



Mark Scheme (Results)

January 2020

Pearson Edexcel International A Level
In Economics (WEC13)

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

Question	Quantitative skills assessed	Answer	Mark
1		C	(1)
2	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes.	D	(1)
3		A	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	B	(1)
5	QS9: Interpret, apply and analyse information in written, graphical tabular and numerical forms.	D	(1)
6	QS8: Make calculations of elasticity and interpret the result.	A	(1)

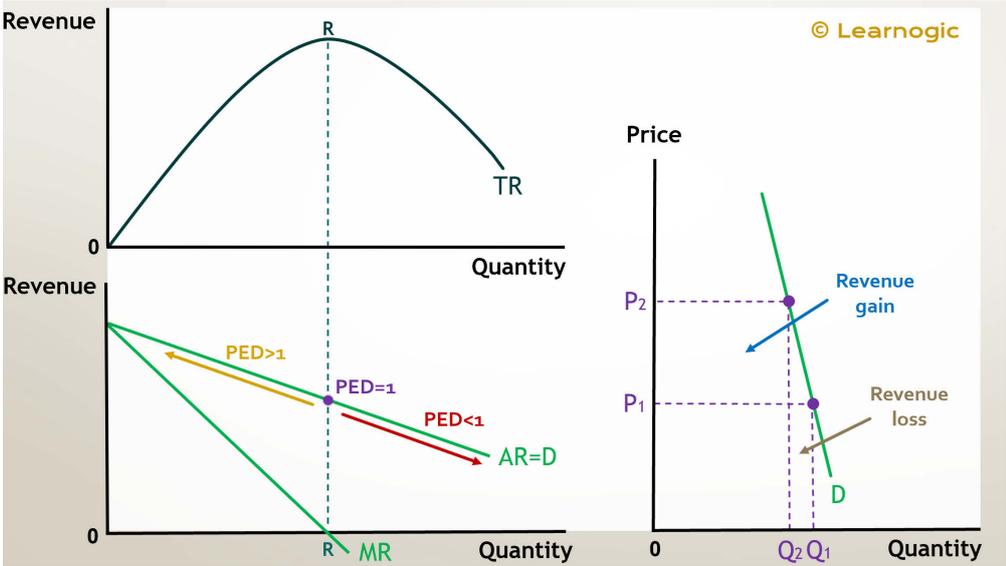
Section B

Question	With reference to Figure 1, calculate the percentage change in electric car sales from 2013 to 2017. You are advised to show your working.	Mark
7(a)	<p>Answer</p> <p>Application 2</p> <p>Quantitative skills assessed:</p> <p>QS2: Calculate, use and understand percentages, percentage changes and percentage point changes.</p> <p>QS9: Interpret, apply and analyse information in written, graphical tabular and numerical forms.</p> <p>2 marks for correct workings and calculation:</p> <ul style="list-style-type: none">• $13\,597 - 2\,512 = 11\,085$ (1)• $11\,085 / 2\,512 \times 100 = 441.28\%$ (2) <p>Accept 441% to 441.3%</p> <p>NB: If correct answer is given award full marks regardless of working.</p>	(2)

Question	With reference to Extract A and Extract B, explain what is meant by <i>specialisation</i> .	Mark
7(b)	<p>Answer</p> <p>Knowledge 2 Application 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge Up to 2 marks for knowledge of specialisation</p> <ul style="list-style-type: none"> • A firm uses its resources to produce a specific product/service OR a specific range of products/services (1) • Specialisation leads to a division of labour, whereby workers carry out specific jobs/tasks (1) • Specialisation may result in an increase in efficiency (1) • Specialisation often leads to an increase in productivity (1) • Specialisation may reduce a firm's LRAC/lead to economies of scale (1) <p>Application Up to 2 marks for application to the contexts</p> <p>1 mark for application to Extract A</p> <ul style="list-style-type: none"> • Tesla specialises in the production of electric cars (1) • Tesla's products include the Model 3/Model S (1) <p>1 mark for application to Extract B</p> <ul style="list-style-type: none"> • Dyson specialises in domestic appliances (1) • Dyson's products include vacuum cleaners/hand dryers/hair dryers (1) 	(4)

Question	With reference to Extract A, examine the likely effect of a decrease in variable costs on Tesla's profits. Illustrate your answer with an appropriate diagram(s).	Mark
	Answer	
7(c)	<p>Knowledge 2 Application 2 Analysis 2 Evaluate 2</p> <p>Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge</p> <p>Up to 2 marks for drawing a diagram that shows knowledge of:</p> <ul style="list-style-type: none"> • Original supernormal profit/loss area (1) • New supernormal profit/loss area after MC and AC shift down (1) <p>Analysis</p> <p>Up to 2 marks for explanation of or diagrammatic representation of:</p> <ul style="list-style-type: none"> • Profit maximising price will fall from OP_1 to OP_2 (1) • Increase in profit maximising output from OQ_1 to OQ_2 (1) • Revenue would rise from $OP_1 \times OQ_1$ to $OP_2 \times OQ_2$ (1) <p>N.B. Allow 1 mark for answers which have only shifted AC curve as follows</p> <ul style="list-style-type: none"> • Increase in supernormal profit/fall in loss (1) <p>Application</p> <p>Up to 2 marks for reference to Extract A, e.g.:</p> <ul style="list-style-type: none"> • Senior managers are considering ways of decreasing variable costs (1) • Lower cost car parts (1) • Reducing the number of workers on production lines (1) • Tesla making a quarterly loss of \$709.6m in one quarter (1) 	

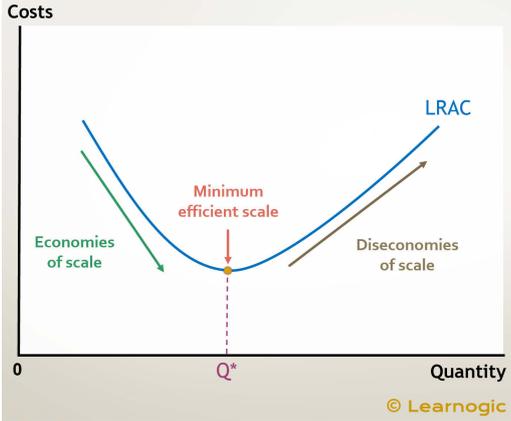
	<p>Evaluation Up to 2 marks for evaluative comments, e.g.:</p> <ul style="list-style-type: none">• Magnitude: depends on size of the fall in variable cost (1), a small change will have little impact because Tesla's losses are significant (1)• Rise in profit (lower loss) will depend on Tesla's ability to meet demand (1) because there have been significant problems regarding failure to meet production targets e.g. a major shortfall in December 2017 (1)• Using cheaper car parts may result in a fall in consumer demand (1) as consumers switch to better quality cars sold by competitors (1)• Reducing workers on production line will reduce output levels further (1) leading to larger short-term losses (1)• Rise in profit (lower loss) may be offset by a rise in fixed cost/fall in demand (1), which would cause an upward shift in AC curve/ downward shift in AR and MR curves (1)	<p>(8)</p>
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Question	With reference to Extract B, analyse the relationship between price elasticity of demand and total revenue. Illustrate your answer with an appropriate diagram(s).	Mark
7(d)	<p>Answer</p> <p>Knowledge 2 Application 2 Analysis 2</p> <p>Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge</p> <p>Up to 2 marks for:</p> <ul style="list-style-type: none"> • Correct definition (or formula) of PED/total revenue (1) • Relevant diagram (1) e.g.  <p>Analysis</p> <p>Up to 2 marks for explanation of how a price change affects revenue. e.g.:</p> <ul style="list-style-type: none"> • A rise in price where demand is inelastic (1) would cause revenue to rise (1) / a fall in price where demand is inelastic (1) would cause revenue to fall (1) <p>OR</p> <ul style="list-style-type: none"> • A rise in price where demand is elastic (1) would cause revenue to fall (1) / a fall in price where demand is elastic (1) would cause revenue to rise (1) <p>Application</p> <p>Up to 2 marks for reference to Extract B, e.g.:</p> <ul style="list-style-type: none"> • Dyson is entering the luxury segment of the electric car market (1) • Demand for electric cars is more price inelastic (1) • Specific reference to Extract B in diagram (1) • Increased competition in luxury car market may make demand more price elastic (1) 	(6)

Question	With reference to the information provided, discuss the significance of barriers to entry and exit in the electric car market for new entrants, such as Dyson.
7(e)	<p>Indicative content</p> <p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge, Application, Analysis (8 marks) – indicative content</p> <ul style="list-style-type: none"> • Definitions of barriers to entry and barriers to exit <ul style="list-style-type: none"> - Barriers to entry: A cost of production which must be borne by a firm that wants to enter an industry but is not borne by businesses already in the industry - Barriers to exit: Something that prevents or impedes the ability of a firm to leave an industry • Barriers to entry and exit occur in imperfect markets • Barriers to entry and exit reduce contestability in the electric car market • High sunk costs e.g. high capital costs, advertising, means it is expensive to enter the market and those costs are not easily recoverable if a firm needs to exit the market • Branding is important in relation to attracting consumers. This possibly entails high levels of expenditure on advertising and promotion for new entrants, especially Dyson which is well known for domestic appliances • Patents create a legal barrier, meaning Dyson will have to be careful with regard to designs • Car production is more suited to large-scale production and existing firms benefit from economies of scale • Tesla has the advantage of being the first in the market • The electric car market requires a high level of investment to enter the market. Apple decided against producing cars for that reason • The likely entry of well-known and established car manufacturers, such as Jaguar, Porsche, Audi and BMW, may make it difficult for Dyson to enter and be able to compete successfully • Backwards vertical integration, where car manufacturers such as Tesla control electric car battery production • Dyson may have to set up its own retail network (as did Tesla) which is another major cost (forward vertical integration)

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
		<p>Evaluation (6 marks) – indicative content</p> <ul style="list-style-type: none"> • Dyson has a good reputation for quality and innovation and it has been very successful over a long period of time • Dyson has had previous success when marketing new products • Dyson may have accumulated significant reserves/profits, enabling it to finance the development of a new electric car • Dyson can learn from Tesla’s mistakes • Electric car market is rapidly growing, therefore there is scope for new entrants to be successful • Non-price factors may be significant in determining sales • Barriers may become less significant as the market becomes more competitive • Barriers may be less significant for Dyson and other entrants in the longer term
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

<p>Question</p>	<p>In July 2017 the German retailer Metro Group demerged into two independent companies. Its wholesale and food division became New Metro and a separate consumer electronics business, CECONOMY, was formed.</p> <p>Evaluate the possible benefits of a demerger for the business and its workforce. Illustrate your answer with an appropriate diagram(s).</p> <p>Indicative content</p>
<p>8</p>	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Quantitative skills assessed</p> <p>QS4: Construct and interpret a range of standard graphical forms.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge, Application, Analysis (12 marks) – indicative content</p> <ul style="list-style-type: none"> Understanding of demerger- separation of one business into two or more independent businesses/this would apply in the case of the dissolution of a previous merger <p>Award relevant diagram e.g.</p>  <p>Benefits for the business:</p> <ul style="list-style-type: none"> Lower LRAC as the business was previously experiencing diseconomies of scale Greater efficiency/less x-inefficiency Increase in profits (or reduced losses) as a result of lower LRAC An increase in funds through the sale of assets - which may be used to invest in R & D or to pay off debts Avoid intervention from competition authorities - the business may have been dominant in certain markets Focusing on the core business may lead to higher profits Specialised workforce enable efficiency/productivity gains Reduced risk of culture clash between different parts of the business

	<p>Benefits for the workforce:</p> <ul style="list-style-type: none"> • A demerger may result in greater job security if the previously larger business had been experiencing inefficiencies and diseconomies of scale • More job opportunities - e.g. specialist staff will be needed for a food business and a consumer electronics business • Pay rises - if one or both companies find it difficult to recruit new staff • Working for smaller business units can be more motivating as communication improves (e.g. fewer layers of management) • A more focused business is able to provide more specialist training to improve skills making workers more employable <p>Restrict to a maximum of 9 marks for Knowledge, Application and Analysis if no appropriate diagram provided or only one economic agent is considered.</p>	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

Drawbacks to businesses

- Raising of funds through the sale - the impact depends on how the funds are used – e.g. pay outstanding costs or debts (more short-term) compared with using for further investment (more long-term)
- The business may regret decision (in long-run) – if the demerged firm performs well under new ownership and/or was undervalued at the time of sale
- The business may experience a rise in LRAC and a reduction in economies of scale - size of business now below point of minimum efficient scale
- The cost of the demerger may outweigh the potential benefits e.g. legal fees, dispute in breaking up, possible redundancy costs, new IT systems required etc
- Less access to sources of finance
- More specialisation may lead to issues retaining staff
- Possible fall in market power leading to lower supernormal profit

Drawbacks to workers

- A demerger may result in rationalisation and some job losses/unemployment
- Workers may feel less secure in their jobs and de-motivated
- Possible loss of benefits as no longer working for very large business
- Tasks become monotonous as more specialised
- Fewer opportunities for promotions as the business is smaller

General points e.g.:

- Short-run vs long-run impacts
- Depends on the size of the demerger

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question By 2017 Ethiopia was one of very few African countries that had not privatised its telecommunications market and introduced competition. The state-owned company, Ethio Telecom, was the only firm in the market.

Evaluate the likely benefits of a monopoly to its consumers. Illustrate your answer with an appropriate diagram(s).

Indicative content

9 **Indicative content guidance**
 Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

Quantitative skills assessed:
QS4: Construct and interpret a range of standard graphical forms.
QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

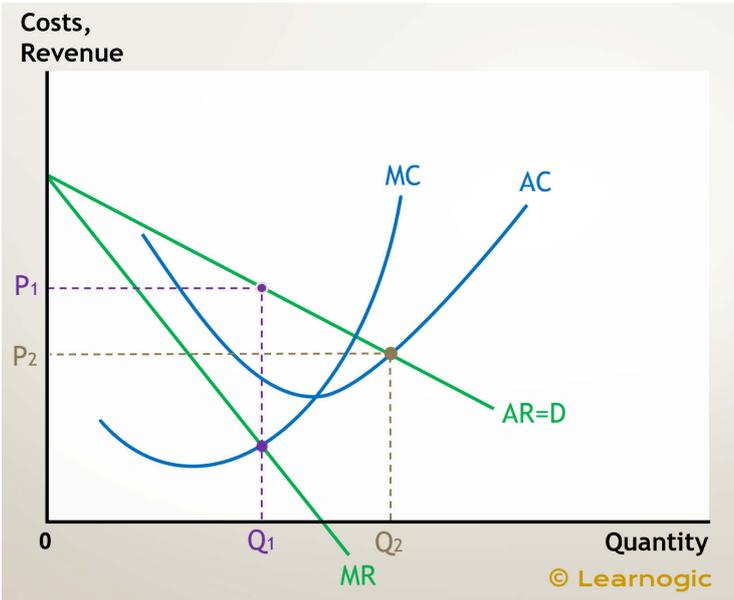
Knowledge, Application, Analysis (12 marks) – indicative content

- Understanding of monopoly – the firm is the sole supplier in the market

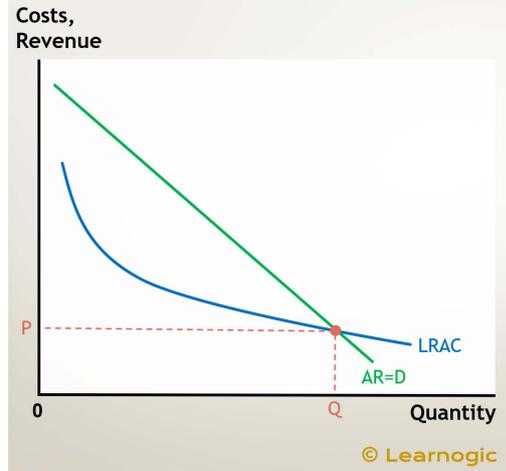
Benefits to consumers

- A monopoly could offer new services with the knowledge that it will have no competition
- Dynamic efficiency: Ethio Telecom might use supernormal profits for investment in new technology
- If the monopoly is required by a government to produce the allocatively efficient level of output, then the price will reflect marginal cost and ensure that the goods produced reflect consumer demand
- Some consumers may benefit if the monopolist price discriminates. This may reduce deadweight loss associated with a single price monopolist
- A monopoly may need to keep prices low and continue to introduce new products in order to deter new entrants (contestable market) - price lowered from P1 to P2 and only normal profit made

Award relevant diagram e.g.



- Falling LRAC diagram. Greater productive efficiency – production will be at a lower point on LRAC curve than if there were more firms in the market. This may lead to a reduction in prices for consumers and higher consumer surplus
- If the monopoly is state-owned it may have an obligation to keep prices low and provide subsidised products/services to consumers



Restrict to a maximum of 9 marks for Knowledge, Application and Analysis if no diagram provided.

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	0	No rewardable material.
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Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content	
	<ul style="list-style-type: none"> • Consumers might suffer from higher prices, so moving away from the allocatively-efficient level of output • A monopoly might result in X-inefficiency, resulting in higher costs and higher prices • Profits may be used for dividends rather than for investment and innovation in the products or services of the business • Lack of competition may lead to less incentive to innovate and develop. Hence lack of choice. In terms of technological change, telecommunications is a fast moving market. The lack of competition could mean that products are out-dated and of relatively poor quality • A state-owned monopoly may not have a profit motive and may be inefficient • Any profits made by a state-owned monopoly may not be reinvested into the business because the government may cream off profits • The size of benefit/problems depends on level of regulation 	
Level	Mark	Descriptor
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Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question In 2018 the Malaysian Government increased the monthly minimum wage for garment and textile workers from MYR1 000 to MYR1 500.

Evaluate the benefits of an increase in the minimum wage on businesses **and** workers. Illustrate your answer with an appropriate diagram(s).

Indicative content

10 **Indicative content guidance**

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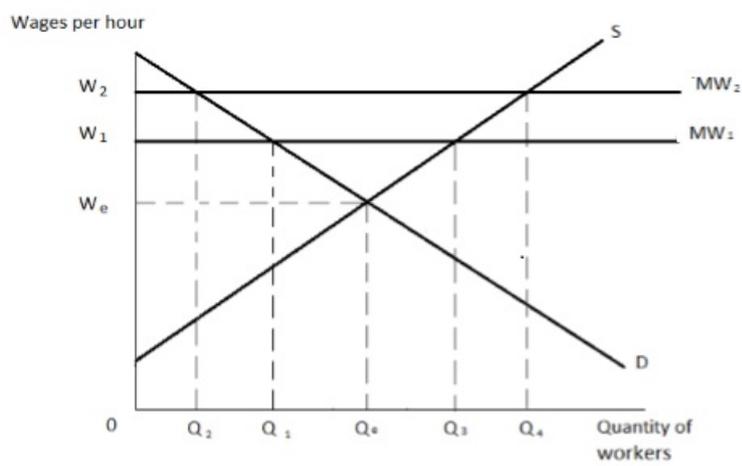
Knowledge, Application and Analysis (12 marks) – indicative content

- Understanding of minimum wage - the lowest wage that a business is legally required to pay its workers

Benefits to businesses

- Workers may be better-motivated and hence more productive. Labour productivity increases
- An increase in efficiency may result in a fall in unit labour costs, more than offsetting the rise in the minimum wage rate
- Lower unit labour costs may mean that the business becomes more competitive
- Workers are more likely to stay employed with their current employer. Lower labour turnover rates means more experienced and loyal workers. Lower recruitment and training costs on replacement workers
- Consumers may be on higher incomes which may result in an increased demand for the firm's products/services. Revenue and profit may rise
- Businesses may replace workers with capital. Hence efficiency and profit may rise

Award relevant diagram e.g.



	<p>Benefits to workers</p> <ul style="list-style-type: none"> • A rise in income for low-paid workers. Greater purchasing power and a rise in living standards. Minimum wage rises from $0W_1$ to $0W_2$ • Less dependence on benefits to top-up household income level • Greater motivation and job satisfaction • Workers may be more inclined to seek promotions and pursue careers • If the employer is a monopsony, a rise in NMW may lead to a rise in employment <p>Restrict to a maximum of 9 marks for Knowledge, Application and Analysis if no appropriate diagram provided or only one economic agent is considered.</p>	
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	<p>Evaluation (8 marks) – indicative content</p> <p>Drawbacks of minimum wage to businesses</p> <ul style="list-style-type: none"> • Increase in labour costs (see diagram). May make business less competitive especially in international markets • May exert upward pressure on wages for other workers not just the low-paid. This further increase production costs • May result in some businesses having to downsize or even leave the market • Small firms may be particularly vulnerable • Possible rise in administration costs <p>Drawbacks of minimum wage to worker</p>	

	<ul style="list-style-type: none"> • Some workers may lose their jobs as the business seeks to lower the increase in labour cost (see diagram 1). Employment in the industry falls from OQ_1 to OQ_2 • Businesses may expect workers to work harder/more efficiently to compensate for higher costs • A minimum wage may result in a rise in inflation (demand-pull and cost-push). Hence real wages may not rise significantly (may even fall) • A minimum wage may increase the number of people working in the informal sector, so firms can avoid paying the legal minimum <p>General points</p> <ul style="list-style-type: none"> • Impact on a firm partly depends on number of low-paid workers it employs • Magnitude - depends on the extent of the rise in the minimum wage. E.g. for Malaysian textile workers the rise is 50% • Impact depends on how effective a government will be in enforcing the minimum wage 	
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