



*Rewarding Learning*

**ADVANCED**  
**General Certificate of Education**  
**2019**

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## **Economics**

**Assessment Unit A2 1**

*assessing*

**Business Economics**

**[AEC11]**

**MONDAY 20 MAY, MORNING**

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**MARK  
SCHEME**

## General Marking Instructions

This mark scheme is intended to ensure that the A2 examinations are marked consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark schemes should be read in conjunction with these general marking instructions which apply to all papers.

### Quality of candidates' responses

In marking the examination paper, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 18-year-olds, which is the age at which the majority of candidates sit their A2 examinations.

### Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

### Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 18-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect and inappropriate.

### Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

### Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

**Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

**Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

**High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

## Marking calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

## Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

**Level 1 (Limited):** The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

**Level 2 (Satisfactory):** The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

**Level 3 (High Standard):** The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

**Level 4 (Excellent):** The candidate successfully selects and uses the most appropriate form and style of writing, supported with precise and accurate use of diagrams where appropriate. Relevant material is extremely well organised with the highest degree of clarity and coherence. There is extensive and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard and ensure that meaning is absolutely clear.

- 1 (a) Fixed costs are costs that do not vary with output – for example rent and rates and advertising whereas variable costs are those which vary directly with the level of output for example coffee beans and packaging  
 [2] for accurate explanation of difference between fixed and variable costs  
 [2] for relevant examples [4]
- (b) [2] for accurate calculation of 7.97% (accept 8%)  
 [1] for correct methodology but error in calculation [2]
- (c) With a PED of  $-0.68$  an increase in price from £2.85 to £3.45 (21.05%) would cause the quantity of cappuccinos sold to fall by 14.32% to 2,969 (rounded to the nearest whole cup). Therefore total revenue would be  $2,969 \times £3.45 = £10,243.05$ .  
 [4] for accurate calculation of total revenue as £10,243.05 (accept £10,236.60)  
 Up to [2] for correct methodology but error in calculation [4]

10

- 2 The law of diminishing returns to the variable factor states that as more and more of a variable factor are added to a fixed amount of another factor marginal product will at first increase but eventually decrease. The data in the table clearly shows that as labour increases up to the fifth worker the addition to output is progressively greater; however after the fifth worker marginal product begins to decline.

Number of employees	Total weekly output	Marginal output
0	0	
1	4	4
2	12	8
3	24	12
4	42	18
5	90	48
6	120	30
7	126	6

- [2] for accurate explanation of the law of diminishing returns  
 [2] for accurate use of data to illustrate [4]

4

- 3 (a)** The minimum efficient scale (MES) of production is the minimum output level a firm must produce to achieve productive efficiency (that is to produce at the point where average costs are minimised). For nuclear power firms in the UK this occurs at around 60% of the total output of the industry.  
 [1] for accurate explanation of MES  
 [1] for identifying that it occurs at 60% of total industry output [2]
- (b)** An industry could be described as a natural monopoly when maximum efficiency is more likely to be achieved through production by one firm rather than many. The UK nuclear power industry in the UK could be described as a natural monopoly since only one firm could achieve the scale required to produce efficiently since the MES occurs at approximately 60% of total output.  
 [2] for accurate explanation of natural monopoly  
 [2] for application to UK nuclear power industry [4]

AVAILABLE  
MARKS

6

- 4 (a) • Both UK retail sales and UK sportswear sales have increased between 2010 and 2017 – however UK sportswear sales have increased much more significantly.
- UK retail sales have increased by 7.7% between 2010 and 2017
  - UK sportswear sales have increased by 83.65% between 2010 and 2017
  - UK sportswear sales have increased every year between 2010 and 2017
  - UK retail sales actually fell in 2012 and 2013 before increasing again each year from 2014–2017

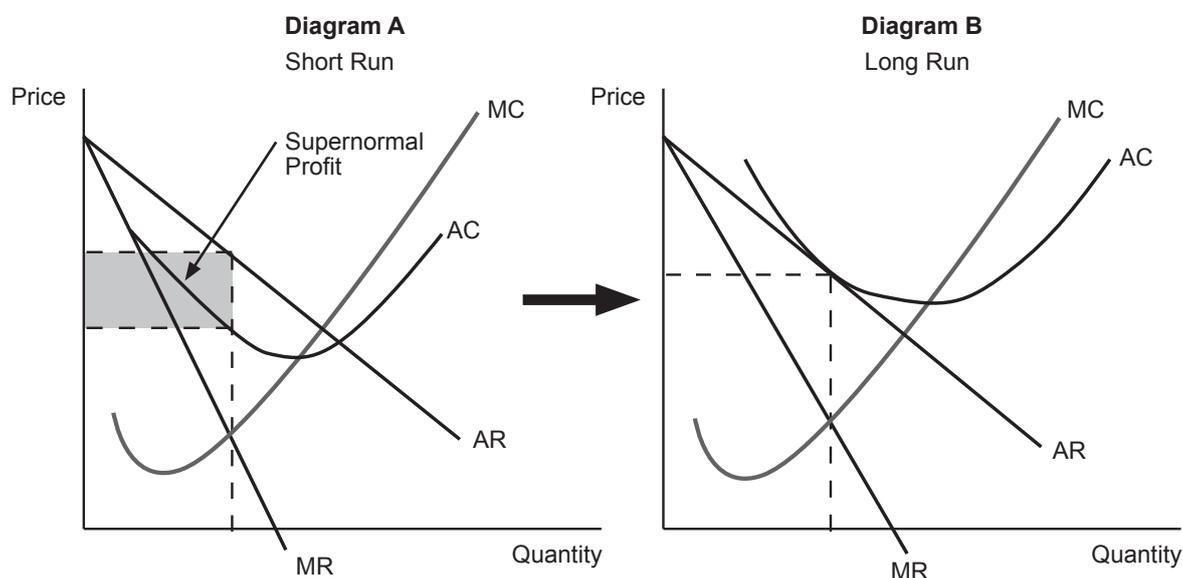
Up to [2] for narrative comparison of trends with little manipulation of data to show changes in relative terms

[2] for accurate manipulation of data to show relative changes [4]

- (b) The sportswear market in the UK is an example of a monopolistically competitive market where firms can differentiate their product and earn supernormal profits in the short run. This is shown in diagram A below.

However the lack of barriers to entry means that rival firms can enter the market and copy the strategies of successful companies and therefore compete away these supernormal profits. This is shown on diagram B below.

Alban Whiterose points out that new firms have already been attracted to the market and rival firms have begun to copy the strategies that have led to JD Sports' success. As a result the high profits that JD Sports have earned are likely to be a short-run phenomenon.



Credit will be awarded to candidates who approach this analysis from the point of view of contestable markets.

**Issues and areas for analysis include:**

- Distinction between long run and short run
- Distinction between normal profits and supernormal profits
- Reference to characteristics of monopolistically competitive market
- Explanation that a lack of barriers to entry leads to new firms entering the market until only normal profits are made by all firms
- Appropriate diagrams
- Appropriate examples

**Level 1 ([1]–[3])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
- Basic analysis; may lack focus.
- A low quality of written communication.

**Level 2 ([4]–[6])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

**Level 3 ([7]–[9])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [9]

- (c) There is a range of strategies that a struggling retailer such as Sports Direct could use to compete more effectively with JD Sports and others. Essentially these strategies relate to either increasing revenue streams or reducing costs.

To increase revenue streams the firm could:

- Open new stores to try and increase sales in UK and abroad – the firm has already taken a stake in US retailers in an attempt to increase sales there, and has plans to open 20 new stores in the UK – however significant costs involved in store openings and company may grow too large too quickly and hence experience diseconomies of scale
- Increase the focus on online sales through the website – this may alienate some customers who prefer the physical shopping experience
- Merge with other firm to increase its market share – may attract attention of the regulatory authorities
- Increase the price of its products and move up the value chain – Sports Direct is opening new upmarket stores in an attempt to improve its image and quality perception – though the success of this depends on PED
- Form partnerships with manufacturers to give it exclusivity over certain ranges – manufacturers will require certain commitments in return

- Diversify its product range by branching into related areas such as fitness clubs etc – though the firm may become too diverse and lack the expertise to function effectively in other sectors
- Improve advertising and marketing – stadium naming, branding, etc – this will involve significant sunk costs

To reduce costs the firm could:

- Reduce labour costs through rationalisation or reducing pay and conditions or through improving productivity of labour through investment in technology or staff training – self-service checkouts, zero hours contracts etc – however company has already faced negative media attention over its working practices
- Reduce the number of actual physical stores and shift to online trading – this may alienate some customers who prefer the physical shopping experience
- Use its buying power to negotiate better deals with suppliers – may attract the attention of regulatory authorities
- Make better use of technology to manage stock – there may be a significant cost initially to install the technology required

### **Level 1 ([1]–[4])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question.
- Some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

### **Level 2 ([5]–[8])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; where relevant, some reasonable use of data and diagrams in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

### **Level 3 ([9]–[12])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.

- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [12]

- (d) Source 4 highlights some of the negative impacts of intense competition between firms. Where a profit maximising firm faces intense competition there is a tendency for the firm to attempt to improve its competitiveness through cost cutting measures such as reducing pay and conditions of workers. Where pay reductions are limited due to minimum wage legislation firms will often look at other ways of reducing employee costs – e.g. zero hours contracts, etc.

Similarly firms may look for ways of reducing their costs in terms of waste management and the raw materials they use. These working practices can have significant external effects on the environment and the wider economy.

However not all firms are profit maximisers and even some who do seek to maximise profits, may seek alternative strategies to remain competitive. Indeed some may actually attempt to differentiate themselves from others through creating an environmentally friendly image and hence will be keen to be seen to take action that improves the environment rather than damage it. Equally some may actually choose to improve the pay and conditions of their staff in an attempt to improve productivity and reduce labour turnover and absenteeism.

**Areas for analysis and discussion include:**

- Reference to profit maximising as a core objective
- Reference to examples of firms exploiting workers in an attempt to reduce cost – either from the case study or other examples
- Reference to examples of firms exploiting the environment in an attempt to reduce costs
- Reference to alternative objectives – environmental objectives, revenue maximising etc
- Reference to improving working conditions as a method of improving productivity
- Reference to greenwashing – or firms creating an environmentally friendly image
- Reference to the impact of competition on the firms objectives
- Reference to dominant firms and their working practices – are monopolies any more environmentally friendly than firms who face competition?
- Appropriate examples
- Appropriate diagrams

**Level 1 ([1]–[5])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question.
- Some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.

- A low quality of written communication.

**Level 2 ([6]–[10])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; where relevant, some reasonable use of data and diagrams in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

**Level 3 ([11]–[15])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication.

[15]

40

- 5** Traditional economic theory suggests that oligopolies are likely to act against the public interest by charging higher prices than would be the case under more competitive conditions. Being able to charge these higher prices allows the firm to earn supernormal profits. As a result oligopolistic firms are likely to be both allocatively and productively inefficient.

However those in favour of oligopolies argue that they drive innovation. They argue that oligopolistic firms will use some of their supernormal profits to fund research and product development and as a result will create dynamic efficiency. They also argue that an economy will benefit from permitting oligopolistic firms to develop as it allows firms to become large enough to gain the economies of scale necessary to survive in a global marketplace.

**Areas for analysis and discussion include:**

- Discussion of characteristics of oligopolistic markets
- Discussion of assumptions of oligopolistic models
- Impact of oligopoly on prices – intense competition between the big 4 has kept prices low for consumers
- Impact of oligopoly on consumer and producer surplus
- Reference to economies of scale
- Reference to industries which are natural oligopolies
- Reference to supernormal profits
- Reference to research and development and product innovation
- Reference to dynamic efficiency

- Reference to importance of oligopolies in job creation
- Comparison with other market structures
- Appropriate diagrams
- Appropriate examples

### Level 1 ([1]–[7])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

### Level 2 ([8]–[15])

A reasonable response provides an answer that demonstrates:

- Reasonable knowledge and understanding of relevant terminology, concepts, principles and models.
- Reasonable application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Reasonable analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A reasonable quality of written communication.

### Level 3 ([16]–[23])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

### Level 4 ([24]–[30])

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [30]

- 6 Some people argue that price discrimination should be outlawed since it will lead to some consumers paying a higher price for the product than would be the case if the firm did not discriminate. In the case of Uber this would be customers who are being picked up in a wealthy area. This means the welfare of consumers (as measured by their consumer surplus) would be reduced. The firm, on the other hand, is able to abuse his market power and gain higher revenue and greater profits and is able to increase his producer surplus at the expense of those with the more inelastic demand. They also argue that price discrimination is often used by firms to drive competitors out of business. Uber has faced a media backlash due to its impact on traditional taxi companies.

However price discrimination can benefit society since it leads to some consumers, (those with relatively elastic demand or being picked up in a less well-off area) paying a lower price. In some cases individuals, who would have previously been unable to consume the good, will be priced into the market and would therefore gain welfare. This can also be seen in other industries such as the IT industry where the high price paid by business users for computer software allows an IT company to offer the same software to educational users at much lower prices.

It could also be argued that, since the firm can sell more goods by discriminating, it will have more scope to exploit economies of scale. These economies of scale could result in lower costs for the firm and therefore lower prices for all customers.

It could be argued that the monopolist could use some of the extra supernormal profit, earned by discriminating, to fund research and development and therefore lead to greater dynamic efficiency.

**Areas for analysis and discussion include:**

- Definition or explanation of price discrimination
- Reference to conditions necessary for price discrimination
- Reference to different types of price discrimination – 1st, 2nd and 3rd degree
- Reference to the difficulty of using geography as a proxy for the income of customers
- discussion of concept of “fairness”
- Impact of price discrimination on consumer and producer surplus
- Impact of price discrimination on profits
- Efficiency of government regulation
- Impact of price discrimination on dynamic efficiency
- Impact of price discrimination on economies of scale
- Appropriate diagrams
- Appropriate examples

**Level 1 ([1]–[7])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

**Level 2 ([8]–[15])**

A reasonable response provides an answer that demonstrates:

- Reasonable knowledge and understanding of relevant terminology, concepts, principles and models.
- Reasonable application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Reasonable analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A reasonable quality of written communication.

**Level 3 ([16]–[23])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

**Level 4 ([24]–[30])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication.

[30]

**Total**

**AVAILABLE  
MARKS**

30

**90**