GradeMax



Mark Scheme (Results)

October 2019

Pearson Edexcel International Advanced Level

In Economics (WEC03)
Paper 01 Business Behaviour

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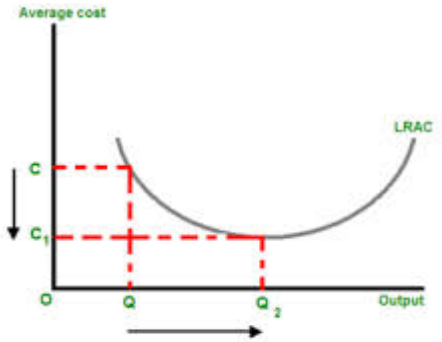
General Marking Guidance

- 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.

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

Question Number	Subway is an American restaurant franchise that sells sandwiches and salads. In 2016 there were over 44 000 Subway restaurants globally. From its launch in 1965 to the present day, Subway has grown organically. Discuss whether organic growth is always more beneficial to a business than growth by merger. Answer	Mark
1	**Indicative content** • Definition of organic growth - expansion from within a business, e.g. by expanding the product range, number of business units <u>Benefits</u> of organic growth may include: • Less risky than merging or taking over other businesses • Can be financed through internal funds (e.g. retained profits) • Allows the business to grow at a more sustainable or manageable rate • Eliminates risk of culture clash Whereas mergers/takeovers: • May require a lengthy legal process • May be very expensive to establish • May be investigated by competition authorities and may be rejected Mergers can be horizontal, vertical (forward & backward) or conglomerate Definition of <u>horizontal merger</u> – integration at the same stage of production in the same industry (e.g. 2 restaurant businesses) <u>Disadvantages include</u>: • Rising market share might attract the attention of competition authorities • Risk of possible culture clashes • Scope for economies of scale may be limited where combined firm size is still small • More risk of diseconomies of scale • Mergers may make little difference to profitability. For example, because of cost pressures or falling demand	

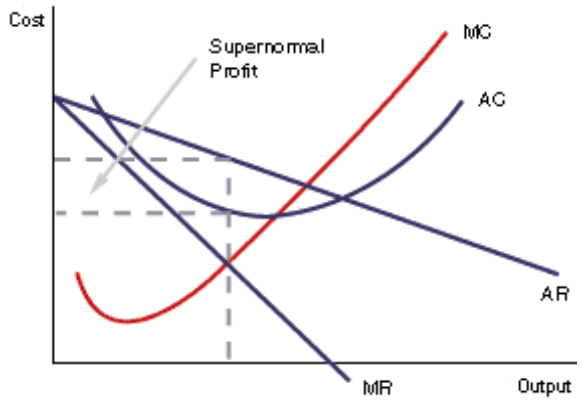
	Definition of <u>vertical merger</u> – between firms at different stages of production in the same industry. Vertical forward and backward <u>Disadvantages include</u>: • Firms may be sacrificing some of the benefits of specialisation • Diseconomies of scale • Firms may be operating in unfamiliar markets (also applies to conglomerates) • Firms may lose some of the benefits of outsourcing (lower cost, familiarity) **Evaluation** <u>Disadvantages of **organic** growth</u> may include • Growth achieved may be dependent on the growth of the overall market • Harder to build market share if business is already a leader • Slower growth – shareholders may prefer more rapid growth <u>Generic benefits of mergers</u> may include • A quicker method of growth than organic. Hence: - greater potential for gaining economies of scale - increased likelihood of becoming more efficient <u>Benefits of horizontal merger</u> may include: • merged firms are no longer competing against each other • gains from shared understanding of the market from the other firm • a means of growth when market demand is low • increased market share/power <u>Benefits of vertical merger</u> may include: • Greater control of the supply chain – this helps to reduce costs and improve quality of inputs • Improved access to important raw materials used in manufacturing • More in touch with changes in consumer demand e.g. Subway's products can be modified, innovated in response to consumer needs and wants • Restricting sale of rivals' product Reward analysis and evaluation of conglomerate mergers **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	**(20)**

Question Number	The Tata Group is a transnational company (TNC), which has its headquarters in India and operates in more than 100 countries across six continents. Tata exports products and services to over 150 countries. Discuss reasons why some companies become TNCs. 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: • To provide the company with 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  • To take advantage of low-cost locations – labour costs, rent, land etc. leading to increased profit margins • To gain a better understanding of markets, technology standards and policies in other countries. Tata is operating in more than 100 countries across the world • To avoid taxes and/or trade barriers • Financial support may be available from overseas governments and other agencies to attract FDI • An opportunity to obtain foreign currencies - gain interest, to use in future transactions • A 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. Increased degree of risk • Potential diseconomies of scale – co-ordination and communication issues. May apply particularly where divisions of the TNC are thinly spread across many countries • Distinction between short-run and long-run. Benefits may apply more in the long-run, e.g. in relation to FDI • May meet with opposition from consumers, pressure groups and governments abroad • Company may already be exporting, hence risks are reduced - as in the case of the Tata Group • Prioritisation of reasons	**(20)**

Question Number	The retail car market in the USA is oligopolistic. The four largest firms in the market are Ford, General Motors, Toyota and Fiat Chrysler Automobiles (FCA). To what extent might firms in an oligopolistic market compete using non-price strategies? Answer	Mark
3	**Indicative content** • Define oligopoly: a few large firms dominate the market (industry); high concentration ratio • Non-price competition includes: appealing packaging, loyalty schemes, branding, product differentiation, patents, product innovation, quality of product /service • Non-price competition may result in a more inelastic demand for the firm's products. High level of product differentiation in the car industry - vehicle models, features etc. • Non-price competition means that prices are more stable, making it easier to plan future investment • Oligopolists may decide to use non-price methods to avoid the possible adverse effects of a price war - lowering price leads to same response from rivals • Price competition can lead to loss of profits and more uncertainty in the market • Price wars may provoke a reaction from the government which moves to stop further price cuts - predatory pricing • Oligopoly firms may decide to collude to: - avoid price competition - restrict output and artificially raise prices - achieve a more secure market share Collusion may result in possible benefits to oligopolies: • Ability to each earn higher supernormal profits • Barriers to restrict competition • Less unpredictability and uncertainty in the market • Oligopolies can act as a monopolist	

Diagram to show SNP



Evaluation

- Non-price strategies may be expensive to sustain - high sunk costs in the form of advertising and promotion
- There may be no obvious advantages from non-price strategies - is market share growing, are profits rising etc?
- An oligopolist may decide to use pricing strategies, especially in the short-run, to exert pressure on rivals
- Interdependence of firms may result in price leadership strategies
- Oligopolies may use methods such as price matching (e.g. supermarkets) in order to gain/retain customers
- Exposure of collusion by the government or other regulatory agencies may result in fines, legal prevention, negative publicity
- Any benefits of collusion to firms may be short-term if one or more colluding firms break away from the agreement
- Falling demand creates tension between colluding firms e.g. during an economic downturn
- The entry of new firms into the industry may break existing collusive agreements

Candidates may take either perspective for KAA and the reverse perspective for evaluation.

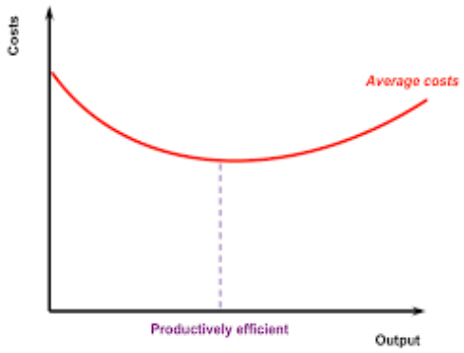
(20)

Question Number	In 2016 the UK competition authorities ordered Tesco, a major UK supermarket, to stop exploiting its suppliers. For example, it was ordered to reduce the time it takes to pay suppliers. Evaluate the likely impact of government policies to protect suppliers on the business behaviour of monopsonists. Answer	Mark
4	**Indicative content** Define monopsony power or monopsonist - where there is one buyer, (or a dominant buyer), and many sellers Examples of government measures to restrict monopsony power: • Setting a minimum price for suppliers to large supermarkets • Tightening up competition laws to weaken powers of monopsonist • Regulating profits of monopsonist • Opening up the monopsony market to more competition • Preventing monopsonist from abusing market power e.g. ensuring that suppliers are paid on time POSSIBLE EFFECTS • Higher purchasing costs to obtain goods from suppliers leading to lower profit margins • More regulation of profits - reduced producer surplus and lower profit for monopsonist **IMPACT ON BUSINESS BEHAVIOUR OF MONOPSONIST** • Monopsonist may look to cut costs in other ways - e.g. wages, overheads, downsizing (closing uneconomic stores) • Monopsonist may be able to pass on higher costs to consumers in the form of higher prices. Relationship with PED • Monopsonist may look to become more efficient e.g. a supermarket using more self checkout terminals • Lower profits of monopsonists may lead to a fall in investment in R & D and a consequent reduction in quality and new product development • Monopsonist may choose alternative suppliers – possibly from other economies where government controls are less stringent	

	Evaluation: • Depends on the effectiveness of government policies - powers of enforcement, positive and negative effects • If monopsonist chooses alternative suppliers the policies may be counter-productive • May harm the relationship built up between suppliers and monopsonist e.g. local farmers for fresh produce • Limits to the powers of national governments – if monopsonists are very powerful in the market. In which case there may be little impact on business behaviour • Possibility of regulatory capture & government failure, so monopsonists are not adversely affected • Information failure. Governments may not have access to relevant information. Reluctance of firms to provide the government with relevant information • Value of PED. If demand for monopsonists' goods is relatively inelastic higher costs are likely to be borne by consumers • Short-run/long-run distinction – removing market power from monopsonists may take time to have any significant impact – e.g. time lag before new firms are established. Is support for suppliers sustainable in the long- run?	**(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.

Question Number	With reference to Extract 1 paragraph 3, explain what is meant by *productive efficiency*. Illustrate your answer with an appropriate diagram. Answer	Mark
5 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge (up to 2 marks)** Define productive efficiency • Where the firm is producing a level of output at the lowest point of average cost (1) 1 mark for development • Level of output is where AC = MC (1) • In the long-run the firm is producing at its minimum efficient scale (1) • The firm is using its resources efficiently implying high level of factor productivity (1) • Any other valid development point (1) **Application (up to 2 marks)** • Accurate and appropriately labelled diagram showing output at minimum AC (2)  If no diagram, award one application mark for: • Increased competition in retail market - therefore need to become more productively efficient in order to survive (1) • Any other valid application point (1)	**(4)**

Question Number	With reference to Extract 1, evaluate the likely benefits of the merger between Adriatica, Estense and NorthWest Consumers to their consumers **and** employees.	Mark
5 (b)		**(12)**

Knowledge, application and analysis – indicative content

Benefits to consumers:

- Lower prices as a result of passing on gains from economies of scale (lower LRAC)
- May be a means of stopping co-operative stores from closing – hence maintains a choice of stores for consumers
- May be able to offer a wider choice of products and services through diversification and extending the range of suppliers
- Efficiency gains may lead to an improved quality of service – e.g. supermarkets investing in faster checkout systems
- More innovation (dynamic efficiency)
  e.g. redesigning stores for consumer benefit
- An increase in consumer surplus

Benefits to employees:

- Less risk of losing jobs - greater job security
- Opportunities for promotion
- More funds available for training
- May be in a better position to secure higher wages (or avoid wage reduction)

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefits of a merger to consumers and employees. 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 the merger to consumers AND/OR employees 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 the merger to consumers AND employees 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 merger may result in store closures in order to improve cost efficiencies • Job losses for employees especially where job roles are duplicated across the 3 organisations - rationalisation process • Downward pressure on wages • Fewer opportunities for promotion • Most of the above points depends on the existence and influence of employee organisations, (e.g. trade unions), within the Italian retail co-operative movement • Less choice of stores for consumers • More inconvenience for consumers - longer distances to travel to stores • Risk of diseconomies of scale leading to higher prices • As these are co-operative organisations, managers may be more inclined to meet the needs of employees and consumers	

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, discuss the extent to which the business objectives of co-operatives may differ from those of other types of private sector companies.	Mark
5 (c)		**(12)**
Knowledge, application and analysis – indicative content		
	• Types of business objectives: profit, growth, social responsibility etc • Shareholders 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 • Co-operatives are likely to place a greater emphasis on meeting the needs of their members e.g. COOP sharing resources amongst its members and providing training programmes • Co-operatives may give a higher priority to social responsibility – environmental concerns, community needs and providing employment • Private sector companies, such as Yiguo or Aldi, may have a stronger drive for cutting costs and prices and increasing market share	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of business objectives. 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 different business objectives for companies and co-operatives 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 different business objectives for companies and co-operatives 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		
	• Making a profit is a key objective for <u>all</u> private sector organisations (except not-for-profit organisations). Hence there may be little difference between co-operatives such as Alleanza and companies such as Aldi and Lidl • Alleanza is having to operate in a very competitive market. It may need to behave in a very similar way to private sector companies • Unless co-operatives receive government support they can only survive if they make profits • Private sector companies such as Aldi may also have social responsibilities e.g. staff welfare, environmental policies • One financial analyst believes that there is a conflict between focusing on making profit and increasing market share on the one hand and co-operative principles on the other • Differences in objectives between co-operatives and companies may be in relation to priority of importance **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.
0	0	No evaluative comments.

Question Number	With reference to the information provided and your own knowledge, evaluate the likely impact of government intervention to support co-operative organisations.	Mark
5(d)		**(12)**

Knowledge, application and analysis – indicative content

Methods of government intervention:

- Financial support - e.g. employment subsidies, tax breaks, low-cost loans (Uganda), support for employee training programmes (Italy)
- Less regulation of co-operatives - allowing mergers to go ahead as in the case of Alleanza
- Barriers to entry of foreign firms - could be applied to the retail sector in Italy

Impact of government support

- Enables co-operatives to be in a better position to compete in the market e.g. subsidies may lead to lower prices
- Provides a source of employment e.g. Ugandan Government policies encouraging growth of co-operatives
- Increases export income and makes the economy more internationally competitive e.g. Uganda
- Increase in incomes through the multiplier effect
- Growth in GDP - particularly given the importance of co-operatives in a country such as Italy, especially in regions such as Emilia Romagna
- Possible route out of poverty - One Village One Product programme in Uganda leading to development of skills

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of government support for co-operatives. 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 government support for co-operatives, 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 government support for co-operatives, 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		
	• Costs of government support • Short-run/long-run impact – is support sustainable in the long term? • Depends on the nature and level of government support • Opportunity costs – what may need to be foregone? • How effectively can co-operatives compete against TNC's? How efficient might they be? • The focus on social objectives may make co-operatives less competitive	

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.

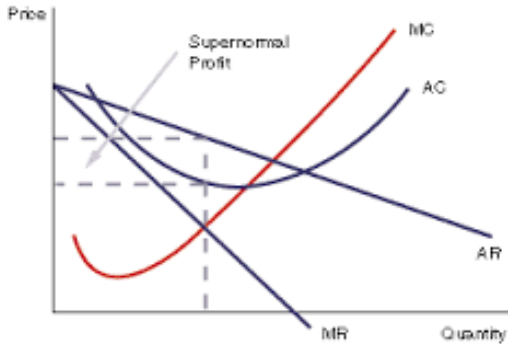
Question Number	With reference to Figure 1, comment briefly on the trend in the index of *unit labour costs* between July 2015 and January 2017. Answer	Mark
6 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** (up to 2 marks) Up to 2 marks for definition of unit labour cost (ULC) • The average cost of labour per unit of output produced (2) • Formula - total labour cost/total output (1) • ULC show how much output an economy receives relative to labour cost per unit of output (1) A knowledge mark may be awarded for ONE of the following: • ULCs are often used as a measure of international competitiveness (1) • ULCs are often expressed as indices or in percentage terms (1) • Accept any other valid knowledge point for 1 mark **Application** (up to 2 marks) • ULC fell by approximately 2.46% (-2.5/101.8 x 100%) - 2 marks for calculation • Apart from a steep rise from June-Oct 2016, ULC fell throughout the period in question (2) • Downward trend in Australia's ULC from July 2015-Jan 2017 (1) • ULC was at its highest point in July 2015 at an index of 102 (approx) (1) • ULC was at its lowest point in Jan 2017 at an index of 99.3 (approx) (1) • ULC fell by 2.5 index points over the period in question (1) • ULC fell from 101.8 to 99.3 over the period in question (1) • Accept other application points and award up to 2 marks	**(4)**

Question Number	With reference to Figure 1, Figure 2 and Extract 1, discuss how Australian businesses could respond to changes in Australia's international competitiveness.	Mark
6 (b)		**(12)**
Knowledge, application and analysis – indicative content		
	Indicators that Australia is becoming **less** internationally competitive • A relatively steep rise in unit labour cost from March 2017 onwards. A rise of approx. 2.0 points from March to December 2017 **Businesses may respond by:** - reducing employment levels - substituting capital for labour - investing in economies where ULC's are lower • A fall in the exchange rate of the AUD in relation to US$ which will raise cost of imports (fell from 1US$ = AUD0.97 to 1US$= AUD1.34) **Businesses may respond by:** - switching to lower-cost domestic suppliers - paying higher import prices and either passing higher costs onto consumers, absorbing higher costs or cutting costs in other areas • A fall in business efficiency particularly in employee training and labour productivity **Businesses may respond by:** - recognising the decline in efficiency and improving/increasing training programmes in order to raise labour efficiency rates • Within the infrastructure measure, rankings were deemed to be uncompetitive for energy, internet connectivity and communications technology **Businesses may respond by:** - reducing capital investment - choosing alternative economies as locations for investment	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of how businesses may respond to changes in 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 how businesses may respond to changes in 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 how businesses may respond to changes in 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		
	Alternatively, Australia is showing signs of becoming **more** internationally competitive. e.g. • A fall in the exchange rate in terms of US$ from 2013 to 2017 making exports more price competitive on global markets • The rise in ULCs may only be in the short-run • Australia **rose** one place overall on the global internationally competitive rankings • Australia is one of the most internationally competitive economies (21 out of 137 countries) • Australia has a highly skilled workforce, high levels of education and a competitive infrastructure • Some businesses may be unaffected by the changes, especially as Australia's overall standing has hardly altered. Therefore businesses may not adjust their plans **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 2 and your own knowledge, discuss why 'profit margins in markets with high barriers to entry were 20% greater than in markets with no significant barriers' (lines 7-8).	Mark
6(c)		**(12)**
Knowledge, application and analysis – indicative content		

	• 15% of the Australian economy is dominated by large firms. Examples - electricity distribution and telecommunications
	Examples of barriers to entry and how they may increase profit:
	  • Branding - attracts consumers and raises profit
	  • Patents - reduces threat of competition and enables firm to raise price
	  • Economies of scale - lowers average cost and hence raises profit margin
	
	• High barriers means that the market is less contestable
	• High barriers reduce competition and mean that incumbent firms have monopoly power
	• A monopolist is able to restrict output, charge a high price and make supernormal profit
	
	
	
	• High profits act as a signal to other firms to enter the market. However, barriers to entry are a form of market failure and new firms are prevented from entering the market	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the likely impact of barriers to entry on profitability. 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 likely impact of barriers to entry on profitability 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 likely impact of barriers to entry on profitability 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		
	• Barriers to entry may be temporary in some cases so the higher profits are not applicable in the long-run • The Australian Government may intervene to make markets more competitive Other factors may apply which cause profit rates to be higher: • Consumer demand may be high, higher price and more profit • Costs of production may be low. The firm is more efficient - achieving economies of scale, dynamic efficiency etc.	

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	Evaluate government policies designed to protect consumers from exploitation by firms operating in highly concentrated markets.	Mark
6(d)		**(12)**
Knowledge, application and analysis – indicative content		
	Types of government policy: • **Price controls** - setting a maximum price to be applied at airports in Australia  **Impact**: e.g. Airports will not be able to raise price above the proscribed level. Hence consumers will benefit from a lower price than might otherwise be the case • **Less bureaucracy** ('red tape') - e.g. supermarkets will be able to open in more areas **Impact**: More choice for consumers and more competition. Likely to lead to lower prices, improved quality of products/service • **Encourage consumers to switch e.g.** Deregulation - fewer regulations so that consumers can switch to other providers more easily (energy, banking etc.) **Impact**: Consumers able to 'shop around' for better deals. Potential benefits in terms of lower prices, improved service etc. • **Limits placed on market share to avoid high levels of market concentration** **Impact**: Consumers likely to be less exploited by large firms with monopoly power (high price, less output) • **Other measures** include: - Legislation to control mergers and takeovers - Quality standards and performance targets - Promotion of small businesses • All of the above should increase consumer surplus and lower producer surplus • Consumers may also benefit from increased economic efficiency of firms e.g. productive, allocative and dynamic; reduced x-inefficiency	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of government policies to protect 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 government policies to protect 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 government policies to protect 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		
	• Impact will depend on how extensive government measures are and how businesses respond to those measures. E.g. What maximum price is set at airports? Is it above or below current market price? • Limits on size of largest firms might have adverse effects on consumers if higher costs of production leads to price rises • Encouraging new firms to enter the market may have little impact where incumbent firms are large and powerful e.g. electricity distribution and telecommunications • If regulations and controls are excessive, firms may choose to relocate to other economies. Therefore consumers may be worse off if choice is reduced • Regulatory capture - a government acts for the benefit of the firm(s), rather than consumers	
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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