GradeMax



Mark Scheme (Results)

October 2020

Pearson Edexcel International Advanced Level In Economics (WEC13/01)
Unit 3: 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.

Question Number	Quantitative skills assessed	Answer	Mark
1	**–**	**The only correct answer is B** ***A*** *is not correct because they are in the same industry* ***C*** *is not correct because they are at the same stage of the production process* ***D*** *is not correct because they are at the same stage of the production process*	**(1)**
2	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because the firm is able to cover its average variable costs* ***B*** *is not correct because the firm has not covered its's average total costs* ***C*** *is not correct because the firm can cover average total costs and make normal profit*	**(1)**
3	**QS8:** Make calculations of elasticity and interpret the result.	**The only correct answer is A** ***B*** *is not correct because this would imply that the supply of aerospace engineers is elastic* ***C*** *is not correct because an increase in government support into training programmes would make the supply of labour more elastic* ***D*** *is not correct because a fall in the demand for aerospace products would impact the demand for labour not the elasticity of supply of labour*	**(1)**

4	**–**	**The only correct answer is c** ***A*** *is not correct because a high number of small firms can still operate in a market with a small number of large firms and significant entry barriers* ***B*** *is not correct because high sunk costs increase barriers to entry* ***D*** *is not correct because imperfect information makes it more difficult for firms to enter the market*	**(1)**
5	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS8:** Make calculations of elasticity and interpret the result.	**The only correct answer is B** ***A*** *is not correct because demand for workers falls when wages rise* ***C*** *is not correct because the calculation is incorrect and the demand for workers falls as wages rise* ***D*** *is not correct because the calculation is incorrect.*	**(1)**
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because an increase in the costs of production would cause a contraction in the demand for labour* ***B*** *is not correct because a decrease in the productivity of labour would cause a contraction in the demand for labour* ***D*** *is not correct because a decrease in net migration would decrease the supply of labour*	**(1)**

Question Number	Answer	Mark
7 (a)	Quantitative skills assessed: **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **Application** Up to 2 marks for calculation: • Rs5.3bn - Rs 3.7bn = Rs1.6bn **(1)** • Rs1.6bn/Rs3.7bn x 100 = 43.24% or 43.2% or 43% **(1)** **Accept 43%, 43.2%, 43.24%, 43.243%, 43.2432% and other responses up to 43.2432432432%** **NB: If correct answer (eg 43.24%) is given award full marks regardless of working.**	**(2)**

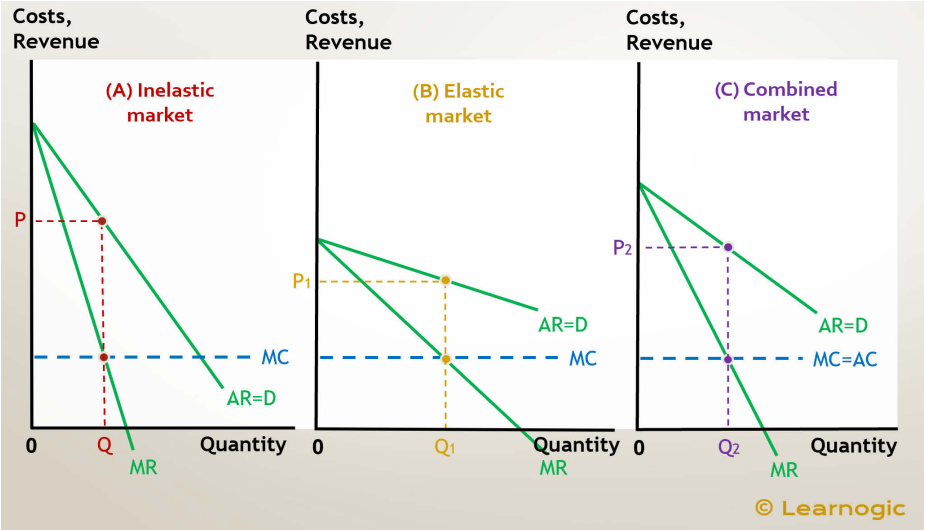
Question Number	Answer	Mark
7 (b)	**Knowledge 2 Application 2** **Knowledge** • 2 marks for defining 'privatisation' - the sale of state-owned organisations (public sector) to the private sector **(1)** • Privatisation often involves removing barriers to enable private sector firms to enter a market **(1)** • Privatisation may make a market more competitive **(1)** • Privatisation may involve removing the monopoly power of a state-owned firm **(1)** **Application - up to 2 marks** for application to context of India's coal mining industry • The Indian Government decided to privatise part of India's coal mining industry **(1)** • In 2017 state-owned Coal India Ltd. was the sole producer but domestic private sector mining firms are now able to enter the industry **(1)** • Contracts to private sector mining firms would be awarded by auction **(1)** Any other valid application point - **1 mark for each**	**(4)**

Question Number	Answer	Mark
7 (c)	**Knowledge 2 Application 2 Analysis 2 Evaluation 2** **Knowledge** Up to 2 marks for **two** of the following: • Effect on employment **(1)** • Effect on profitability of firms **(1)** • Effect on price of coal **(1)** • Effect on Government **(1)** • Effect on workers **(1)** • Effect on efficiency **(1)** • Effect on output **(1)** 1 mark for definition of deregulation - removing government restrictions/regulations in a particular market **Application and Analysis** Up to 2 marks for relevant application and up to 2 marks for linked expansion of effects • More employment of coal miners **(1ap)** if the coal industry is more profitable and efficient, higher demand for labour **(1an)** • Entry of firms such as Rio Tinto **(1ap)** leading to a more internationally competitive Indian coal mining industry **(1an)** • Entry of firms such as Rio Tinto **(1ap)** leading to a more internationally competitive Indian coal mining industry/ leading to a fall in coal prices because of greater competition **(1an)** • Indian Government raises revenue from sale of mines **(1ap)** leading to more funds available for government spending/opportunity to reduce taxes **(1an)** • More jobs in other industries in coal mining areas **(1ap)** as a result of higher incomes **-** regional multiplier effect **(1an)**	

	Evaluation Up to 2 marks for evaluative comments, eg: • Mining trade unions fear that privatisation and deregulation may lead to job losses if Coal India, for example, needs to become more efficient (rationalise) in order to compete **(1+1)** • Privatisation and deregulation may make very little difference to employees if Coal India continues to dominate the market **(1+1)** • Changes may have a negative effect on the environment if private sector firms prioritise profit above environmental factors **(1+1)** • Changes may have a negative impact on health and safety issues if private sector mining firms prioritise profit **(1+1)** • Price of coal may not fall **(1)** if Coal India continues to dominate the market/if large international mining companies are able to exert monopoly power **(1)**	**(8)**

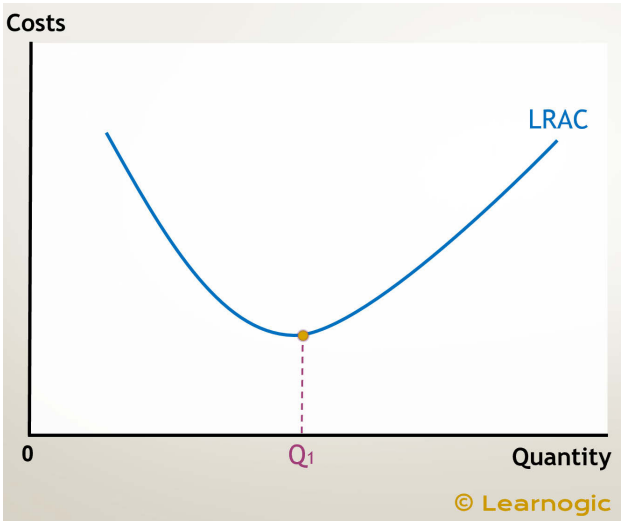
Question Number	Answer	Mark
7 (d)	**Knowledge 2 Application 2 Analysis 2** Quantitative skills assessed: **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for an understanding of predatory pricing eg: • Predatory pricing is a deliberate strategy of driving competitors out of the market **(1)** by setting very low prices or selling below AVC **(1)** • Predatory pricing is a strategy used by monopoly firms or firms with a degree of monopoly power **(1)**	

	Analysis Up to 2 marks for linked explanation: • In the short-run both Ola and Uber are likely to experience a fall in profits and may even suffer losses **(1)** a loss will certainly occur where price is below AVC/ATC **(1)** • Pricing below profit max where MC = MR **(1)** so profit is bound to fall **(1)** • Ola or Uber may be unable to sustain a lengthy period of price cutting **(1)** One of the firms may be forced out of the market or they cease to adopt predatory pricing strategies **(1)** Up to 2 marks for an accurate diagram to show predatory pricing **Application** Up to 2 marks for application to context of India's ride-hailing market: • If Ola or Uber remove competition they will be able to raise their price again **(1)** and secure higher long term profits **(1)** • Low prices and possibly making losses may force some or all of the smaller rail-hailing market eg: - Jugnoo, Ixigo and Meru **(1)** • The 3 small firms only have 4.2% of the market between them **(1)** • Diagram related to context (labelling) **(1)**	**(6)**

Question Number	Indicative content
7 (e)	**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 (8 marks) – indicative content** • Definition of price discrimination (third degree) – where a firm is charging different prices to different users for the same product/service • Conditions necessary for price discrimination - monopoly power (Zambia Sugar has over 90% of the market), different PED's, able to separate different consumer groups (domestic and overseas consumers) • A firm gains higher profits from price discrimination when it charges a higher price to consumers with inelastic demand and a lower price to consumers with elastic demand • Diagrams showing price dicrmination  • Consumers who are <u>negatively affected</u> by price discrimination - consumers with **inelastic** demand - domestic consumers who were paying 40% more than consumers of Zambia Sugar's exports - consumers of industrial sugar who were paying higher prices than others • Consumers in Diagram A will lose out through price discrimination (extraction of consumer surplus by Zambia Sugar)

	• Consumers who may <u>benefit</u> from price discrimination - consumers with **elastic** demand (Diagram B) - consumers of Zambia Sugar's exports - consumers of industrial sugar who were paying lower prices than others Restrict to a maximum of Level 2 for Knowledge, Application and Analysis if no diagram is provided	
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.

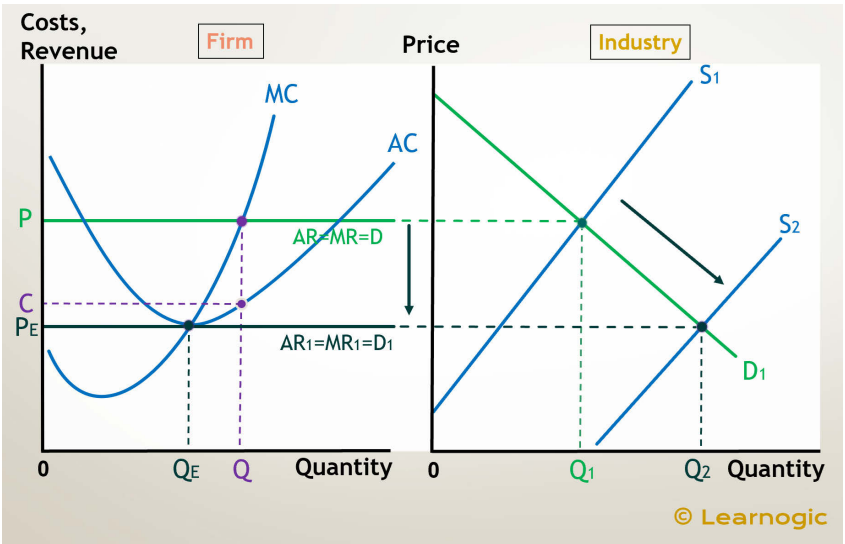
	Evaluation (6 marks) – indicative content • Price discrimination may not have a long-term effect on consumers. Zambia Sugar was fined ZK76 million by the CCPC and told that it must stop price discrimination and set fair prices • If price discrimination ends Zambia Sugar will earn lower profits and this may lead to a drop in product quality • Zambia Sugar may set uniform prices by raising them to the higher levels paid by those consumers whose demand is inelastic, especially as it has significant market share • Depends on the degree to which the CCPC is prepared to enforce its decision • Market conditions may change eg barriers to entry are lowered (more contestable market) and other sugar producers are attracted into the market	
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.

Question Number	Indicative content
8	**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** • **Lack of managerial skills** - so the business remains small • **Lack of availability of suitable labour** • **Lack of scope for growth within the market** - because of limited market demand • **Limits on the extent to which the firm is able to diversify** **ALL OF THE POINTS ABOVE MEAN THAT THE FIRM'S ABILITY TO GAIN FROM ECONOMIES OF SCALE IS LIMITED. Minimum efficient scale (MES) is reached at a low level of output**  • MES is reached at a relatively low level of output of Q_1. Any growth in size and output beyond Q_1 means that the small firm is less efficient and experiences diseconomies of scale

	• The **objectives** of the owners/managers. Owner(s) may be **satisfied** with keeping the business small: - growth is risky - expensive - time-consuming - profit satisficing objective - owner's complacency • **Limited access to finance:** - relatively small amount of retained profits - banking sector may be unwilling to lend **-** fewer options when raising external finance • **High financial costs of growth:** - legal and administration costs - capital costs - hiring new staff • **Many other firms competing in the market** - may be perfectly competitive or monopolistically competitive • **Small firms may be able to group together to share resources** - no real need to grow • **A small firm can offer specialised products/service -** appeals to consumers • **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 **Points above should be illustrated with relevant examples** **Restrict to a maximum of 9 marks for Knowledge, Application and Analysis if no diagram provided.**

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 • Short-run/long-run**:** most businesses start out small. Over time many will grow • Factors such as macroeconomic climate and limited market demand can change over time • Government financial support and a more favourable attitude from the banking & the finance sectors may result in small firms having the necessary funds to expand • A change of ownership may lead to a change of objectives, with the new owners keen to grow the business • Small firms may be prone to takeover bids by larger businesses	

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 Number	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** • Conditions for perfect competition – large number of buyers & sellers, perfect information, no barriers to entry or exit, homogeneous products • Conditions for monopolistic competition (MC) – as above, but differentiated products and few or no barriers • Understanding of allocative, productive and dynamic efficiency - productive (lowest point of AC) allocative (p=MC) dynamic (technical) PERFECT COMPETITION • Firms are price takers – hence perfectly elastic demand • Diagram to show that market forces lead to downward pressure on price - Any supernormal profit in short-run is removed in long-run with new entrants - Rightward shift in market supply curve, shift downwards in firms' AR=MR=D curve i.e. lower price from P to P_E 

- Diagram shows that, in the long-run, a perfectly competitive firm achieves both productive and allocative efficiency and makes normal profit (p = AC = MC)

MONOPOLISTIC COMPETITION

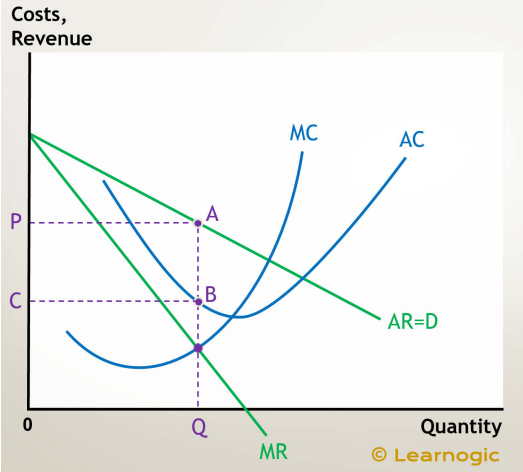
- The firm is a price maker (differentiated product) and hence faces a downward sloping demand curve. Demand tends to be relatively elastic (large number of competing firms)

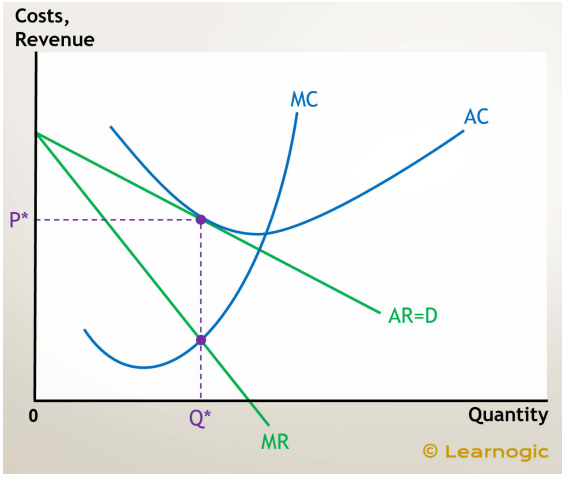
Short-run monopolistic competition

- MC firms can make supernormal profits where MC =MR

Long-run monopolistic competition

- No barriers means AR shifts downwards until only normal profits are earned and price is lower at profit max level of output





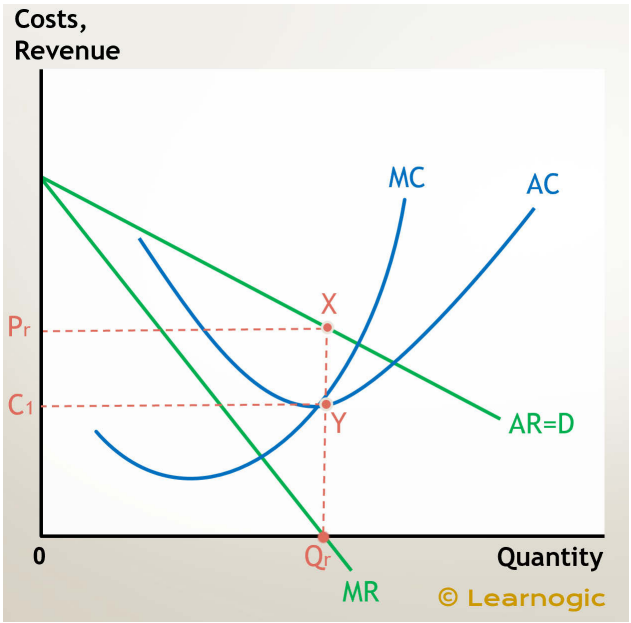
- Diagrams show absence of efficiency in both short and long-run
  - output below lowest point of AC (where MC=AC), so not productively efficient
  -price above MC, so not allocatively efficient
- Proliferation of brands under MC may lead to confusion for consumers so a possible loss of efficiency
- Price is likely to be higher and output lower under monopolistic competition than under conditions of perfect competition

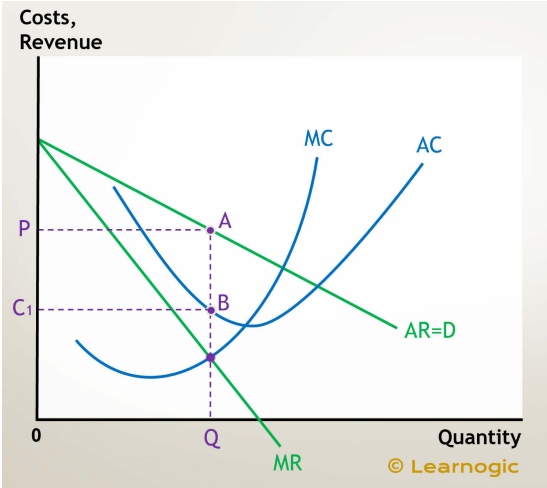
Points above should be illustrated with relevant examples

Restrict to a maximum of level 3 for Knowledge, Application and Analysis if no diagram provided.

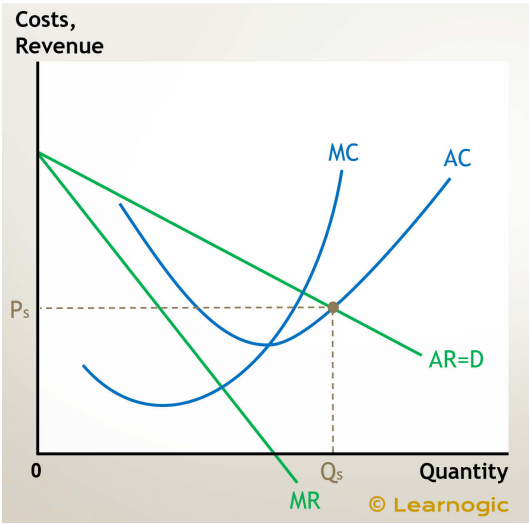
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	Evaluation (8 marks) – indicative content • Complete absence of dynamic efficiency under perfect competition (homogeneous products, no barriers) - so no incentive to innovate and carry out product development • Under monopolistic competition possible dynamic efficiency at least in the short-run. Availability of super normal profit and some barriers because of branding/differentiation • Entry of new firms into both types of market structure in the long-run means that both types of firm are likely to be x-efficient	

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- If the firm's objective is sales maximisation this will be where AC=AR or TR=TC. In this case profit is lower but the firm is selling a higher quantity of goods. It is prioritising sales volume/market share over profit



- Some private sector organisations are non-profit making (eg charities), others may prioritise social responsibility eg co-operatives. Therefore profits are likely to be lower or non-existent

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

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	Evaluation (8 marks) – indicative content • For public sector organisations which can be financed through tax revenues, a profit objective may be non-existent or less important eg health, education, transport, postal services • There may be conflicting objectives in a large private sector organisation where there is a divorce of ownership and control. Eg shareholders want higher profits, managers want sales maximisation • Business objectives can change depending on circumstances - macroeconomic conditions (eg in a recession survival will be a prime objective) - changes within a market (eg more competitive conditions may involve sacrificing some profit in the short-run) - new government legislation (eg tightening up on environmental laws may emphasise social responsibility) - short-run & long-run distinction. Eg a business may seek to maximise revenue in the short-run aiming to remove competitors. This may then enable to business to raise prices and hence profits in the long-run	

Level	Mark	Descriptor
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