

# Mark Scheme (Pre-Standardisation) Winter 2010

GCE

GCE Economics (6EC03/01)

## 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	Answer	Mark
1	<b>C</b> Definition of concentration ratio (1 mark) Calculation of three/four/five etc firm concentration ratio (1 mark) to show that the industry is highly concentrated (1 mark) Other reference to data (1 mark)	(4)

Question Number	Answer	Mark
2	<b>B</b> Definition of economies of scale - falling long run average cost as output increases (1 mark) Identification (1 mark) and application (1 mark) of one type of economy of scale to airlines when they join together	(4)

Question Number	Answer	Mark
3	<b>B</b> Definition of marginal cost (1 mark) Understanding that total costs are constant (1 mark) and therefore the marginal i.e. change in total cost is zero (1 mark)	(4)

• Question Number	• Answer	• Mark
• 4	<ul style="list-style-type: none"> <li>• <b>A</b></li> <li>• Explanation of how supernormal profits can be obtained in the short run (1 mark)</li> <li>• Understanding of the existence of perfect knowledge which means that these profits attract new firms (1 mark) into the industry benefitting from no barriers to entry (1 mark) and therefore profits are competed away 1 mark</li> <li>• Diagram to illustrate this up to (2 marks)</li> </ul>	• (4)

Question Number	Answer	Mark
5	<p><b>E</b></p> <p>The use of diagram showing the fall in price, fall in output, constant AC and fall in AR and MR can be rewarded with full marks. <b>3 marks (for AC=MC horizontal (1 mark), of which shift left/down of AR and MR (1 mark), new equilibrium/price (1 mark), new profit area (1 mark))</b></p> <p>A written explanation should include reference to falling prices and output and some explanation of why profits will decline. <b>Up to 3 marks</b></p>	(4)

Question Number	Answer	Mark
6	<p><b>A</b></p> <p>Price inelastic demand means that higher revenue for firms is gained when prices are higher (1 mark)</p> <p>Reference to pay-off matrix or game theory (1 mark)</p> <p>Use of an economic model to explain this (1 mark)</p> <p>Understanding that some game theory is being used here, with explanation, eg understanding that both firms can maximise profits if they were to collude to fix prices and therefore increase profits (2 marks)</p> <p>Understanding that they tend not to trust each other and therefore they will most likely end up at cell D i.e. both low prices as a result of a price war (2 marks)</p> <p>Also award application of kinked demand or other revenue models.</p>	(4)

Question Number	Answer	Mark
7	<p><b>C</b></p> <p>Explanation that monopolistic competition has no barriers to entry so profits will be competed away (1 mark) or that firms have differentiated products and therefore the demand is not perfectly elastic (1 mark)</p> <p>Explanation of lack of productive efficiency (1 mark)</p> <p>Explanation of lack of allocative efficiency (1 mark)</p> <p>Diagram to illustrate long run position showing allocative and productive efficiency can be rewarded up to 2 marks</p>	(4)

Question Number	Answer	Mark
8	<p><b>D</b></p> <p>Rate of return: the company will be allowed to charge a price equal to the average cost of production (1 mark), where average cost includes a 'fair rate of return on capital' (1 mark) which removes all incentive to make efficiency gains or increase profits (1 mark). Contrast with other forms</p>	(4)

	of regulation (1 mark). Reward formula e.g. $TR = TVC + \pi K$ although no formula is required (1 mark)	
Question Number	Answer	Mark
9(a)	A monopoly (1 mark) - at least reference to one characteristic (1 mark) Identification of competition commission legal definition of 25 per cent of market share (1 mark) and reference to the data which might suggest that BAA is in fact a monopoly, BAA has owned seven of the UK's largest airports (Ext. 1 line 11), also credit reference to use of Figure 1 map (1 mark)	(4)

Question Number	Indicative content	
9(b)	<p>Concept of increased competition (may be implicit) (1 mark) Benefits of competition up to 7 marks for 2 or 3 benefits (2 benefits x 3 marks each or 3 benefits x 2 marks each). These may include</p> <ul style="list-style-type: none"> <li>• Lower cost to airlines which is passed on to consumers</li> <li>• Better service - candidates could expand on this as a secondary point - for example <ul style="list-style-type: none"> <li>○ Fewer delays</li> <li>○ Fewer bags lost</li> <li>○ Better experience</li> <li>○ Smaller queues</li> <li>○ Better transport links</li> </ul> </li> <li>• Greater choice of airports</li> <li>• Greater productive or allocative efficiency - candidates could try to compare monopoly with perfect competition to illustrate the gains</li> </ul> <p><b>Evaluation 7 marks - up to 3 marks + 4 marks for each evaluation point made, or 2 + 2 + 3 marks, best three points only.</b> Points might include</p> <ul style="list-style-type: none"> <li>• Allocative inefficiency as firms spend money trying to compete.</li> <li>• Loss of economies of scale causing LR average costs to increase</li> <li>• Loss of integrated connections between airports</li> <li>• Consumer confusion</li> <li>• Discussion whether the airport market can sustain competition or whether it is essentially a natural monopoly.</li> <li>• Even after the sale of airports an oligopoly will still exist which may exploit the consumer.</li> </ul>	
Level	Mark	Descriptor
Level 1	1-3	Identification of one benefit (1) and explanation of this benefit (2)
Level 2	4-7	Identification of three benefits (up to 3) and explanation of these benefits (up to 3) Brief evaluation (1)
Level 3	8-14	Identification of three benefits (up to 3) and explanation of these benefits (up to 3). Evaluation (2 points x 3 marks or 3 points x 2

	marks) - total for evaluation 7 marks
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Question Number	Answer	Mark
9(c)	<p><b>KAA 4 marks (2 x 2 marks or 1 x 4 marks)</b>            Factors might include:</p> <ul style="list-style-type: none"> <li>• Some understanding of the methods of regulation applied to either airport industry or another industry.</li> <li>• Indication of the problem that faces the authorities in trying to encourage competition. This may include reference to the extract.</li> <li>• Also reward the arguments offered in Extract 2 as to why regulation and planning would be better</li> </ul> <p><b>Evaluation 4 marks (2 x 2 marks or 1 x 4 marks)</b></p> <ul style="list-style-type: none"> <li>• Award counterarguments to the points above, either for or against regulation</li> <li>• Regulation meant to only be a short term solution until competition is possible</li> <li>• Government failure may reduce effectiveness of regulation</li> <li>• Competition may cause problems outlined above - don't reward a repetition of the answer to 9b</li> </ul>	(8)

Question Number	Indicative content	
9(d)	<p><b>Reasons for policy (up to 4 marks)</b></p> <ul style="list-style-type: none"> <li>• Increased profits</li> <li>• Increased revenue</li> <li>• Increased market share in markets where demand is more elastic</li> <li>• Prevent other firms from entering the more contestable markets</li> <li>• Analysis of price discrimination</li> </ul> <p><b>Consequences of policy (up to 4 marks)</b></p> <ul style="list-style-type: none"> <li>• Profits/revenue/market share increase</li> <li>• Involvement of the Competition Commission</li> <li>• Lost consumer welfare</li> </ul> <p><b>Evaluation: (up to 7 marks for 2 points 4+3 or 3 points 3+2+2)</b>            Points might include:</p> <ul style="list-style-type: none"> <li>• Might be expensive to try to identify and separate customers</li> <li>• Arrival of competition may prevent mean that the policy cannot last in the long run</li> <li>• If prices are too high this may have a wider impact on the demand for London as a tourist and business destination, which will force the regulator/competition commission to intervene</li> <li>• Excess profits may attract undue attentions from regulator</li> </ul>	
Level	Mark	Descriptor
Level 1	1-3	Definition of price discrimination (1), identification of a cause and consequences of policy (2)
Level 2	4-7	Identification of several valid causes and consequences, with limited explanation/application

<b>Level 3</b>	8-14	Well applied and explained causes and consequences. Evaluation (2 points x 2+3 marks or 3 points x 2 + 2 +1 marks) - total for evaluation 7 marks
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Question Number	Answer	Mark
<b>10(a)</b>	An oligopoly (1 mark) - at least reference to one characteristic (1 mark) identification of characteristics in evidence provided (2 marks)	(4)

Question Number	Indicative content	
<b>10(b)</b>	<p>Identification and explanation of up to 3 benefits 7 marks (3+2+2 or 4+3)</p> <p>These may include</p> <ul style="list-style-type: none"> <li>• Economies of scale - marketing, financial, risk bearing, R &amp;D</li> <li>• Research &amp; development</li> <li>• Access to new markets</li> <li>• Access to new patents</li> <li>• Protection from unwanted predators</li> <li>• Award max 4/6 if no reference to data.</li> </ul> <p>Evaluation: Award 6 marks (2+2+2 or 3+3)</p> <p>Factors may include</p> <ul style="list-style-type: none"> <li>• Likely costs of the merger</li> <li>• Possibility that the merger might not succeed</li> <li>• Possibility that the firms will not be able to adequately integrate.</li> </ul>	
Level	Mark	Descriptor
<b>Level 1</b>	1-3	Identification and weak explanation of up to 2 benefits 3 marks
<b>Level 2</b>	4-6	Identification and explanation of up to 3 benefits 6 marks Brief evaluation (1)
<b>Level 3</b>	7-12	Identification and explanation of up to 3 benefits 6 marks Evaluation: Identification and explanation of up to 3 evaluation 6 marks

Question Number		Indicative content
10(c)		<ul style="list-style-type: none"> <li>• Identification of one <b>non-price</b> strategy (1) and application and/or analysis (2). Strategies may include: <ul style="list-style-type: none"> <li>• Further increases in efficiency, .</li> <li>• Investment into new technology to increase productivity.</li> <li>• Improve product quality.</li> <li>• Marketing campaign to win business customers.</li> <li>• Advertising</li> <li>• Promotion through other means</li> </ul> </li> <li>• Identification of one <b>price</b> strategy (1) and application and/or analysis (2). Strategies may include: <ul style="list-style-type: none"> <li>• Predator pricing</li> <li>• Limit pricing</li> <li>• Sales maximisation</li> <li>• Revenue maximisation</li> <li>• Buy one get one free</li> <li>• Award maximum 4/6 if no reference to Merck.</li> </ul> </li> <li>• <b>Evaluation (2 x 3 marks or 3 x 2 marks)</b>  A range of ideas could be developed, for example: <ul style="list-style-type: none"> <li>➤ It may be harder to make further increases in efficiency; all firms trying to engage in R&amp;D</li> <li>➤ Investment /R&amp;D is expensive and there is no guarantee of success.</li> <li>➤ Improving product quality is expensive</li> <li>➤ Marketing is expensive and no guarantee of success.</li> </ul> </li> </ul>
Level	Mark	Descriptor
Level 1	1-3	Identification of one <b>non-price or price</b> strategy (1) and analysis (2).
Level 2	4-7	Identification of one <b>non-price and price</b> strategy (2) and analysis (4). Brief evaluation (1)
Level 3	8-12	Identification of one <b>non-price and price</b> strategy (2) and analysis (4). Extensive evaluation (Up to 6)



Question Number	Indicative content	
10(d)	<b>KAA 6 marks (3 + 3 marks or 2 + 2 + 2 marks)</b> Identification and explanation of advantages to consumers <ul style="list-style-type: none"> <li>• Economies of scale mean lower LRAC and therefore lower prices</li> <li>• Greater R &amp; D budgets mean more breakthroughs</li> <li>• Reduction in completion may mean firms can divide up market to research particular areas of expertise</li> <li>• Award maximum 4/6 marks if no reference to the pharmaceutical industry</li> </ul> <b>Evaluation 6 marks (3 + 3 marks or 2 + 2 + 2 marks)</b> Factors may include: <ul style="list-style-type: none"> <li>• Greater possibility of collusion to raise prices</li> <li>• Less incentive to innovate and produce better drugs</li> <li>• Increased chance of x-inefficiency and exploitation or price discrimination.</li> </ul>	
Level	Mark	Descriptor
Level 1	1-3	Identification of advantages to consumers ( <b>Up to 3 marks</b> )
Level 2	4-6	Some understanding of public interest - benefit to consumers. <b>1 mark</b> Identification and explanation of 2 advantages to consumers ( <b>Up to 4 marks</b> ) Limited evaluation ( <b>Up to 2</b> )
Level 3	7-12	Identification and explanation of 2 advantages to consumers ( <b>Up to 4 marks</b> ) Extensive evaluation ( <b>Up to 6</b> )

	Knowledge	Application	Analysis	Evaluation	Total
1	1	2	1	0	4
2	2	1	1	0	4
3	1	1	2	0	4
4	1	1	2	0	4
5	2	1	1	0	4
6	2	1	1	0	4
7	2	1	1	0	4
8	1	2	1	0	4
9a	1	1	1	3	6
9b	2	2	2	6	12
9c	1	2	3	4	10
9d	2	3	2	5	12
10a	1	1	2	0	4
10b	2	3	2	7	14
10c	2	2	2	6	12
10d	1	2	2	5	10

Total	18	18	18	18	
Total (%)	25	25	25	25	