



Oxford Cambridge and RSA

## **A Level Economics**

**H460/01** Microeconomics Practice 2

**MARK SCHEME**

**Duration: 2 hours**

**MAXIMUM MARK 80**

**This document consists of 28 pages**

**PREPARATION FOR MARKING**

1. Make sure that you have accessed and completed the relevant training packages for on–screen marking: *Scoris assessor Online Training*; *OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>
3. Log–in to scoris and mark the **required number** of practice responses (“scripts”) and the **required number** of standardisation responses.

YOU MUST MARK 10 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

**MARKING**

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the scoris 50% and 100% (traditional 50% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone, email or via the scoris messaging system.
5. Crossed Out, Rubric Error (Optional Questions) and Multiple Responses

**Crossed Out Responses**

Where a candidate has crossed out a response and provided a clear alternative then the crossed out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed out response where legible.

**Rubric Error Responses – Optional Questions**

Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. (*The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.*)

**Multiple Choice Question Responses**

When a multiple choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).

*When a question requires candidates to select more than one option/multiple options, then local marking arrangements need to ensure consistency of approach.*

### **Contradictory Responses**

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

### **Short Answer Questions** (requiring only a list by way of a response, usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

### **Short Answer Questions** (requiring a more developed response, worth **two or more marks**)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

### **Longer Answer Questions** (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the additional pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there then add a tick to confirm that the work has been seen. The 'link page' check box should be used on scoris to link candidate responses in additional objects to the corresponding question number.

- Where additional objects are present, all pages must contain an annotation, or scoris will not allow you to submit the script. Where no response is given by a candidate on a whole page the 'BP' annotation **must** be applied.
- Where generic answer booklets are used, all pages must contain an annotation, or scoris will not allow you to submit the script. Where no response is given by a candidate on a whole page the 'BP' annotation **must** be applied.
- Where structured answer booklets are used, the 'BP' annotation **must** be applied to all pages where no response is given by a candidate.

7. There is a NR (No Response) option. Award NR (No Response)

if there is nothing written at all in the answer space:

- OR if there is a comment which does not in any way relate to the question (e.g. 'can't do', 'don't know')
- OR if there is a mark (e.g. a dash, a question mark) which isn't an attempt at the question.

Note: Award 0 marks – for an attempt that earns no credit (including copying out the question).

8. The scoris **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**

If you have any questions or comments for your Team Leader, use the phone, the scoris messaging system, or e-mail.
















9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.

10. For answers marked by levels of response:

- **To determine the level** – start at the highest level and work down until you reach the level that matches the answer
- **To determine the mark within the level**, consider the following:

Descriptor	Award mark
Consistently meets the criteria for this level	At top of level
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Meets most of the criteria with some inconsistencies	Middle of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
On the borderline of this level and the one below	At bottom of level

## 11. Annotations

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Comment
	Benefit of doubt
	Level 1
	Level 2
	Level 3
	Level 4
	Level 5
	Effective evaluation
	Omission
	Not answered question
	Noted but no credit given
	Too vague

## 12. Subject-specific Marking Instructions

### INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

### Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section B.
  
- answering two questions from Section C.

If a candidate has written two answers for Section B and C, mark both answers and award the highest mark achieved.

### USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

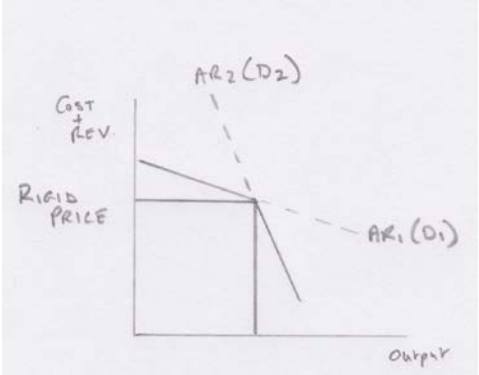
The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark in pencil a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

<b>Levels of response / Level descriptors</b>	<b>Knowledge and understanding/ Application</b>	<b>Analysis</b>	<b>Evaluation</b>
<b>Strong</b>	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
<b>Good</b>		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
<b>Reasonable</b>	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
<b>Limited</b>	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Question	Answer	Marks	Guidance
<p>1 (a)</p>	<p><b>Compare the 3 firm concentration ratio for supermarkets in the grocery market in July 2014 and July 2016.</b></p> <p>In July 2014, the 3 firm concentration ratio was <math>28.9+17+16.6 = 62.5\%</math>. In July 2016, <math>28.3+16.3+15.5=60.1\%</math> (1 mark)</p> <p>3 firm concentration ratio fell (1mark)</p> <p>by 2.4 percentage points (1 mark).</p>	<p>2 ( A02*2)</p>	<p>Both correctly calculated but no indication that the concentration ratio fell = 1 mark.</p>
<p>1 (b)</p>	<p><b>Explain, using a diagram, the significance of the kinked demand curve model on the way in which firms behave in oligopoly markets.</b></p> <p>The kinked demand curve is used to illustrate the short run common feature of price rigidity in Oligopoly markets. (1 mark)</p> <p>As P increases and P decreases both are met by a revenue fall, due to the elastic and inelastic D curves respectively, the sensible firm is more inclined to leave price constant. (1 mark)</p> <p>Paving the way for greater non price competition. (1 mark)</p> <p>Due to the shape of the kinked demand curve firms may</p>	<p>4  (A01*1 A02*3))</p>	 <p>Diagram 1 – simple kinked demand curve.</p>



be reluctant to change prices even if costs change. This can lead to fluctuations in profit as shown in Fig.3. (1 mark)

Predominantly correct diagram. Either diagram 1 or 2 (1 mark).

**e.g.**

The kinked demand curve relates to an oligopoly in which firms try to anticipate the reaction of rivals to their actions, in particular to changes in the price of the product. The firm must form expectations about how consumers and other firms will react to a price change.

If the individual firm increases price, then the expectation is that total revenue will fall as competitors will not increase their prices and the firm will lose market share. This suggests it is faced with an elastic demand.

A price cut will, on the other hand, leads to the expectation that other firms will copy the price cut to remain price competitive. This will result in the market shares remaining constant but at a lower price. Total revenue will again fall indicating an inelastic response to the price change. This produces the kink in the demand curve and hence the discontinuous and vertical marginal revenue line.

The significance of the discontinuous marginal revenue line is that the costs of a firm might change but this will have no impact on the level of output. MC will equal MR at the level of output consistent with the price at the kink.

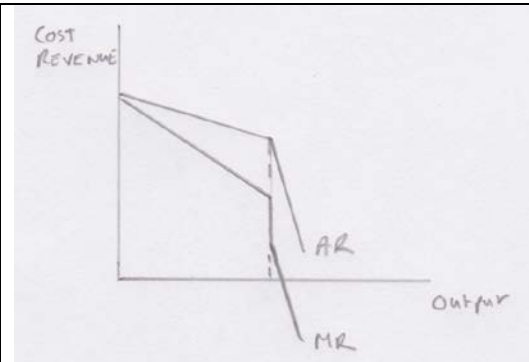


Diagram 2 – kinked demand curve with discontinuous MR curve.

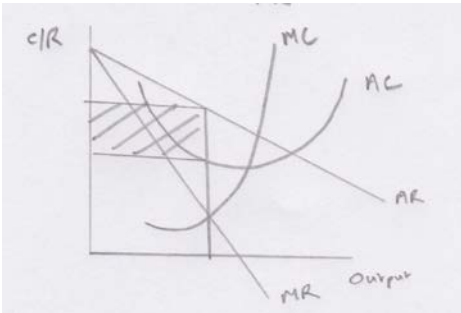
1	(c)	<p><b>Fig.1. shows the growth of new supermarkets, such as Aldi.</b></p> <p><b>Using the information in Fig.1., calculate the percentage change in total revenue from grocery sales by Aldi between July 2014 and July 2016.</b></p> <p>July 2014 4.8% of £177.4bn = £8.5bn                  July 2016 6.2% of £179.1bn = £11.1bn</p> <p>Both correct (1 mark)</p> <p>Percentage change = 30.458823. Accept 30.5% or 30.6% depending on when rounded up(1 mark) increase (1 mark)</p>	<p><b>2</b></p> <p>(A01*1 A02*1)</p>	
1	(d)	<p><b>Explain what is meant by horizontal integration.</b></p> <p>A merger between two firms at the same stage of production (1) in the same industry (1 mark).</p>	<p><b>2</b></p> <p>(A01*2)</p>	
1	(e)	<p><b>Evaluate the impact of horizontal integration on a firm such as Sainsbury's.</b></p> <p><b>Level 2 (5–8 marks)</b></p> <p><b>Good</b> knowledge and understanding of the impact of horizontal integration on the business.</p> <p><b>Good – strong analysis</b> of the ways in which horizontal integration impacts upon the business. <b>Good</b> analysis will be in the form of developed links. These links are</p>	<p><b>8</b></p> <p>(A01 x 1 AO2 x 1 AO3 x 3 AO4 x 3)</p>	<p>Horizontal integration could be seen as having both positive and negative effects on a firm.</p> <p>On the revenue side a horizontal merger can affect the degree of market concentration because after the merger takes place there are fewer independent firms operating in the market. This will give the firm more power over price. On the cost side here may also be more opportunities for</p>

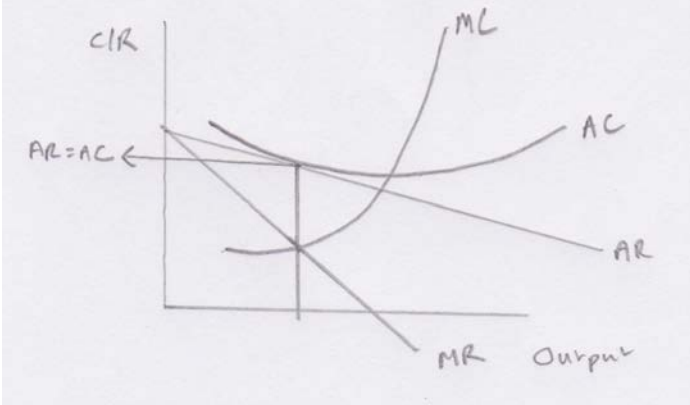
		<p>developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Reasonable – Strong evaluation</b> of the impact of horizontal integration impacts on the business considering both sides and underpinned by appropriate theoretical analysis. <b>Good evaluation</b> will weigh up both sides but without reaching a supported judgement. <b>Strong evaluation</b> should include a supported judgement.</p> <p><b>Level 1 (1–4 marks)</b></p> <p><b>Limited – reasonable</b> knowledge and understanding of the impact of horizontal integration on the business.</p> <p><b>Limited – reasonable</b> analysis of the ways in which horizontal integration impacts on the business. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p><b>Reasonable</b> analysis will have correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Limited</b> evaluation of the impact of horizontal integration on the business in the form of an unsupported statement or <b>no</b> evaluation.</p>		<p>economies of scale to be achieved e.g. financial economies and bulk buying. The combination of these will give scope for greater supernormal profit and further investment into the business.</p> <p>On the other hand, diseconomies of scale may emerge through a lack of control and co-ordination within the business. This may lead to a loss of brand loyalty and subsequent loss of total revenue and supernormal profit. The merger may draw the attention of the Competition and Markets Authority if the resulting market share is thought to be too great. The merger may take place during a recession and simply result in excess capacity and productive inefficiency.</p>
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			<p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
			<b>Descriptor</b>		<b>Award mark</b>
			Consistently meets the criteria for this level		At top of level
			Meets the criteria but with some slight inconsistency		Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level		Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below		At bottom of level
<b>Question</b>			<b>Answer</b>	<b>Marks</b>	<b>Guidance</b>
1	f	*	<p><b>Using evidence from the stimulus material, evaluate the extent to which the grocery market in the UK can be described as an oligopoly.</b></p> <p><b>Level 3 (9–12 marks)</b></p> <p><b>Good</b> knowledge and understanding of oligopoly.</p> <p><b>Good – strong analysis</b> of how of the extent to which the UK grocery market can be described as an oligopoly.</p> <p><b>Good analysis</b> will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p>	<p><b>12</b></p> <p>(AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)</p>	<p>An oligopoly is a market dominated by relatively few firms/few sellers. An important characteristic is that each firm must take account of its rivals’ behaviour and reactions. The firms are therefore interdependent. Each firm has to act strategically in trying to anticipate their future actions and reactions. Barriers to entry are usually high as a result of the economies of scale available to incumbent firms.</p> <p>On the one hand the UK grocery market could be described as an oligopoly. It is dominated by a few large firms as evidenced by the 3 firm concentration ratio. In products</p>

	<p><b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good - strong evaluation</b> of the extent to which the UK grocery market can be described as an oligopoly, weighing up both sides/comparing alternatives. <b>Strong evaluation</b> should include a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (5–8 marks)</b></p> <p><b>Good</b> knowledge and understanding of oligopoly</p> <p><b>Reasonable analysis</b> of the extent to which the UK grocery market can be described as an oligopoly. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis of the case for or against private sector ownership</p> <p><b>Reasonable evaluation</b> of the extent to which the UK grocery market can be described as an oligopoly.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 1 (1–4 marks)</b></p> <p><b>Limited – reasonable</b> knowledge and understanding of</p>	<p>which are homogenous there tends to be a strong degree of price rigidity. This results in non-price competition in the form of advertising, special offers, delivery services etc. Such non price competition is often associated with oligopoly. Firms are clearly interdependent and react to one another's strategies very quickly – this has led to the growth of on line delivery services by many, but not all, of the major supermarkets.</p> <p>On the other hand, the grocery market could, in theory, be seen as a monopoly with Tesco holding over 25% of the grocery market and in some years earning very high profits. Although this is a declining share it still represents enough for the CMA to investigate its behaviour.</p> <p>It could also be argued that the emergence of new entrants such as Aldi and Lidl is creating much more of a monopolistic competition scenario. This could explain the fierce advertising, price war and fluctuating profits which exist, especially in a period of recession.</p> <p>The involvement of Amazon and inclusion of Argos in the debate further adds to the argument for monopolistic competition. The sub market of online grocery sales has created a more diverse market in terms of the number of firms operating in the market.</p> <p>A further observation may be that the grocery industry is now displaying the characteristics of a more contestable market. The growing number of rivals and potential new entrants may suggest some lowering of barriers to entry. This, combined with some evidence of lower profits in some years, may be used to support the case that the market is now competing away abnormal profit, leaving just normal profit at an output level that is relatively more efficient, both productively and allocatively.</p>
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		<p>oligopoly.</p> <p><b>Limited</b> analysis of the extent to which the UK grocery market can be described as an oligopoly. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p><b>Limited</b> evaluation of the extent to which the UK grocery market can be described as an oligopoly in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
		<b>Descriptor</b>		<b>Award mark</b>
		Consistently meets the criteria for this level		At top of level
		Meets the criteria but with some slight inconsistency		Above middle and either below top of level or at middle of level (depending on number of marks available)
		Just enough achievement on balance for this level		Above bottom and either below middle or at middle of level (depending on number of marks available)
		On the borderline of this level and the one below		At bottom of level
<b>Question</b>		<b>Answer</b>	<b>Marks</b>	<b>Guidance</b>
2	*	<b>Evaluate, using an appropriate diagram(s), the advantages and disadvantages to the consumer of monopolistic competition.</b>	25  (AO1 x 6)	Monopolistic competition is characterised by a large number of firms, very low or no barriers to entry and product differentiation. In the short run supernormal profits can be earned but in the long run only normal profits can be earned.

	<p><b>Level 5 (21–25 marks)</b></p> <p><b>Good -Strong knowledge and understanding</b> of how monopolistic competition affects consumers.</p> <p><b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong evaluation</b> of how monopolistic competition affects consumers considering extent and alternative and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p><b>Level 4 (16–20 marks)</b></p> <p><b>Good</b> knowledge and understanding of how monopolistic competition affects consumers.</p> <p><b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good</b> evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p>	<p>AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>The major advantage of monopolistic competition to the consumer derives from the high degree of competition generated by freedom of entry. In the long run this competition drives down the price of the product. This is reinforced by the fact that despite the existence of product differentiation the products are still close substitutes.</p> <p>This can be demonstrated by using the short run and long run diagrams for equilibrium in monopolistic competition.</p> <p>The existence of a large number of firms also allows a greater freedom of choice for the consumer.</p> <p>Consumers are not exploited by entrepreneurs as they are unable to gain any LR abnormal profit. Hence income distribution may be less unfairly skewed towards the risk takers.</p> <p>On the efficiency side it can be argued that the need to compete with many firms may result in less X-inefficiency than under a complacent monopolist.</p> <p>Diagram Short run equilibrium</p>  <p>Diagram Long run equilibrium</p>
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	<p><b>Level 3 (11–15 marks)</b></p> <p><b>Good knowledge and understanding</b> of how monopolistic competition affects consumers</p> <p><b>Good analysis</b> of how monopolistic competition affects consumers. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p><b>Reasonable evaluation</b> of how monopolistic competition affects consumers considering extent and alternatives.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6–10 marks)</b></p> <p><b>Good knowledge and understanding</b> of how monopolistic competition affects consumers.</p> <p><b>Reasonable analysis</b> of how monopolistic competition affects consumers. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of how monopolistic competition affects consumers considering extent and alternatives.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p>	 <p>On the other hand, both short and long run monopolistic competition fails to create productive and allocative efficiency when at equilibrium. In both cases, at equilibrium, average cost does not equal marginal cost. No productive efficiency. Similarly, average revenue (price) does not equal marginal cost. No allocative efficiency. Thus monopolistic competition does not benefit the consumer as much as perfect competition.</p> <p>Product differentiation means that firms face a downward sloping demand curve. If product differentiation by one firm can produce brand loyalty, then the demand for the product of that firm will be relatively price inelastic. This will give the individual firm more power over price.</p> <p>To generate brand loyalty, the firm may focus on advertising. This is very common in markets operating under monopolistic competition. It can be argued that any supernormal profits which are generated would be better used in investment into the factors of production rather than on persuasive advertising.</p> <p>The ease of entry may mean that the typical firm in the</p>
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		<p><b>Level 1 (1–5 marks)</b></p> <p><b>Reasonable knowledge and understanding</b> of how monopolistic competition affects consumers.</p> <p><b>Limited or no analysis</b> of how monopolistic competition affects consumers. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited evaluation</b> of how monopolistic competition affects consumers in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p>		<p>market is not fully exploiting the possible economies of scale. It may be operating with spare capacity.</p> <p>As well as evaluating the advantages and disadvantages, candidates may also consider the extent to which such market conditions exist in the real world, thus considering the realism of the model as flagged by the stem of the question.</p>
		<b>Descriptor</b>		<b>Award mark</b>
		Consistently meets the criteria for this level		At top of level
		Meets the criteria but with some slight inconsistency		Above middle and either below top of level or at middle of level (depending on number of marks available)
		Just enough achievement on balance for this level		Above bottom and either below middle or at middle of level (depending on number of marks available)
		On the borderline of this level and the one below		At bottom of level
<b>Question</b>		<b>Answer</b>	<b>Marks</b>	<b>Guidance</b>
3	*	<p><b>Evaluate, using an appropriate diagram(s), the usefulness of price elasticity of demand to a firm.</b></p> <p><b>Level 5 (21–25 marks)</b></p>	<p><b>25</b></p> <p>(AO1 x 6)</p>	<p>Price elasticity of demand measures the responsiveness of the quantity demanded of a good or service to a change in its price.</p>

	<p><b>Good - Strong knowledge and understanding</b> of the usefulness of price elasticity of demand in decision making.</p> <p><b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong evaluation</b> of the usefulness of price elasticity of demand in decision making weighing up both sides/comparing alternatives and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p><b>Level 4 (16–20 marks)</b></p> <p><b>Good knowledge and understanding</b> of of the usefulness of price elasticity of demand in decision making.</p> <p><b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good evaluation</b> will weigh up both sides/comparing alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p>	<p>AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>Information on price elasticity of demand can be useful for a firm as it allows it to attempt to increase the total revenue from sales. If the firm is faced with an inelastic demand for its product the firm is able to increase total revenue by increasing price. This is because the percentage increase in price will lead to a smaller percentage reduction in the quantity demanded. This is the situation a firm with monopoly power will face.</p> <p>Differences in the PED of different subgroups within a market can enable a firm to engage in price discrimination and so convert consumer surplus into producer surplus</p> <p>Similarly, when faced with an elastic demand for the product the firm will be able to increase total revenue by reducing price. This is the situation that a firm with many competitors will face.</p> <p>As a result, accurate and reliable estimates of price elasticity of demand can help a firm to maximise its total revenue. This is probably of more relevance to revenue maximisers than profit maximisers.</p> <p>Diagrams – a variety of diagrams could be used illustrating that when PED is inelastic then price must be increased in order to increase total revenue. Similarly, when PED is elastic price should be reduced to increase total revenue.</p> <p>On the other hand, estimates of elasticity may prove to be unreliable. Estimates may be based on historical data which may not be relevant to the current of future prospects of the firm. Similarly, estimates may be based on survey material and suffer from a variety of sampling problems.</p> <p>Firms have many factors to take into account and price elasticity of demand is just one of them. There are a variety of other factors which might influence a firm’s decision making. These might include the levels of both business and consumer confidence, the state of the macro economy, movements in the foreign exchange rate and changes to</p>
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		<p>sides/comparing alternatives.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b></p> <p><b>Reasonable knowledge and understanding</b> of the usefulness of price elasticity of demand in decision making.</p> <p><b>Limited or no analysis</b> of the usefulness of price elasticity of demand in decision making. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited evaluation</b> of the usefulness of price elasticity of demand in decision making in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p>		
		<p><b>Descriptor</b></p>	<p><b>Award mark</b></p>	
		<p>Consistently meets the criteria for this level</p>	<p>At top of level</p>	
		<p>Meets the criteria but with some slight inconsistency</p>	<p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p>	
		<p>Just enough achievement on balance for this level</p>	<p>Above bottom and either below middle or at middle of level</p>	

				(depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level
Question		Answer	Marks	Guidance
4	*	<p><b>Evaluate, the effectiveness of changes in the tax and benefit system in reducing the level of income inequality in the U.K.</b></p> <p><b>Level 5 (21–25 marks)</b></p> <p><b>Good -Strong knowledge and understanding</b> of the tax and benefit system in reducing income inequality.</p> <p><b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong evaluation</b> of the effectiveness of the tax and benefit system in reducing income inequality weighing up both sides/comparing alternatives and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p><b>Level 4 (16–20 marks)</b></p> <p><b>Good knowledge and understanding</b> of the tax and benefit system in reducing income inequality.</p> <p><b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect</p>	<p><b>25</b></p> <p>(AO1 x 6</p> <p>AO2 x 6</p> <p>AO3 x 6</p> <p>AO4 x 7)</p>	<p>The UK tax most associated with reducing income inequality is income tax. This is a progressive tax because of the tax free allowance and marginal tax rates greater than average tax rates. As a result, the percentage of income paid in tax increases as income increases.</p> <p>The benefit system is made up of a wide range of benefits. Some are universal and some are means tested. Both are payments by the UK government either in a direct fashion e.g. job seekers allowance or by the direct state provision of goods and services e.g. NHS.</p> <p>Tax and benefits can be argued to be effective. In the case of the tax system it is the progressive nature that is very important. The existence of no tax on the first tranche of a person’s income prevents those on low income having the pay income tax. Tax rates at different bands help to reinforce the progressive nature.</p> <p>The tax system in the UK is comprehensive and means that the majority of income earned is subject to the relevant taxation.</p> <p>The benefit system has the advantage of being able to be directed to those in most need. This is particularly the case when benefits are directed and means tested (Low income groups such as single parents, the unemployed and pensioners can have their income guaranteed or supplemented by the state system of benefits).</p> <p>There is a wide of state benefits and each particular benefit may have its advantages and drawbacks.</p> <p>On the other hand, it can be argued that universal benefits</p>

	<p>the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good evaluation</b> will weigh up both sides/comparing alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b></p> <p><b>Good knowledge and understanding</b> of the tax and benefit system in reducing income inequality.</p> <p><b>Good analysis</b> of the effectiveness of the tax and benefit system in reducing income inequality. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the effectiveness of the tax and benefit system in reducing income inequality.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6–10 marks)</b></p> <p><b>Good knowledge and understanding</b> of the tax and benefit system in reducing income inequality.</p> <p><b>Reasonable analysis</b> of the effectiveness of the tax and benefit system in reducing income inequality. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the effectiveness of the tax</p>	<p>are an inefficient method of redistributing income. Some of the recipients may not be in need of state transfers e.g. some pensioners in receipt of the universal state pension and similarly the receipt of child benefit.</p> <p>The system of tax and benefit may be subject to inefficiency, fraud, avoidance and evasion. The existence of these factors reduced the ability of the system to redistribute income.</p> <p>The progressive nature of the income tax system can lead to poverty and unemployment traps. Marginal tax rates can act as a disincentive to join/start employment. Similarly, the lack of integration between the tax and benefit system can act as a disincentive. As a result, some low income groups may suffer from marginal tax rates of 100%.</p> <p>Income inequality may be caused by a variety of factors. The best solution for redistributing income may depend on the cause of inequality. For instance, if inequality of income is caused by inequality of wealth or opportunity then a different set of policies may be more relevant.</p> <p>There are alternatives to the tax and benefit system which can be argued to be more effective. Policies such as the introduction of the National Living Wage, promoting economic growth to generate employment and regional policies such as recent focus on the Northern Powerhouse.</p> <p>Focus could also be directed to inefficiencies in the working of labour markets. For example, policies designed to improve factor mobility both geographically and occupationally.</p>
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		<p>and benefit system in reducing income inequality considering both sides/comparing alternatives.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b></p> <p><b>Reasonable knowledge and understanding</b> of the tax and benefit system in reducing income inequality perfect competition and business behaviour.</p> <p><b>Limited or no analysis</b> of the effectiveness of the tax and benefit system in reducing income inequality. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited evaluation</b> of the effectiveness of the tax and benefit system in reducing income inequality in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
		<p><b>Descriptor</b></p> <p>Consistently meets the criteria for this level</p> <p>Meets the criteria but with some slight inconsistency</p>	<p><b>Award mark</b></p> <p>At top of level</p> <p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p>	

		Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	
		On the borderline of this level and the one below	At bottom of level	
Question		Answer	Marks	Guidance
5	*	<p><b>Evaluate the implications of variations in unit labour costs and labour productivity between firms.</b></p> <p><b>Level 5 (21–25 marks)</b></p> <p><b>Good -Strong knowledge and understanding</b> of unit labour costs and productivity.</p> <p><b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong evaluation</b> of the implications of variations in unit labour costs and productivity weighing up both sides/comparing alternatives and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p><b>Level 4 (16–20 marks)</b></p> <p><b>Good knowledge and understanding</b> of unit labour costs and productivity.</p> <p><b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are</p>	<p><b>25</b></p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>Unit labour costs are the wages, salaries and other costs of labour divided by total output. Productivity is a measure of the efficiency of factors of production. For example, labour productivity measures the output per worker or output per hour worked.</p> <p>Relative costs of labour are important because this influences the relative competitiveness of UK goods in both overseas and domestic markets. The relative costs of production influence the prices that firms can charge. If unit labour costs in a firm or country rise more rapidly than other firms then there will be a loss of competitiveness. The implications of this are a loss of demand, output and employment.</p> <p>Increases in labour productivity relative to other firms or countries can reduce unit labour costs and this may result in reduced prices, increased profits, increased wages and greater employment.</p> <p>However, comparisons of productivity are not straightforward due to differences in data collection and differences in work practices. For example, working hours are longer in some countries than others.</p> <p>It is also important to realise that labour productivity is not the only relevant measure as firms may differ in their use of capital. Total factor productivity may be a more significant measure of productivity but this is more difficult to measure as measurements of the capital stock are prone to error and misinterpretation.</p> <p>It can also be argued that differences in unit labour costs and productivity are not significant to firms as they are more</p>



		<p>predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good evaluation</b> will weigh up both sides/comparing alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b></p> <p><b>Good knowledge and understanding</b> of unit labour costs and productivity.</p> <p><b>Good analysis</b> of the implications of variations in unit labour costs and productivity. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the implications of variations in unit labour costs and productivity considering both sides/comparing alternatives.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6–10 marks)</b></p> <p><b>Good knowledge and understanding</b> of unit labour costs and productivity.</p> <p><b>Reasonable analysis</b> of the implications of variations in</p>	<p>concerned about consumer confidence, the degree of monopoly power they hold or, on an international scale, changes in the exchange rate and trade agreements. E.g. the significant fall in the value of sterling after the Brexit vote or concerns about loss of access to the EU single market.</p>
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		<p>unit labour costs and productivity. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the implications of variations in unit labour costs and productivity considering both sides/comparing alternatives.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b></p> <p><b>Reasonable knowledge and understanding of</b> unit labour costs and productivity.</p> <p><b>Limited or no analysis</b> of the implications of variations in unit labour costs and productivity. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited evaluation</b> of the implications of variations in unit labour costs and productivity in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
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			<b>Descriptor</b>	<b>Award mark</b>
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

## Assessment Objectives Grid

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)		2(2)			2	(2)
1(b)	1(1)	3(3)			4	(4)
1(c)	1(1)	1(1)			2	(2)
1(d)	2				2	
1(e)	1	1	3	3	8	
1(f)	1	1	5	5	12	
2/3	6 (2)	6 (2)	6 (2)	7 (2)	25	(8)
4/5	6	6	6	7	25	
<b>TOTAL</b>	<b>18 (4)</b>	<b>20 (8)</b>	<b>20 (2)</b>	<b>22 (2)</b>	<b>80</b>	<b>(16)</b>