

Mark Scheme (Results)

Summer 2019

Pearson Edexcel International Advanced Level 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	The Andalus Dairy Factory is a small business operating in Jordan. It sells its products to local grocery stores and restaurants. However, growth is limited, partly because of the small size of its local market. To what extent is the size of the market the main constraint on the growth of a small business? Answer	Mark
1	**Indicative content** <u>The size of the market may be a major constraint on growth because:</u> • The market is small - localised market, niche etc. E.G. This applies to a small dairy selling to local grocery stores and restaurants • Consumer demand is not growing/the market is static • The market is shrinking - falling demand (leftward shift in demand curve) • Many other firms are competing in the market -particularly difficult for a small firm to grow if it cannot differentiate its product. May apply to a dairy with products such as milk and butter • New entrants in the market - market share is falling <u>Other constraints</u> may also be important factors • **Limited access to finance -** - relatively small amount of retained profits - banking sector may be unwilling to lend **-** small firms have fewer options when raising external finance • The **objectives** of the owners/managers • Owner(s) may be satisfied with keeping the business small – growth is risky, expensive, time-consuming etc. Profit satisficing • Lack of managerial skills	

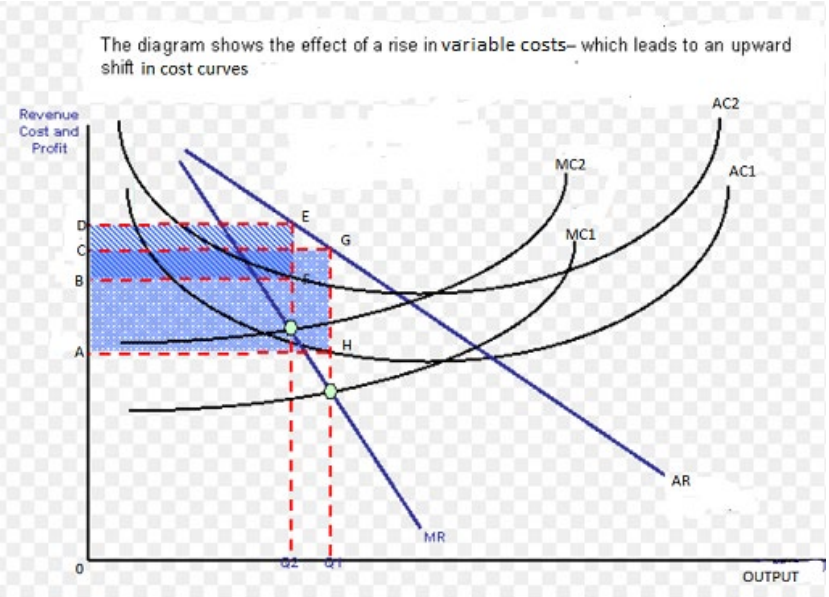
- **The macroeconomic climate**
  - Slow growth or recession in the economy
  - Low effective demand, low consumer purchasing power
  - Future uncertainty in the economy – economic, political etc.
  - High interest rates
  - High inflation rates
  - High unemployment rates
- **Minimum efficient size (MES) is reached at a low level of output.**
  - Diseconomies of scale occur soon after
- **High financial costs of growth**
  - legal and administration costs
  - capital costs
  - hiring new staff
- **Lack of availability of required labour**

Evaluation

<u>Size of market may **not** be a major constraint on business growth because</u>:

- The market is growing - increased market demand (rightward shift in demand curve)
- The small business is able to expand its market through marketing - advertising, branding, promotion. Internet selling may be possible
- The small business is able to diversify into other markets e.g. the dairy may start selling its products to other types of retail stores (petrol stations, railway stations etc.)
- Other constraints may be more important e.g. financial constraints are likely to be highly significant for small businesses

(20)

Question Number	The global price of wood pulp has been rising rapidly. Businesses that rely on wood pulp as an input, for example paper manufacturers, have experienced a significant increase in production costs. Discuss the likely impact of a rise in the price of wood pulp on the profits of a paper manufacturer. Answer	Mark
2	**Indicative content** • Definition of profit - the difference between revenue and cost (TR - TC; AR - AC is the profit per unit) • Normal profit where AR = AC • Supernormal profit where AR exceeds AC • Wood pulp is a factor input for a paper manufacturer. Its price on world markets has been rising so the cost of production will rise • Rising cost of wood pulp increases the variable cost • Ceteris paribus, this results in an upward shift in the firm's AC and MC curves • Price rises from OC to OD • Output falls from Q_1 to Q_2  • Ceteris paribus, the rise in costs will lead to a fall in output and a fall in profit (see diagram) • If the paper manufacturing market is perfectly competitive, the firm cannot raise its price independently of other firms. It must absorb the increase in cost	

	• Unless demand is perfectly inelastic, the demand for paper falls following a price rise leading to a lower profit • Providing other production costs are not falling, the combination of rising cost, increased price and falling demand means that profit falls REWARD DIAGRAM(S) WHICH SHOW CHANGES IN COSTS, REVENUE AND PROFIT FOR ANY MARKET STRUCTURE **Evaluation**: The impact on a firm's profit depends on: • The impact on other firms in the market - as it is a rise in the global price it is likely that competitors are all adversely affected • If the paper manufacturer is in an imperfect market it may be able to raise its price to some extent and the fall in profit may be less significant • Profit also depends on what is happening to other costs of production e.g. wages, transport, energy • The size of the firm - does it have the financial resources to absorb the rise in costs (at least in the short run)? • The length of time over which the price of wood pulp is rising - prices may start to fall again • The PED for paper -e.g. if demand is inelastic the firm may be able to raise the price, increase its revenue and offset the rise in costs • The firm may be able to take other courses of action, in the long-run to offset the fall in profits: e.g. reduce the scale of its operations - falling TFC and TVC; diversify into making more profitable products; merge or takeover to increase size and gain economies of scale	**(20)**

Question Number	In 2014 the UK Government announced the introduction of a new tax which aimed to discourage transnational companies (TNCs) from taking their profits out of the UK economy. Assess the likely impact of such a tax on the behaviour of TNCs. Answer	Mark
3	**Indicative Content** • Definition of a TNC - an international firm which has facilities and other assets in at least one country other than its home country Possible impact of new profit tax on TNC behaviour • **A TNC decides to keep its profits in the UK in order to avoid having to pay the tax** • **A TNC continues to take its profits out of the UK and pays the tax.** This lowers its level of profit after tax in the UK and may affect behaviour in several ways: - a TNC may decide to lower its costs of production in order to maintain profits: reduce wages (fewer employees, lower wage rates), cut other costs - a TNC may raise its prices in order to maintain profit levels - the tax may act as an incentive for a TNC to be more efficient/innovative to restore profit levels • **A TNC may attempt to avoid the tax by transfer pricing or 'creative accounting'** • **A TNC may decide to leave the UK and move its assets to other economies where profit taxes are lower**	

	Evaluation The impact on TNC behaviour depends on: • The relative size of the tax in relation to the TNC's profit level • Opportunity cost- whether the benefits of keeping profits in the UK outweigh the benefits of moving them out of the UK • Value of PED, level of competition in TNCs markets etc. • The extent to which the tax is being enforced by the UK tax authorities • The distinction between short-run and long- run impact - e.g. in the short-run TNC may comply and keep profits in the UK but look to shift its resources to another economy in the long run • The impact on the UK economy. If TNCs are cutting back their activities, reducing employees, moving out of the economy etc. the UK Government may have to scrap the tax	**(20)**

Question Number	According to the 2017 World Economic Forum's Global Competitiveness Index, the international competitiveness of businesses in Ghana was declining. Evaluate government measures to promote the international competitiveness of businesses in Ghana or a country of your choice. Answer	Mark
4	**Indicative content** • Define international competitiveness - the ability of a country to compete in international markets Measures to promote international competitiveness may include: • Greater levels of spending on education and training- to raise investment in human capital and improve productivity levels • More spending on health care – to create a healthier more productive workforce. Increase in GNP and improvements in quality of output • Subsidies to employers, low-cost borrowing terms for employers - to raise employment levels and incomes, reduce poverty **All of the above will aim to lower unit labour costs** • A depreciation/devaluation of the domestic currency – to reduce relative export prices • Deregulation – removing/lowering entry barriers, privatisation, removing 'red tape' - to increase competition and efficiency. Lowers costs of production and market prices • Developments to the infrastructure: improved transport links and communications - to encourage more trade and to increase efficiency • Incentives for investment/exporters: more tax breaks for exporters, lower interest rates - to lower costs and market prices • Promotion of small businesses: grants, interest free loans, start-up schemes, etc. - to increase competition and efficiency. To encourage entrepreneurship • Policies to attract more FDI into the economy - to encourage more employment (lower unemployment), growth in exports **NB: Candidates must refer to a country in their answer**	

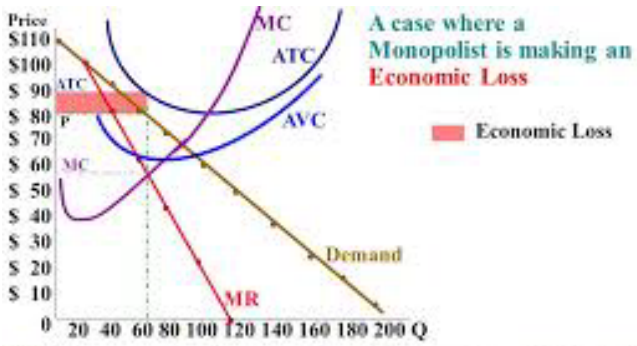
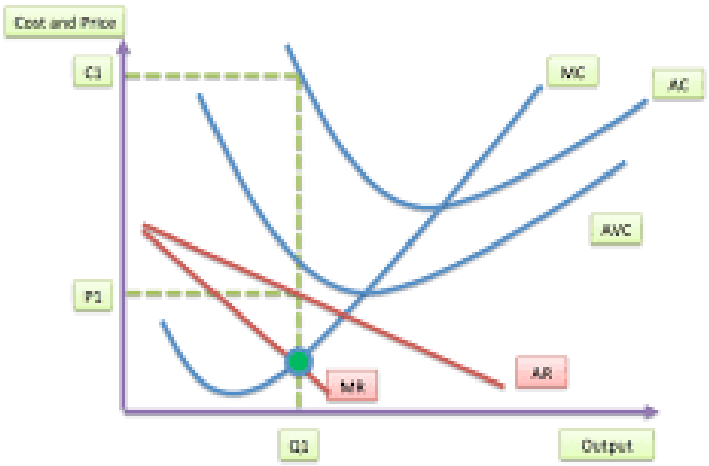
	Evaluation • Limits to how effective intervention can be e.g. constraints on government's ability to manipulate exchange rates • Opportunity cost of government spending e.g. more on health care/education etc. may mean less for business sector • May result in excessive levels of government spending • Deregulation may worsen conditions for workers • Levels of investment (both internal and FDI) depends on long-term confidence in the economy. Incentives may be insufficient where confidence is low • Success in attracting FDI is partly dependent on the relative attractiveness of other economies • Lower interest rates may be inflationary • Time lags of policies – e.g. tax breaks may be more effective in the short-run but investment in education/health may have more long-run impact • Is the support financially sustainable in the long-run? • Attracting more FDI may result in transfer pricing/tax avoidance • The possibilities of government failure – costs of intervention may outweigh benefits • Prioritisation of measures. Which measures might be more effective and why?	**(20)**

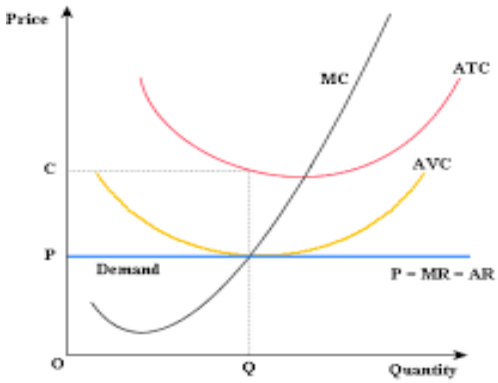
Section A Questions: Performance Criteria for Mark base 20		
Level 0	0	• No rewardable material
Level 1	1-4	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting and applying different economic 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	With reference to Extract 1, explain **one** possible reason why CPA made a loss in 2016. Answer	Mark
5 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** - up to 2 marks 1 for definition + 1 development mark **Definition of loss**: • Total cost exceeds total revenue **OR** average cost exceeds average revenue. **Development**: • Where the firm is unable to generate enough revenue to at least cover its costs **(1)** • Where the firm is making less than normal profit **(1)** • At current level of output the AR curve is below AC curve **(1)** Any other valid development point - 1 mark **OR** **Up to 2 marks for diagram with explanation** - e.g. shift to right in market supply curve and consequent fall in market price/ shift to left in firm's AR/MR curves and the resultant fall in price **Application -** up to 2 marks for one reason Reason: **Airline ticket prices have been falling (1)** + If CPA cannot generate sufficient extra sales then TR will fall if demand is inelastic **(1)** Reason: **The Asian airline market is highly competitive/increasing number of airlines (1)** + Shrinking market share for CPA **(1)**/ Growing threat from Chinese airlines **(1)**/ Significant capital investment from a large-scale Chinese competitor (Hainan Airlines) **(1)** Any other valid development point - 1 mark	**(4)**

Question Number	With reference to Extract 1 and your own knowledge, evaluate whether an airline should shut down if it cannot cover its costs of production. Use an appropriate diagram to support your answer.	Mark
5 (b)		**(12)**
Knowledge, application and analysis – indicative content		
	• Shut-down point - Where the airline cannot cover its variable costs in the short-run/ total costs in the long-run • The decision on whether to shut down or not depends on whether losses for airline are short-run or long-run **SHORT-RUN** <u>Monopoly diagram showing loss but firm not shutting down</u>  At profit max output AVC is covered but ATC is not <u>Monopoly diagram showing loss</u>  At MC = MR the airline is not covering AVC and will shut down	

	Perfect competition diagram  • The airline covers its AVC at price P and may continue in the short-run. However, if ticket price (AR) is below AVC the airline will shut down **LONG-RUN** • If AR is below ATC then the airline will shut down (it is making a loss or earning less than its normal profit AR less than AC) • Survival depends on making at least normal profit (AR = AC), so loss makers in the airline industry will exit the industry. • Perfect competition & monopolistic competition - airlines would need to profit maximise (MC = MR) in the long-run to avoid losses • Global airline capacity needs to be reduced in an overcrowded market, so some airlines are unlikely to survive	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of when a firm should shut down. 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 when a firm should shut down 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 when a firm should shut down 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		
	• CPA has continued to operate despite experiencing a loss on 2016 with a further loss expected for 2017. This suggests that it may be using retained profits, borrowing and /or cutting back on loss-making routes Survival may be possible if: • The airline manages to reduce its costs. For example, if airlines, like CPA, place aircraft in storage this will reduce their variable costs and they may be able to survive in the short-run (Extract 1) • Airline may shut down loss-making routes rather than the whole company • An airline merges with another company e.g. one of the growing Chinese mainland airlines such as Hainan • Financial support is provided by the Hong Kong Government - e.g. grants, subsidies • An airline increase its revenue -e.g. it runs a successful advertising and promotion campaign • The airline receives cross-subsidies if it is part of a conglomerate or group of companies	

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	With reference to Extract 2, evaluate the likely benefits to Sibanye-Stillwater of its growth through takeovers.	Mark
5 (c)		**(12)**
Knowledge, application and analysis – indicative content		
	Benefits of growth by takeover • Horizontal takeovers are likely to result in even more market share/market power - platinum mines from Anglo American, Aquarius Platinum and Stillwater. Sibanye was already a major global producer in the market • International expansion: - access to markets • Takeovers in developed economies with relatively high incomes and therefore high profit potential for Sibanye-Stillwater • A much faster method of growth than organic growth – it can take years to open new mines • More opportunities for gaining economies of scale - Stillwater acquisition - a more efficient company with lower AC • Opportunities for synergy especially as takeovers are in the same/similar areas of production • An even larger international mining company may be more competitive in world markets - lower LRAC, dynamic efficiency	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefits of growth by takeover. 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 of growth by takeover 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 of growth by takeover 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		
	• Takeovers are meeting with resistance from trade unions. Strike action may prove costly for the company and may adversely affect worker morale/public image of Sibanye-Stillwater • Any further takeovers may be constrained by SA Government policy • Acquisitions may be expensive and may take a long time before costs are recouped. e.g. takeover of Stillwater Mining cost US$2.2billion • Growth may be too fast whereas organic growth may be at a rate which is more aligned to growth in the market(s) • Risk of diseconomies of scale if the firm becomes too large (above minimum efficient size) • Culture clashes	

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.

<table>
<tr><td>Question Number</td><td colspan="2">Discuss whether government measures to protect employees will influence business behaviour.</td><td>Mark</td></tr>
<tr><td>5(d)</td><td colspan="2"></td><td>(12)</td></tr>
<tr><td colspan="4">Knowledge, application and analysis – indicative content</td></tr>
<tr><td></td><td colspan="2">Forms of government intervention and possible influence:
• Employment protection - employment subsidies to employers such as Sibanye-Stillwater
-lowers wage costs so the business may decide to retain its employees
• Health & safety laws and regulations - direct relevance to the mining industry
-adds to cost of production so the business may try to lower costs in other ways
• Minimum wage legislation
-increase in wage rates, so the business may decide to reduce number of employees or raise its prices
• Equal opportunity laws –e.g. equal pay, anti-discrimination
-the business will need to conform with the law which may involve having to make adjustments/changes to current employment practices</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">A completely inaccurate response.</td></tr>
<tr><td>1</td><td>1-3</td><td colspan="2">Shows some awareness of the possible influence of government measures to protect employees on business behaviour.
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.</td></tr>
<tr><td>2</td><td>4-6</td><td colspan="2">Understanding of the possible influence of government measures to protect employees on business behaviour 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.</td></tr>
<tr><td>3</td><td>7-8</td><td colspan="2">Clear understanding of the possible influence of government measures to protect employees on business behaviour 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.</td></tr>
</table>

Evaluation – indicative content		
	• Rising costs may be offset by a rise in labour productivity due to improved pay/working conditions. Hence little or no rise in unit labour cost, so very little overall influence on business behaviour • Depends on the influence of trade unions on both the business and the government. SA mining unions threatening strike action • Measures such as minimum wage legislation will also apply to competitors operating in South Africa, so there may be no significant change in business behaviour • Depends on the extent to which the measures are enforced by the government • Short-run/long-run impact on business behaviour	

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	With reference to Extract 1, explain what is meant by *competitive tendering.* Answer	Mark
6 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** - up to 2 marks • a process whereby firms bid for a contract **(1)** • the contract will tend to be awarded to the lowest or best value bidder **(1)** • often involves placing bids with a government/ organisation/private sector organisation **(1)** • firm unaware of bids placed by competitors **(1)** • contract may be awarded for a limited time before firms have to submit bids again **(1)** Any other valid point - 1 mark **Application –** up to 2 marks: • In Latvia, five VW dealership companies agreed **not** to submit competitive tenders **(1)** • **Fines** of over €7 million were imposed **(1)** • Schools and government departments were most affected **(1)** • The LCC is seeking a **voluntary agreement** for compensating consumers **(1)** Any other valid application point - 1 mark for each	**(4)**

Question Number	With reference to Extract 1, Extract 2 and your own knowledge, to what extent is collusion a rational form of business behaviour?	Mark
6 (b)		**(12)**

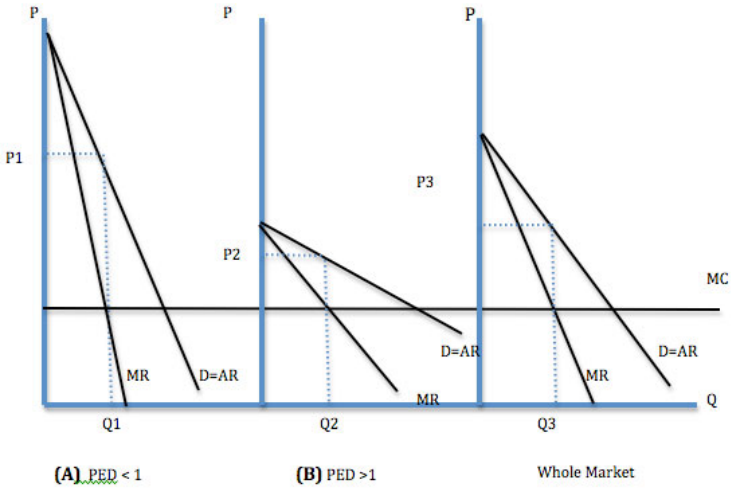
Knowledge, application and analysis – indicative content

- Collusion can be tacit (e.g. price leadership) or overt (e.g. price fixing, agreement not to compete). Extracts 1 & 2 suggests overt
- Firms may collude to:
  - avoid price competition
  - restrict output and artificially raise price
  - share market information
  - reduce costs on advertising etc.
- Collusion may be a rational strategy for firms in order to:
  - achieve higher profits within a market
  - prevent price and revenue instability
  - raise entry barriers
  - achieve a more secure market share
- Collusion has led to:
  - artificially high VW vehicle prices
  - exchange of market information when tendering for contracts in VW market and in the Bulgarian fuel retail market
- There may have been weak competition laws e.g. in Bulgaria this was the second investigation in 4 years

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of why collusion may be a rational form of business behaviour. 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 why collusion may be a rational form of business behaviour 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 why collusion may be a rational form of business behaviour 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		
	• Collusion risks punitive action from government competition authorities e.g. fines of over €7 million • Collusion may be difficult to sustain in the long-run. Firms break away and charge lower prices. • Many oligopolies undertake non-collusive behaviour in the form of non-price competition e.g. advertising, sales promotions, quality of service etc. This may negate the effects of collusion to some extent • New firms may enter the market **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	With reference to Extract 3 and your own knowledge, evaluate the impact of price discrimination on consumers. Use an appropriate diagram to support your answer.	Mark
6(c)		**(12)**
Knowledge, application and analysis – indicative content		
	Consumers are being charged different prices for the same product/service • PED may vary across the EU. Higher price where demand is price inelastic and lower price where demand is price elastic • Disneyland Paris charging more to consumers from Germany and the UK (inelastic demand) compared with French consumers (elastic demand) • References to price differences: Disneyland – UK €524 more and Germany €1101 more REWARD MARKS FOR RELEVANT DIAGRAMS - showing separation of markets  Output Q1 and high price P1 where demand is inelastic. Output Q2 and lower price of P2 where demand is elastic • Higher profits by holiday tour companies may be used to improve services to consumers • If price discrimination allows the business to turn losses into profit all consumers may benefit from the continued provision of the service/product	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of price discrimination 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 price discrimination 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 price discrimination 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		
	• The impact on consumers depends on the value of PED. Some consumers will benefit from price discrimination whilst others will be worse off • The impact will be diminished where EU governments and the European Commission clamp down on such practices. Firms may face fines or other penalties • There may be public/media/consumer/pressure group opposition which may tarnish the image of firms and mean that firms choose not to price discriminate • Higher profits may not be used to improve quality • May only apply in the short-run if market conditions change, e.g. if barriers to entry are lowered and new firms are attracted into the market • European tour operators and Disneyland Paris may be charging higher prices to consumers in certain EU countries because of the higher cost of production or to maximise room usage and not as a result of price discrimination	

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	With reference to the information provided and your own knowledge, evaluate policies a government could use to enhance competition.	Mark
6(d)		**(12)**
Knowledge, application and analysis – indicative content		
	Policies to enhance competition: Various forms of competition policy may include; • **Competitive tendering for contracts -** should have been the case in Latvia • **Voluntary agreements with firms** to end price fixing arrangements (CPC in Bulgaria tried this in 2012), collusion over tendering for contracts (VW dealers in Latvia) • **Voluntary agreements to compensate consumers** who have been overcharged, denied choice etc. (LCC proposal in Latvia) • **Fines** - €7million on VW dealerships in Latvia, tour operators up to 10% of global turnover if guilty of price discrimination • **Stricter laws against collusion/cartels** – with bans and larger fines imposed • **Deregulating the industry** – lowering barriers to entry • **Regulating prices** –e.g. price controls, maximum price • **Higher tax rates on profits** - e.g. windfall tax on tour operators, Disneyland Paris and VW vehicle dealerships **Policies may result in**: • An incentive for incumbent businesses to be more competitive - e.g. vehicle dealerships tendering for contracts, hotels and travel companies in the EU offering prices to EU consumers not based on customer location • Increased economic efficiency of businesses in order to attract consumers • Increase in consumer surplus and lower producer surplus as consumers benefit from lower prices (price ceiling and greater competition) • Fewer barriers to entry so more contestable and an incentive for new entrants (deregulation, anti-collusion). E.g. smaller fuel retailers in a stronger position to compete in Bulgaria	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of government policies to enhance 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 enhance 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 to enhance 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		
	• Effectiveness depends on how businesses respond e.g. voluntary agreements may have little impact. E.g. 2012 agreement in Bulgaria • Maximum prices may create shortages • Measures may have a damaging effect on firms' profits and cause some firms to exit the market • Limits on profit might reduce investment • Costs of enforcing regulations and laws • Encouraging new firms to enter the market may have little effect where incumbent firms are large and powerful - e.g. oligopoly in Bulgarian fuel retail market • Regulatory capture • Enhancing competition can be affected by the existing market structure and the degree of contestability	
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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