



Economics Questions By Topic:

Monopsony (3.4.6)

Mark Scheme

A-Level Edexcel Theme 3

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SECTION A

Question Number	Answer	Mark
1	A Definition of monopsony, e.g. single or powerful buyer, (1) role of competition authorities (1), with application to buying of grocery supplies e.g. short shelf life of perishable products, or other supermarket products (1), supplying firms cannot make a profit (1) and explanation of market power, e.g. push down prices, exploitation of suppliers (1). Allow purchasing economies of scale (1). Consequences of monopsony power e.g. passing on lower prices to consumers, farms go out of business, greater profits to supermarkets (1+1) and results of the Commission's findings (1)	(4)

END OF SECTION A

SECTION B

Question Number	Indicative content	Mark
2	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 4</p> <ul style="list-style-type: none"> • Definition of monopsony • Food prices likely to fall <p style="text-align: center;">Effects on food suppliers might include:</p> <ul style="list-style-type: none"> • Financial problems from delays in receiving payments from supermarkets (Extract A) • Lower prices mean a reduction in revenue and profits • Increased costs due to paying excessive amounts for packaging and promotions. • Losses may even be made • Pressure on suppliers to cut costs • Fall in employment • Some food suppliers may exit the industry • Less funds for investment • Risk that suppliers will reduce product quality • Figure 2 indicates some supermarkets abused their market power e.g. Tesco and Morrisons. <p style="text-align: center;">Effects on consumers might include:</p> <ul style="list-style-type: none"> • Lower prices mean higher consumer surplus • Impact on food waste • Impact of cost cutting measures on quality of food and consumer choice. <p>NB for a Level 3 response, candidates must consider both food suppliers and consumers in their answer. Answers must refer to the context.</p>	(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	Answer	Mark
2 continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • Food suppliers may be able to increase efficiency and so remain profitable and stay in the industry. • Supermarkets may be reluctant to use their monopsony power for fear of GCA, government investigation and possible fines up to 1% of sales revenue. • Consumers may not benefit since supermarkets may not pass on lower costs in the form of lower prices. • Supermarket sector may not be a monopsony as there is more than one buyer –so perhaps less power over food suppliers. • According to Figure 2 some supermarkets may not abuse their position e.g. Aldi and Sainsbury. • Long term implications: exit of firms may risk supplies to consumers. • Consideration of bilateral monopoly e.g. large food supply firms or cooperatives. • Food suppliers may diversify e.g. farm shops. • Food suppliers may undertake vertical integration. 	(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	Answer	Mark
3(a)	<p>Theory: 2 marks. Award one condition for up to 2 marks. 1 mark for identification and 1 mark for explanation. Conditions might include:</p> <ul style="list-style-type: none"> • A powerful buyer in the market drives down the prices of supplies. Buyers are price makers. Large buyers with market power, small or competitive sellers which are price takers/low level of market power. (1+1) • Sellers do not have the power to determine prices. Sellers are price takers. Firms selling products cannot sell to other buyers. (1+1) • There are barriers to entry for firms wishing to buy products. (1+1) <p>Application related to monopsony: 2 marks. At least one mark must relate to the data provided in Extract 1.</p> <p>Sense of large powerful supermarkets buying power: The middlemen or distributor's profits are being squeezed to 3% (1), distributors' price squeeze (1) and mergers of distributors are necessary to ensure the firms' survival (1) supermarkets are so powerful that can now source direct (1) producers/distributors have had to absorb cost increases (1) bananas often sold as loss leaders (1)</p> <p>Sense of many producers: Global banana production has doubled Ext.1 (1) there are lots of sellers e.g. Extract 1 'more competitive than ever' (1)</p> <p>Sense of large powerful buyers (distributors): Dole has 26% of market of distributors (or similar from Fig. 2) Deal to create largest biggest distributor (1) \$1bn merger (1)</p>	4

Question Number	Answer	Mark
3(b)	<p>KAA 4 marks (2+2 or 3+1 for effects, plus application marks) Award the best two effects. Effects might include:</p> <ul style="list-style-type: none"> • Monopsony forces down prices. Distributors cannot make significant profits • Consumers have lower prices • Supermarkets may bypass the distributors by going straight to suppliers with consequent effect on distributors. • Distributors have to merge, cut costs, diversify, collude, merge to stay in business e.g. Chiquita and Fyffes (might count as 2 points) • Diagram may be awarded but not required (1+1) one mark for correct movement and one mark for impact <p>Evaluation 4 marks (4+0 or 2+2 or 3+1)</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Fair Trade (synoptic element) • Consumers might be faced with less choice or higher prices in the long run • Mergers will enable banana distributors to fightback • has been made worse by costs increasing at the same time • compounded by other factors making it worse for them • depends on what else they distribute e.g. melons and pineapples Extract 1 • SR v LR - situation could improve in the future • SR v LR - market could become more regulated to improve the situation 	(8)

Question Number	Answer	Mark
4	<p>Theory (2) Monopsony (1), explanation, e.g., single buyer or powerful buyer dominates the market (1). Seller has to accept low prices (1). Purchasing economies of scale (1). Pressure on sellers' profits/viability (1).</p> <p>[Award relevant monopsony diagram, e.g. showing low prices relative to marginal cost, although this is not required.]</p> <p>Application (2) as (1+1 or 2): Buyers force down prices (award lower prices for theory or application but do not double award) (1); farmers cannot cover costs/make a loss (1); buying power 70% of market (1); there are many egg farmers with small holdings in Extract 1 (1); Noble Foods acts as a powerful firm (1); Noble Foods' profits are increasing (1); there are no effective substitutes for farmers to sell to (1); many farms are being shut down (Extract 1); 750 000 hens slaughtered (Extract 1).</p>	(4)

Question Number	Answer	Mark
5	<p>6KAA + 6 eval</p> <p>KAA 6 marks Award up to three applied arguments as 2 + 2 + 2 or 3 + 3</p> <p>Definition of monopsony as powerful or sole buyer, or a few dominating buyers (1 mark)</p> <ul style="list-style-type: none"> • supermarkets forcing down Northern Foods' p • handful of large chains, suggesting high level of concentration in buying market e.g. 6 firm concentration ratio is 87.6%. Although the data is for monopoly/oligopoly selling power, there are implications for buying power • degree of monopsony power maybe seen in lower prices and more choice for consumers in short run • retailers quickly change suppliers (for own-label) if they want to <p>Evaluation 6 marks. These may be arguments that monopsony power is weak if the KAA arguments are for strong monopsony power, and vice versa. Award up to three arguments as 2 + 2 + 2 or 3 + 3 Factors might include:</p> <ul style="list-style-type: none"> • some suppliers such as Nestle and Unilever ave bilateral/counter-balancing/counterveiling power • monopsony might attract the attention of the regulators • Cranswick or Kerry have not suffered, because they have adapted • there are other reasons why profits are low, e.g. x inefficiency • long run consequences of a high level of monopsony power, e.g. less choice for consumers and higher prices than might otherwise have been weighed against short term benefits • the merger of Northern Foods and Greencore would reduce monopsony power • the last paragraph of Extract 1 implies that manufacturers can make it costly/difficult for retailers to change suppliers by changing products/services offered • Lower degree of monopsony pwer in sub-markets such as convenience stores (e.g. 3.5% Tesco market share) and isa 'separate business with a different supply chain' (Ext 3) <p>(3 x 2marks or 2 x 3 marks)</p>	(12)

END OF SECTION B

SECTION C

Question Number	Indicative content	Mark
6	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <ul style="list-style-type: none"> • Definition of monopsony – single dominant buyer or bargaining power in their market • Identification of monopsony abuse • Explain the reason why suppliers will receive a lower price and/or lower sales • Cost to supplier – lower price, less revenue, less abnormal profit, reaching shut down point, less producer surplus, less finance for investment, 'delaying their delivery, raising their prices, and steering customers to other publishers' in the case of book publishers facing Amazon. • Cost to consumers – less choice, monopsony power may result in monopoly power so consumers do not benefit from lower prices passed on. • Cost to employees at supplier firms - wage cuts, job losses. <p>NB: for a Level 4 response, candidates must refer to a specific MARKET in their answer.</p> <p style="text-align: center;">Evaluation</p> <ul style="list-style-type: none"> • Difficult to assess the strength of monopsony power – buyers may make strategic partnerships with suppliers/other dominant buyers may exist or emerge/suppliers may work to establish their own monopoly power/bi-lateral negotiations. • Counterarguments made to the points raised • Lower prices for consumers, increased consumer surplus and choice. Monopsony acts as a counter-weight to the selling power of a monopolist. • Suppliers have a major buyer improving revenue, long term investment decisions, profit. • Monopsony firm benefits • Supplier and monopsony firm employees benefit • Government intervention to protect suppliers and employees 	

	<ul style="list-style-type: none">• Government intervention to promote competition and contestability• Monopsony might be buying books from large publishers so creates a bilateral monopoly.	(25)
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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.

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.

END OF SECTION C