, may encourage collusion. If this occurs (high price, high price quadrant) then supernormal profit may be increased • If goods are differentiated, price may be sticky allowing for some price-setting ability in the market		

	• Businesses in oligopolistic markets might make high supernormal profit because these markets are dominated by a few large businesses and competition is limited • High barriers to entry if established businesses engage in non-price competition and anti-competitive practices to prevent new businesses from entering the market. This can help established firms maintain their market share and profits • Stability can be higher in oligopolistic markets as there are fewer businesses competing for market share. This greater certainty makes budgeting and planning easier for businesses. Also, this stability might encourage businesses to increase investment		
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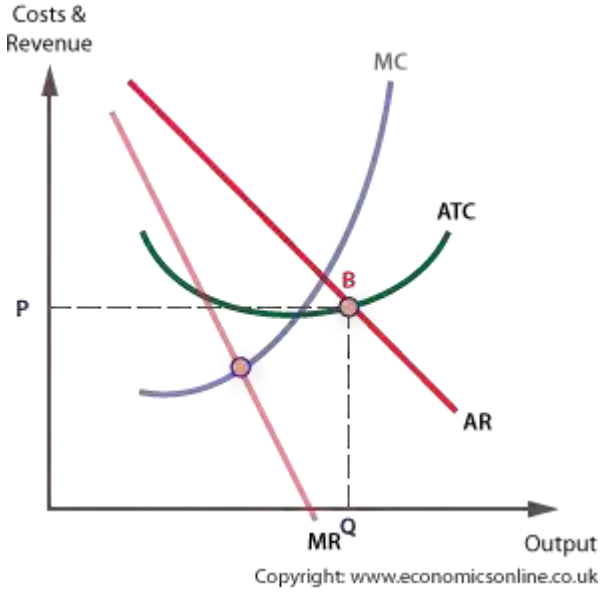
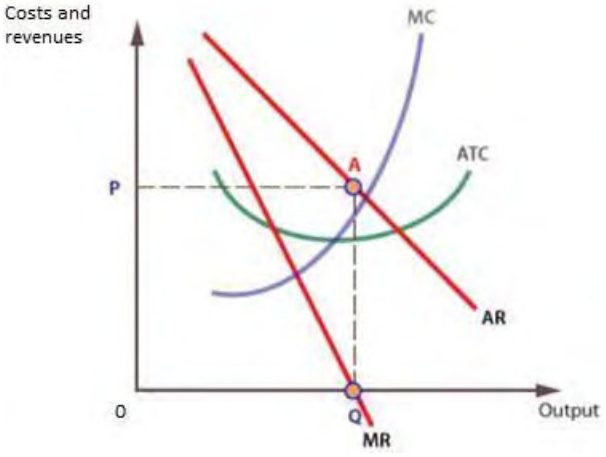
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.	

Question	Evaluate the likely impact of the divorce of ownership from control on business objectives. Illustrate your answer with an appropriate diagram(s). Indicative content
10	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (12 marks) – indicative content** • The divorce of ownership from control occurs when there is a separation of ownership and control in a company such as the UK's Royal Mail. • Shareholders such as Daniel Kretinsky, own the company, like Royal Mail, and elect a board of directors to oversee management and make important decisions on their behalf. • The day-to-day running of the Royal Mail is carried out by professional managers who may or may not have significant ownership in the company • This separation of ownership from control may create potential conflicts of interest between shareholders and management. For example, management may be more focused on maximising their own bonuses or job security, rather than acting in the best interests of the shareholders. Similarly, shareholders may prioritise short-term profits over the long-term success of the company • Managers often want to meet sales maximising objectives and shareholders often aim to profit maximise profits. This causes satisficing behaviour • Sales maximisation at AR=ATC 

- Revenue maximisation (output at which MR=0) may be pursued because of the principle- agent problem



- At point A the business is achieving supernormal profits, not as high as if the business was profit maximising. It is also reaching a higher level of output. However the sales are not as high as they would be under sales maximisation. Both managers and shareholders are satisficed
- Businesses in the private sector are likely to have shareholders who need dividends to be incentivised to invest because they are not employed by the business
- Allow profit maximisation if they connect to Jeff Baoes as a share holder

NB if no diagram candidate can achieve a maximum of level 3

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	Evaluation (8 marks) – indicative content • Divorce of ownership from control may not occur if managers are also shareholders such as Amazon. Many private sector firms offer shares to their managers • The type of business might be more important in determining the objective e.g. niche firms/specialist businesses are unlikely to have sales maximisation as an objective • Other objectives might be more important such as business survival if it is a small or new firm in the industry • Some shareholders may be investing for the long-run and would be willing to accept growth as a priority • Business objectives are influenced by other factors e.g. private vs public sector, not for profit • In most countries, directors have a legal responsibility to act in the best interests of shareholders so should be trying to fulfil their objectives rather than their own personal ones	
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Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
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