



**Economics Questions By Topic:**

**Business Growth (3.1.1, 3.1.2, 3.3.3)  
Mark Scheme**

**A-Level Edexcel Theme 3**

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## SECTION A

Question Number	Answer	Mark
<b>1(a)</b>	<p style="text-align: center;"><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge and Analysis :</b> 1 mark for likely reason for staying small e.g.</p> <ul style="list-style-type: none"> <li>• Owners wish to maintain control (1)</li> <li>• Avoiding diseconomies of scale (1)</li> <li>• Bettys offers a more personal service (1)</li> <li>• Bettys act as a regional monopoly in Yorkshire (1)</li> <li>• Lack of finance for expansion (1)</li> </ul> <p>1 mark for linked development e.g.</p> <ul style="list-style-type: none"> <li>• 2 million customers allows them to profit satisfice (1)</li> <li>• Managerial diseconomies may settle in with many tea rooms (1)</li> <li>• As a regional monopoly they can charge higher prices (1)</li> <li>• Cost of opening an additional café (1)</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>1(b)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge: (1+1)</b> marks for likely reason growth can be described as organic e.g.</p> <ul style="list-style-type: none"> <li>• Growth is internal (1) opening new tea rooms (1)</li> <li>• There is no evidence that growth is external (1) through integration, merger or takeover (1)</li> <li>• Reinvesting profits from 2 million customers (1) to open new café (1)</li> <li>• Borrowing from banks (1) rather than finance from a takeover (1)</li> <li>• The business has grown naturally (1) without the need to takeover or merge (1)</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
1(c)	<p style="text-align: center;"><b>Application 1</b></p> <p><b>The only correct answer is B</b></p> <p><i>A is not correct because external economies occur outside a firm but within an industry</i></p> <p><i>C is not correct because this is associated with a conglomerate merger whereas this is a vertical backwards merger</i></p> <p><i>D is not correct because it could result in greater monopoly power</i></p>	<b>(1)</b>

Question Number	Answer	Mark
2	<p style="text-align: center;"><b>Analysis 1</b></p> <p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because the external economies of scale being the most likely reason would indicate that the market contains mostly small firms in a perfectly competitive market which is not evident in the stem.  <b>B</b> is not correct because companies merging are more likely to benefit from internal economies of scale  <b>D</b> is not correct because a demerger will usually reduce market share and it could be argued in this case that the two businesses are unrelated.</p>	<b>(1)</b>

Question Number	Answer	Mark
3	Key: A	<b>(1)</b>
	<p>Explanation: Identification of <b>horizontal integration</b> (1).  Explanation of a takeover horizontally, e.g. one firm takes a controlling share of another at the same stage of a production process (1).</p> <p>Application, e.g. the action will give Aviva access to increased UK market share or reduce competition in the UK meaning there is more control of the market (1)</p> <p>Consequences, e.g. economies of scale, monopoly power, changes in price</p> <p>Examples of knock-out marks (up to 1+1):</p> <ul style="list-style-type: none"> <li>• It is not B because the firm is merging with a firm in the <i>same</i> production process not at a <i>different</i> stage of the same process</li> <li>• It is not E because this option would mean the firm likely to be increasingly exposed to the risks of concentrating on one product area</li> </ul>	<b>(3)</b>

Question Number	Answer	Mark
<b>4</b>	Key: D	<b>(1)</b>
	<p>Vertical integration – merging with firms at different stages of the production process (1)  Backwards – towards the raw materials (1)  Application to context/benefits to Rolls Royce, e.g. full control, cutting out the mark up (1) why engines are previous stage of production (1)</p> <p>Knock out of incorrect options up to 2 marks available. For example:</p> <p>It is not B because it is not merging with a firm at the same stage of production (1)</p> <p>It is not C because this would have involved buying a business at next stage such as car sales dealership (1)</p>	<b>(3)</b>

Question Number	Answer	Mark
5	<p><b>Correct option B (1 mark)</b></p> <p>Vertical – at a different stage of the same industry or process of production or same final product (1)  Backwards - it is previous/earlier/towards raw materials/away from consumer (1)  Reasons or benefits of merger (1+1) e.g. rationalisation  Application to the dairy industry (1) e.g. Proper Welsh is a primary industry. Only award the application marks if relevant to backward integration.</p> <p>Knock out examples  It cannot be D because conglomerate integration involves merging with a firm in a different industry  It cannot be C because forward integration is towards the consumer</p>	(4)



Question Number	Answer	Mark
<b>6</b>	<p><b>D</b></p> <p>Definition/identification backwards vertical meaning: the production is at a different stage (1) but moving closer to the raw materials or supplies end of the process, or previous stage (1).</p> <p>Application, e.g. coal is raw material, used to make, a component of steel (1)</p> <p>Benefits to the firm, e.g. control of supplies, prevent other firms from using the coal, buying the coal more cheaply, capture the profit from the coal company (1+1)</p>	<b>(4)</b>

Question Number	Answer	Mark
7	<p><b>A</b></p> <p>Definition/identification mark: Definition or LRAC diagram of economies of scale or diseconomies of scale (1)</p> <p>Explanation of demerger, e.g. that a firm decides to split into separate firms (1)</p> <p>Reasons for demerger: for example lowers range of functions in a business which may reduce costs, or avoid the attention of the competition authorities, increased returns or share value for shareholders (1+1)</p> <p>Application of diseconomies of scale e.g. unwieldiness, coordination problems, communication problems, culture clash, fall in management costs, lack of synergy (1+1)</p> <p><b>Diagram</b> output FALLING (1) and costs FALLING (1).</p> <p>Example of elimination mark: Knock out of C because TalkTalk have lost their exclusive retail outlet in the demerger</p> <p>Knock out of D because it will be easier for other firms to enter the market.</p>	(4)

Question Number	Answer	Mark
<b>8</b>	<b>E</b>  Horizontal integration or merger defined, e.g. merging of businesses at the same stage of a production process (1 mark) meaning that there are economies of scale and/or type economy of scale (1 mark) with other application to building maintenance e.g. use of capital equipment (1 mark), reasons for or benefits of integration, increased market share (1+1).	<b>(4)</b>

Question Number	Answer	Mark
<b>9</b>	<b>B</b>  Definition of diversification, e.g. widening of product range outside current areas of specialism (1) explanation of conglomerate merger (1) application, e.g. that there is little crossover between poultry and football (1). Motives for takeover (1+1): Risks are spread through diversification (1) and when one industry faces difficult times another can cross subsidise (1) risk-bearing economies of scale (1) prestige for new owners of the football club (1) entering a new geographical market (1) Possible disadvantages of decision (1)	<b>(4)</b>

Question Number	Answer	Mark
<b>10</b>	<b>B</b>  Definition of vertical integration e.g. joining with a firm involved in the same industry but at a different stage of production (1) Application of backwards: closer to the raw materials in the supply chain (1) e.g. buying crude oil supplies (1) with rationale e.g. to gain a reliable supply source or to cut costs of supply (1) Further application to oil industry e.g. crude oil is the largest cost for a petroleum firm (1)	<b>(4)</b>

Question Number	Answer	Mark
11	<p><b>B</b></p> <p>Definition of economies of scale - falling <b>long run</b> average cost as output increases or LRAC diagram (1 mark)</p> <p>Identification (1 mark) and application (1 mark) of one type of economy of scale to airlines when they join together</p> <p>Horizontal integration explanation (1 mark)</p> <p>E.g. bulk buying (type) of fuel (application) = 2 marks</p>	(4)

**END OF SECTION A**

## SECTION B

Question Number	Answer	Mark
<b>12</b>	<p style="text-align: center;"><b>Knowledge 2, Analysis 2, Application 2, Evaluation 2</b></p> <p><b>Knowledge/understanding:</b> 2 marks for identification of two likely benefits to the consumers (1+1) e.g.</p> <ul style="list-style-type: none"> <li>• Lower prices</li> <li>• Improved product quality</li> <li>• More innovative products</li> <li>• Better customer service</li> <li>• Better bundles/packages/choice</li> </ul> <p><b>Analysis:</b> 1 mark for linked explanation of each identified benefit (1+1) e.g.</p> <ul style="list-style-type: none"> <li>• A benefit to the consumer is cheaper prices (1K) as BT has greater purchasing power (economies of scale) OR consumers can buy more goods/services with their income OR increased consumer surplus (1An)</li> <li>• A benefit to the consumer is the greater availability of bundles/packages (1K) this therefore means that they can spend less overall when buying products together rather than individually on separate contracts(1An)</li> </ul> <p><b>Application:</b> 2 marks for reference the context of the BT and EE takeover (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Multi-brand strategy (1)</li> <li>• Mix of BT, EE and Plusnet services (1)</li> <li>• Greater value bundles of services (1)</li> <li>• Compete for their business (1)</li> <li>• Controlling 35% of market share (1)</li> </ul> <p><b>Evaluation:</b> 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one evaluative comment e.g.</p> <ul style="list-style-type: none"> <li>• Potential problems to the consumer               <ul style="list-style-type: none"> <li>○ Higher prices in the LR due to diseconomies/monopoly power/x-inefficiency</li> <li>○ Lack of choice as control 35% of market</li> <li>○ Restriction of new competitors</li> <li>○ Slowed pace of technology</li> <li>○ Poor customer service</li> </ul> </li> <li>• Depends on the actions and behaviour of rival firms</li> <li>• Depends on the extent to which cost saving measures are passed on to the consumer</li> <li>• Depends on the degree of future regulation within the industry</li> </ul>	<b>(8)</b>

Question Number	Answer	Mark
13	<p style="text-align: center;"><b>Knowledge 3, Application 3, Analysis 3</b></p> <p><b>Problems of merger include:</b></p> <ul style="list-style-type: none"> <li>• CMA may block this horizontal merger since the combined firm has 27.4% market share/ exceeds the 25% legal monopoly figure.</li> <li>• Costs to the firms: possible diseconomies of scale such as overlap between location of stores/ co-ordination of staff/ redundancies/ implementation of new IT system (different types of diseconomies of scale may be awarded separately).</li> <li>• Impact of merger on consumer loyalty: the new store may not deliver consumer loyalty, for example, different brands between stores.</li> <li>• Lack of synergies and cultural clash</li> <li>• Underlying market conditions remain: consumers changing their shopping habits and merger does not address this issue.</li> <li>• Impact on food suppliers: increased monopsony pressure on suppliers may lead to reduced choice of food suppliers. An increased risk of GCA investigation.</li> <li>• Consideration of problems of other mergers and acquisitions: for example, BT takeover of EE.</li> </ul> <p>NB for a Level 3 response there must be reference to the context e.g. Figure 1 or Extract C.</p>	<b>(9)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
<b>13</b> continued	<b>Evaluation 6</b>	
	<ul style="list-style-type: none"> <li>• There may be benefits which offset the problems, such as <ul style="list-style-type: none"> <li>○ different types of economies of scale e.g. bulk purchase</li> <li>○ rationalisation of stores and employees could lead to increased efficiency and profitability</li> <li>○ increased market power</li> </ul> </li> <li>• CMA could permit merger as sufficient competition still exists in the sector from online shopping and the growth of discount stores.</li> <li>• Prioritisation of problems with justification, for example, a lot of money could be spent on the proposed merger which is then blocked by CMA.</li> <li>• Short-run and long run implications: enormous upheaval in short run but sufficient cost savings could be made in long run to make it worthwhile.</li> </ul>	<b>(6)</b>

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5-6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.



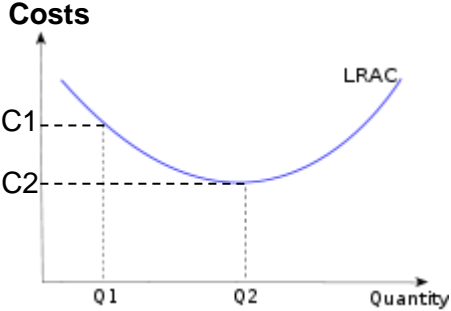
Question Number	Answer	Mark
14	<p style="text-align: center;"><b>Knowledge 2, Analysis 2, Application 2, Evaluation 2</b></p> <p><b>Knowledge/understanding:</b> 2 marks for identification of two reasons (1+1).</p> <p><b>Analysis:</b> 2 marks for linked explanation of these reasons (1+1).</p> <p><b>Application:</b> 2 marks for reference to the data (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• to enter seven overseas markets (1) – including Bulgaria, Czech Republic, Romania, Hungary, Israel, Poland, Romania and Slovakia/ operates almost 100 multiplexes (1) which increases the quantity of potential consumers (1)</li> <li>• to establish a European multiplex powerhouse (1) – CCI operates almost 100 multiplexes (1) which increases the quantity of potential consumers at each location (1)</li> <li>• Cineworld was ordered by competition regulators to offload three cinemas following its takeover of the Picturehouse chain (1). Difficulty of finding new growth opportunities in the company's home market (1) so moving abroad enables expansion (1)</li> <li>• industry data by Rentrak showing that UK and Ireland box office takings in 2013 fell by 1% to £1.17bn (1) falling demand in UK (1) and markets in Europe may be growing (1)</li> <li>• rivals have also grown overseas, with Odeon UCI and Vue Entertainment (1) and this suggests is a rational decision for the business to make (1) as their competitors are likely to have moved to maximise profits. (1)</li> </ul> <p><b>Evaluation:</b> 2 marks for two evaluative comments, e.g.</p> <ul style="list-style-type: none"> <li>• however, some of the countries they are moving to are poorer than the UK (1)</li> <li>• even in these countries they will be scrutinised by EU regulation (1)</li> </ul> <p>OR 2 marks for identification and linked development e.g.</p> <ul style="list-style-type: none"> <li>• magnitude of fall in cinema sales – fall 1% (1) could just be a bad year for films (1)</li> <li>• unlikely to want to copy them (1) it is more the impact on their competitors' profitability they are concerned about. (1)</li> </ul>	<b>(8)</b>

Question Number	Indicative content	Mark
15	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>16 marks for KAA, for causes of the number of firms in an industry to change.</p> <p>Microeconomic causes may include:</p> <ul style="list-style-type: none"> <li>• nationalisation</li> <li>• privatisation</li> <li>• contestability</li> <li>• market power</li> <li>• economies of scale – natural monopoly</li> <li>• regulation and deregulation</li> <li>• oligopoly behaviour</li> <li>• barriers to entry e.g. factors linked to demand- tastes-preference for HCW over automatic, income, availability of substitutes- decline in automatics</li> </ul> <p>Macroeconomic causes may include:</p> <ul style="list-style-type: none"> <li>• economic growth – e.g. a growing market means more firms will enter</li> <li>• trade patterns</li> <li>• level of protectionism</li> <li>• government policies e.g. supply side policies</li> <li>• TNCs and FDI</li> <li>• unemployment (especially given recent events)</li> <li>• inflation- if inflation is high, costs rise and if unable to increase prices, then firms may exit the market</li> <li>• Level of environmental protection- adds to the costs and may reduce the number of firms.</li> <li>• Exchange rates - if appreciated - costs to import lower and export higher - exporters may exit the market</li> <li>• Relative poverty high and rising - more demand low costs HCW increasing demand and market size - more firms</li> </ul> <p><b>NB for a Level 4 response there must be micro and macro cause(s). Foreign direct investment, role of TNCs, or regulation could be seen micro or macroeconomics</b></p> <p><b>NB for a Level 4 response there must be reference to an industry</b></p>	

	<p>9 marks for evaluation – points might include:</p> <ul style="list-style-type: none"><li>• Depends on the nature of the business. Another industry could be used as a contrast, e.g. a capital intensive industry</li><li>• Depends on the LRAC and the minimum efficient scale in the current situation</li><li>• Changes over time – barriers to entry or exit are likely to change e.g. in the face of new technology in car wash industry or other industry</li><li>• Exchange rates go up and down so could equally depreciate</li><li>• Environmental protection may create more demand as it is a more ethical service and not cause the number of firms to fall</li></ul>	<p><b>(25)</b></p>
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<b>Knowledge, application and analysis</b>		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5-8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9-12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13-16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

<b>Evaluation</b>		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-3	Identification of evaluative comments without explanation.
Level 2	4-6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7-9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
<p><b>16</b></p>	<p>KAA 8 marks Reserve 2 marks for diagram (1+1) one mark for correct movement/shift and one mark for impact The diagram can be used as part of the KAA or Evaluation or both</p> <p>Diagram might involve increase in AR/MR, falling in SR costs (AC or AC and MC), LRAC and a succession of SRACs (envelope curve) or a simpler version of economies of scale, e.g.:</p>  <p>Allow diagrams with constant costs, or diagram showing movement from competitive to monopoly situation e.g. showing benefit to firms such as increased profit</p> <p>Factors 2+2 +2 + 2 marks or 3+3 +2 marks or 4 + 4 marks</p> <p>Benefits to <b>any stakeholders</b> might include:</p> <ul style="list-style-type: none"> <li>• economies of scale (might count as more than one point) e.g. 'more bananas on fewer boats' means there are technical economies of scale</li> <li>• the merger would give distributors increased power in negotiating with the supermarkets e.g. raised profits for firms</li> <li>• rationalisation</li> <li>• shared networks</li> <li>• benefits of diversification e.g. melons and pineapples</li> <li>• cross subsidisation</li> <li>• increased market power in selling produce</li> <li>• job security for workers</li> <li>• increased consumer surplus</li> <li>• high tax revenue</li> </ul>	

Question Number	Answer	Mark
<b>16</b> <b>continued</b>	Evaluation 8 marks e.g. (2+2+2 +2) or (3+3+2) or (4+2+1+1) Factors might include negative impacts on <b>any stakeholder</b> , or other evaluation points: <ul style="list-style-type: none"> <li>• Merging might lead to higher costs</li> <li>• Revenues might not rise</li> <li>• Diseconomies of scale (might be shown on diagram) – e.g. lost synergies</li> <li>• Fear or costs of regulation</li> <li>• Need more information e.g. on how other firms will react</li> <li>• Diagrams could be used as part of the evaluation, e.g. higher prices, lower consumer surplus</li> <li>• Redundancy costs</li> <li>• Legal costs</li> <li>• X inefficiency costs</li> <li>• Effect on workers</li> <li>• Impact on banana growers (monopsony)</li> <li>• Impact on contestability</li> </ul>	<b>(16)</b>

Question Number	Answer	Mark
<b>17</b>	<p>KAA 8 marks. Award up to 4 factors e.g. (2+2+2 +2) or (3+3+2) or (4+2+1+1). Points might include:</p> <ul style="list-style-type: none"> <li>• Reasons for growth, e.g. economies of scale, benefits of horizontal integration (might count as more than one point)</li> <li>• Lack of contestability. Barriers to entry might include high fixed costs (might count as more than one point)</li> <li>• High set up costs e.g. high-cost legal requirements</li> <li>• Small profit margins at low output levels. Award use of appropriate profit/cost/revenue diagrams e.g. LRAC falling</li> <li>• Monopoly power/power of branding/non-price competition</li> <li>• Collusion</li> <li>• Limit or predatory pricing</li> <li>• Other anti competitive behaviour</li> <li>• Minimum efficient scale</li> <li>• Loyalty schemes and other non-price competition such as branding e.g. M&amp;S services might attract loyal customers</li> <li>• Regulations e.g. planning restrictions</li> <li>• Debt is a deterrent e.g. £376m Extract 3</li> <li>• Maybe unattractive to potential competitors. Therefore few firms can dominate the market</li> </ul> <p>Evaluation 8 marks (2+2+2 +2) or (3+3+2) or (4+4). Points might include:</p> <ul style="list-style-type: none"> <li>• The firms seem content to survive the fixed costs into the very long run (extract 3)</li> <li>• Reasons why other firms are better when small, e.g. care service industry</li> <li>• Several firms have had to merge or go out of business</li> <li>• Diseconomies of scale e.g. are synergies possible and do dis-synergies set in?</li> <li>• Few opportunities to increase profits are available.</li> <li>• Discussion of the nature of the business e.g. minimum efficient scale</li> <li>• MSAs are more than 50 miles apart which is a sign of failed regulation</li> <li>• Risk or cost of loyalty schemes</li> <li>• Pay off matrix or other game theory can be used e.g. to show why collusion might not work</li> <li>• Arguments that economies of scale don't apply e.g. the low credit ratings of operators means that banks won't lend</li> </ul>	<b>(16)</b>

Question Number	Mark scheme	Mark
<b>18</b>	<p><b>Theory (2):</b> Horizontal integration (1) with firms merging at the same stage of a production process or same product or firms are making the same type of product (1) increasing market share (1)</p> <p><b>Application (2)</b> Chinese firms merging reduced the number of firms (1) from 200 to 50 (1); the firms are all producing baby milk powder (1); Inner Mongolia Industrial Group and China Mengniu Dairy supported in their merger (1); 30bn yuan or \$4.9bn (1); increased ability of Chinese firms to compete with/drive away international rivals (1)</p> <p>NB if the answer is 'vertical integration' then award no marks for theory, but application can still be relevant, e.g. government supporting baby milk suppliers</p>	4



Question Number	Answer	Mark
<b>19(a)</b>	<p>Theory 2 marks Award <b>one</b> reason. Award 1 mark for identification for a reason and 1 mark for explanation of why this is a benefit. Reasons might include:</p> <p>To integrate vertically. This might be backwards (closer to raw materials) or forwards (closer to customer) e.g. to absorb profit margin</p> <p>Economies of scale <b>if type given</b> e.g. managerial, financial, technical</p> <p>Cut intermediary costs</p> <p>Remove suppliers, information from competitors</p> <p>Reduce contestability</p> <p>Gain profit – know their customers <b>even</b> better</p> <p>Remove the risk that Dunnhumby might go out of business or be bought out by another firm, reduce over-dependence</p> <p>Application: Reference to data (2) gain customer knowledge, Extract 1 line 17 'detailed knowledge of 15 m', lines 18-19 'opening a lead over UK supermarket rivals', reconnecting with customer line 10, loyalty cards as example</p>	<b>(4)</b>

Question Number	Answer	Mark
19(b)	<p>KAA (8) Award best four points or fewer e.g. 2 + 2 + 2 + 2 or 3 + 3 + 2 or 4 + 4</p> <p><b>Allow arguments for why firms dominate as KAA and reasons why they do not dominate as evaluation, or vice versa.</b></p> <p>KAA For large retailers dominating:</p> <p><b>Reasons</b> must be given for dominance. No marks awarding for simply stating that there is dominance, e.g. it is an oligopoly.</p> <ul style="list-style-type: none"> <li>• High barriers to entry e.g. supermarkets have strong brand image or network, statutory barriers such as health and safety regulation</li> <li>• Vertical integration e.g. control of suppliers</li> <li>• Monopsony power</li> <li>• Greater potential for collusion or price leadership</li> <li>• Supermarkets have become umbrella shopping experience</li> <li>• High sunk costs</li> <li>• Use of price competition – limit pricing, predatory pricing, price discrimination</li> <li>• Use of non-price competition</li> <li>• Economies of scale (may count as more than one factor)</li> <li>• Ability to use pricing and non-pricing policies to establish market revenue and profits</li> <li>• Low level of contestability in the industry</li> <li>• Benefits of growth (may count as more than one factor): <ul style="list-style-type: none"> <li>○ Gain market power to influence price and output decisions</li> <li>○ Survival is driven by cost advantages, so mergers are more likely</li> <li>○ Increased market share/ sales</li> <li>○ Increased profit margins</li> <li>○ Avoid the threat of being taken over themselves (becoming too big to buy out)</li> </ul> </li> </ul> <p>Use of data, e.g. large firms can use loyalty cards to track their customers, 76.1% concentration ratio in Figure 1 (1+1)</p> <p>Evaluation (8) Award best four points or fewer e.g. 2 + 2 + 2 + 2 or 3 + 3 + 2 or 4 + 4. Reasons may</p>	

	<p>involve the reverse of the above, for example that there are many firms competing rather than dominating in the food retailing industry/or there is market dominance in the hairdressing industry</p> <p>Evaluation: For small firms:</p> <ul style="list-style-type: none"> <li>• Hairdressers can do very little to increase loyalty – not cost effective</li> <li>• No significant economies of scale</li> <li>• People want hairdressers to be in town centres, which might mean capacity/cost constraints</li> <li>• High level of contestability in the industry</li> <li>• Need to train staff, and keep them keen</li> <li>• People want personal individual services from hairdressers</li> <li>• Niche market/unscaleable business</li> <li>• Low minimum efficient scale</li> <li>• Lack of resources to get bigger – need to buy in expensive stylists which can't be afforded</li> <li>• Lack of motivation – they are lifestyle choices, satisficing</li> <li>• There are substitutes for hairdressing – more choice (cut at home) and less frequent, therefore higher PED</li> <li>• Tax thresholds and VAT registration can keep businesses small</li> </ul> <p>Other evaluation factors might include:</p> <ul style="list-style-type: none"> <li>• 3.9% of market share is not controlled by large supermarkets – there are many small firms with low barriers to entry</li> <li>• diseconomies of scale (may count as more than one factor)</li> <li>• use of data, e.g. hairdressing customers are 70% truly loyal</li> <li>• small firms advantages – more dynamic, respond quickly to change, tighter management</li> <li>• extract makes it clear that non-price competition is not very effective</li> <li>• same theory might be used to show difficulties of increasing loyalty</li> <li>• niche markets in retailing mean some firms are very small</li> </ul>	<p><b>(16)</b></p>
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	<ul style="list-style-type: none"><li>• some industries with small firms have low levels of contestability e.g. customer loyalty to stylists (extract 2)</li><li>• some industries with large firms have high levels of contestability, e.g. online retailing</li><li>• franchises in hairdressing do in fact dominate the market e.g. Tony and Guy</li></ul>	
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Question Number	Answer	Mark
<b>20(a)</b>	<p><b>2 theory + 2 application</b></p> <p>2 marks for <b>one</b> benefit:  Identification of a likely benefit, e.g. economies of scale, increased market share/combat supermarkets' monopsony power/gaining own market power/gain own monopsony power (1 mark) with explanation of why this was a benefit, e.g. bulk buying (1 mark)</p> <p>2 marks for application:  Use of Figure 1 to show the benefit of merger in context of high concentration ratios of supermarkets (this explains their monopsony power) (1) better terms with own suppliers (1) or better deals in supplying supermarkets (1) example of bulk applying e.g. sugar (1) cost and tax savings (1), £40 million cost saving/profit rise or 2% worth-of-joint-sales of cost reduction/profit rise (1), less bullying of retailers (1)</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>20(b) *</b>	<p><b>8 KAA + 8 evaluation = 16</b></p> <p>KAA 8 marks. Award the best four points made, or fewer. 4 x 2 marks, 2 x 4 marks, or 3 + 2 + 2 + 1 marks</p> <p>For each point 1 mark identification, 1 mark application, 1+1 marks for analysis</p> <p>Reasons for growth of some firms might include:</p> <ul style="list-style-type: none"> <li>• Economies of scale (can count as more than one factor) and minimum efficient scale, e.g. bulk buying/monopsony power</li> <li>• Aim to increase market power/ market share/ monopsony power e.g. firms can remain large because of oligopoly power (can count as more than one factor)</li> <li>• Rationalisation in larger firms keeps costs down, so is a motive to grow</li> <li>• Patents, copyright and other barriers to entry</li> <li>• Successful growth strategies, e.g. sales max, output max, predatory pricing, limit pricing</li> <li>• Risk taking is successful</li> <li>• Diversification e.g. entry into niche markets in US with Fresh &amp; Easy</li> <li>• Control of resources</li> <li>• Opportunities to integrate/M&amp;As</li> <li>• Global trade issues, such as trading blocs</li> </ul>	

- Motives of directors e.g. satisficing shareholders while aiming for growth for other motives such as prestige or sales-performance related pay; aim of increasing profits

**If no application to any industry, cap at 6/8 KAA marks**

**KAA can be awarded for saying why firms are large and evaluation for why some remain small, and vice versa.**

**Evaluation 8 marks.**

Can allow reasons why firms do not want to grow or remain small (counterargument to the above) or other forms of evaluation

Award the best four points made, or fewer. 4 x 2 marks, 2 x 4 marks, or 3 + 2 + 2 + 1 marks

Reasons firms remain small might include (must apply to specific industry):

- Niche markets, specialist markets, small market size
- Lack of finance and/or retained profits e.g. depends on the degree of lending to small and medium size businesses (allow reference to Project Merlin 2011) (may count as two points)
- Different objectives of firms, eg cooperatives, satisficing behaviour of firms, avoid risk, family firm
- Parts of processes might be contracted out, leaving smaller core business
- Need for personalised service/after care
- Tax breaks, VAT thresholds and other government incentives for small firms
- Dynamism of small firms
- Diseconomies of scale, very low minimum efficient scale, or lack of significant scale economies (may count as more than one factor)
- External economies may exist
- Nature of the business, e.g. hairdressing
- Nature of the market, e.g. monopolistic competition, monopsony power
- It may be a matter of time before the smaller firms are swallowed up
- Depends on the state of the economic cycle
- Firms might stay small to avoid the attention of the competition authorities
- Ignorance, or other managerial failure
- Firms might stay small to avoid the attention of other firms, e.g. to avoid takeover, predatory behaviour by other firms, limit pricing by other firms. You may award use of game theory in developing such answers.

**(16)**

Question Number	Answer	Mark
21	<p><b>KAA 6 marks (2+2+2 or 4+2 or 3+3)</b></p> <p><b>Benefits for PepsiCo (up to 4 marks):</b></p> <ul style="list-style-type: none"> <li>• Economies of scale (different forms might count as two factors),</li> <li>• Other benefits of diversification</li> <li>• Improve 'healthy' image</li> <li>• Emerging US market - increased potential for profit</li> <li>• Spreading risk</li> <li>• Buying into a ready-made distribution network, via General Mills</li> </ul> <p><b>Benefits for consumers (up to 4 marks):</b></p> <ul style="list-style-type: none"> <li>• Increased choice and availability</li> <li>• Lower prices if cross subsidisation/economies of scale occurs with consequent welfare implications</li> <li>• Improved quality owing to innovation/investment by cross subsidisation</li> <li>• Can allow credit for consumers as employees</li> <li>• Improved health?</li> </ul> <p><b>Cap at 4/6 marks if only one stakeholder is discussed</b></p> <p><b>Evaluation 6 marks (2+2+2 or 3+2+1 or 3+3)</b></p> <p><b>Costs for PepsiCo:</b></p> <ul style="list-style-type: none"> <li>• Lack of expertise in new markets</li> <li>• diseconomies of scale, e.g. Management problems, communication problems</li> <li>• Cost of takeover - potential damage to share price</li> <li>• PepsiCo will not gain complete control - PAI Partners are only selling 50%</li> <li>• Risk of investigation by competition authorities</li> </ul> <p><b>Costs for consumers:</b></p> <ul style="list-style-type: none"> <li>• Increased prices/loss of consumer surplus</li> <li>• Increased price in the long run as market power/marketing costs increase</li> <li>• Health risks of Pepsi are blurred</li> </ul> <p><i>Allow credit for all the usual evaluation points.</i></p>	(12)



Question Number	Answer	Mark
22	<p>KAA (8 marks). Award up to 4 factors e.g. (2 + 2 + 2 + 2) or (4 + 2 + 1 + 1) + (3 + 3 + 2)</p> <p>Identification of the meaning of economic efficiency, e.g. increased output from the same amount of inputs, or producing where <math>P=MC</math></p> <p>Impact of takeover to increase efficiency factors might include:</p> <ul style="list-style-type: none"> <li>• Rationalisation</li> <li>• Removal of wasteful competition</li> </ul>	

	<ul style="list-style-type: none"> <li>• Economies of scale (different types can count as more than one factor)</li> <li>• Consideration of different types of efficiency, e.g. allocative, productive (different types can count as more than one factor )</li> <li>• Synergies</li> <li>• Extract 2 lines 28-29 Increased management efficiency</li> <li>• Extract 2 lines 16-17 reduce cost by offshoring</li> </ul> <p>Award max 6/8 KAA marks if no specific reference to the information provided</p> <p>Evaluation (8 marks). Award up to 4 factors e.g. (2 + 2 + 2 + 2) or (4 +2 + 1 + 1) Impact to decrease efficiency factors might include:</p> <ul style="list-style-type: none"> <li>• Costs to owners in terms of risk</li> <li>• finance issues - cost of buying company has direct costs, debt issues</li> <li>• Costs to employees who lose jobs, closure of plants, redundancy packages, bad industrial relationships , threat of industrial action and marketing issues from the bad press (extract 3) will increase costs to firms involved</li> <li>• Allow macro concepts of inefficiency in the sense of unemployed resources, e.g. unemployment is a sign of poor use of resources for the country</li> <li>• Depends on the economic climate/credit crisis</li> <li>• Depends on short run or long run issues</li> <li>• Some efficiencies are affected more than others</li> <li>• Conflict between productive and allocative efficiencies, e.g . cutting costs might damage welfare of the consumer</li> <li>• Diseconomies of scale</li> <li>• Might be subject to attention of competition authorities</li> <li>• Extract 2 lines 16-17 ‘Cadbury is already efficient’</li> <li>• Increased market power might lead to x-inefficiency</li> <li>• Extract 2 lines 30-31 management is already efficient at Cadbury, and ‘in no need of lessons from Kraft’</li> </ul> <p>KAA and evaluation marks may be awarded on either side of the case for and against a judgement of efficiency</p>	(16)
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Question Number	Answer	Mark
23(a)	<p>Theory (2 marks): identification that this is horizontal (1 mark) with explanation that the firms are at the same stage of the production process (1 mark) gaining economies of scale/combined market share (1 mark)</p> <p>Application (2 marks): that they both offer commercial flights (1 marks); application of economies of scale e.g. cut overlapping routes (1 mark); can combine office functions (1 mark); increased buying power when buying planes (1 mark); 'national flag carriers' Ext 1 lines 14-16 (1 mark) with associated landing rights (1 mark), substantial cost savings (1 mark).</p>	(4)

Question Number	Answer	Mark
23(b)	<p>KAA: 8 marks, award as (2x4 or 4x2 marks or 3+2+2+1 etc). Award up to four points.</p> <p>Benefits might include:</p> <ul style="list-style-type: none"> <li>• Economies of scale (more than one can count as separate points)</li> <li>• Increased market share</li> <li>• Rationalisation: ‘within five years the new group will save some €400m (\$595m) a year by cutting overlapping routes, and by combining maintenance, office functions and business-class lounges.</li> <li>• Benefits to consumers e.g. consolidation means fewer strikes/airlines going out of business, which is better for the consumer in the short run (don’t get holidays cancelled) and long run (more choice, competitiveness, better service)</li> <li>• Could protect and even create jobs</li> <li>• Benefits to the government in terms of tax revenue and spending</li> <li>• Increased buying power, or monopsony power, enabling purchasing economies of scale. The pair may also have more buying power when it comes to negotiations to buy new planes from Boeing and Airbus’</li> <li>• Merger will provide finance for investment, e.g., in environmentally friendly technology</li> <li>• Benefits to shareholders - increased market capitalisation and dividends</li> </ul> <p>Evaluation (costs): 8 marks (2x4 marks or 4x2 marks or 3+2+2+1 etc). Points might include:</p> <ul style="list-style-type: none"> <li>• De-industrialisation problems, unemployment,</li> <li>• Less choice and/or higher prices for consumers; fall in consumer surplus</li> <li>• Higher risk and/or prices for consumers; fall in consumer surplus</li> <li>• Higher risk for firm/over-specialisation (‘all the eggs in one basket’)</li> <li>• Diseconomies of scale</li> <li>• Clash of cultures, and/or loss of synergy</li> <li>• Costs of redundancies</li> <li>• Lower morale of workers</li> <li>• Marketing problems</li> <li>• Allow other forms evaluation, e.g. short/long run distinction</li> <li>• Risk of investigation by competition authorities</li> <li>• Legal, admin and negative publicity costs should the merger fail to go through</li> <li>• Other airlines might retaliate by merging</li> <li>• Loss of benefits of specialisation in domestic markets.</li> </ul>	(16)

Question Number	Answer	Mark
24	<p>Theory 2 marks: identification that this is forward (1 mark) e.g nearer the customer/market or downstream, vertical integration (1 mark) e.g. same industry but different stages of production</p> <p>Application of vertical integration 2 marks: e.g. generating companies own networks that distribute electricity from Line 25, (1 mark) with explanation that the distributors are nearer the customers (1 mark)</p>	(4)

Question Number	Indicative content		
<b>25(a)</b>	<p><b>KAA 6 marks</b>  Identification and explanation of up to 3 benefits to Merck (2+2+2 or 3+3 or 3+2+1)</p> <p>These may include</p> <ul style="list-style-type: none"> <li>• Economies of scale (accept 3 economies of scale as different factors) - marketing, financial, risk bearing, R &amp;D</li> <li>• Access to new markets e.g. Schering 70% of market outside US</li> <li>• Access to new patents</li> <li>• Protection from unwanted predators</li> <li>• Higher market share, e.g. elimination of competition, widening scope</li> </ul> <p><b>Must be benefits to Merck, not other stakeholders</b></p> <p><b>Evaluation: Award 6 marks (2+2+2 or 3+3 or 3+2+1)</b></p> <p>Factors may include</p> <ul style="list-style-type: none"> <li>• Diseconomies of scale</li> <li>• Likely costs of the merger e.g. dilution of shareholder value</li> <li>• Possible investigation by competition agencies such as the Federal Trade Commission</li> <li>• Possibility that the merger might not succeed</li> <li>• Possibility that the firms will not be able to adequately integrate</li> <li>• Time lags in realising the benefits.</li> </ul>		<b>(12)</b>
Level	Mark	Descriptor	
Level 1	1-3	Identification and weak explanation of up to 2 benefits <b>3 marks</b>	
Level 2	4-6	Identification and explanation of up to 3 benefits <b>6 marks</b> Brief evaluation (1)	
Level 3	7-12	Identification and explanation of up to 3 benefits <b>6 marks</b> Evaluation: Identification and explanation of up to 3 evaluation <b>6 marks</b>	

Question Number		Indicative content
<b>25(b)</b>		<p><b>KAA 6 marks (3 marks for consumers and 3 marks for employees) of which (3 or 2+1)</b></p> <p>Identification and explanation of advantages to consumers</p> <ul style="list-style-type: none"> <li>• Economies of scale and other synergies mean lower LRAC and therefore lower prices</li> <li>• Greater profits/R &amp; D budgets mean more breakthroughs</li> <li>• Reduction in competition may mean firms can divide up market to research particular areas of expertise, so more choice for consumers</li> </ul> <p>Employees</p> <ul style="list-style-type: none"> <li>• Increased job security as profits rise</li> <li>• Higher wages/perks</li> <li>• Share options increase in value</li> <li>• More scope for promotion in larger firms</li> <li>• Allow non worsening situation as being in the interests of employees</li> </ul> <p><b>Evaluation 6 marks (3 + 3 marks or 2 + 2 + 2 marks)</b></p> <p>Factors may include:</p> <ul style="list-style-type: none"> <li>• Greater possibility of collusion to raise prices</li> <li>• Less incentive to innovate and produce better drugs</li> <li>• Increased chance of x-inefficiency and exploitation or price discrimination</li> <li>• Prices rise if there are diseconomies of scale</li> <li>• Worker redundancies</li> <li>• Morale issues</li> <li>• Less choice because there are fewer firms</li> </ul>
Level	Mark	Descriptor
Level 1	1-3	Identification of advantages to consumers ( <b>Up to 3 marks</b> )
Level 2	4-6	Some understanding of public interest - benefit to consumers. <b>1 mark</b> Identification and explanation of 2 advantages to consumers ( <b>Up to 4 marks</b> ) Limited evaluation ( <b>Up to 2</b> )
Level 3	7-12	Identification and explanation of 2 advantages to consumers ( <b>Up to 4 marks</b> ) Extensive evaluation ( <b>Up to 6</b> )

**END OF SECTION B**