Pearson Edexcel

Mark scheme

Sample assessment materials

Issue 3

Pearson Edexcel GCE A Level

in Economics A (9EC0)

Paper 1: Markets and business behaviour

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Sample assessment materials Issue 3
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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	**Application 2** **Application:** 1 mark for applying the formula and 1 mark for correct answer • Calculate the PED 5/11 (1) = 0.4545 (1) NB if the answer given is 0.45, award 2 marks.	**(2)**

Question Number	Answer	Mark
1(b)	D	**(1)**

Question Number	Answer	Mark
1(c)	**Knowledge 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying the impact of the change in price and quantity. **Analysis:** 1 mark for linking this to overall impact on total revenue, e.g. • relatively inelastic demand so additional revenue earned from additional price will be greater than lost revenue due to lost quantity (1) so as price rises total revenue rises (1) • may be illustrated diagrammatically – showing total revenue rising as price rises (1) with inelastic demand. (1)	**(2)**

Question Number	Answer	Mark
2(a)	**Application 2, Knowledge 2** **Application:** up to 2 marks for completing the table accurately. 1 mark for any correct answer in the column and 2 for all accurately complete/completed to the appropriate point.	

Price	**Quantity demanded per month (000s)**	**Quantity supplied per month (000s)**	**New quantity supplied per month (000s)**
£25	**400**	**320**	**240**
£30	**360**	**360**	**280**
£35	**320**	**400**	**320**
£40	**280**	**440**	**360**
£45	**240**	**480**	**400**

	Knowledge/understanding: 1 mark for identifying the original and new equilibrium (1) Current equilibrium price = £30 New equilibrium identified = £35 (where QD = 320 and QS = 320) (1) 1 mark for calculating the change in the equilibrium price (1) £35–£30 = £5 increase.
	(4)

Question Number	Answer	Mark
2(b)	A	**(1)**

Question Number	Answer	Mark
3(a)	C	**(1)**

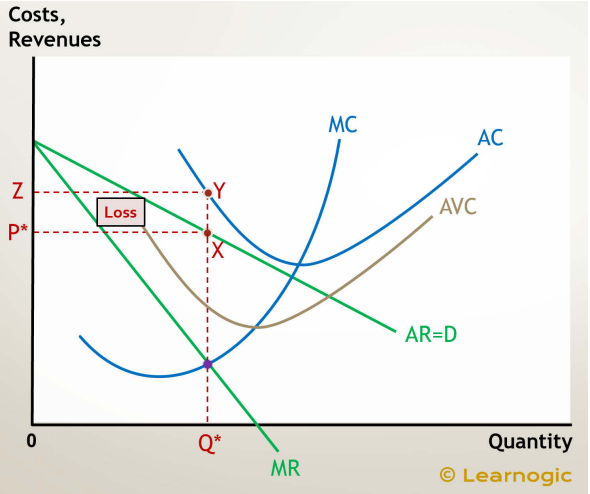
Question Number	Answer	Mark
3(b)	**Application 2** **Application:** 1 mark for calculating the unit incidence of the tax on consumers and 1 mark for calculating the total e.g. **7.39-5.10 = 2.29** (1) **x 10 000 = $22 900** (1) NB if the answer given is $22 900, award 2 marks.	**(2)**

Question Number	Answer	Mark
3(c)	**Application 2** **Application:** 1 mark for tax per packet of cigarettes and 1 mark for calculating the total tax revenue. **7.39-3.58 = $3.81** (1) **x 10 000 = $38 100** (1) NB if the answer given is $38 100 award 2 marks.	**(2)**

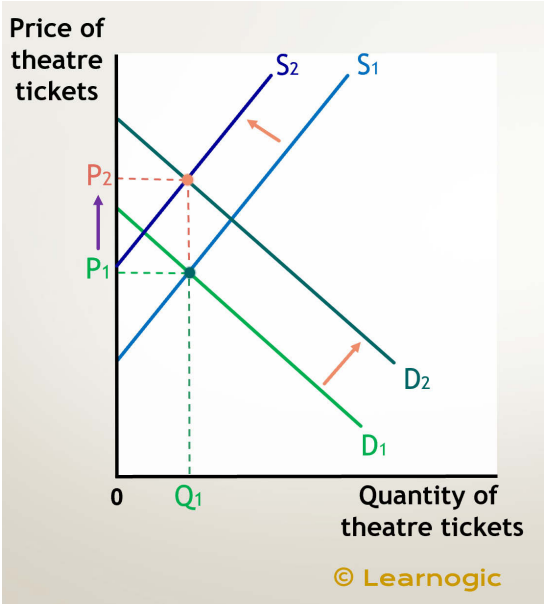
Question Number	Answer	Mark
4(a)	**Application 2** **Application:** 1 mark for applying the 3-firm concentration formula and 1 mark for accurate answer, e.g. **14.1+9.7+3.5 = 27.3** (1)**/47.6 x 100 = 57.4%** **(quarter 3, 2013)** (1) NB if the answer given is 57.4%, award 2 marks.	**(2)**

Question Number	Answer	Mark
4(b)	C	**(1)**

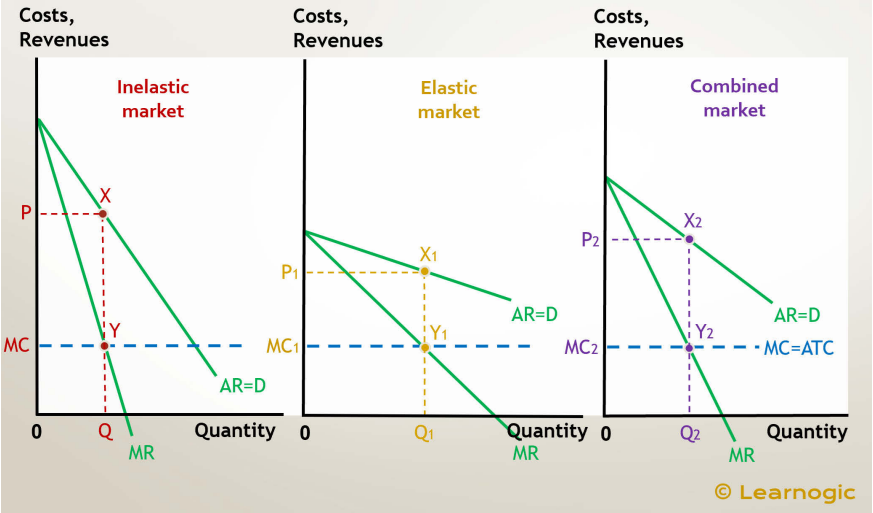
Question Number	Answer	Mark
4(c)	**Knowledge 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying barrier to entry **Analysis:** 1 mark for a linked development, e.g. • economies of scale (1) large quantity for Apple, Samsung mean they are likely to reap marketing, purchasing economies (1) • limit pricing (1) where tablet producers lower price below profit maximisation to restrict entrance of competitors (1) • branding (1) significant marketing budgets spent by tablet manufacturers which it would be expensive for new entrants to afford (1) • patents (1) the technology including batteries will be protected meaning competitors cannot replicate (1) • sunk cost (1) costs a lot to invest in manufacturing units which small firms will not have the resources to do. (1)	**(2)**

Question Number	Answer	Mark
5(a)	**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
5(b)	C	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 1, Analysis 3** **Knowledge/understanding:** 1 mark for: • accurate supply and demand with original equilibrium. (1) **Application:** 1 mark for identifying either: • record numbers of people wanting to buy tickets for shows (1) • costs of running the theatres has risen to pay for restoration and absorb the cost of booking fees. (1) **Analysis:** 1 mark for each of the following: • supply shifted leftwards (1) • demand shifted rightwards (1) • accurate new equilibrium showing higher price. (1) For example:  	**(5)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Analysis 2, Application 2, Evaluation 2** **Knowledge/understanding:** 2 marks for identification of two reasons (1+1). **Analysis:** 2 marks for linked explanation of these reasons (1+1). **Application:** 2 marks for reference to the data (1+1), e.g. • to enter seven overseas markets (1) – including Bulgaria, Czech Republic, Romania, Hungary, Israel, Poland, Romania and Slovakia/ operates almost 100 multiplexes (1) which increases the quantity of potential consumers (1) • to establish a European mulitplex powerhouse (1) – CCI operates almost 100 multiplexes (1) which increases the quantity of potential consumers at each location (1) • Cineworld was ordered by competition regulators to offload three cinemas following its takeover of the Picturehouse chain (1). Difficulty of finding new growth opportunities in the company's home market (1) so moving abroad enables expansion (1) • industry data by Rentrak showing that UK and Ireland box office takings in 2013 fell by 1% to £1.17bn (1) falling demand in UK (1) and markets in Europe may be growing (1) • rivals have also grown overseas, with Odeon UCI and Vue Entertainment (1) and this suggests is a rational decision for the business to make (1) as their competitors are likely to have moved to maximise profits. (1) **Evaluation:** 2 marks for two evaluative comments, e.g. • however, some of the countries they are moving to are poorer than the UK (1) • even in these countries they will be scrutinised by EU regulation (1) OR 2 marks for identification and linked development, e.g. • magnitude of fall in cinema sales – fall 1% (1) could just be a bad year for films (1) • unlikely to want to copy them (1) it is more the impact on their competitors' profitability they are concerned about. (1)	**(8)**

Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 4** • Define price discrimination. • Application- same screening but different prices – examples from data. • Third degree price discrimination diagram.  • If they do not discriminate and MR=MC profit is $P_2MC_2Y_2X_2$. • Adults – demand more inelastic so willing to pay more and respond less as price rises. • Children – demand more responsive to change in price – elastic. • If the firm splits up the market and charges different prices to each group the area of profit PMCYX and $P_1MC_1Y_1X_1$ will be greater than if they do not discriminate. • Profits will rise if they price discriminate depending on different groups' elasticities.	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(c) continued	**Evaluation 4** • Cost to administer and to ensure people buy only appropriate tickets is expensive. • Assumes they know shapes of demand curves for each group – which they may not. • Even within sub groups very different markets with different sensitivities to price – so could increase profits further with other discrimination. • Ethics/fairness of price discrimination. • Magnitude of price variations – £6.80–9.60. • Depends on proportion of earnings from tickets – other earning (popcorn etc) may be more significant. • Cutting costs may have more of an impact on increasing profits than changing price and revenue.	**(4)**

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

Question Number	Indicative content	Mark
6(d)	**Knowledge 2, Application 2, Analysis 2** • Define price and non-price competition. • Identify relevant price and non-price strategies suitable for Cineworld. • Application – competitors such as Odeon and Vue cinema. **Benefits and limitations of each can be taken as Knowledge, Application and Analysis, or Evaluation** • Price wars – lowering the price to attract customers from competition – increasing sales. • Predatory pricing – where a firm prices below AVC/AC of competitors – enables competitors to be driven out of the market and increases sales enabling the firm to drive up prices later. • Price leadership – where Cineworld sets its price first in order for competitors to follow – leading price may enable the firm to under-cut competitors for a time or push up the price as competitors follow. • Limit pricing – keep price low – to avoid firms contesting/entering market – lower price means higher output and sales, lack of competition means less fierce advertising and price reduction needed. **Types of non-price competition** • Advertising – this will raise awareness, interest, desire and action to increase sales of cinema tickets. • Branding – investing in the image, logo, slogan of the business – to build trust amongst customers.	**(6)**

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 link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	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 applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(d) continued	**Evaluation 4** • Price wars – competitors may lower the price also meaning customers are the only ones to benefit, profit margins fall. • Predatory pricing – could get into legal trouble for trying to shut down competitor, if they have reserves they could last a long time driving down your own profits/ reserves. • Price leadership – Cineworld may increase price but competitors may not. • Limit pricing – low price means higher output but lower revenue and profit as not profit maximising. **Types of non-price competition** • Advertising – this will cost money, and may just encourage competitors to do the same making it more costly to remain in market. • Branding – may be a waste of funds as it may not encourage trust or brand loyalty. **Other evaluation** **Game theory** • Competitors likely to react and adjust price or advertising budgets/so could end up with both with lower price or higher costs in terms of advertising budget. • Pay off matrix may be used to show worst outcome for all. • Magnitude – depends on amount of price adjustment and advertising budget. • Prioritisation of the significance of each factor – whether pricing and non-price will be most important • Short run little change – people do not adjust to price changes straight away/long run may take time for benefits to emerge, e.g. branding.	**(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
6(e)	**Knowledge 3, Application 3, Analysis 3** • Competition Commission (CC) concluded merger would lead to higher prices for customers in Aberdeen, Bury St Edmunds and Cambridge. • Diagram, e.g. monopoly or comparing monopoly and perfect competition. • Increased producer surplus/decreased consumer surplus – fairness. • Deadweight loss from monopolist. • Lack of productive efficiency/allocative efficiency (P>MC). • X-inefficiency/organisational slack.	**(9)**

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

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • Cineworld operates mainly large out-of-town-centre cinemas, Picturehouse's cinemas tend to be smaller cinemas located in city centres – not direct competitors. • Other indirect competitors – bowling etc. • Dynamic efficiency, increased profits may be used to innovate. • National pricing operated where it is the same for all locations. • Management monitored by head office so unlikely to develop X-inefficiency. • May revenue maximise or sales maximise due to divorce of ownership.	**(6)**

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

Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** • Definition of external costs. • Identification of external costs likely in the energy market. • Explain the reason for government intervention, e.g. overconsumption and the need to reduce it. • Diagram identifying external costs and the need to reduce it – linking to overproduction/deadweight loss: – Indirect taxation – ad valorem and specific – costs rise for firm – reducing supply and quantity/may used funds to compensate third party/increases incentive to move to production of energy with lower external costs. But if demand inelastic just passed on to consumer/little impact on consumer/measurement problem to decide size of tax/may not be reinvested/used to compensate third parties/ avoidance/evasion – Tradable pollution permits – how it works/incentive to reduce pollution to be able to sell them/those that do rewarded/ those that don't have added costs/ But only works if right quantity sold/some may not bother if surplus permits/costs to administer/monitor – Extension of property rights – third party can seek compensation. But only those that can afford to pursue will/no guarantee that you can prove they are the guilty party/energy companies large have expensive and powerful lawyers – Regulation – banning or setting limits on energy production. But expensive to police/measurement problem – what limits to set. • Diagrams may be rewarded where appropriate. **NB For a Level 4 response, candidates must consider two methods in their answer.**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relates them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially–developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Define minimum wage. Positive impacts: • above-inflation increase to the rate of £6.31 per hour/ real term rises – could help people cover the rising cost of living • a rise of more than 50p an hour – helps reduce poverty • lowers inequality • higher rewards may improve productivity. Negative impacts: • big rise could cost people their jobs • diagram- showing minimum wage above equilibrium – labelling unemployment • above-inflation increase to the rate of £6.31 per hour – could be inflationary • not supporting business – adds to costs/growth • may make informal/ grey economy more attractive for employers to pursue – less protection/less tax revenue **Evaluation** • May not be a problem in many markets where wages are well above minimum wage. • Depends on the proportion of costs that are allocated to wages. • Depends on how labour intensive production is – big impact if labour intensive. • Short term – firms may be slow to adjust to new cost conditions.	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.