



Economics Questions By Topic:

Monopoly (3.4.5)

Mark Scheme

A-Level Edexcel Theme 3

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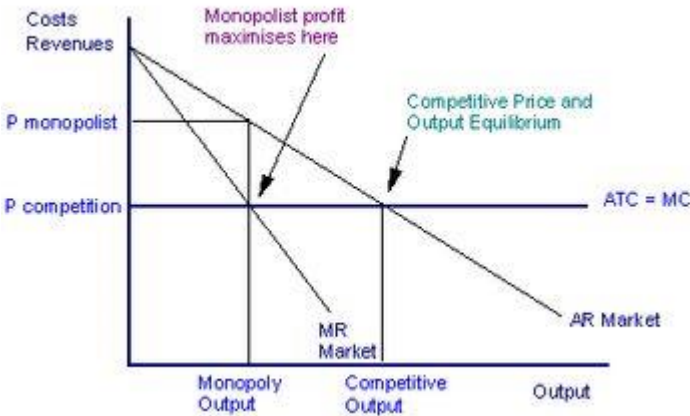
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SECTION A

Question Number	Answer	Mark
<p>1(a)</p>	<p style="text-align: center;">Knowledge 2, Application 2</p> <p>Knowledge</p> <ul style="list-style-type: none"> - Profit maximisation price identified for students (P_a) (1) - Profit maximisation price identified for non-students (P_b) (1) <p>Application</p> <ul style="list-style-type: none"> - Profit identified for students (1) - Profit identified for non-students (1) <div style="text-align: center; margin-top: 20px;"> </div>	<p>(4)</p>

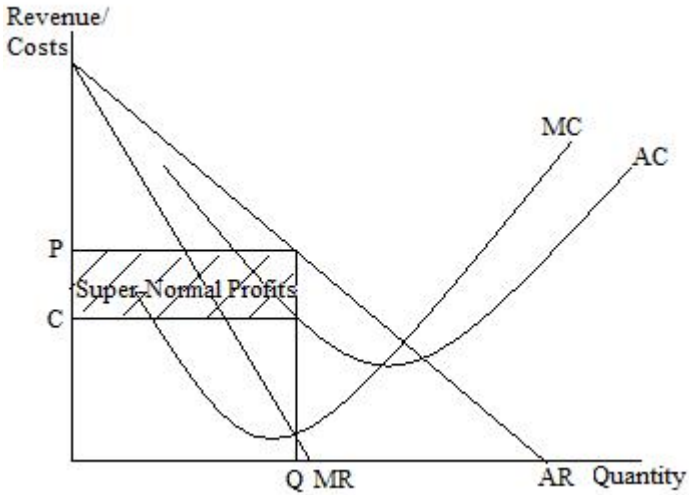
Question Number	Answer	Mark
1(b)	<p style="text-align: center;">Analysis 1</p> <p>The only correct answer is A</p> <p><i>B is not correct because the price elasticity of supply does not influence price discrimination</i></p> <p><i>C is not correct because for it to be third-degree price discrimination the same product is being bought; it is homogenous</i></p> <p><i>D is not correct because price discrimination is not associated with costs of production reasons</i></p>	(1)

Question Number	Answer	Mark
2	Key: E	(1)
	<p>Explanation: Definition of price discrimination, e.g. when a firm charges more than one price for the same good or service (1);</p> <p>Demand in school holiday market is relatively price inelastic (holiday time) or term time is relatively price elastic (1)</p> <p>Prices in market school holiday market will be higher than in term time (1)</p> <p>Reason for the different elasticities, e.g. market for holidays is more elastic during term time because people who do not have to go away in the school holidays have more choice or market for the holidays is less elastic during school holidays as children will be off school (1)</p> <p>Annotation of diagram showing two marginal costs curves intersecting on school holiday market at output 150 (1); price at 500 (1); on term time at 200 (1); price at 400 (1). Accept a separate diagram showing up to three panels showing the equilibrium for the combined school holiday market and term time markets, up to 3 marks if fully and correctly annotated (3)</p> <p>Reasons for why price discrimination can occur (1): any one reason, for example, no arbitrage, low cost of keeping markets separate, differing elasticities in submarkets can be enjoyed.</p> <p>Example of knock out mark: it cannot be A as this shows marginal cost and marginal revenue only (1).</p>	(3)

Question Number	Answer	Mark
3	Key: E	(1)
	<p>Definition or characteristic of perfect competition (1) and contrast with characteristic of monopoly, e.g. downward sloping demand curve (1). A take-over will make demand more inelastic/give firm the power to set price (1)</p> <p>Diagram up to 2 marks: to show increase in price (1) and reduction in output at new $MC=MR$ (1) with new profit/loss area shown (1)</p> <p>Example of knock out mark: not A because monopolies can force up prices without losing sales (1)</p> <p style="text-align: center;">Monopoly versus Perfect Competition</p> 	(3)

Question Number	Mark scheme	Mark
4	Key: A	1
	<p>Revenue definition (1) e.g. money is coming into the firm, $P \times Q$, turnover, value of sales</p> <p>Identification that this is price discrimination (1)</p> <p>Application to context (1) e.g. the senior citizen has a higher PED and is therefore not prepared to pay as much, or there are customers who have different elasticities because they have more free time</p> <p>Higher prices where demand is relatively inelastic on diagram or verbally (1) (see below left diagram, MR is not needed for the mark)</p> <p>Lower prices where demand is relatively elastic (1) (see below right diagram, MR is not needed for the mark)</p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="379 862 710 1332"> <p>£</p> <p>P1</p> <p>Less elastic = advance</p> <p>AR1</p> <p>MR1</p> <p>Q1</p> <p>Output</p> </div> <div data-bbox="805 862 1212 1366"> <p>£</p> <p>P2</p> <p>More elastic = senior citizen</p> <p>AR2</p> <p>MR2</p> <p>Q2</p> <p>Output</p> </div> </div> <p>Main conditions for price discrimination (1) e.g. low or no arbitrage, separate sub markets with different elasticities</p> <p><i>Example of knock out marks:</i></p> <p><i>It is not C because arbitrage makes price discrimination impossible</i></p>	3

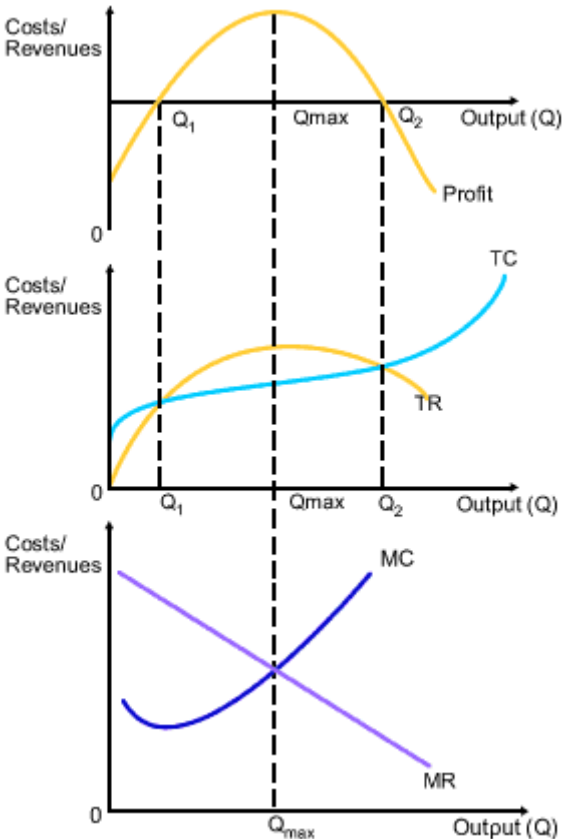
Question Number	Answer	Mark
5	Key: A	(1)
	<p>Knowledge mark: price discrimination is occurring or definition/formula of PED (1)</p> <p>Explanation: When demand is relatively inelastic, price can be raised without significant loss of revenue/demand is unresponsive (1) Two sub-markets have been identified with different elasticities, which is a condition of price/product discrimination (1) Reasoning for higher/lower PED, e.g. there is more choice before 6pm, or people who have been working have higher incomes to spend than the people who can eat out during the day (1+1)</p> <p>Use of diagram to illustrate relatively elastic demand before 6pm and relatively inelastic demand after 6pm (1 mark for correct elasticities, 1 mark for correct prices in each sub-market)</p> <p>Knock out of E: It cannot be E because if arbitrage is possible then price discrimination is not possible (1)</p>	(3)

Question Number	Answer	Mark
<p>6</p>	<p>C</p> <p>Definition/identification mark: price setting power, e.g. downward sloping demand curve, or average revenue downward sloping, or AR slopes downwards, firms can raise or lower price and still sell its product, or shared supernormal profits in the short run (1)</p> <p>Characteristic of monopolist as a single seller, one firm dominates, high barriers to entry, firm=market (1)</p> <p>Characteristic of monopolistic competition, e.g. as a market with many sellers, slightly differentiated products, (1)</p> <p>Application mark (1) e.g. examples of a monopolistically competitive firm, such as fast food outlets</p> <p>Further development marks can be awarded for: discussion that the price elasticity of demand is lower for monopoly, or less price elastic.</p> <p>Diagram or diagrams can earn up to 2 marks. Downward sloping AR (1) and difference between the models (1) illustrated below:</p> <p>for monopoly (which is equivalent to the diagram for monopolistic competition in the short run):</p>  <p>Diagram for Monopolistic competition in the long run. Note the AC is a tangent with AR:</p>	<p>(4)</p>

	<p>Example of elimination mark: Knock out of A because monopoly has high entry barriers Not D as only monopoly can make supernormal profit in the long run</p>	

Question Number	Answer	Mark
7	<p>D</p> <p>Definition/identification mark: The product is the same but the users are charged a different price. (1)</p> <p>Conditions for price discrimination (1). Rationale e.g. different elasticities of demand (1) and the women have more elastic/higher value PED than men (1)</p> <p>Diagram of price discrimination up to 2 marks: low price elasticity of demand for men, high price elasticity of demand for women (1) showing <i>high prices</i> in the low PED male sub-market and <i>low prices</i> in the high PED female sub-market (1)</p> <p>Application mark (1): women are charged less to attract them when they have more choices of entertainment, or other relevant application of the other keys</p> <p>Benefits to the firm (1): increased profit</p> <p>Further analysis mark (1+1): discussion of costs of keeping market separate, no resale between sub-market, discussion of product discrimination</p> <p>Example of elimination mark: Knock out of A, B, C or E as they are different products, with application (1)</p> <p>Knock out of A, B, C or E because there are different production costs (1)</p>	(4)

Question Number	Answer	Mark
8	<p>E</p> <p>Definition of monopoly or market power (1) Explanation that the horizontal integration increases market power (1)</p> <p>Diagram (up to 3 marks) showing constant AC and MC (1) with new equilibrium at new $MR = MC$ (1) showing higher price on diagram (1) and lower output (1) loss of consumer surplus (1). Also award diagrams showing movement from monopolistic competition to monopoly where this clearly distinguishing the firm and industry.</p> <p>Or equivalent verbal analysis: Monopolisation/dominance would be reasons for raised price (1) and reasons for falling quantity (1)</p> <p>with examples e.g. Greggs (1) any discussion that there might be economies of scale in the long run so prices could fall, output rise (1)</p>	(4)

Question Number	Answer	Mark
9	<p data-bbox="411 219 432 248">E</p> <p data-bbox="411 282 1177 517">Definition of marginal profit e.g. the increase in profit when one more unit is sold or the difference between MR and MC or $MR - MC = 0$ (1) with $MC = MR$ (verbally or as diagram)(1) and marginal analysis of this point with diagram showing TR and TC (1) with the greatest positive difference (1) marginal analysis showing what happens before and after $MC = MR$ (1 + 1)</p> <p data-bbox="411 555 1198 685">Diagram (up to three marks) might include elements of the following: Vertical line connects profit maximisation with $MC = MR$ (1) Gradient of total profit curve is zero where marginal profit is zero (1)</p>  <p data-bbox="411 1603 1198 1749">Allow elements of this diagram (you are unlikely to see all of this), or other versions showing the difference between MC and MR as marginal profit, or shading area of total profit.</p>	(4)

Question Number	Answer	Mark
10	<p>C</p> <ul style="list-style-type: none"> • Definition of price elasticity of demand or formula e.g. $\% \Delta Q_D / \% \Delta P$ (1) • Demand less elastic in August (1 mark) and more elastic October (1 mark) which may be shown on a diagram • Observation that there is price discrimination (1 mark) with further development or diagram (1 mark) <p>Explanation marks are limited to 1 of the 3 marks if August is seen as more elastic than October</p>	(4)

Question Number	Answer	Mark
11	<p>B</p> <ul style="list-style-type: none"> • Recognition of economies of scale (1 mark) • Diagram showing falling long run average cost curve as output increases (1 mark) • Type of economies of scale e.g. technical economies of scale; managerial, marketing (1 mark) • Example of economy of scale as application e.g. high sunk or capital costs of rolling stock(1 mark) • Recognition of natural monopoly (1 mark) • Barriers to entry/exit (1 mark) 	(4)

END OF SECTION A

SECTION B

Question Number	Indicative content	Mark
12(a)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 4</p> <p>Case for rail network being a natural monopoly</p> <ul style="list-style-type: none"> • Define natural monopoly • Application – rail network was renationalised in 2001 after privatisation in 1993 promised competition. Need for integrated national rail network of 32 000km for 2 500 stations, requires enormous investment. • Large infrastructure cost means adding one more passenger or one more train means AC continues to fall. • Little additional costs associated with an additional customer or train running. • Operating one rail track minimises average costs, rail network’s LRAC continues to fall as high fixed costs associated with laying track and building new stations. • Allocative efficiency is met at close to large share of market demand. Minimum efficiency scale will require large subsidies to fund off peak services and cover losses. • Average cost would be very high for having two or more rail companies with wasteful duplication of multiple tracks – resulting in higher rail fares. • Allow relevant diagram e.g. <p>AC</p> <p style="text-align: right;">Output</p>	

	<ul style="list-style-type: none"> Only one rail network company can fully exploit large internal economies of scale – technical, commercial, managerial. <p>NB: Case for can be seen as KAA and positive case against as evaluation or vice versa.</p>	(8)
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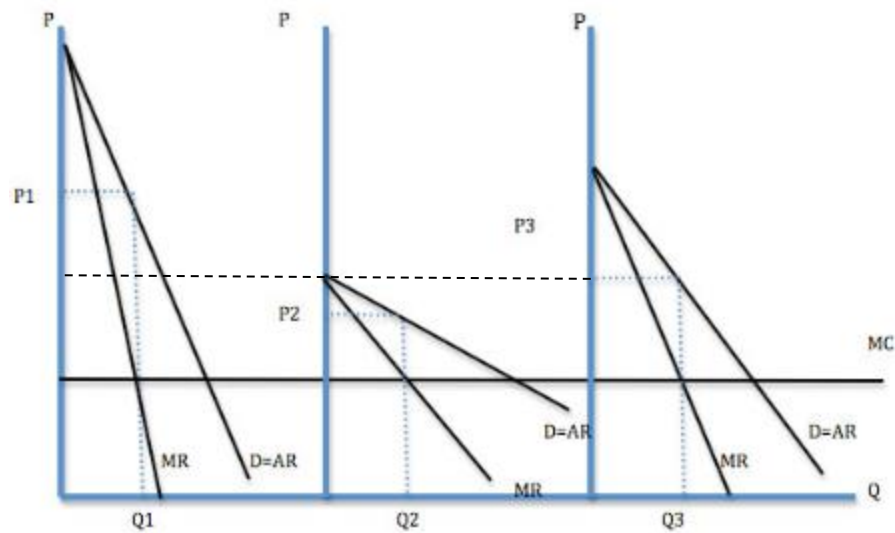
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3-5	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	6-8	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
12(a) continued	<p style="text-align: center;">Evaluation 4</p> <p style="text-align: center;">Case for rail network not being a natural monopoly</p> <ul style="list-style-type: none"> • Government support for competition: “companies can bid to build new rail lines to upgrade the railway.” • Train operating companies already compete to run trains on lines • Rail lines and stations could be leased out to competing firms • Potential diseconomies of scale in rail infrastructure – managerial slack, closure of rail lines. • Technological advances may result in competing rail lines. <p>NB: Case for can be seen as KAA and positive case against as evaluation or vice versa.</p>	(4)

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	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
12(b)	<p style="text-align: center;">Knowledge 3, Application 3, Analysis 3</p> <p>Price discrimination – charging different prices to different groups of consumers for the same service e.g. 16-25 railcard users vs adult fare users. Allow peak and off-peak as service from A to B is the same, price discrimination just provides an incentive to travel slightly later.</p> <ul style="list-style-type: none"> • Lower rail fares for 16-25 year olds Young persons' may increase their consumer surplus as a result – prices may move towards being more allocatively efficient $P=MC$. May find bargain fares - £35.80 cheaper as in Figure 3. Allows lower income groups to consume service – seek employment. • More choice for rail travellers: Price discrimination enables TOCs to make more revenue so they can cross subsidise and provide discount fares for seats that would not have been taken. In some cases without price discrimination rail operators may go out of business – preventing rail travel. • Avoids overcrowding Rail operators can use price discrimination to manage demand, preventing overcrowded train in peak travel times and encouraging rail travel by 16-25 year olds in less popular times off peak. • Improved customer service Rail travellers receive a better-quality travelling experience thanks to additional revenue raised through price discrimination. Investment in new trains, station services, online ticketing, customer information, Improved food and drink service, Wi-Fi access, seating and storage space. 	

- **Price discrimination diagram** showing, for example: Market profit maximising price and output P3 and Q3. At which no service would be provided for 16-25 year old customers. Price discrimination enables a lower price of P2 (£69.50) for young persons' – so consumer surplus increases for consumers with relatively more price elastic demand



NB: Other correct diagrams accepted.

NB: For Level 3 a valid diagram such as above is required. Analysis must link to benefits to consumers. Allow other types of rail fare price discrimination e.g advance booking, Senior Railcard, 16-17 year olds half price travel.

(9)

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
12(b) continued	Evaluation 6	
	<ul style="list-style-type: none"> • Rail operators are price regulated so not pure price makers • Cuts in number of guards may mean adults travel illegally. • Higher rail fares for adults £105.30 in Figure 3 (£35.80 more than 16-25 year olds) resulting in fall in consumer surplus and less allocatively efficient pricing. Overall consumer surplus may be lower. • Despite price discrimination consumers are suffering train cancellations and government is having to rescue rail operators making large losses. • Overcrowding happens on off peak trains – so government/rail operators have no incentive to continue offering young persons' discount. • Deteriorating customer service despite price discrimination. Rail operators using additional revenue to pay out dividends or executive pay rises. • Are rail operators/government aware of PEDs for different groups of consumers. 	(6)

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	Indicative content	Mark
13(a)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 4</p> <ul style="list-style-type: none"> • Define price discrimination. • Application- same screening but different prices – examples from data. • Third degree price discrimination diagram. <div style="text-align: center;"> <p>(Source: www.economicsonline.co.uk)</p> </div> <ul style="list-style-type: none"> • If they do not discriminate and $MR=MC$ profit is $P_2MC_2Y_2X_2$. • Adults – demand more inelastic so willing to pay more and respond less as price rises. • Children – demand more responsive to change in price – elastic. • If the firm splits up the market and charges different prices to each group the area of profit $PMCYX$ and $P_1MC_1Y_1X_1$ will be greater than if they do not discriminate. • Profits will rise if they price discriminate depending on different groups' elasticities. 	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	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	3-5	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	6-8	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
13(a) continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • Cost to administer and to ensure people buy only appropriate tickets is expensive. • Assumes they know shapes of demand curves for each group – which they may not. • Even within sub groups very different markets with different sensitivities to price – so could increase profits further with other discrimination. • Ethics/fairness of price discrimination. • Magnitude of price variations – £6.80-9.60. • Depends on proportion of earnings from tickets – other earning (popcorn etc) may be more significant. • Cutting costs may have more of an impact on increasing profits than changing price and revenue. 	(4)

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	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
13(b)	<p>Knowledge 3, Application 3, Analysis 3</p> <ul style="list-style-type: none"> • Competition Commission (CC) concluded merger would lead to higher prices for customers in Aberdeen, Bury St Edmunds and Cambridge. • Diagram, e.g. monopoly or comparing monopoly and perfect competition. • Increased producer surplus/decreased consumer surplus – fairness. • Deadweight loss from monopolist. • Lack of productive efficiency/allocative efficiency ($P > MC$). • X-inefficiency/organisational slack. 	(9)

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
13(b) continued	<p style="text-align: center;">Evaluation 6</p> <ul style="list-style-type: none"> • Cineworld operates mainly large out-of-town-centre cinemas, Picturehouse's cinemas tend to be smaller cinemas located in city centres – not direct competitors. • Other indirect competitors – bowling etc. • Dynamic efficiency, increased profits may be used to innovate. • National pricing operated where it is the same for all locations. • Management monitored by head office so unlikely to develop X-inefficiency. • May revenue maximise or sales maximise due to divorce of ownership. 	(6)

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	Mark scheme	Mark
14	<p>Theory 2: Monopoly/oligopoly/duopoly (1); explanation e.g. where a few firms dominate the industry (1) or interdependent (1) or dominant sellers/legal definition 25% or more market share or highly concentrated (1)</p> <p>Application: Shimano and Schramm (1) keep prices high (1); battery costs represent 25% of the cost of e-bikes (1); "Almost all source from the same few supplies" (1) specialist equipment and design in manufacturing batteries (1); their power has stopped bike manufacturers 'squeeze out small competitors' Ext 3 line 12 (1) or small collection of battery firms implied (1)</p>	4

Question Number	Answer	Mark
15	<p>Theory: 2 marks Firms are price makers, ability to set prices without losing all demand, price discrimination, relative inelastic demand or the use of a diagram to show a downward sloping demand curve, effectively the only supplier, there's no alternative, collusion Monopoly/oligopoly – a single or dominant firm (allow 25% legal definition)</p> <p>Application (at least one reference to any information provided): 2 marks 'Profiteering' or 'inflated prices' Extract 1 'not wanted to add extra miles' Extract 1 '15p above average price' Extract 1 'it's a complete monopoly' Extract 2 'notoriously expensive' Extract 2 'captive market' Extract 2 15 miles between MSAs or over 50 miles 'like an airport or railway station' Extract 2 'goldmine' Extract 3 'generate huge amount of cash' Extract 3 Concentration ratio from Figure 1 e.g. 3 firm CR = 87% (2 marks for correct calculation)</p> <p>Reduced number of options – HGV drivers forced to use MSAs</p>	(4)

Question Number	Answer	Mark
16	<p>KAA 6 marks Allow up to (2x 3 marks) or (3x2 marks) or Diagram (2) plus (2+2) or (3+1)</p> <p>Answer may relate to price discrimination within Jessops or between firms within any retailing market.</p> <p>Allow 1 mark for clear explanation of price discrimination (selling the same product at different prices) (1)</p> <p>Diagram marks (up to 2 marks)</p> <ul style="list-style-type: none"> - Inelastic AR or D linked to high price and/or elastic linked to low price (1) (can be shown through gradient of AR or D) - Profit maximisation output and prices extrapolated from whole firm diagram (1) <p>Reasons why price discrimination is possible:</p> <p>Discussion of fulfilment of conditions for price discrimination:</p> <ul style="list-style-type: none"> • Different price elasticity of demand, e.g. higher PED online as more competition • Monopoly power. Consideration of the branding within the market, and the ability to retain customers even when prices are raised. The appeal of Jones himself might be considered as a marketing tool. • Separation of the market, e.g. people want to try the product and receive advice in a shop, and online there is a time delay before the goods are received • Low costs of preventing arbitrage, or similar. For people shopping in store they may or may not be prepared to go home and buy the product online. Also can consider the risks or other costs of buying on the internet. <p>Award application: as part of these conditions (up to a maximum of 3 marks for each condition overall), e.g.</p> <ul style="list-style-type: none"> - Jessops sells accessories at higher prices in the high street stores but the cameras are very similar prices. - Online prices are lower so people are transferring to the online market. - High street stores are closing for this reason - Jones's comments on trying the cameras in the shop, the Apple-ish model, etc. - Jones does not intend to price discriminate on the major lines, but instead have very similar prices to online. He plans to make the money on accessories 	(12)

	<p>Evaluation: 6 (2x3 marks or 3x2 marks)</p> <ul style="list-style-type: none"> • Discussion of whether price discrimination is in fact possible as a strategy, e.g. in the long term arbitrage will become easy • It's product discrimination not price discrimination because costs in each market are different • It's product discrimination not price discrimination because 'Try before you buy' and other advice in the shop means that the product in the shop is not the same as the one online (or similar application points) • Changes in the economic cycle will affect PED, and other determinants of PED • Jones is willing to stake £4million that discrimination is possible • Depends on the season, e.g. Christmas, and the PED • Depends on other factors, such as ability to park, availability of other retail outlets nearby, as to the willingness of face-to-face shoppers to spend. • Depends on actions of competitors e.g. click and collect • Other criticisms of price discrimination, e.g. it can be illegal in some cases, and might be investigated by the competition authorities 	
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Question Number	Answer	Mark
17	<p>KAA (4 marks). Award one factor (up to 4 marks) and up to 2 marks for a price discrimination diagram.</p> <p>Reasons might include:</p> <ul style="list-style-type: none"> • Higher revenues/profits from price inelastic demand in shops • Larger market share in online sales • Penetration pricing in the online market • Increase loyalty and brand awareness in markets where prices are lower • Price discrimination. Conditions for price discrimination: different elasticities, low cost of keeping markets separate and no arbitrage • Different cost basis e.g. higher overheads or labour costs, Economies of Scale • Different degrees of competition or contestability e.g. Thorntons offers lower prices where demand is more elastic - e.g. online there is more choice • Increased brand loyalty • Higher profits of firm might ensure quality is maintained or new products are brought to market <p>Evaluation (4 marks). Award up to 2 factors e.g. (2 + 2) (3 + 1) or (4 + 0)</p> <p>Factors might include:</p> <ul style="list-style-type: none"> • Internet not always more competitive - hidden brand loyalty • There may be changes in the long run as more internet shopping is increasingly popular • Conditions of price discrimination do not hold in the long run, e.g. over time the arbitrage becomes easier • Loss of consumer surplus for those with price inelastic demand • Less choice, might lead to consumer loyalty decreasing in the long run • Higher labour costs in running an effective website? • Packaging and production cost are the same, the difference in cost is relative small. 	(8)

Question Number	Answer	Mark
18(a)	<p>Theory (2 marks): a monopoly (1 mark) - at least reference to one characteristic (1 mark) or identification of Competition Commission legal definition of 25 per cent of market share (1 mark)</p> <p>Application to information provided (2 marks): e.g. 'BAA's ownership of London's three largest airports' (Extract 1, line 6) (1 mark)</p> <p>Allow oligopoly up to 4 marks, if argued convincingly that there is a degree of competition in the London market. This must be supported by evidence, e.g. reference to Luton and City Airport as non-BAA owned in Figure 1.</p>	(4)

Question Number	Indicative content (14)	
18(b)	<p>KAA 7 marks Reasons for policy (up to 4 marks 2 x 2 marks or 1 x 4 marks):</p> <ul style="list-style-type: none"> • Increased profits • Increased revenue/demand • Price inelastic demand/monopoly power • Higher costs • Increased market share in markets where demand is more elastic • Prevent other firms from entering the more contestable markets • Analysis of price discrimination • Allow up to 2 marks for a firm sub-markets diagram showing different elasticities prices, • Application of data e.g. Heathrow with low PED and Gatwick with higher PED (could be on diagram) <p>Consequences of policy (up to 4 marks 2 x 2 marks or 1 x 4 marks) might include:</p> <ul style="list-style-type: none"> • Profits/revenue/market share increase • Involvement of the Competition Commission • Lost consumer welfare as fare prices rise • Effect on airlines - less profit, higher costs • Deters new entrants <p>Evaluation: (up to 7 marks for 2 points 4+3 or 3 points 3+2+2 or 2+2+2+1 or similar) Points might include:</p> <ul style="list-style-type: none"> • This is price differentiation/product differentiation NOT price discrimination • Arrival of competition may mean that the policy cannot last in the long run • If prices are too high this may have a wider impact on the demand for London as a tourist and business destination, which will force the regulator/competition commission to intervene • Excess profits may attract undue attention from regulator • Relative price of other airports • Other costs might be more significant to airlines, e.g. fuel or cabin crew • Other problems of price/product differentiation • Other wider issues, e.g. externalities impact (the 'environment') 	
Level	Mark	Descriptor
Level 1	1-3	Definition of price discrimination (1), identification of a cause and consequences of policy (2)
Level 2	4-7	Identification of several valid causes and consequences, with limited explanation/application
Level 3	8-14	Well applied and explained causes and consequences. Evaluation (2 points x 2+3 marks or 3 points x 2 + 2 +1 marks) - total for evaluation 7 marks

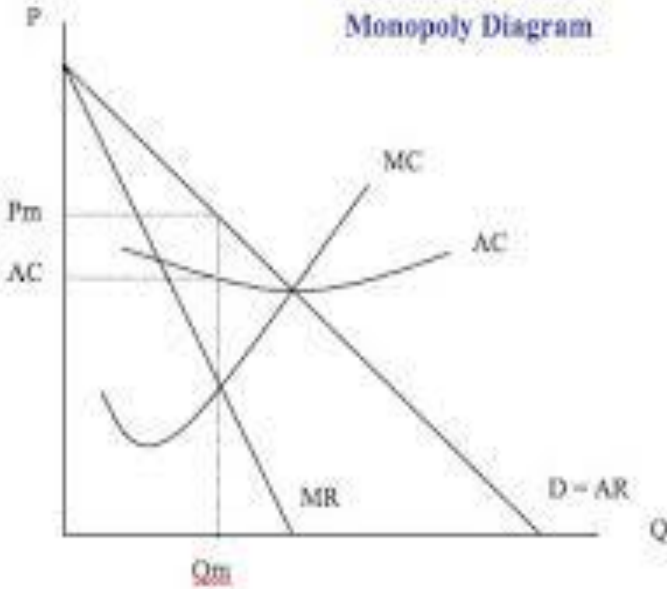
END OF SECTION B

SECTION C

Question Number	Indicative content	Mark
19	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <ul style="list-style-type: none"> • High concentration ratio – Oligopoly market structure/Monopoly power/Monopsony power • Decisions to erect/maintain high barriers to entry and exit • Interdependence of firms – use of game theory in decision making • Price leadership • Collusive and non-collusive behaviour • Product differentiation • Types of price competition – predatory pricing, limit pricing • Types of non-price competition • Monopoly power – limiting choice, profit maximising, price discrimination • Monopsony power – reducing producer surplus of suppliers The role of competition in business decision making • Profit maximisation • Alternative business objectives • Mergers and take-overs • Revenue, Costs and Profits in different market structures • Pricing and output decisions of firms in different contexts <p style="text-align: center;">Evaluation</p> • Fines/Regulations by Government/Regulatory bodies curtails business decision making • Regulatory capture • Asymmetric information • Price wars/limit pricing acts as a surrogate for competition • Non-price competition acts in consumer interest – technological advances/customer service. • Wider benefits from new industry giants e.g. Amazon/Google – tax revenue, employment, market for SME's, re-investing profits • Loss of dynamic efficiency gains from incumbent dominant firms • CMA/EC preventing mergers/forcing demergers <p>NB a diagram is not required NB KAA may be used as EV and vice-versa NB for Level 4 the candidate must refer to a specific industries.</p>	(25)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-4	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	5-8	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 or superficial, two stage chains of reasoning only.
Level 3	9-12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13-16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4-6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7-9	Evaluative comments supported by relevant reasoning and appropriate reference to 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
20	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <ul style="list-style-type: none"> • Understanding of monopoly (may be implicit). This may include natural monopoly or state imposed monopoly • Use of data e.g. Apple has 38% market share which exceeds CMA definition of 25% market share. • Understanding of operating in consumer interest: for example, impact on price, choice, product quality, customer service, improves allocative efficiency and investment. • Market structure diagram made relevant to argument presented: this is most likely to be a monopoly diagram. <div style="text-align: center;">  <p>The diagram is a graph titled 'Monopoly Diagram'. The vertical axis is labeled 'P' (Price) and the horizontal axis is labeled 'Q' (Quantity). There are four curves: a downward-sloping Demand curve labeled 'D = AR', a steeper downward-sloping Marginal Revenue curve labeled 'MR', an upward-sloping Marginal Cost curve labeled 'MC', and a U-shaped Average Cost curve labeled 'AC'. The intersection of MR and MC is marked with a vertical dashed line extending to the horizontal axis at a point labeled 'Qm'. A horizontal dashed line from 'Qm' on the Demand curve extends to the vertical axis at a point labeled 'Pm'. Another horizontal dashed line from the intersection of MC and AC extends to the vertical axis at a point labeled 'AC'.</p> </div> <p>One firm may operate in consumer interest since:</p> <ul style="list-style-type: none"> • Limit pricing/may act as a surrogate for competitive pricing. Revenue/sales maximisation may move closer to allocative efficient pricing and output. • Super normal profits may result in dynamic efficiency gains e.g. choice, product quality, customer service and investment. 	

- Economies of scale resulting in lower cost passed on as lower prices

One firm may operate against consumer interest since:

- Consideration of profit maximisation pricing strategy as opposed to lower prices set in a competitive market.
- There may be greater possibility of collusion (overt or tacit) due to the high market share.
- One firm may use its market power to increase entry barriers e.g. for Apple by locking their phones and thus, reduce consumer choice.
- Consideration of product quality or customer service. No significant innovation, quality updates or features added, but price has risen. Loss of consumer surplus/dead weight loss of monopoly argument.
- X inefficiency resulting in higher costs and higher prices.
- **NB: For a Level 4 response, candidates must include an accurate diagram**
- **NB: Candidates can argue that one company acts in the consumer interest as KAA, and against consumer interest as evaluation or vice versa.**

Evaluation

- Real price increases of products may be due to higher wholesale costs / production costs or an increased global demand.
- It depends on how powerful the other firms are in the market. E.g. competition may make firm compete effectively even in a oligopoly or duopoly.
- Depends on the effectiveness of regulation by CMA.
- Depends on the objective of the firm.

	<ul style="list-style-type: none"> • Depends on how contestable the market is e.g. New entrant such as China's Huawei has recently joined the smartphone market and is expected to gain a large market share, offering new consumer choice. • Higher market share can benefit the consumers via lower prices (efficiency savings / scale economies can be passed on). • Higher profits could lead to higher investment producing innovative and high quality products 	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	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	5–8	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 or superficial, two stage chains of reasoning only.
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Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to 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.

END OF SECTION C