GradeMax



Mark Scheme (Results)

October 2018

Pearson Edexcel IAL
In Economics (WEC03)
Paper 01 Business Behaviour

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General Marking Guidance

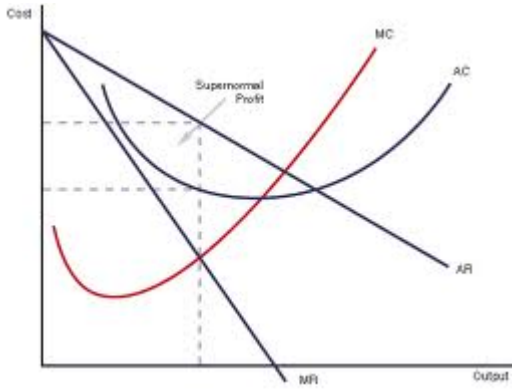
- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should 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.

Section A: Essay questions

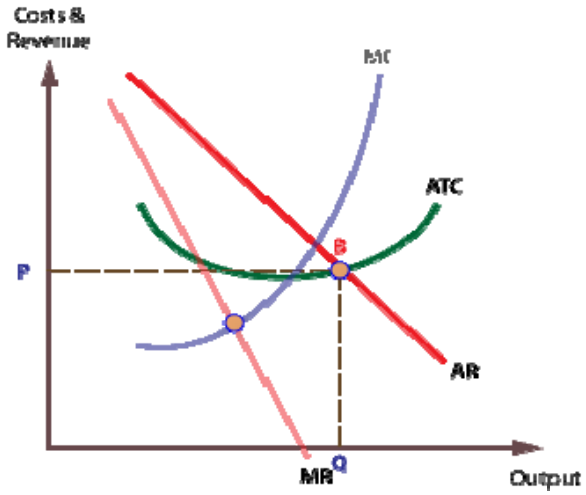
NB: Use levels based mark scheme (20 marks) to mark this section.

Question Number	Answer	Mark
1	**Indicative content** • Co-operatives are owned by producers e.g. farmers/workers, consumers or members. Other types of business in the private sector include: companies (owned by shareholders), and mutuals (also owned by its members) **DIFFERENCES IN OBJECTIVES** • Co-operatives are likely to place a greater emphasis on **meeting the needs of its members** than most other types of private sector organisation E.g. retail co-operatives may choose to keep prices lower for customers (consumers); producer co-operatives may collaborate more, sharing of resources etc. • Co-operatives may operate on the basis of more **ethical** practices E.g. banks not lending to certain political regimes or not lending to businesses for military purposes • Co-operatives may give a **higher priority to social responsibility** – environmental concerns, community needs, providing employment Whereas for example; • Shareholders in private sector companies are more likely to desire high profit/maximisation of profit • Shareholders tend to want good returns in the form of dividend payments and a rising share price • Large companies in particular may have a stronger drive for growth compared with co-operatives	

A PRIVATE SECTOR COMPANY may opt for profit maximisation MC = MR



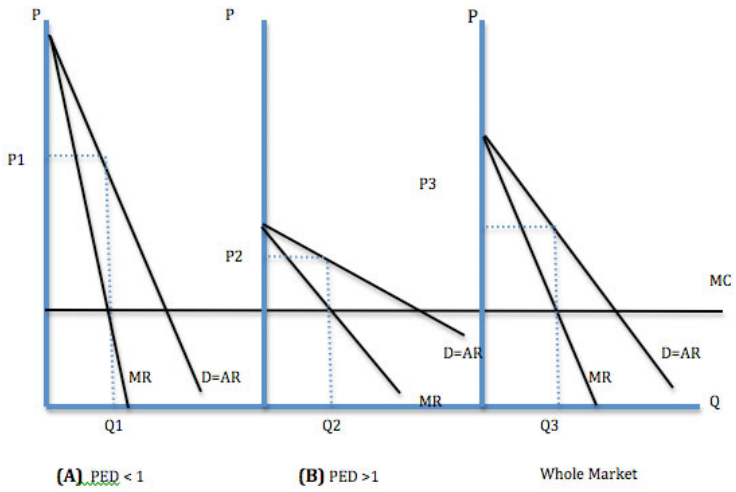
A CO-OPERATIVE may opt for sales maximisation AC = AR



	Evaluation **SIMILARITIES IN OBJECTIVES** • Co-operatives and mutuals often have very similar objectives - no external shareholders. Financial surplus distributed to members and/or reinvested in the organisation • Co-operatives are also part of the private sector and need to make profit (surplus) to survive, unless heavily subsidised by government or from members own funds • Divorce of ownership from control particularly in large private sector companies. Objectives may be different for owners, managers, shareholders within companies. There may be similarities with co-operative objectives e.g. ethical, social responsibilities • Making a profit is a key objective for <u>all</u> private sector organisations. This may be: -profit satisficing for co-operatives and other private sector organisations especially where there is a divorce of ownership and control **Differences in objectives may be in relation to priority of importance** **Overall judgements**	**(20)**

Question Number	Answer	Mark
2	**Indicative content** Definition of TNC - A company that has its facilities and other assets in at least one country other than its home country Possible reasons include: • Provides the company access to more markets • Insufficient demand in the domestic economy – reached saturation point • More scope for economies of scale e.g. cost savings on R&D, transport economies, marketing • Lower risk due to investing into different economies • Take advantage of low-cost locations – labour costs, rent, land etc. leading to increased profit margins • Benefit from less stringent laws and regulations (health & safety, environment etc) • Gain a better understanding of markets, technology standards and policies in other countries • Avoid taxes and/or trade barriers • Financial support may be available from overseas governments and other agencies to attract FDI e.g. tax breaks, low-interest loans • Company may already be exporting, hence risks are reduced • Opportunity to obtain foreign currencies - gain interest, to use in future transactions • Major strategic decision – potentially positive impact on sales and profits for long-run success	

	Evaluation • High capital costs • Unfamiliarity with overseas markets/economies – laws, customs, tastes etc. May be risky • Potential diseconomies of scale – co-ordination and communication issues • May meet with opposition from consumers, pressure groups and governments abroad • Risks of economic/political instability depending of choice of locations for subsidiaries • Distinction between short and long-run (benefits may apply more in the long-run e.g. in relation to FDI) • Prioritisation of reasons	**(20)**

Question Number	Answer	Mark
3	**Indicative Content** Define price discrimination (third degree) – where a firm is charging different prices to different users for the same product/service • Conditions necessary for price discrimination: -monopoly power -different PED's for different consumer groups -supplier is able to split, and maintain separation of, the distinct consumer groups (no seepage between consumers) • Examples – airlines, cinemas, theatres, sporting events. E.G. a cinema charges higher prices at peak times (weekends, evenings) and charges lower prices to certain age groups (children, pensioners)  Diagrammatic analysis -Assume profit maximisation -Output Q1 and high price P1 where demand is inelastic -Output Q2 and lower price of P2 where demand is elastic -Higher total profit (from markets A and B) when compared with whole market	

	BENEFITS TO PRODUCERS • The firm charges higher prices to those consumers whose demand is relatively inelastic and lower prices to those consumers whose demand is relatively elastic - **in order to increase profit** • Extraction of consumer surplus to increase producer surplus • Higher profits could be used to increase branding, advertising, promotion - adding to entry and exit barriers for any potential new entrants • Monopolist may increase investment/increase efficiency in order to protect its market position • Price discrimination might enable the firm to at least cover its average costs, which it could not do otherwise **BENEFITS TO CONSUMERS** • Consumers with elastic demand will be paying lower prices (Market B) e.g. travellers during off-peak times, student discounts, concessions for older consumers • May result in more choice of products/service – e.g. makes it financially viable for the firm to supply goods/services during off-peak times • Higher profits may encourage further investment by firm which can improve quality and possibly lower prices due to effects of dynamic efficiency	

	Evaluation **DISADVANTAGES (COSTS) TO PRODUCERS** • Costs of maintaining separation of markets e.g. administration, marketing • May only apply in the short-run if market conditions change: barriers to entry are lowered and new firms are attracted into the market • The firm's ability to price discriminate will be diminished where: - there are price controls set by regulatory bodies - there is public/media/consumer group/government pressure opposing a lot of potentially confusing different prices **DISADVANTAGES (COSTS) TO CONSUMERS** • Consumers with inelastic demand will be paying higher prices - (Market A) e.g. cinema, transport or energy costs **at peak times** • A significant number of different prices can be confusing and potentially costly for consumers who may inadvertently not choose the lowest price – problem of asymmetric information Overall judgements/conclusions **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	**(20)**

Question Number	Answer	Mark
4	**Indicative content** Forms of government intervention to protect employees may include: • Minimum wage legislation • Laws on working hours • Health & safety laws and regulations • Equal opportunity laws: equal pay anti- discrimination • Employment rights: e.g. part-time employees' rights maternity & paternity leave holiday entitlements redundancy **Impact on business behaviour**: • Business objectives may alter – more emphasis on social responsibility • In relation to legislation, a business will need to conform with the law. This may involve having to make adjustments/changes to current employment practices – e.g. - increase in wage rates to low-paid workers - changes to safety procedures - rights for disabled workers - recruitment processes • Any of the above may lead to **increased costs** for a business • Impact of rising costs may be that a business, for example: raises its prices (may depend on PED for the product) - substitutes capital for labour - reduces other costs - cuts back on investment/R & D/ innovation - relocates to lower-cost economies	

	Evaluation • Reputation of the business may be enhanced for those businesses which conform with the legislation • Legislation applies to competitors as well, so may be no loss of market share • Depends on the extent of the changes required – for some businesses the impact may be slight • Rising costs may be offset by a rise in labour productivity due to improved pay/conditions/employment opportunities. Hence little or no rise in unit labour costs • Depends on the power of trade unions in relation to employer organisations • Depends on the influence of other pressure groups • Depends on the extent to which laws and regulations are being enforced by the government. Regulatory capture may occur • There may be a rise in business corruption/ unofficial business activity to avoid tougher laws and regulations • Short term/long term impact on business behaviour	**(20)**

Section A Questions: Performance Criteria for Mark base 20		
Level 0	0	• No rewardable material
Level 1	1-4	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting and applying different economic ideas are unsuccessful • Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	5-8	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.
Level 3	9-12	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions • Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
Level 4	13-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions • Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.

Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Section B: Data response

Question Number	Answer	Mark
5 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** - up to 2 marks Define exchange rate/international competitiveness **(1)** Value of Indian rupee has fallen against the US dollar /Depreciation of rupee **(1)** More rupees must be exchanged in order to obtain 1US dollar **(1)** **Application -** up to 2 marks **One** effect: **Exports** will be cheaper/there will be a rise in demand for India's exports **(1)** therefore India is **more** internationally competitive **(1)** **OR** **Imports** will be more expensive **(1)** Goods produced using imported materials become more expensive, therefore India is **less** internationally competitive **(1)** Credit valid use of data from Fig. 1 **(1)**	**(4)**

Question Number		Mark
5 (b)		**(12)**
Knowledge, application and analysis – indicative content		
	Definition of international competitiveness India's international competitiveness has been improving (reference to extract) Government policies to improve India's international competitiveness: • Increased spending on education and training (particularly for adults) - **to improve adult literacy rates and hence raise skill levels and productivity** • Create more flexible labour markets - achieved by: e.g. training programmes to improve the occupational mobility of labour; relocation subsidies to improve the geographical mobility of labour - **to raise output in terms of quality, quantity and variety of goods and services** • Wage controls to limit growth in real wages/unit labour costs - **reduces business costs and controls inflation** • Selling off and/or breaking up large government-owned enterprises - **to raise labour productivity which is currently low** • Further reductions in business taxes e.g. profit tax **- to stimulate investment** • Further deregulation **- to attract more FDI** • Manipulation of currency so that the Indian rupee further depreciates and **lowers export prices**	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of government policies to improve international competitiveness. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the possible effectiveness of government policies to improve international competitiveness with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the possible effectiveness of government policies to improve international competitiveness with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	Effectiveness of policies depends on: • The time scale - measures such as improving labour mobility and selling off parts of the public sector may take time to be effective • Risk of government failure - excessive administration costs, unintended consequences • The cost implications for the Indian Government (opportunity cost, budget deficit) • Further government intervention may be unnecessary and distort the market - the economy already has a high growth rate and international competitiveness has improved (India rose 16 places to 39); the government has already introduced other measures by lowering FDI regulations and business taxes • Depreciation may cause cost-push inflation • Depreciation will have a negative impact where demand for India's exports is inelastic (less revenues for Indian producers). Also have a negative impact where demand for India's imports is inelastic (consumers not switching to domestically produced goods)	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
5 (c)		**(12)**
Knowledge, application and analysis – indicative content		
	Definition of product differentiation Types of differentiation include: - Physical product differentiation e.g. product features – colour, shape, design - Marketing differentiation e.g. packaging, advertising, promotions - Differentiation through distribution e.g. online selling • Samsung focused on physical product differentiation - 44 new TV models in one year and innovative technology • To create greater brand awareness and enhance consumer loyalty • As a means of competing against rival firms instead of price competition - especially to avoid a price war • To increase Samsung's market share (reference to figures in Extract 2) • Specific TV models are aimed at different sections of the market • Differentiated products provide more choice/variety for consumers • Enabled Samsung to charge higher prices in the high quality TV market and make supernormal profit • Higher profits could be used to further innovate and develop new product lines • Electronics is an industry where there is a lot of product development	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the reasons for choosing a product differentiation strategy. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the reasons for choosing a product differentiation strategy with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the reasons for choosing a product differentiation strategy with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• The strategy may have led to a fall in profits: - Developing new TV models is likely to be an expensive process in terms of R & D and manufacturing, involving high sunk costs - It is likely to involve high levels of expenditure on advertising and promotion - Other rival firms may have been carrying out a similar strategy and proving to be more popular with consumers • By 2017 Samsung and the other large firms had cut prices, so focusing on product differentiation may have been a costly and mistaken strategy for Samsung	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

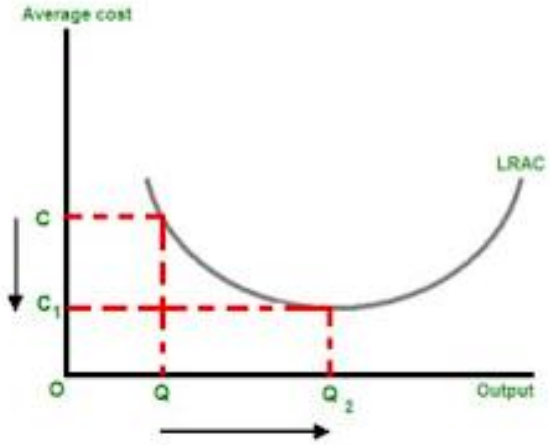
Question Number		Mark
5(d)		**(12)**
Knowledge, application and analysis – indicative content		
	• TV market in India has become more competitive/contestable - more than 25 firms in the market with the recent entry of more firms such as Sanyo and Kodak • Provides more choice for consumers • Price falls - Micromax priced at INR4000 less than Samsung; LG, Samsung and Sony reducing prices by up to 15% • More competition may lead to more product development and innovation - dynamic efficiency • More entrants mean that the market power of the dominant firms is reduced • Leads to a rise in consumer surplus and fall in producer surplus • Diagram of the market. More firms enter the market. Rightwards shift in supply curve. Increase in consumer surplus	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the beneficial effects on consumers of more firms entering a market. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the beneficial effects on consumers of more firms entering a market, with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the beneficial effects on consumers of more firms entering a market, with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• A vast number of different TV's to choose from may become confusing for consumers • The likelihood of increased advertising and promotion may result in imperfect market information for consumers and hence a market failure • Hit and run tactics of firms entering the industry to try to make profit and then leaving the industry (may apply to some of these TV firms) • Lower prices for consumers may only apply in the short-run. In the long-run prices may actually rise e.g. especially where firms leave the industry. Adverse effect for consumers leading to a loss of consumer surplus and a rise in producer surplus • Large firms, such as Samsung, Sony and LG may adopt predatory or limit pricing and force out competitors • Lower prices may result in lower profits and lower investment leading to less product development/innovation • It may entail firms reducing quality to protect profit margins • Long-run effect may be a rise in the concentration ratio – greater market power for surviving firms **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	

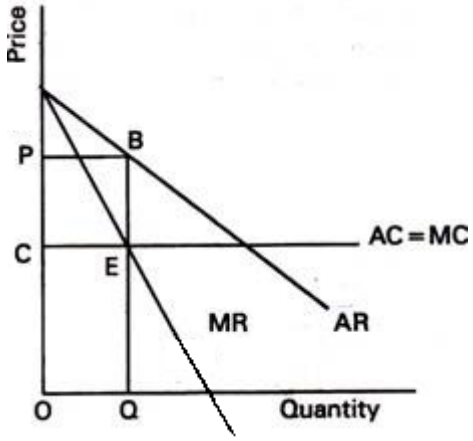
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
6 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** – Up to 2 marks Definition of loss: • Total costs exceed total revenue **(2)** • Price is below ATC **(2)** • Increased loss - the gap between cost and revenue is rising **(2)** • An incomplete definition **(1)** • Relevant diagram (firm or market) - **up to 2 marks** **Application** – Up to 2 marks **One reason** for increased loss: • Excess supply of container ships **(1)** leads to falling price below ATC **(1)** • Fall in demand **(1)** leads to lower price which is below ATC/downward shift in AR and MR curves **(1)** • Credit references to data e.g. the industry has been in a depressed state for some time/the bankruptcy of Hanjin Shipping **(1)** • Accept any other valid application points - **up to 2 marks**	**(4)**

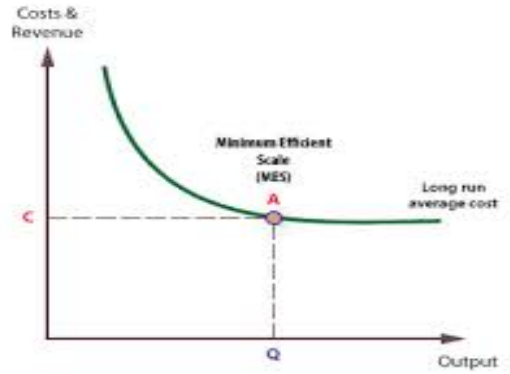
Question Number		Mark
6 (b)	.	**(12)**
Knowledge, application and analysis – indicative content		
	• These are horizontal mergers - between 2 or more firms in the same industry at the same stage of production • Potentially increases revenue and profit for the 3 Japanese firms/2 Chinese firms • Removes competitors in the container shipping market • Reduces duplication of container shipping services/reduces spare capacity • Market power increases - greater supernormal profit • Increases ability to exercise pricing power • Achieves economies of scale – examples such as technical economies (larger ships to hold more containers), marketing (savings on advertising costs) and financial economies  Output rises from OQ to OQ2 following merger and LRAC falls • Gains from shared knowledge/understanding of the market - synergy • Increases brand identity • This merger was motivated by trends of declining revenues and profits in the industry. Hence it may lead to the survival of the firm. Otherwise, one or more of the 3 Japanese firms/2 Chinese firms may have exited the market	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefits to a firm as a result of a merger. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the benefits to a firm as a result of a merger with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the benefits to a firm as a result of a merger with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Initial costs of the Japanese merger- 300 billion yen - may take years to recoup • Merger proposals may be blocked by competition authorities if combined market share is considered to be too high • Forecast of future profits may be optimistic/unpredictable market • The merger does not guarantee the survival of the business because of the depressed state of the industry e.g. Hanjin Shipping went bankrupt • Potential diseconomies of scale- firm grows larger than MES; output above OQ2 on diagram. Examples of diseconomies - employee dissatisfaction. control & co-ordination problems • May lead to more aggressive price wars between very large firms in world markets - cutting profits and leading to more firms exiting the market (Extract 3)	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
6(c)		**(12)**
Knowledge, application and analysis – indicative content		
	Define market concentration ratio: the combined market share of the largest firms in the industry • Concentration ratio for global container market has risen from 35% (2000) to 46% (2008) to 55% (2016) **POSSIBLE NEGATIVE EFFECTS ON CONSUMERS** • Higher prices - more market power/monopoly power - compare price in a competitive market (OC) with price in a less competitive price (OP) as shown in diagram  Increased concentration ratio can lead to complacency and x-inefficiency. May result in: • lower quality of transport service • less incentive to innovate and develop • less incentive to reduce prices • Lack of choice for consumers when transporting goods	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of greater market concentration on consumers. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the impact of greater market concentration on consumers with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the impact of greater market concentration on consumers with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	POSSIBLE POSITIVE EFFECTS ON CONSUMERS • Higher market concentration may mean that firms gain from economies of scale and they pass those cost savings on to consumers in the form of lower prices • Minimum efficient size for container ships may be large, with falling LRAC–productive efficiency. The view of some analysts is that higher marker concentration leads to greater efficiency and higher profits which might result in benefits being passed on by container shipping companies to consumers  • Greater market concentration may be the only way in which the companies can survive - therefore some degree of choice is still available to consumers • Over-capacity means that price rises are unlikely • Time lag before impact on consumers takes effect • Conclusions e.g. the extent of the increase in concentration (35% to 55%) suggests a large impact on consumers **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
6(d)		**(12)**
Knowledge, application and analysis – indicative content		
	Various policies may include; • Laws and controls over monopoly power and merger and takeover activity e.g. imposing stricter conditions before a merger is approved - **in the case of container shipping where global mergers are occurring this may be an appropriate measure** • Placing limits on profit levels or profit margins - **to prevent the very large container shipping companies from exploiting consumers** • Quality standards and performance targets - e.g. **set targets for capacity utilisation** • Regulating prices –e.g. **setting maximum prices** - **to prevent abuses of monopoly power** • Fines and legislation to curb any predatory or similar pricing strategies - **to avoid possible price wars which may have long term adverse effects on consumers (fewer carriers, increased market power)**	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of government policies to increase competition. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of government policies to increase competition with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of government policies to increase competition with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Depends on the strength of the policies – discretionary or compulsory. Firms may be in a strong market position to ignore anything which is not legislation • Policies will need government co-operation on an international scale as this is a global market • Container shipping companies need to be large to fully benefit from economies of scale (MES is at a high level of output)- government policies which aim to restrict the size of the company may be counter-productive and lead to inefficiencies • Policies may have a damaging effect on shipping companies' profits and cause some to exit the market • Maximum prices may create disincentives for companies • Limits on profit might reduce investment and have an adverse effect on efficiency • Costs of enforcing policies e.g. regulations and laws • Regulatory capture	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

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