EXPERT TUITION

Economics Questions By Topic:

Revenue, Costs & Profits (3.3) Mark Scheme

A-Level Edexcel Theme 3

0207 060 4494
www.expert-tuition.co.uk
online.expert-tuition.co.uk
enquiries@expert-tuition.co.uk
The Foundry, 77 Fulham Palace Road, W6 8JA

Table Of Contents

Section A ..... Page 1
Section B ..... Page 27

SECTION A

Question Number	Answer	Mark
1	**Application 2** **Application:** 1 mark for likely understanding e.g. • $40 x 300 seats (1) **OR** • $12 000 per show (1) **OR** • $12 000 x 5 (1) Answer = **$60 000** **Award 2 marks for correct answer (60 000)**	**(2)**

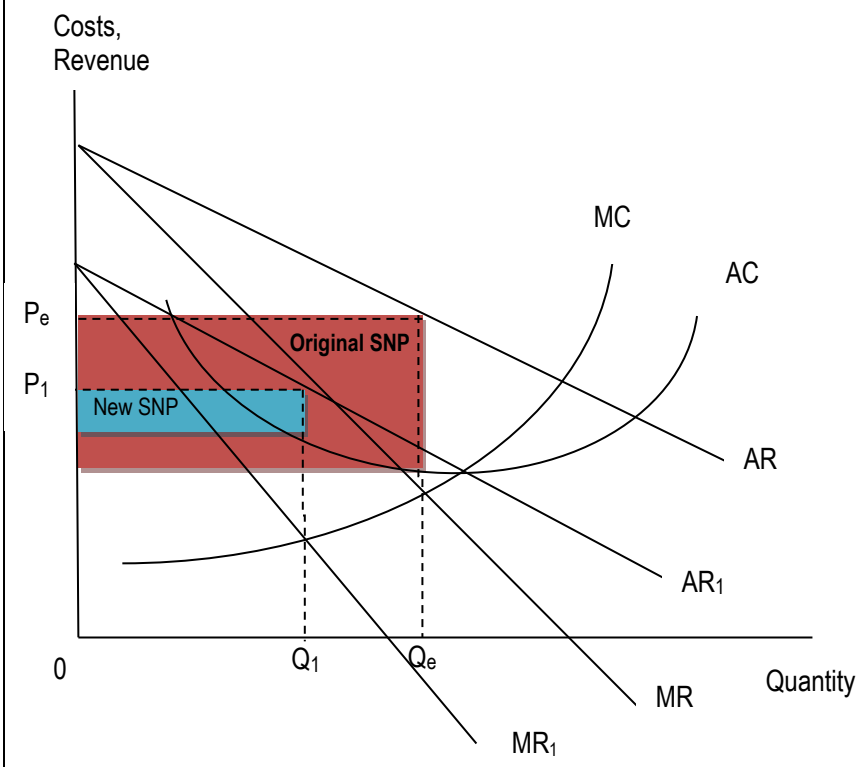
Question Number	Answer	Mark
2(a)	**Knowledge 1, Analysis 1** **Knowledge / understanding and Analysis e.g :** • Total cost rises (1) at an increasing rate (1) • Total costs continue to rise (1) but more steeply (1) • MC > AC, therefore AC rises (1) • • MC > AC (1) therefore TC increases at a faster rate (1) candidates may draw the TC curve to show it rising more rapidly NB : responses may be shown on the diagram beyond point Z.	**(2)**

Question Number	Answer	Mark
2(b)	**Application 1** **The only correct answer is B** ***A*** *is not correct because AVC does not fall* ***C*** *is not correct because AFC falls as fixed costs are spread out over a larger output* ***D*** *is not correct because AFC falls as fixed costs are spread out over a larger output*	**(1)**

Question Number	Answer	Mark
2(c)	**Application 2** **Application: (up to 2 marks)** Calculate total cost: Average variable cost = 2 x 0.4 = 0.8 (1) Total variable cost = 0.8 x 400 = £320 (1) £320 + £300 (1) **Award 2 marks for correct answer = £620 (accept 620)** **Award maximum 1 mark for partially correct answer**	**(2)**

Question Number	Answer	Mark
3	**Knowledge 2 Application 2** Profit = TR – TC or TC = TR – Profit OR 72.8 million – 14.4 million (1) Calculation of profit in 2016 17.5 million/1.215 = 14.4 million (1) Calculation of total revenue in 2016 75.8 million/1.041 = 72.8 million (1) **Award full marks for the answer = £58.4 million** **NB – simply stating 58.4 million is 4 marks** **simply stating 58.4 is 3 marks**	**(4)**

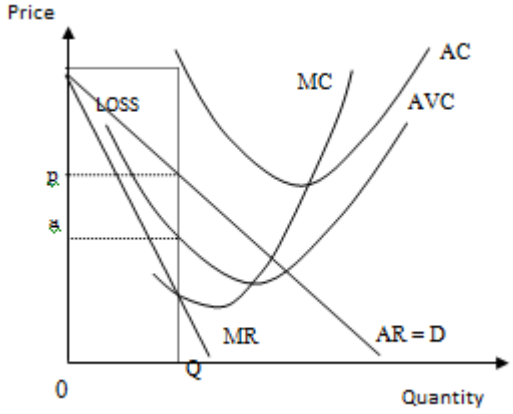
Question Number	Answer	Mark
4	**Knowledge 2, Application 2** **Knowledge/Understanding: (up to 2 marks)** 1 mark for identifying each correct price/output level e.g. Identify profit maximisation position: for example, where MC=MR or output level 25 or price £17 (1) Identify revenue maximisation position: for example, where MR=0 or output level 36 or price £12 (1) **Application: (up to 2 marks)** Calculate total profit at profit maximisation position: for example, total revenue – total cost = total profit: £425 – £200 = **£225** (1) **OR** £17-£8=£9, £9 ×£25 = £225 (1) **OR** Calculate total profit at revenue maximisation position: £432 - £324 = **£108** (1) **OR** £12-£9=£3, £3 ×£36 = £108 (1) £108 -£225 = **-£117** or **£117** **Award full 4 marks for -£117 or fall of £117 or £117**	**(4)**

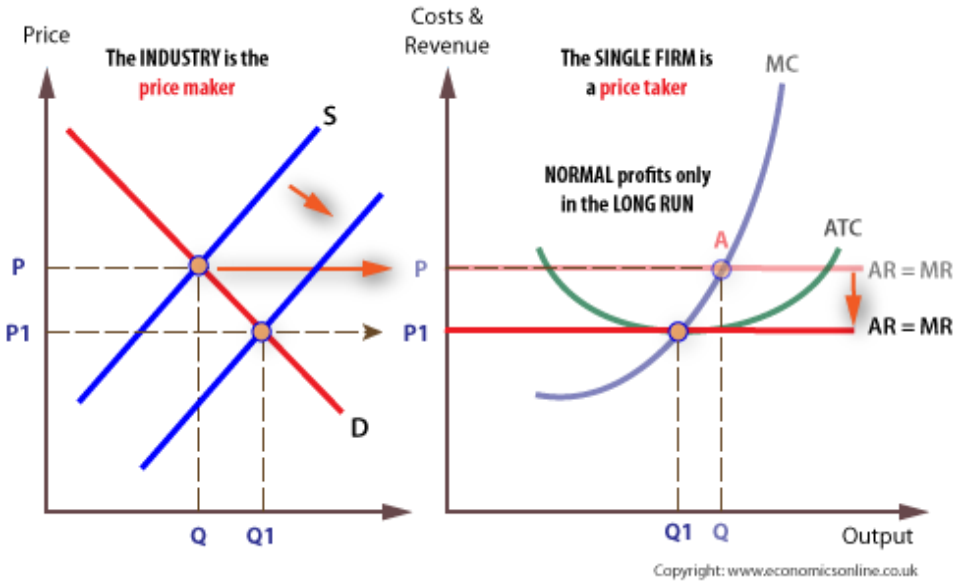
Question Number	Answer	Mark
5	**Knowledge 2, Application 2** 1 mark for: profits are likely to fall (this may be shown on the diagram) 1 mark for the decrease in the average revenue and marginal revenue curves (accept a pivotal movement of the AR and MR curves) 1 mark for the new equilibrium output and price positions at new MC = MR 1 mark for the original area of supernormal profit. 1 mark for the new smaller area of supernormal profit/ loss. Diagram required e.g.  Accept alternative diagram, e.g.: • Total revenue and total costs diagram	**(4)**

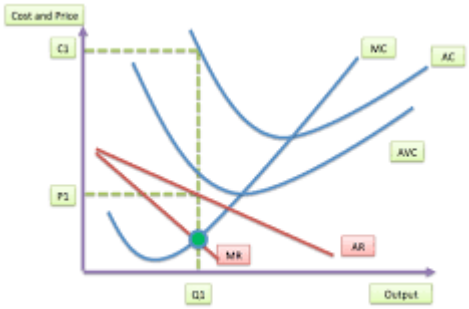
Question Number	Answer	Mark
6(a)	D	**(1)**

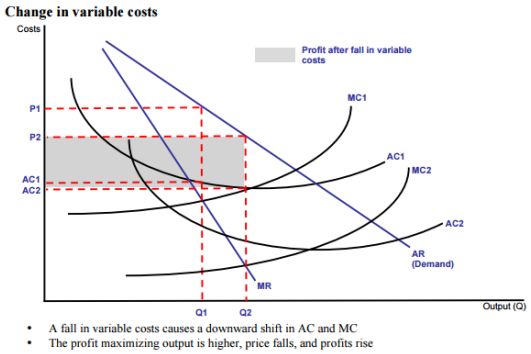
Question Number	Answer	Mark
6(b)	**Knowledge 1, Analysis 1** Fixed costs remain the same as output increases or decreases (1) Variable costs vary directly with output. (1)	**(2)**

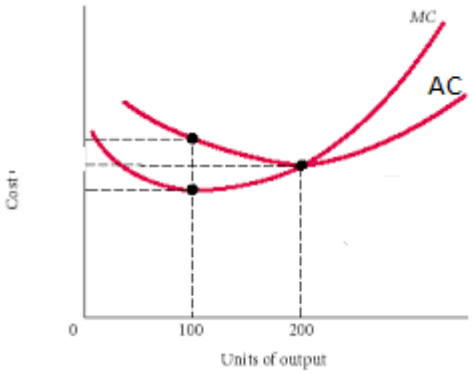
Question Number	Answer	Mark
6(c)	**Application 2** **Application:** 1 mark for applying the formula 1 mark for workings: e.g. 13 × 227 ÷ 100, 13% of 227 (1) **Award 2 marks for correct answer 29.5 (accept answer between 29 and 30)**	**(2)**

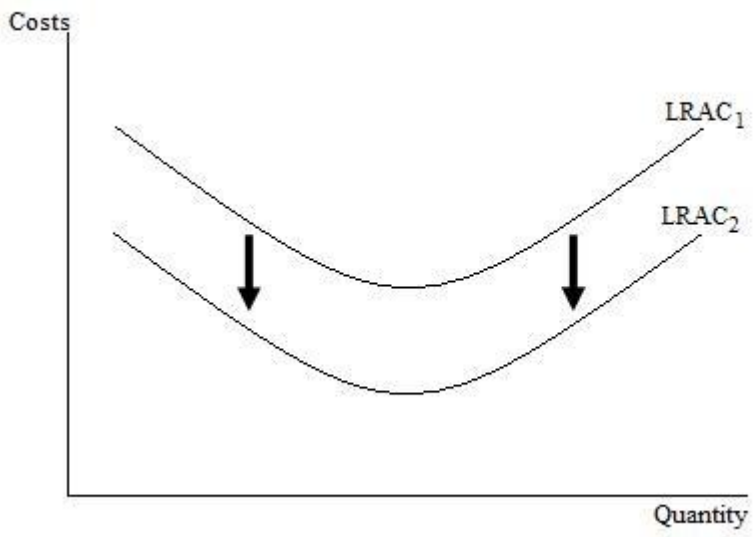
Question Number	Answer	Mark
7	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for knowledge of short-run shut down point and 1 mark for identifying that this condition does not hold (this knowledge may be shown by identifying points on a diagram). OR 1 mark for identifying alternative plausible economic reason and 1 mark for development. **Application:** 1 mark for application to Blackberry. **Analysis:** 1 mark for linked development. e.g. Short-run shut down point where AR=AVC (1). AR>AVC in short run so continues to operate (1). At Blackberry $4.4bn loss (1) but each additional unit sold contributes to reducing the size of losses. (1) Diagram showing AR<AC (1) and AR>AVC (1), e.g.  Alternative response, e.g.: • if the firm has significant reserves (1) from previous years that it can cover any losses (1) which at Blackberry were £4.4 billion (1) this means the business continues to operate if it believes it can make future profits. (1)	**(4)**

Question Number	Answer	Mark
8	Key: B	**(1)**
	Definition of supernormal profits, or AR>ATC or AR>AC (1); Explanation (1+1+1): characteristic of perfect competition, e.g. many independent firms, price taker (1) Analysis: firms enter because they are attracted by supernormal profits(1); easy to enter because entry barriers are non-existent (1); Diagram: (up to 3 marks) showing firms entering industry/reduction in supply (1) with profit area (1) subsequent fall in price for other firms (1) and smaller output per firm (1). Award horizontal AR=MR if this has not been awarded as a characteristic of perfect competition (1).  Example of a knock out: not E as shut down point is P=AVC (long run P=AC) so firms continue as long as prices are not below this.	**(3)**

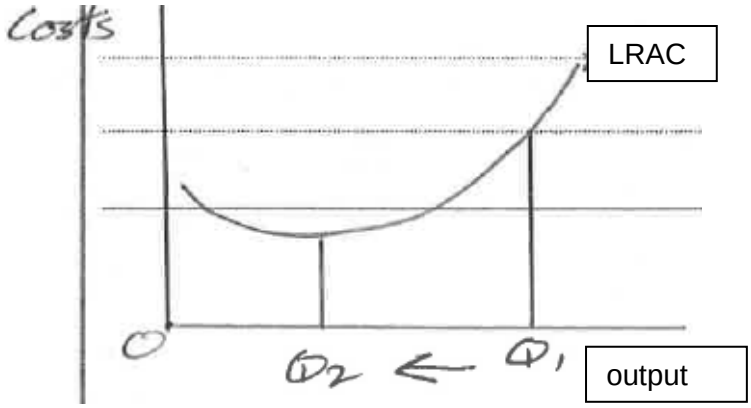
Question Number	Answer	Mark
9	Key: B	**(1)**
	Definition or formula of AVC (1) AR>AVC or P>AVC as a condition for staying in business in the short run (1) MC=MR for profit maximisation (1) A business will leave the industry when it is not covering the operating costs/factors which do not have to be paid if there is no output, i.e. shut down point is AR=AVC, or similar definition (1). If it can exceed these costs it makes a ***contribution*** to fixed costs/reduces the overall costs that must be paid (1). In the long run it will cover all costs or shut down, or 'in the long run all costs are variable' (1) application to steel industry, e.g. high sunk costs is exit barrier (1 mark) Diagram up to (2 marks): 1 mark for showing shut down point, 1 mark for price/AR below AC or ATC (1) loss area (1) and/or contribution area (1)  	**(3)**

Question Number	Answer	Mark
10	Key: A	**(1)**
	Explanation that the firm faces lower manufacturing costs (1) and if demand is unchanged then supernormal profits will increase (1). Output will rise because the new equilibrium will involve a lower MC (1). Variable costs change means marginal costs change (1). Diagram showing increase in output at new MC=MR (1) with new profit area shown (1)  Example of knock out mark: not B because variable costs and therefore marginal costs have changed, so there is a new, higher output (1)	**(3)**

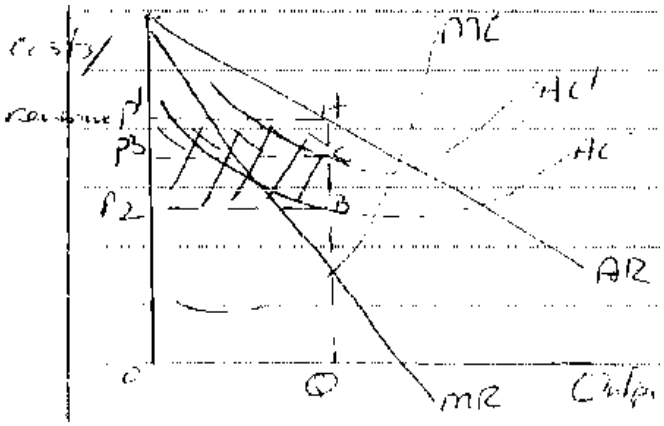
Question Number	Answer	Mark
11	Key: E	**(1)**
	Definition/formula of marginal (cost of producing one more unit) **or** average cost (1) Explanation that if marginal cost is below average cost it pulls down the average cost (1). Explanation of the short run, e.g. there is at least one fixed factor or there are fixed costs (1). Rising marginal costs means that the law of diminishing returns has set in(1) Diagram illustrating range where MC<AC (1) with MC rising while AC falling clearly demonstrated (1) with arrows or sections of the curve marked as follows:  Knock out of incorrect options up to 2 marks available. For example: A is wrong as economies of scale occur in the long run where more factors of production can be changed (1) Not B as the rising marginal costs imply diminishing returns have set in (1) Not C because there will be fixed costs, with examples or definition of fixed costs (1)	**(3)**

Question Number	Answer	Mark
12	Key: A	**(1)**
	Definition of **external** economies of scale (1) e.g. benefits to a firm when an industry as a whole grows, or geographical location improves, or benefits of being a large firm while still being a small firm Increasing number of firms suggests firms are being attracted to the industry (1) Firms are likely to be small and benefit from large industry rather than being large themselves (1) Low barriers to entry (1) Profits are acting as a signal to entry (1) Application (1) to likely external economies which might arise in this context – e.g. knowledge sharing, skilled local computer technicians, improved local infrastructure such as super-fast broadband, use of data to show increase in industry size Diagram (1) AC accepted:  	**(3)**

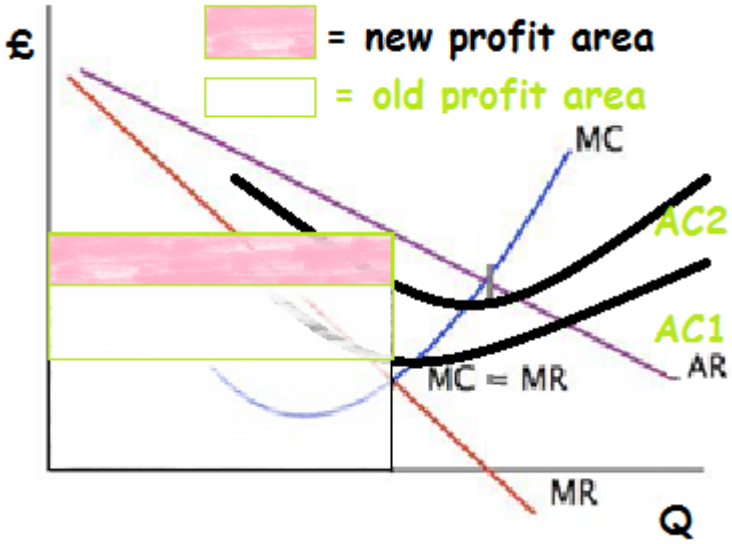
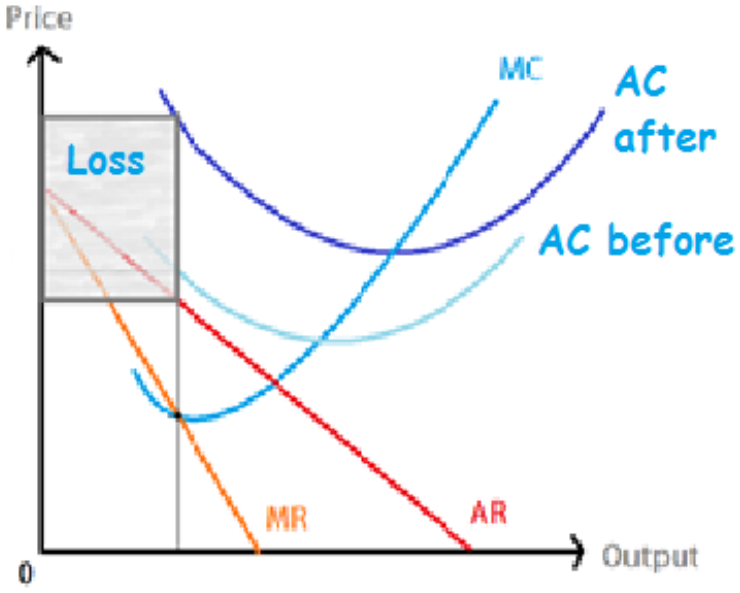
Question Number	Mark scheme	Mark
13	Key: D	1
	Definition or formula for concentration ratio (1) e.g. the largest 4 firms have x% of market power It is an **oligopoly** (1) Highly concentrated (1) e.g. a figure above 50% would indicate strong power Explanation of market power (1) e.g. firms can influence market price without losing a high proportion of sales Relation or application to industry (1) e.g. there are reasons why **car** industry might be hard to operate in a more competitive scenario **or** 81.2% (within 1% range) of breakfast **cereal** market served by 4 main firms The implications of the market power (1) e.g. higher prices, the firms might collude *Example of knock out marks:* *It is not B because food retailers have high sunk costs in establishing trusted brand names*	3

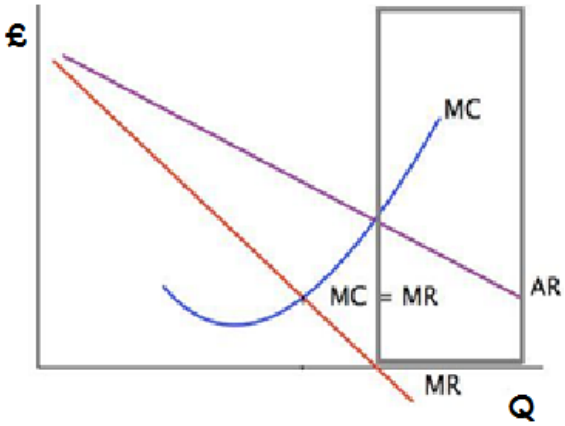
Question Number	Answer	Mark
14	**E** Definition of diseconomies of scale/economies of scale, involving falling *long run* average costs as output decreases/increases (1); Observation that this is a divestment/demerger (1); Explanation: reasons why a larger firm might have increased costs, e.g. communication problems, lack of co-ordination; differences in methods of organisation or IT systems, lack of crossover (1+1); allow another reasons for demerger, e.g. to raise funds, to focus on core business, too much exposure to one market, need to reduce costs (1); Effects of selling off BMI, e.g. rationalisation, more efficient production (1); Application marks: there might be a cut in overlapping routes, more efficient use of marketing just one brand (1); Diagram showing falling costs as output falls, for example: (1)  Example of a knock out: not D as there will be more firms in the industry if firms break up	**(4)**

Question Number	Answer	Mark
15	**A** Definition of marginal revenue (1); Diagram marks or equivalent verbal analysis: annotation of diagram or separate diagram showing parabola shaped TR (1); MR crossing horizontal axis where TR reaches the maximum (1) **or** at output 500 (or close) (1); relationship between AR(=D) and MR, e.g. if the demand curve is downward sloping the MR curve will be below it and steeper (1); relationship between MR and TR, e.g. if MR>0 then TR is rising (1); relationship between AR and/or MR and price elasticity of demand (PED) e.g. if PED is elastic MR is positive (1); if PED is inelastic MR will be negative (1); Application mark: revenue rising from £2400 at output 400 to £2500 at output 500 (1); £5 is revenue maximising (1) Example of knock out mark: it is not E because there is no consideration of any costs. Example of knock out mark: it is not B because there is no indication that the firm is operating at 500 units.	**(4)**

Question Number	Answer	Mark
16	**E** Definition: rent is a fixed cost, or, definition of fixed costs, e.g. do not change with output (1); Explanation: because there is a change in fixed costs there is no impact on marginal cost (1); if marginal costs do not change and marginal revenue stays the same then there is no change in equilibrium price and output (1); Diagram showing increase in average variable costs (AVC) or average total costs (AC)(1) with the same price and the same output coinciding with the same MC=MR (1) Diagram can earn 3 marks if each point is clearly spelt out: AC rises (1) reducing the profit area as long as MC has not shifted (1) but price is unchanged as long as MC is not shifted (1) (Max. 1 mark for diagram if MC has shifted)  Award equivalent verbal analysis, e.g. if costs rise then profits fall (1); Example of knock out mark: it cannot be A or B because if costs rise then profits will fall (but **do not double award** this analysis if it has already been awarded as verbal or diagrammatic analysis, e.g. lower profit area) (1).	**(4)**

Question Number	Answer	Mark
17	**B** Definition/identification mark: fixed costs, e.g. costs which do not change with output, firms must pay these even if they shut down (1) MC=MR written or explicitly labelled on diagram (1) Fixed costs do not affect MC (1) so there is no change in MC=MR (1). Application that fixed costs do not affect MC so finding marginal profit is not affected by setting up costs of the aircraft (1) Diagram (up to 2 marks) or equivalent verbal analysis, showing a shift upwards in **average costs**	**(4)**

	(or **fixed costs)** ***do not award shift mark if MC is shifted*** (1); falling profit area and/or price and output unchanged (1). Diagram can show smaller profit area:  Or a loss  Example of elimination mark: Knock out of A because costs rising mean that profits fall (1)	

Question Number	Answer	Mark
18	**B** Definition/identification mark: total revenue, marginal cost, e.g. ΔTC/ΔQ, or formula or definition of price elasticity of demand PED (1) Explanation of price **inelastic** demand (in context of the question), e.g. if prices are cut then demand rises by a smaller proportion. Cutting price when demand is relatively inelastic means total revenue falls, or MR<0 (1) Explanation of the Law of Diminishing Returns e.g. output cannot rise without rising marginal cost, or, as variable factors are applied to a **fixed** factor (1) the increase in costs eventually rises (1) Diagram (up to 2 marks) showing MR < 0 (1) and MC rising (1)  (The grey rectangle on diagram is range of operation) Further analysis mark (1) e.g. marginal profit increases if output is reduced, or firm is not rational if it operates where MR<0 Example of elimination mark: Knock out of A or C because economies of scale are long run concepts Knock out of D: if costs rose and revenue fell, profits would fall	**(4)**

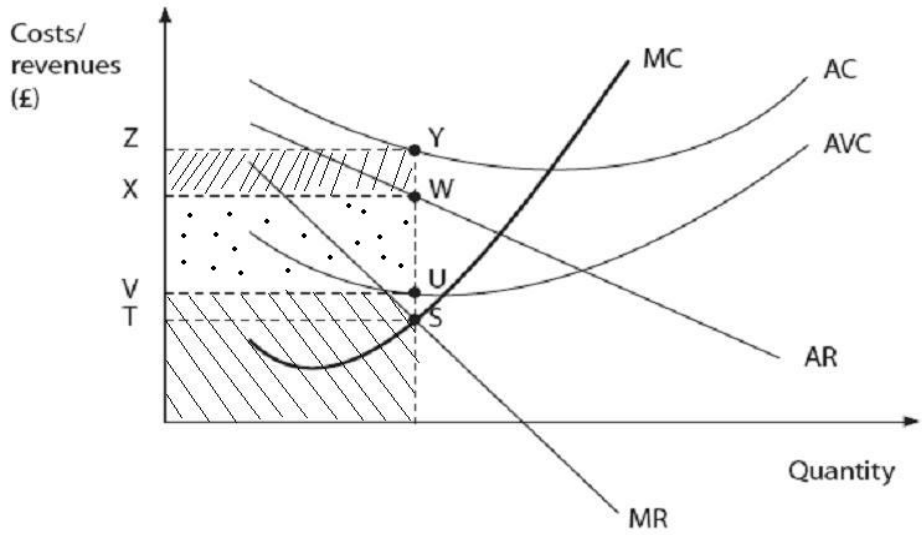
Question Number	Answer	Mark
19	**A** Definition or formula for marginal cost (1 mark) Explanation of Law of Diminishing Returns: there is at least one fixed factor (1 mark) marginal costs rise as more factors are added/marginal product falls as more factors are added (1) Application to any context (1) e.g. too many rice pickers in a field cannot add much to total output Diagram (1) showing **gradient** of TC rising having been rising more slowly up to X. Example of a knockout mark: it is not E because economies of scale are a **long run** concept or drawing of long run average costs (1)	(4)

Question Number	Answer	Mark
20	**B** Definition or formula of AVC (1) AR>AVC or P>AVC (1) Loss minimisation (1) A business will leave the industry when it is not covering the operating costs/factors which do not have to be paid if there is no output, i.e. shut down point is AR=AVC, or similar definition (1). If it can exceed these costs it makes a contribution to fixed costs/reduces the overall costs that must be paid (up to 2 marks). In the long run it will cover all costs or shut down, or 'in the long run all costs are variable' (1 mark) application to motor industry, e.g. strong brand name is exit barrier (1 mark) Diagram up to (2 marks): 1 mark for showing shut down point, 1 mark for price/AR below AC or ATC (1) loss area (1) and/or contribution area (1)	**(4)**

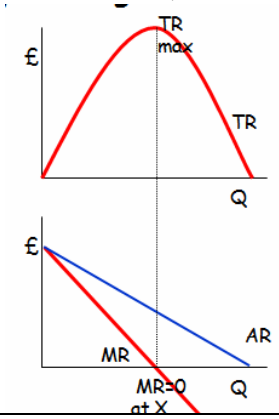
Question Number	Answer	Mark
21	**C** Definition/identification of variable cost or AVC or formula (1) The firms are **inter**dependent (1) Diagram (up to 3 marks) showing rise in MC **and** AC (1) with new equilibrium price and quantity (1) and reduced profits (1), or equivalent verbal analysis (up to 3 marks), reason why output falls (1), reason why prices might rise, e.g. variable costs of production have risen (1) reason why profit falls, e.g. a smaller mark-up can be made, costs have risen (1)	**(4)**

Question Number	Answer	Mark
22	**E** Definition of monopoly or market power (1) Explanation that the horizontal integration increases market power (1) 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. Or equivalent verbal analysis: Monopolisation/dominance would be reasons for raised price (1) and reasons for falling quantity (1) 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)	**(4)**

Question Number	Answer	Mark
23	**A** Definition of marginal costs, or formula e.g. the cost of producing one more unit or ΔTC/ΔQ (1) and relation to variable not fixed costs (1). Explanation that fixed costs do not change with output, or have to be paid whatever the output (1) Marginal cost will be affected by changes in variable cost (1) Example of fixed costs, e.g. rent (1) Application to fixed costs that when they change it is not because one more is being produced, but the scale of production is changed (1) Marginal cost is the gradient of total costs (1) Diagram showing parallel upward shift in TC or TFC (1) with no change in gradient (1) **or** upward shift in AC (1)**with** no change in position of MC (1)	**(4)**

Question Number	Answer	Mark
24	**D**  MC=MR is the objective of the firm **(1 mark)** Identification that the firm is a loss minimising firm OR it is making a loss OR AC>AR **(1 mark)** which may be shown ZYWX **(1 mark)** The firm is covering its average variable costs **(1 mark)** which may be shaded **(1 mark)** For an answer that shows area XWUV shaded or otherwise indicated **(1 mark)** as the **contribution** towards fixed costs, or other explanation that it will reduce the fixed costs, which have to be paid anyway **(1 mark)** In the long run all costs are variable or other description of long run impact (can't just repeat the key which refers to the long run), for example if nothing changes in the long run the firm would go out of business, or AC = AR **(1 mark)**	**(4)**

Question Number	Answer	Mark
25	**D** Definition of profit: difference between revenues and costs, AR>AC, or profit above normal profit, or reward to entrepreneur (normal profit) **(1 mark)** Alternatively the definition of profit can be awarded for the accurate labelling of a diagram showing AR>AC. Costs have fallen **(1 mark)** more than revenue has fallen or more than 4% **(1 mark)** **OR** a diagram showing revenue falling **(1 mark)** or costs falling AC and MC or just AC **(1 mark)** and new larger profit area **(1 mark)** Increased workloads **(1 mark)** and/or mechanisation/investment in technology **(1 mark)** has increased output per postal worker and/or productivity or efficiency **(1 mark)**	**(4)**

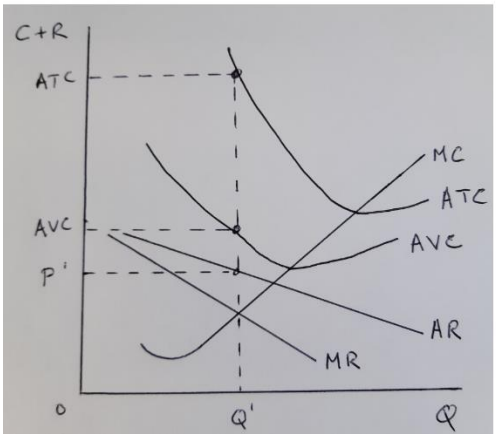
Question Number	Answer	Mark
26	E • Definition of AR or MR or formula AR = TR/Q MR = ΔTR/ΔQ (1 mark) • Annotation of diagram or additional diagram to show falling AR and MR (1 mark) • Diagram link X to MR=0 (or verbally) (1 mark) • Imperfect competition or price maker (1 mark) • Explanation of why AR and MR slope downwards e.g. if a firm wants to sell more it must cut prices (1 mark) • Reference to price elasticity of demand elastic up to X then inelastic (1 mark) • Algebraic explanation showing relationship between TR, AR and MR (up to 3 marks) 	(4)

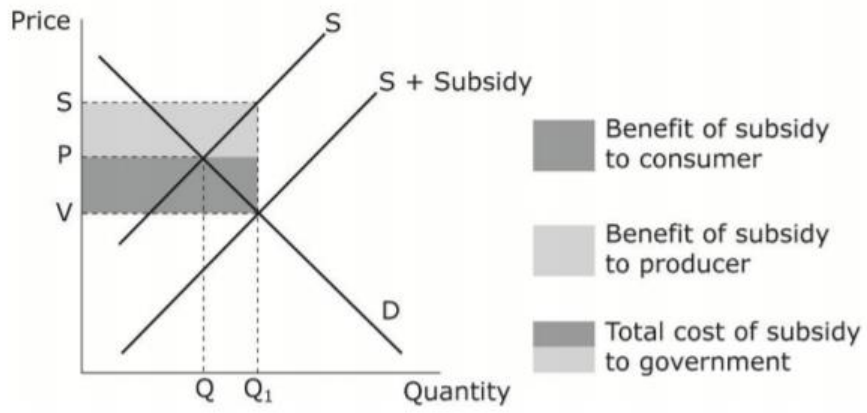
Question Number	Answer	Mark
27	**B** Definition of marginal cost e.g. cost of producing one more unit, or formula '**change in** total cost divided by **change in** quantity' **(1 mark)** Understanding that total costs are constant **(1 mark)** and therefore the marginal i.e. change in total cost is zero **(1 mark)** Allow 'no variable costs' **(1 mark)** but not 'all costs are fixed'. Possible knock outs: It is not C or D because average costs are falling, it is not A because total costs are constant	**(4)**

Question Number	Answer	Mark
28	**E** Definition of profit maximisation MC = MR (1 mark) The use of diagram showing the fall in price, fall in output, constant AC and fall in AR and MR can be rewarded with full marks (**3 marks) cap diagram 2 out of 3 marks if AC or MC are shown to change.** **of which** shift left/down of AR and MR (1 mark), original and new equilibrium/price (1 mark), new profit area (1 mark). A written analysis should include explanation of falling prices **(1 mark),** output **(1 mark)** and profits **(1 mark)**, more than just repeating key. **Up to 3 marks**	**(4)**

END OF SECTION A

SECTION B

Question Number	Indicative content	Mark
29	**Knowledge 2, Application 2, Analysis 4** **Case for subsidy:** • Subsidy is financial aid, grant • In long run required more to cover AC • Subsidy may have lowered AC, may be shown as shift on diagram • Benefit of subsidy to producer may cover their AVC in short-run or AC in long-run. • Avoid government rescuing 600 000 travellers • Avoid government paying benefits to up to 21 000 employees and those losing jobs in related industries e.g. hotels • Subsidy may have leveraged help from banks and shareholders • Thomas Cook may have recovered - Package holidays may have come back into fashion – aging population**.** Recession may have seen a rise in demand for package holidays as an inferior good, YED negative • Diagram may be used, for example:  OR	

	Incidence of a Subsidy  **NB a diagram is not required** **NB case against subsidy may be seen as KAA and case for as evaluation or vice versa.**	**(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
29 continued	**Evaluation 4** **Case against subsidy** Lack of finance • £150 million not enough - £1.5 billion loss. • Needed help from bank loan (zombie-firm), shareholders or another company taking over Thomas Cook. Not willing to help. • £1.5 billion loss in May 2017, already in long-run • Cheaper and more effective to nationalise to rescue employees and suppliers Merger with MyTravel • Diseconomies of scale, LRAC>AR • Lack of synergy • Loss making business Falling demand for Package holidays • AR shifting in • Booking online through competitors rather than Thomas Cook high street outlets • Package holiday inferior good, YED negative. • Climate change – stay at home. Opportunity cost Dependency Government lacks funds- budget deficit Moral hazard No consequences for the failings of management will teach other businesses who get into commercial difficulties that government will pick up the pieces **NB: Case against subsidy may be seen as KAA and case for as evaluation or vice versa.**	**(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
30	**Knowledge 2, Application 2, Analysis 4** BT profit levels have risen to £3.03 billion • **Higher revenue** due to, e.g.: Higher rental price for landline Price increases of 15% Broadband calls up in price Customers paying a higher price for setting up landline with BT Integration with EE increasing mobile revenues Increase in market share to 35% Inelastic PED subject to monopoly abuse • **Lower costs** Approximately 27% fall in the cost of providing the landline service Economies of scale Fall in fixed costs of providing extensive 'landline' network Dynamic efficiency gains/synergy/patents acquired from merger Fall in variable cost • **Other potential reasons** explained: Exploitation of certain consumer groups Effective use of price discrimination Collusion with other landline providers **Costs and revenue diagram** showing: Original profit maximising output level Outward shift in AR and MR And/or – fall in AC and MC And/or – fall in AC if FC lower And/or **Changes** shown on Monopoly diagram e.g. from limit pricing to profit maximisation Original SNP and larger new SNP area **NB – For Level 3 an accurate costs and revenue diagram must be included.**	**(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
30 continued	**Evaluation 4** • Profits levels are likely to fall in the future due to the actions of the regulator and prices falling • Profits levels are likely to fall in the future as more competition enters the markets • Relative significance of points • Significance - both factors are working together to increase the extent of their profits • Not possible to say for certain due to a lack of information and data • Magnitude – 27% fall in costs likely to have a significant contribution.	**(4)**

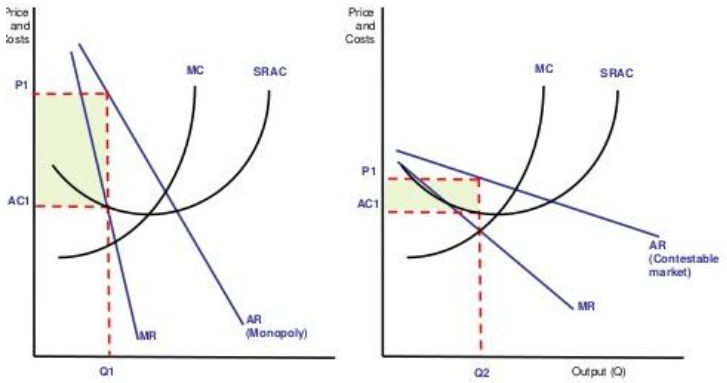
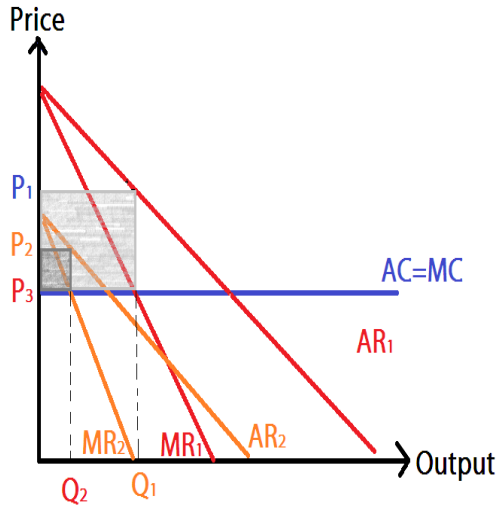
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Answer	Mark
31(a)	Theory (2) 2 marks theory: a fall in long run (1) average costs (1) falling/downward sloping LRAC diagram (1) Application (2): • high start up costs e.g. design costs • high sunk costs e.g. marketing costs • other legal barriers such as patents • collusive behaviour in evidence, e.g. copying rubberbanding • other pricing behaviour of firms, e.g. limit pricing • economies of scale/minimum efficient scale • lack of finance for small scale firms • information problems in Chinese market	**(4)**

Question Number	Answer	Mark
31(b)	KAA (4) Identification (1+1) Reasons why profits might fall (2) e.g. incomes rising more slowly may mean that demand does not rise as fast as costs; income elasticity of demand is very high because they form a large proportion of disposable income Diagram use (1+1): 1 mark for new MC=MR identified (an inward shift) 1 mark for new profit area. Evaluation (4): • recent growth problems in China 6.9% does not mean China has falling incomes, but rising more slowly • evidence that Apple products are highly resistant to slowing growth • Apple is still making efforts to enter the market, as a sign that profits are not likely to fall • Depends on magnitude of slowdown, fortunes of other firms (e.g problems with Samsung products) **Alternatively award increased profits (albeit more slowly) as KAA and decreased profits as evaluation, in the context of slowing growth rather than falling incomes.**	**(8)**

Question Number	Answer	Mark
32	KAA (6) award up to 3 points (2 marks each) or 3 + 3 Diagram (2) • Output and price correctly linked to MC=MR (1) • Loss area. It may be a declining profit. AR<AC or AR<AVC for loss, and AR>AC but shrinking (1) Other KAA (4): Award **up to two** reasons (costs rise, revenue falling (1) with data/explanation rising costs of fuel (1); increasingly price elastic demand for petrol in recession (1); supermarkets have lower costs or can cross subsidise from food sales (1); dual pricing in Extract 2 (1) Evaluation (6): 2+2+2 or 4+2 or 3+3. Points might include: • Not enough data. Other factors might be at work • The small firms may be forced to diversify (may refer to coffee in Extract 1) or they may be given a cut in business rates to lower costs in order to reverse the trend • Hard to tell if it is going to continue • Retailers suffering duty to high tax on petrol, not competition (Extract 1) • Other effects might outweigh or exacerbate losses • Advantages a small firm might have in the long run • Competition authorities may act (loss of consumer choice if the small firms close, risk of dominant oil retailer/supermarkets) • Independent firms might merge rather than leave the industry • Things may change as recession ends Taxes not rising since 2010 (fuel escalator cancelled)	**(12)**

Question Number	Answer	Mark
33 (a)	KAA 4 marks (2+2 or 3+1). Award best 2 points given. Points might include: • High fixed costs, high set up costs, legal requirements e.g. spacing between motorway services • Fall in demand as market becomes more competitive and/or substitutes improve e.g. rail fares decrease, electric cars • Discussion of short run shut down point. The firm is covering AVC but not AFC, so is making a contribution to fixed costs. A shut down diagram with price below AVC could be used to support this point. • Increase in costs/ fall in demand due to regulations e.g. toilets, limitations on products being sold • Need for investment • Debt £376 million, Roadchef 'downgraded' • Change in consumer behaviour e.g. technological changes • Diagram may be awarded but not required (1+1) one mark for correct movement/shift and one mark for impact Evaluation 4 marks (2+2 or 3+1 or 4+0) Factors might include: • The firms seem content to survive the fixed costs into the very long run (extract 3). Discussion of how long is the long run. • Several firms have had to merge • Firms can survive while making a loss because the managers are satisficing, or the firms can make an operating profit while ignoring the cost to the capital investors • Depends on the time period under consideration • Depends if the firm can cross subsidise with other services, or find other ways to make a profit e.g. charging for parking/facilities • It says 'they generate a huge amount of cash' Extract 3 so 'what does it matter' • They may leave even if AR is greater than AVC or stay if AR is less than AVC only if they are cross subsidising • The fall in profits may be temporary e.g. rail fares might rise • Factors may be combining together, not just one thing in particular	**(8)**

Question Number	Answer	Mark
33 (b)	KAA 6 marks Reserve 2 marks for diagram (1+1) one mark for correct movement/shift and one mark for impact **on profits** The diagram can be used as part of the KAA or Evaluation or both Diagram showing decrease in demand or increase in costs. For those firms exhibiting profits, or an increase in demand for those offering low prices. Diagrams could illustrate increasing PED as AR becomes more elastic, with profit area:  Or an inward shift of AR and MR, with 1 mark for the new profit/loss area.  	

Question Number	Answer	Mark
33 (b) continued	Other KAA (4) 2+2 or 3+1 or 4+0 Factors must be linked to profit might include: • Demand will become more elastic if there are clear substitutes • Reduces monopoly power of individual firms • Infrastructure costs of the signage might be a factor, in which case a firm showing increase in AC and MC would be accepted in the diagram • Collusion • Price wars • Use of pay off matrix or other game theory to show behaviour Evaluation 6 marks (2+2+2) or (3+3) Factors might include: • There are better ways to make the market more contestable, e.g. deregulation • It depends on whether the firms are exploiting monopoly pricing and charging high prices. Firms charging relatively low prices might enjoy an increase in demand • It depends on the price differential/levels of income of drivers or economic cycle. • It depends on whether new MSAs are built. In some cases there is a large gap still between MSAs. • Signage is a one off cost • Depends on how desperate the driver is • Depends on what other firms do. Game theory may be used to develop the evaluation • Collusion will change the impact • Greater reliance on non price competition • Consumer loyalty/branding/habitual behaviour may be strong enough offset the impact of price information **NB 2 marks for correct use of pay-off matrix – can be used as KAA or Evaluation**	**(12)**

Question Number	Mark scheme	Mark
34	KAA 2 marks + 2 marks reserved for diagram Subsidy defined (1) and explained (1): the subsidy is given to the firms, which implies costs are effectively reduced Effect on profits: they will increase (1) Diagram 2 marks: • 1 mark for **shift** linked to new output (MC=MR). See below at * for shifts allowed. • 1 mark for **larger profit** or **smaller loss area**, and cost and revenue curves. *The new/final area must be shown.* *MC and AC shift (implied subsidy per unit of milk) if it is made clear that variable costs are falling *with link to the new output* or *AC shift (if just a lump sum to each producer) if it is made clear that fixed costs are falling *with link to the new output* Allow TR/TC diagrams also with TC shift down and increased distance between TR and TC. [AR and MR shift outwards **only** if subsidy is given to consumers that is, a consumption subsidy e.g. vouchers given to parents - although not implied in the data] Evaluation (4) Award as 2+2 or 3+1 or 4+0 marks. Factors might include: • consideration of the limitations of subsidies e.g. opportunity cost, x-inefficiency • long run benefits e.g. economies of scale • subsidies are for mergers (Extract 3) and these might have increased costs, e.g. diseconomies of	8

	scale • Chinese firms cannot overcome the brand loyalty to foreign brands- so no guarantee of increased sales for domestic firms • depends on the size and duration of the subsidy e.g. 30 billion yuan • depends on whether or not the subsidy is passed onto consumers in terms of lower prices or kept within firm to develop products or for shareholders benefit e.g. the PED of consumers is low • subsidy is small in relation to costs of firms – not enough information to say for certain • profits are still dependent on belief in Chinese firms and effectiveness of international brand loyalty • is the subsidy linked to output? This might question whether the subsidy shifts MC and AC or just AC.	

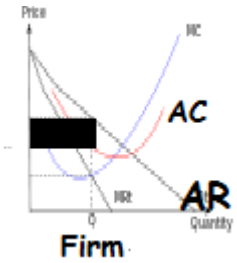
Question Number	Answer	Mark
35	Reserve 2 marks for diagram: Shift showing increasing costs (e.g. legal costs) **or** falling/insufficient demand (1) and loss area/smaller profit connected with MC=MR (1) Reasons might include (2+2 or 3+1): • Nicotine gum manufacturers are acting in a threatening way (game theory might be used to develop this argument) • Too many competitors for the firm to make supernormal profits • Huge costs of operating in US relative to other countries, and other set up costs, e.g. £500 000 annual cost base in US • It has reached shut down point or not making enough profit • It does not expect demand to grow sufficiently in the future • Demand was not as high as expected. 'Gum market is shrinking' in Extract 2 • Challenge to patent • Nicotine firms might be cross-subsidising in the US, or similar comments on the confectionery market being directly affected by the nicotine market problems • other things are not equal • Lack of commercial opportunities in US • Better opportunities elsewhere Evaluation 6 marks: (3x2 marks or 2x3 marks). Points might include: • Not enough information to say as insufficient data provided • Other markets might be more profitable, e.g. Ireland/EU • New products find the US more difficult than other countries to break into – higher marketing barriers • Use of game theory might show how new entrants are deterred • Cost and revenue factors work together to magnify the impact, or other weighing together of the factors • Depends on the degree to which they can cross subsidise losses in the US, the amount of retained profits within Revolymer • In the LR the situation may improve e.g. – working with commercialisation partners as in Canada (extract 2 line 10) • Comment on the £360 000 cost of closing down. It might have been better to stay in the US. • Prioritisation of the reasons with justification	

Question Number	Answer	Mark
36(a)	**Theory (2)** – Price (AR) is less than or equal to AVC **OR** Price (AR) is less than or equal to AC (long run) – (1) **OR** TR is less than or equal to TVC (1) Explanation of the above. For example the firm is: • making less than normal profit (1) • making a loss which exceeds the VC (1) **or** making a loss (1) • not making a contribution (1) • able to make a smaller loss if it discontinued production (1) • not covering its day to day costs/running costs/working capital (1) i.e. an implicit understanding of **variable** costs, which might be achieved using application A diagram showing price below AVC (1) with loss area shown (1) or other explanation using a valid diagram. Note that the diagram marks are part of the theory. **Application (2)**: Jessops was making a loss of £12 million (1) despite revenues of £304.6 million (1) Since £12million is greater than the fixed costs (£8 million) so the firm is losing £4 million on variable costs alone (1 + 1) Example of variable costs: Jessops is not even covering the costs of its cameras (1) Example of fixed costs: Jessops is not covering rent (1)	**(4)**

Question Number	Answer	Mark
36(b)	KAA 4 marks. Reserve 2 marks for diagram. 2 marks For answers which discuss two difference revenue or costs changes allow up to 4 marks. The answers must be developed in different ways. Diagram 2 marks.: 1 mark for **shift** (AR and MR shift, or AC shift (Costs had risen (n.b. fixed costs must be related to data, and no shift in MC)), 1 mark for **loss area** correctly linked to MC=MR, and cost and revenue curves. Reasons for loss (2 marks: 1+1 or 2+0) might include: • Rising costs, with application • Falling demand for cameras as a whole, with application • Increased competition for cameras meaning smaller market power for each firm • Consumers buying on the Internet • Cameras in mobile phones Evaluation 4 marks: (2+2 or 3+1 or 4+0) • both demand and cost shifts can be shown to magnify the impact • Jones might be over-optimistic about end of recession – losses may continue • Jones is going to cut costs and increase demand – profits will occur in future, but is temporarily suffering losses • Depends on ability of Jones to reduce future losses • Difficult to know – need more information about causes of loss, e.g. how other firms have got on, e.g. London Camera Exchange • Camera phones are not a good substitute for all buyers • A £12million loss is very small in comparison to a £304.6 million revenue • It is a combined effect, compounded by another factor	**(8)**

Question Number	Answer	Mark
37	KAA (4) Explanation (2): • 1 mark for costs are rising/price not rising • 1 mark for application or reason from data in Extract 1. Examples of application marks: costs of eggs are rising because of new regulations. Price is not rising because egg distributors such as Noble, or supermarkets will not pay higher prices, or prices are being cut. Diagram (2) This can be a costs shift or a revenue shift, or static diagram (no shift). • MC=MR equilibrium connected with price (1) • Loss area (or lower profit area) 1 Evaluation (4): • Depends on the proportion of egg cost relative to other production costs • If price>AVC the firms will stay in business in the short run even though it is making a loss • Rising costs could be offset by falling costs elsewhere • Free range egg producers will not get a rise in costs • How long is the long run • Some egg consumers are loyal to farmers so could withstand a rise in price • Higher prices are good for the final consumers if quality improves (e.g. eggs taste nicer from happier hens) • Sense that the problem is made worse by other factors. E.g. if there has been a cost rise AND a fall in revenue then these make it a bigger problem	**(8)**

Question Number	Answer	Mark
38	KAA (4) Costs of gas and electricity have not risen as fast/fallen more quickly than the price charged to customers; global demand has risen, cartel, collusion meaning prices rise to consumers. Award **one** reason only – costs not rising (or efficiency gains) or revenue (demand) increasing(1); application to energy market (1) Diagram (2) This can be either cost or revenue changes, or both. There must be a **shift**. • 1 mark for correct shift (AC and MC if variable cost falling, AC if fixed cost falling, AR and MR rising if demand) • 1 mark for profit area. It must be a profit, linked to MC=MR. Evaluation (4): 2+2 or 4+0. Points might include: • Comment magnitude of profits • Depends on size of shifts • Profits might fall in future • Contrast between gas and electricity prices • Difficulty of making conclusions from data provided • The apparent collusion might just be the way that oligopolistic markets work • The market may be regulated more in future	**(8)**

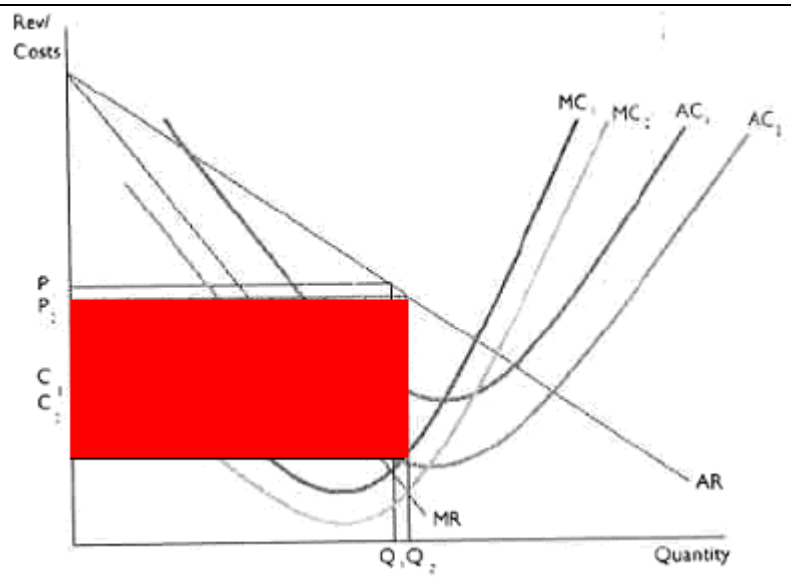
Question Number	Answer	Mark
39	KAA 4 (2 + 2 diagram) Monopoly diagram showing AR>AC or TR>TC (2) Correct MC=MR output level determining price (1) and profit area (1)  (Shaded black rectangle is profit area.) Explanation (2 marks 2+0 or 1+1) • Price of contract is fixed over a long period, so if costs are cut the firm makes supernormal profit (2) • If PFI operator can cut costs e.g. through poor service, or using cheaper materials • If PFI can raise revenue through high maintenance charges then profits rise (2) • Bid rigging at the start to ensure supernormal profits (2) • Barriers to entry once contract has begun meaning the market is uncontestable/closed (2) • No risk of a new entrant, no need to cut prices; therefore monopoly can charge higher prices than if there were competition (it is a price maker) (2) • Private sector can cut costs by being more efficient, e.g. if there are financial economies of scale (2) • Extract 2 line 11 Firms can increase charges in line with inflation Award reference to data (up to 1 mark) e.g. once the contract is signed, firms operate in an uncontestable market (line 20), or 71% Extract 2 line 19. Evaluation 4 marks (2 + 2 or 3 + 1 or 4 + 0) • sometimes they make a loss – use of McAlpine (Extract 1 line 10) etc from the data to support this • profits might be appropriate to the transfer of	**(8)**

	risk involved • risk involved is hard to quantify • profits can be a good thing, e.g. increasing efficiency, or through investment and economies of scale • can be fined if not completed on time or at to high quality • private sector borrowing costs are higher Extract 1 line 13 • supernormal profits are needed as an incentive to bid. Rates of return must be comparable with other private investment projects • process of bidding is expensive and most fail • long term fixed contract could mean larger downside risks and the PFI firm is responsible for losses • tendering process is (at least theoretically) competitive so this might reduce supernormal profit • tendering might lead to bids being too low which compromises viability	

Question Number	Answer	Mark
40	KAA 4 marks (2 + 2 diagram) Definition/explanation that hairdressing is likely to be monopolistic competition (1) Other market structures allowed if justified. There may be a reference to loyalty (for monopoly). Diagram (2 marks reserved for this): downward sloping AR (with short run/long run diagram, if monopolistic competition (1) showing supernormal profits or normal profit indicated if long run(1); allow monopoly diagram (may be a local monopoly). Explanation (up to 2 marks) • customers are unlikely to leave is a sign that high prices can be charged, i.e. they have price setting powers • inelastic demand/brand loyalty means that people do not shop around • there are cheaper or more convenient alternatives but people do not go there • allow use of other data not from paragraph 1. Four-firm concentration ratio in Fig 1. • use of non-price competition to improve loyalty line 8 • cutting prices does not increase demand (extract 2 line 6) • allow start-up costs, training costs Evaluation (4) – counter-argument to the above. This can be arguing that profits are high, low or there is normal profit. (2 + 2 or 3 + 1 or 4 + 0) • long run profits are only normal profits as new firms enter the industry (if it has been argued that there are short run profits in the industry)	**(8)**

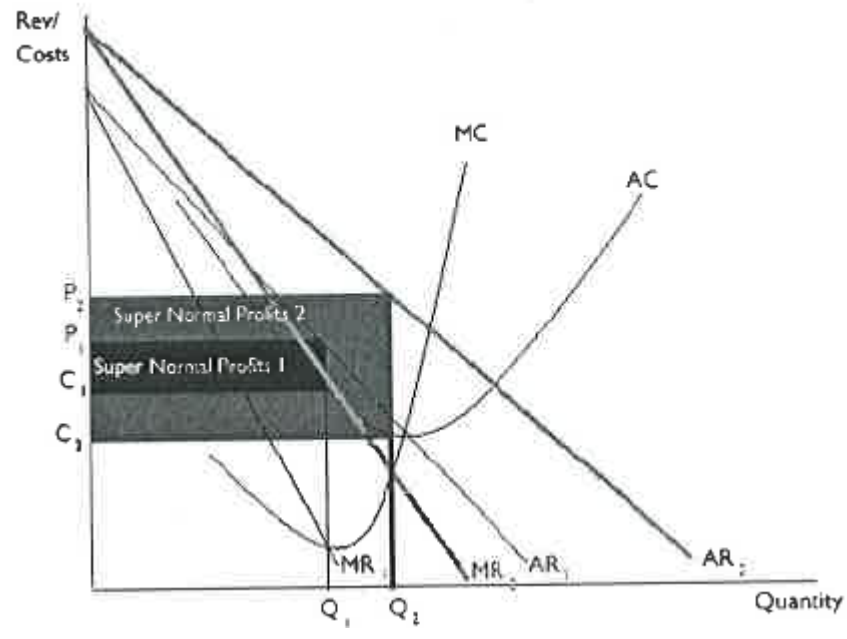
	• some hairdressers are highly profitable e.g. the franchises (if it has been argued that profits tend to be low) • the low pay is not because of the market structure but for other reasons, e.g. it is a highly contestable market • if the top stylists leave, profits plummet • associated products of hairdressing might be more profitable, e.g. nails • Hairdressers' encompasses a wide range of products • changes in recession? – more people cut their own hair or colour their own hair • variability across the industry – different hairdressers operating in different sub-markets, e.g. male, female	

Question Number	Answer	Mark
41	**1 knowledge + 1 application + 2 analysis (diagram) =4 KAA** **4 KAA + 4 Eval = 8** KAA 4 marks: Demand will rise e.g. by attracting customers from larger out-of-town stores(1 +1); **or** costs will fall because loss making stores are being closed (1 +1) Diagram (2 marks) of which showing shift outwards in AR and MR OR fall in costs AC and MC or if just a fall in fixed costs, just AC (1 mark) and new profit area (1 mark)	



Allow MC shift if clear it is not fixed costs only that will change, e.g. reference to change in number of employees in stores
Allow no MC shift if clear that fixed costs are bring considered, e.g. reference to closing stores
Allow LRAC/long run efficiency increases as 1 diagram mark (fall in costs).

OR

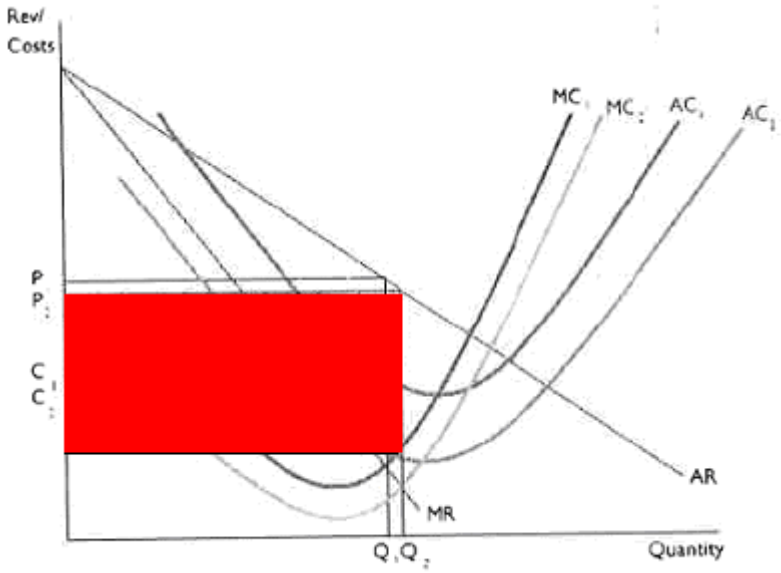


Evaluation (4 marks) Award 2 + 2 or 3 + 1 or 4 + 0.
Points might include:

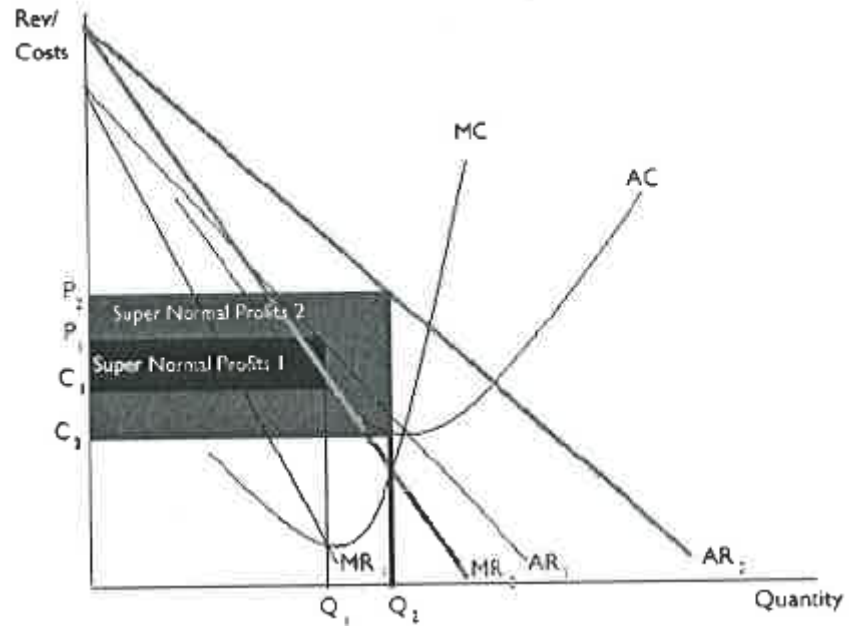
- Reasons why the projection might be overoptimistic
- Stores have recently been closed showing that the profit is not certain

(8)

	• Comment on the magnitude of profitability • Comment on which factors might be more important, e.g. economies of scale • Consideration of changing elasticities, e.g. consumers are more likely to buy inferior goods in a recession • depends on the size of shift, • whether the demand change is short lived, • There might be other factors shifting demand and supply. • Difficult to tell from information provided, it might be just the recession, • there might be other motives, e.g. increasing brand loyalty	

Question Number	Answer	Mark
42	KAA 4 marks: Demand rose (1) with application e.g. 10% rise, as creditworthiness improves, willingness of banks to lend(1 +1); **or** costs fell (1) with application e.g. narrower range, factories closed, employee numbers reduced (1 +1) Diagram (2 marks) of which showing shift outwards in AR and MR OR fall in costs AC and MC or if just a fall in fixed costs, just AC (1) and new profit area (1)  Allow MC shift if clear it is not fixed costs only that will change, e.g. reference to change in number of employees Allow no MC shift if clear that fixed costs are bring considered, e.g. reference to closing 17 factories, salaries not being paid. Allow LRAC/long run efficiency increases as 1 diagram mark (fall in costs).	

OR



Evaluation (4 marks) Award 2 + 2 or 3 + 1 or 4 + 0
Points might include:

- Reasons why the projection might be overoptimistic
- Comment on the magnitude of profitability or revenue/cost changes e.g. Figure 2 shows sales have not yet reached 2007 levels
- Comment on which factors might be more important, e.g. economies of scale
- Consideration of changing elasticities, e.g. consumers are more likely to buy inferior goods in a recession
- depends on the size of shift, they might be cancelled out by changes in costs if demand has been considered, or be magnified when costs and demand are considered together
- whether the demand change is short lived,
- There might be other factors shifting demand and supply.
- Difficult to tell from information provided, it might be just the recession, there might be other motives, e.g. increasing brand loyalty
- Magnitude, eg costs of labour are a very significant element, redundancy payments are high, 17 firms closed, might arouse the suspicion of the regulators if very high
- Improved credit-worthiness/easier bank lending does not necessarily mean that people want to borrow more
- Profits might disappear as Chinese BYD and other competitors enter the market

(8)

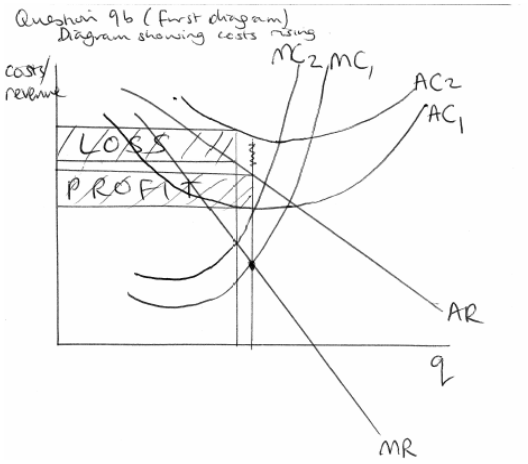
Question Number	Answer	Mark
43	KAA 4 marks **Diagram (2 marks)** showing increased AR and MR (1) with new profit area shown (1), **or** falling AC only (if fixed costs have fallen) or AC and MC shift (if variable costs have fallen) (1)with new profit area shown (1) **Analysis/data (2 marks)**: AR and MR owing to increased demand after credit crisis, increased confidence, allows more businesses to demand loans from banks; **or** AC and/or MC costs may fall because staff costs fall , falling costs of inter-bank loans as economy recovers from credit crisis (2 marks) Evaluation 4 marks Award up to two evaluation points: 2 x 2 marks or 3+1 or 4+0 Points might include: • Lack of information provided, e.g. only first quarter profits are given • Possible impact on quality of service or worker morale • Judgement that banks are abusing their power over SMEs, e.g. charging high interest rates even though base rates have remained at an all time low, or other fairness issues • Banks are essentially nationalised, so the profits should go to the taxpayer; Extract 3 'we will not stand idly by' – the government must act • Questioning of the ceteris paribus assumption, set out as an argument. For example, costs might change as well as demand, or vice versa. Or there might be efficiency gains with new technology or redundancies but service suffers. • Profits are small in comparison with pre-credit crisis	**(8)**

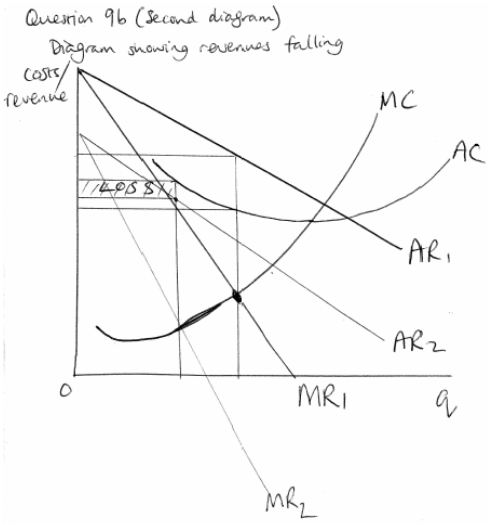
	• Short run/long run issues, e.g. The firms may need to re-hire workers when full recovery takes place, recent developments 2011/12 and conditions have worsened since then, greater pressure from the government to lower profits in the future/ future punitive tax if there is no change • Advantages of profit of banks, e.g. to tax revenues? • Cost of redundancy payments	

Question Number	Answer	Mark
44	Up to two marks can be gained for a fully labelled and correct diagram. Diagram showing fall in AR/MR shift to the left or down (1) and new negative profit area (i.e. loss area) (1) No marks for demand and supply diagram Application 2 marks: Demand or sales falls (1) as it is too hot to eat chocolate , or 'customers eat less chocolate in warmer weather' (Extract 1 lines 9-10)(1)	**(4)**

Question Number	Answer	Mark
45	KAA: 4 marks Award 2 reasons (1+1). Award a maximum of 2 marks for the reasons – a diagram is required in question Costs have risen: e.g. rising fuel costs, wage costs, Iberia has become x-inefficient, other cost issues Demand has fallen: e.g. fall in demand due to financial crisis, recession, and other confidence issues, other airlines scooping up the market. Diagram (up to 2 marks): showing leftward shift in AR and MR (1 mark) and new equilibrium MC=MR and sub-normal profit (i.e. loss) (1 mark) **or** rising costs (AC and/or MC rises)**(1 mark)** n.b. cost diagram does not need to show a shift in MC and new equilibrium MC=MR and sub-normal profit (i.e. loss) (1 mark) Diagram does not need to show a profit before the shift. NB these sketches are not intended to be fully labelled diagrams,	

but merely indicate profit areas.





P

Evaluation 4 marks (2+2 or 3+1 or 4+0)

Factors might include:

- This might improve as the economy recovers (time lag)
- Other airlines have experienced similar problems, so not unique to Iberia
- Speculation has exacerbated the problems
- State governments might intervene
- Prioritisation – which reasons for loss are most significant
- Consideration of elasticities in short and long run
- Questioning of the meaning of profit.

(8)

Question Number	Answer	Mark
46(a)	Award 1 reason (2 marks) • Increased availability and quality of substitutes, e.g. internet news providers or free newspapers (1 mark) which are cheaper (1 mark) • Credit crisis (from 2007), recession from 2008 • Allow reasons for slowing rate of fall or even rise (FT sales 2005-09) e.g. fears about the economy make people want to buy newspapers • Fewer bulk purchases by train/flight operators and hotels Application (2 marks) • Falling trend (or rising trend for FT) 1 mark • Use of data to explain trends, up to 1+1 • More people check their news online – must give reference to (Extract 2) • Readers are disloyal • Use of FT figures as bucking the trend, using observations from data, up to 1 + 1	**(4)**

Question Number	Answer	Mark
46(b)	KAA: 4 marks (4 + 0 marks) or (2 + 2 marks) or (3 + 1 marks). KAA for they will leave (can be argued the opposite way around) • If firms do not make a profit (i.e. if demand is falling) they will go out of business in the long run • Price (AR) must cover AVC or AC in the long run • Diagram (up to 2 marks): showing leftward shift in AR and MR (1 mark) and price below AVC (i.e. shut down price) (1 mark) • New technology makes printed matter obsolete which means eventually they will shut down • Declining advertising revenues increase the likelihood of shut-down, Extract 1 lines 7-8 – online advertising is cheaper and more effective • Use of Figure 1 to support disloyalty argument Evaluation: 4 marks (4 + 0 marks) or (2 + 2 marks) or (3 + 1 marks) Evaluation marks are awarded for saying firms will stay in business (or counterargument to the above) AND other evaluative comments. Points might include: • Newspaper sales are not the only form of income for the firms. Many newspapers are profitable even with a free cover price – other revenue streams are more important e.g. apps, advertising revenue is likely to increase as adverts can be targeted to readers' profiles (Ext 1 line 8) • If firms can cover AVCs then they may stay in business and try to drive down costs • Market is fairly contestable (low sunk costs) and other firms may enter the market to provide services • If firms can survive the downturn, AR is likely to rise in a recovery and the firm will return to profit • Some newspapers are part of a conglomerate, so losses can be cross-subsidised, e.g. by SKY Sports, and the firms stay in business • Diagram (up to 2 marks): showing leftward shift in AR and MR (1 mark) and price above AVC (i.e. they do NOT shut down in the short	**(8)**

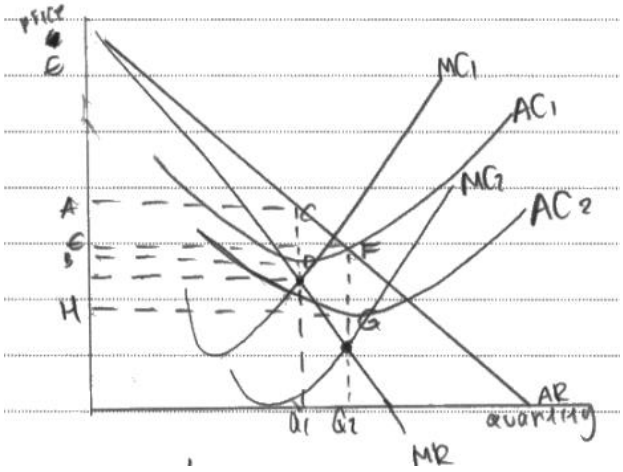
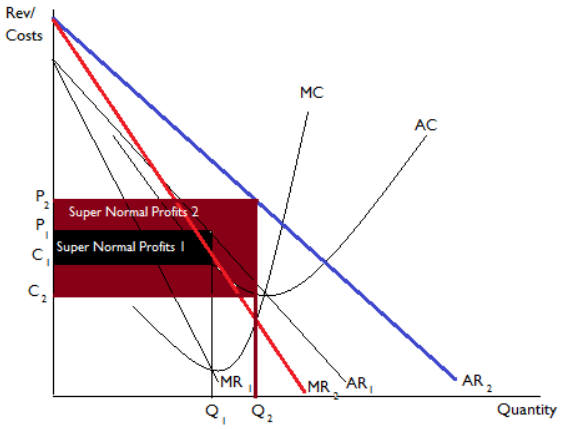
	run) (1 mark) • Insufficient data provided to make a judgement • Depends whether they can cut costs • Depends whether they can increase market share • Depends whether the trend is long run – if this continues the firm will shut down • Unlikely in that '24' hour news is likely to reduce demand for newspapers as newspapers offer depth of insight and evaluative comment • Some people cannot or do not want to access other forms of news so the market will remain in the long term • Extent of competition • Depends on the costs of exit	

Question Number	Answer	Mark
47	**KAA 8 marks Award up to 4 points: (3 + 3 + 2) or (4 + 4) or (2 + 2 + 2 + 2) marks or similar.** **Policies and factors include:** • **Heavy fines could be imposed by Germany's regulatory authorities** • **Price caps** • **European Competition Commission has had some success in getting electricity companies to sell off distribution networks** • **Greater competition from renewable energy firms Consumers switch to 'green alternatives'** • **Suppliers outside Germany as competition (e.g. energy imports)** **1 mark for identification and up to 3 marks for explaining with reference to the data** **Evaluation 8 marks. Award up to 4 points: (3 + 3 + 2) or (4 + 4) or (2 + 2 + 2 + 2) marks or similar.** • **Fines might not have much effect if profits are very high** • **Selling off distribution networks still leaves main electricity companies with considerable market power** • **High cost of renewable energy might not provide much competition** • **Critique of competition authorities e.g. regulatory capture** • **Are the green suppliers really making a difference (line 39)?** • **Prioritisation with justification** • **Short run/long run issues** • **Discussion of size of price elasticity of demand in relation to the price cap** • **Increased profits can be good, e.g. can lead to investment and economies of scale in the future, or it might encourage new entry.** **Quality of written communication will be assessed in this question based on the candidate's ability:** • **To present an argument and conclude on the basis**	**(16)**

	of that argument • To organise information clearly and coherently • To use economics vocabulary appropriately • To use grammar, spelling and punctuation appropriately	

Level	Mark	Descriptor
Level 1	1-3	Identification of policies and factors
Level 2	4-8	Identification of policies and factors (3 marks); explanation of each (up to 5 marks);
Level 3	9-16	Identification of policies and factors (3 marks); explanation of each (up to 5 marks). Evaluation (3+3+2 marks)

Question Number	Answer	Mark
48	KAA 6 marks Award 3 points (2 + 2 + 2 or 3 + 3 or 3 + 2 + 1 or similar) Reasons include: • Lower costs of production of raw material e.g. poorer quality coffee beans • Other costs higher: rent on cafés; wages of staff • Demand for coffee in cafés less price elastic than demand for instant coffee • Starbucks wants to establish its Via brand in the market i.e. market penetration pricing, stiff competition from Nescafe marketing • Potential economies of scale in production of Via coffee much greater than for filter coffee • Low costs of marketing on entry • Starbucks cross-subsidise firms • To under-price competition e.g. McDonald's McCafe • Recession – have to keep prices down, Extract 2, line 19-20 Evaluation 6 marks (2 x 3 marks or 3 x 2 marks) might include: • Prioritisation e.g. critical consideration of costs • Missing information e.g. no cost comparisons given in the information • Short run, long run issues, e.g. prices might be a short term policy only; raise price once established • As the recovery progresses, prices may rise • Recovery might have the reverse effect, as the product is 'cheap and tasteless' Extract 2 line 1, because instant coffee is seen as an inferior good • There is already much competition besides McDonald's so Via might not make much difference	(12)

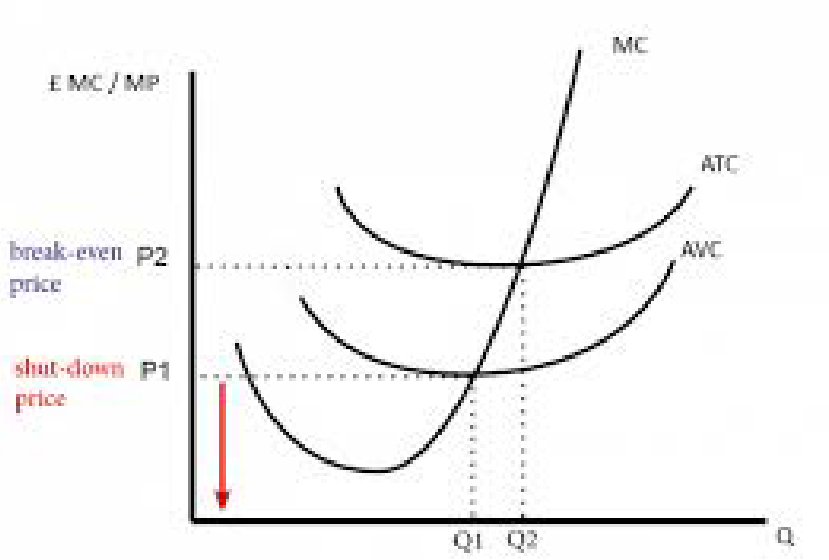
Question Number	Indicative content	Mark
49	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** • Might mean costs rise in the short run and/or • Costs fall in the long term – fixed or variable • Demand for products might increase as firms improve product quality and choice **Application** • Some firms in Germany are expecting higher long-term profits from the investment (Extract C) • Germany still far behind other countries in the area of technology especially broadband (Extract C) **Analysis** Example of diagram (can use AC or ATC or not shift MC)):   	

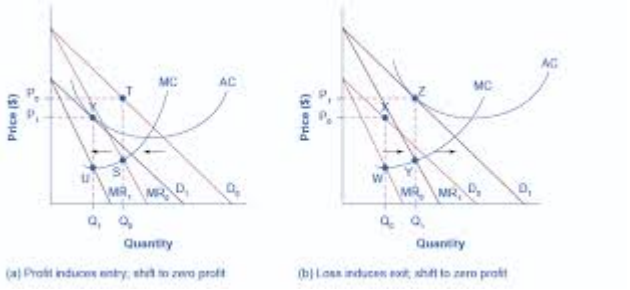
	NB for a level 3 response there must be at least one valid diagram. The diagram can show either a rise in AR/MR or a fall in costs, or both.	**(8)**

Knowledge, application and analysis		
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
49 continued	**Evaluation 4** • Discussion of whether costs would rise (short term) or fall if successful (long term) • It depends on how labour intensive the production is • It depends on what competitor countries are doing • New technology needs highly skilled labour and cannot be discussed in isolation	**(4)**

Evaluation		
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
50	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** • Changing consumer trends • Higher business rates and other costs • Use of diagram to show shut down point • Explanation of diagram to explain why firms leave, e.g. P<AVC • X-inefficiency in shops • Low value added shops have to compete with online **Application** • Competition from online • Use of Extract to give examples, e.g. Maplin could not compete with online similar products • Inflation has reduced the amount you can buy with £1 – Poundworld was not viable • These are saturated market with many new entrants • Large rental bills and higher business rates cannot be met and banks are unwilling to lend/ provide extensions to overdrafts • Falling consumer confidence Example of costs diagram (can use AC or ATC)  Example of revenue diagram:	



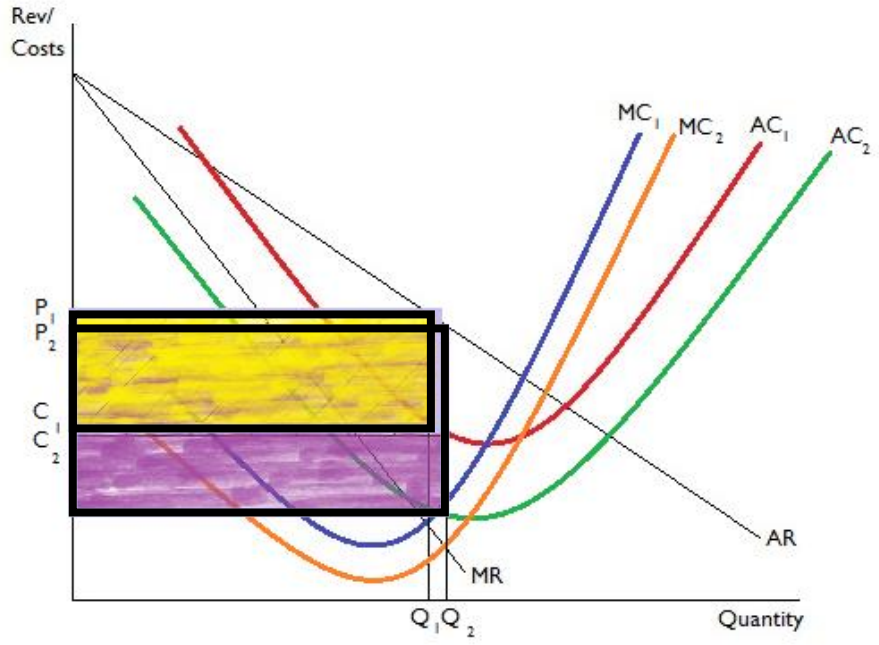
NB for a level 3 response there must be at least one valid diagram. The diagram can show either a fall in AR/MR or a rise in costs, or both. The diagram also earns credit as a static diagram, but explanation of changes is still required.

(8)

Knowledge, application and analysis		
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
50 continued	**Evaluation 4** • Some high street stores are doing well, e.g. coffee shops and cafes • Other regeneration of the high street is possible • Many companies are responding to threats from online by extending their online presence • Diagram might be used as part of evaluation, e.g. it depends on whether costs also fall as demand falls. Homebase is seeking lower rents (fixed costs fall). • Firms will stay in business in the short run if they are making a contribution towards fixed costs, i.e. P>AVC. This might be illustrated with a diagram e.g.	**(4)**

Evaluation		
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		Mark
51	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Diagram (2) Reserve 2 marks for costs and revenue diagram.** This can be awarded as 2 application marks or 1AN + 1AP. **Knowledge and analysis (1+1): e.g.** • Increasing efficiency resulting from investment lowers costs for firms **(K)** which means AC falls – might also show fall in MC **(A)** • Profit increases **(K)** with new area shown on diagram linking the new MC=MR with the AR and new AC **(A)** **Application (2 or 1+1):** answer relates to the output of farmers increasing relative to input, e.g. Productivity of each farm increases (1) as rice output doubles (1); Plans for 65 dams, 16 already under construction (1) Or: 'two harvests a year' (1) means more output from same fixed land/factor (1) Diagram e.g. shows a decrease in AC (if fixed costs) or decrease in AC and MC (if variable costs) e.g. as shown below. The diagram must be **consistent** with the description, although shift/non shift in MC might be implicit.  	

	• 1 mark for correct shift in cost (relevant to answer given) and • 1 mark for new correct profit area shown. Diagram may show a fall in costs and/or an increase in revenue **if linked** to double the number of harvests, or a decrease in revenue **if linked** to falling worldwide prices, more firms entering the market. Diagram may be perfect competition. **Evaluation** (2 marks for any relevant point, or two points 1+1) • The investment is taking many years and may not be completed • Governments might increase tax on farmers to compensate for increased costs of dam investment • The farmers might face other increased costs as output rises e.g. law of diminishing returns • There may be more efficient and effective ways of increasing output, e.g. better technology, fertiliser • Increased world supply could lower the price per unit, and with low PED the revenue and therefore profit could fall.	**(8)**

END OF SECTION B