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Mark Scheme (Results)

January 2014

International A Level Economics (6ECA3/01)

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January 2014
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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.

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Supported Choice Questions

There is a maximum of 2 marks for explanation if the key is incorrect.

Knockout marks:

Candidates can be awarded up to 2 marks, 1 per point, for knocking out incorrect answers. This only counts if they have given a valid economic reason to go with their answer, where they have added value to the question. E.g. for question 1, 'It is not A because this option ignores costs, but costs must be taken into account for normal profit AR=AC' is worth 1 mark. Candidates can also receive knockout marks without explicitly selecting a letter, if it's a clear reference is made to a key.

Question Number	Answer	Mark
1	**A** Explanation: Definition of a takeover, e.g. one firm takes a controlling share of another (1) Identification of **horizontal integration** (1)application, e.g the action will give the French firm access to larger/UK market (1) explanation of benefit, e.g. this will increase market share or reduce competition (1) consequences, e.g. economies of diseconomies of scale in context, monopoly power, lower price, e.g. firms can still make profits at lower prices if costs are lower owing to scale economies Examples of knock-out mark: • It is not B because the firm is not merging with a firm in the same production process but at a different stage • It is not E because this option would mean the firm is merging with a firm in a completely different industry NB do not award a mark for economies of scale definition (unless linked to the benefits of the increased market size or as a knockout of C)	**(4)**

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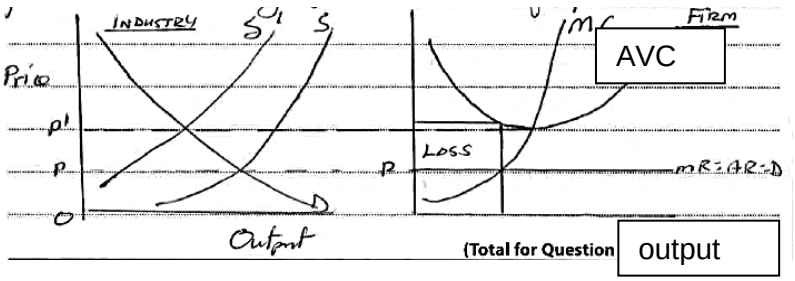
Question Number	Answer	Mark
2	**B** Definition of short run close down point, shut down point AR=AVC (1); Explanation: characteristic of perfection competition, or other description of the market structure (1) firm leaves because it makes a smaller loss if it discontinues immediately (1); easy to leave because exit barriers are low/non-existent (1); price taker (this may be described as a horizontal demand or AR or MR). Firm does not make a contribution to its fixed costs (1); Application marks: microchips are a homogeneous product, with high fixed costs (if this characteristic has not already been used for the perfect competition mark) (1); Diagram: (up to 3 marks) showing firms leaving industry/reduction in supply (1) with loss area (1) subsequent rise in price for other firms (1). Award horizontal AR=MR if this has not been awarded as a characteristic of perfect competition (1).  Example of a knock out: not A as firms are not price makers in perfect competition.	**(4)**

Question Number	Answer	Mark
3	**D** Definition of marginal cost, e.g. addition to total cost of making one more unit (1); Explanation: if average costs are falling then as long as the cost of making one more is lower it will pull down the cost per unit (1) marginal analysis explaining that when MC is less than AC then it brings AC down (1) Diagram marks: diagram showing the range AC>MC (1) identifying that MC is below AC throughout the range (1) Example of knock out mark: it is not E because there is no consideration of the **long** run, which is required for economies of scale.	**(4)**

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<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4</td><td>
D

Explanation: Profit maximisation is MC=MR (1) TR calculations correct (1) MR calculations correct (1) TC calculations correct (1) Total profit calculations correct (1) identification that £6 is the MC and MR at equilibrium (1)
<table>
<tr><td>Q</td><td>P</td><td>TR</td><td>MR</td><td>TC</td><td>MC</td></tr>
<tr><td>0</td><td>20</td><td>0</td><td>-</td><td>30</td><td>-</td></tr>
<tr><td>1</td><td>18</td><td>18</td><td>18</td><td>32</td><td>2</td></tr>
<tr><td>2</td><td>16</td><td>32</td><td>14</td><td>35</td><td>3</td></tr>
<tr><td>3</td><td>14</td><td>42</td><td>10</td><td>39</td><td>4</td></tr>
<tr><td>4</td><td>12</td><td>48</td><td>6</td><td>45</td><td>6</td></tr>
<tr><td>5</td><td>10</td><td>50</td><td>2</td><td>55</td><td>10</td></tr>
</table>
Note that answers could also show TR TC and Total Profit in the columns with TP replacing the MR column and therefore no need for MC=MR:
<table>
<tr><td>Q</td><td>P</td><td>TR</td><td>Total Profit</td><td>TC</td><td>MC</td></tr>
<tr><td>0</td><td>20</td><td>0</td><td>-30</td><td>30</td><td>-</td></tr>
<tr><td>1</td><td>18</td><td>18</td><td>-14</td><td>32</td><td>2</td></tr>
<tr><td>2</td><td>16</td><td>32</td><td>-3</td><td>35</td><td>3</td></tr>
<tr><td>3</td><td>14</td><td>42</td><td>3</td><td>39</td><td>4</td></tr>
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<tr><td>5</td><td>10</td><td>50</td><td>-5</td><td>55</td><td>10</td></tr>
</table>
Note that the mark for filling the column is awarded as long as there is sufficient data for making an observation. For example the MC column can stop at 6 because this is where it equals MR.
</td><td>(4)</td></tr>
</table>

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Question Number	Answer	Mark
5	**E** Explanation: Definition of price discrimination, e.g. when a firm charges more than one price for the same good or service (1); Demand in sub-market A is relatively price inelastic (holiday time) or Market B is relatively price inelastic (1) Prices in market A will be higher than in B (1) Reason for the different elasticities, e.g. market for ski holidays is more elastic during term time because people who do not have to go away in the school holidays have more **choice** or market for ski holidays is less elastic during school holidays as children will be off school (1) Annotation of diagram showing two marginal costs curves intersecting on A at output 150 (1); price at 500 (1); on B at 200 (1); price at 400 (1). Accept a separate diagram showing up to three panels showing the equilibrium for the combined A and B markets, up to 3 marks if fully and correctly annotated (3) Reasons for why price discrimination can occur (1): any one reason, for example, no arbitrage, low cost of keeping markets separate, differing elasticities in submarkets can be enjoyed. Example of knock out mark: it cannot be A as this shows marginal cost and marginal revenue only (1).	**(4)**

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Question Number	Answer	Mark
6	**A** Explanation: definition of collusion, e.g. firms work together, collaborate, agree on prices (1); explanation of price fixing, e.g. firms make an open or explicit attempt to work together (1); aim of collusion: to increase combined profits (1); collusion allows the firms to act as a monopolist (1); this might be shown in a pay-off matrix (1+1); application to context, e.g. prices will be fixed to make it more expensive for anyone wishing to book air freight (1); illegal (1) role of competition authorities, e.g. to promote consumer interests (1) Example of knock out mark: it cannot be B because low barriers to entry would encourage other firms to enter at lower prices and compete away profits (1) Example of knock out mark: not C because the fines for collusion can be very high, and directors can go to prison (1).	**(4)**

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Question Number	Answer	Mark
7	**E** Definition of price cap, e.g. an amount by which regulated firms are allowed to raise their prices (1) Explanation that prices are allowed to rise in **real** terms, e.g. excluding the effects of inflation (1) meaning a real terms rise of 1% (1). A nominal rise of 4.2% means that the prices customers will see rise by 4.2% but it will not have such a large impact on their cost of living, or other explanation of **nominal** (1) Reasons for allowing the price to rise, e.g. that the firm might need to make investment , or other explanation of '+k'(1) or might have cost rises that are not represented fully in the RPI (1) Impact on the consumer, e.g. a fall in consumer surplus as prices rise above the rate of inflation (1) Application to the rail industry, e.g. the 1% is likely to be used to improve the infrastructure (1) Example of knock out mark: not C because this is the rise in real terms (if not already awarded in explanation) (1)	**(4)**

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Question Number	Answer	Mark
8	**E** Definition of economies of scale – must refer to long run average costs (1); reasons why economies of scale mean that the consumer gets a better outcome than if there were competition, e.g. minimum efficient scale, wasteful competition arguments (1 + 1); identification that a monopoly exists (greater than 25% market share (legal monopoly) or almost pure monopoly with 90% of the market) (1) explanation of role of competition authorities, e.g. to act as a surrogate for competition, to cut costs or increase efficiency (1) reason why competition authorities intervene, for example to promote public welfare (1) Diagram showing falling LRAC as output rises (1) Example of knock out mark: not A/D because productive inefficiency would be a reason why the competition authorities might choose to investigate (1)	**(4)**

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Question Number	Answer	Mark
9(a)	Theory (2) 2 marks theory: a concept, idea, process or design that is prevented from copyright or being copied (1) by law (accept right, prohibition, regulation) (1) for a fixed period of time (1) Application (2): Samsung infringement patent has been identified (1) with fine of $1.05 bn (1) after Samsung copied design ideas/features (1) such as rubberbanding (1) sleek glass front (1) touch screen features such as tap to zoom (1) bounce back scrolling (1) rounded corners (1) app icons (1)	**(4)**

Question Number	Answer	Mark
9(b)	KAA (4) Identification (1+1) with explanation and/or data use (1+1): Barriers to entry might include • high start up costs • high sunk costs • other legal barriers (**do not accept patents)** • collusive behaviour • other pricing behaviour of firms, e.g. limit pricing • economies of scale/minimum efficient scale • lack of finance • information problems Evaluation (4): • barriers might be very low – technology is changing all the time and no firm can be established for long • not enough information to say • depends if it is a new firm entering or an existing firm such as Samsung which already has the funds and knowledge to enter • depends on which type of technological products – e.g. high or low spec. • depends on whether there is 'lock in' to some brands such as Apple, and network effects • recent growth problems in China **Do not award factors relating to patents**	**(8)**

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Question Number	Answer	Mark
9(c)*	KAA (6) award up to 3 points (2 marks each) or 3 + 3 Impact on consumers might include: • Lower prices *but prices might be higher if firms abuse increased monopoly powers* • More choice as firms invest in new products knowing the concepts will be protected *but choice might be lowered if the range of products is reduced, fewer players in the market, fewer new ideas* • New innovation, R&D *but patents can lead to x-inefficiency* • Better after sales service as firms can cross subsidise *but there might just be a fall in consumer surplus* Evaluation (6) may take the form of disadvantages/advantages of the points made for KAA. Award up to 3 points (2 marks each) or 3 + 3: • difficult to know what this impact will be, for example the US victory might not be translated around the world • game theory might be used to show that Apple's response would vary dependant on other players in the market • depends on what reserves Samsung has – might be able to withstand this easily, or develop new ideas or new markets • for people who have already bought the phones there might be no impact • long and short run effects on consumers. Candidates could use a diagramatic explanation which could be incorporated in the scheme eg monopoly or consumer surplus diagram; the court decision may deter investment leading to lower quality in the long run • legal decision may be over-turned, or not upheld outside US • Comment on the magnitude of the fine, $1.05 bn.	**(12)**

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Question Number	Answer	Mark
9(d)*	KAA (8) 2 + 2 + 2 + 2 or fewer points up to four marks each Strategies must be linked to **market share**. If not, award identification mark only per factor. The strategies might include: • Cut price, e.g. limit pricing, predatory pricing, sales max, revenue max. price discrimination. (These can count as more than one factor if linked to market share and developed separately.) • Price competition, e.g. price wars, in China context • Improve specification, quality, after sales service, innovation – refer to other products available in China • Other non-price competition, e.g. advertising, reinforcing brand, packaging, BOGOF • Minimising costs, e.g. rationalisation • Further court action to prevent rivals copying ideas • Mergers and acquisitions • Use of game theory to illustrate problems of increasing market share in oligopoly ***If no mention of market conditions or China context then cap KAA at 6/8 marks. These might include falling prices, increasingly crowded market, many new entrants, increased price sensitivity, economic growth is slowing, Android share of market, relative importance of Android not Apple in China.*** Evaluation (8): 2 + 2 + 2 + 2 or fewer points up to four marks each • Some actions illegal, and might lead to fines • Problem of recession – may be necessary to cut price/see slower growth • Staying the same size in a shrinking global market would mean higher market share • Not enough evidence in extracts to form fair picture •Extract 1 implies that conditions are likely to change soon, introduction of Mandarin Siri •Perhaps Apple can do nothing as its popularity is already falling in China •Price cutting can lead to retaliation, e.g. price war. Game theory could be used to develop strategies	**(16)**

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Question Number	Answer	Mark
10(a)	Theory (2): oligopoly (1). A few firms dominate (1) or other explanation, such as interdependence, high barriers to entry/exit, highly concentrated. Allow monopolistic competition if referring to the fact that there are still 8000 small independent retailers still in the market (1 for identification and 1 for explanation of the theory, e.g. many small sellers). Application (2): Cartels, collusion, price fixing evidence Extract 2 – 'price coordination, prices going up and down together (1) Prices kept higher when costs falling (1);price discrimination with supermarkets and other retailers (1) Morrisons offering loyalty points – or other non-price competition (1) reduced number of sites implying some firms dominating (1) 'unfair pricing' (1); there are still 8000 small independent retailers – must be related to monopolistic competition (1) supermarkets have 45% of market. *There is scope for a monopolistic competition answer, with 8000 retailers, with differentiation of product and local brand loyalties, but this would have to be identified correctly. Do not award 'perfect competition'.*	**(4)**

Question Number	Answer	Mark
10(b)	KAA (4) Diagram (2) • Output and price correctly linked to MC=MR (1) • Loss area. It may be a declining profit. AR<AC or AR<AVC for loss, and AR>AC but shrinking (1) Other KAA (2): Award **one** reason (costs rise, revenue falling (1) with data/explanation rising costs of fuel (1); increasingly price elastic demand for petrol in recession (1); supermarkets have lower costs or can cross subsidise from food sales (1); dual pricing in Extract 2 (1) Evaluation (4): 2+2 or 4+0. Points might include: • Not enough data. Other factors might be at work • The small firms may be forced to diversify or they may be given a cut in business rates to lower costs in order to reverse the trend • Hard to tell if it is going to continue • Retailers suffering duty to high tax on petrol, not competition (Extract 2) • Other effects might outweigh or exacerbate losses • Advantages a small firm might have in the long run • Competition authorities may act (loss of consumer choice if the small firms close, risk of dominant oil retailer/supermarkets) • Independent firms might merge rather than leave the industry • Things may change as recession ends • Taxes not rising since 2010 (fuel escalator cancelled)	**(8)**

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Question Number	Answer	Mark
10(c)*	KAA (6) award up to 3 points (2 marks each) or 3 + 3 1 mark definition of **efficiency** (might be implicit) – lower costs per unit, or allocative efficiency, x-inefficiency etc. This might be shown on a diagram, for example by the minimum point on an AC curve (productive efficiency) or P=MC (allocative efficiency). Award application marks for reasons from data for using national price, e.g. supermarket alleged 'price fixing', oil companies using price discrimination or 'dual pricing' Efficiency might change owing to: • Direct controls could act as a surrogate for competition • Some firms are forced to cut prices, or reduce x-inefficiency • Some retailers might increase supply • Prevention of monopoly pricing • Change in incentives, e.g. firms will not want to invest/expand • Impact on costs for firms/cost push inflation • Reduced need for regulation, and the costs and problems of investigations • Reduced 'shoe leather costs' as people do not have to shop around for fuel Allow answers based on the wholesale market for fuel, for example with reference to dual pricing by the major oil companies (Extract 2). Evaluation (6): 3 x 2 marks or 2+2+2 *This could take the form of disadvantages of a national pricing scheme if advantages given for KAA, or vice versa.* • Some consumers would pay a lower price if there were variable prices, e.g. non-London • Difficulty of enforcement • Loss of price competition might mean prices do not fall as much as they could where competition is effective • Regulatory failures, e.g. uniform price set at a level that is too high/low • Argument on the impact on incentives e.g. new firms could enter the market • Loss of quality of service as market becomes more aggressive	**(12)**

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Question Number	Answer	Mark
10(d)*	KAA (8) 2 + 2 + 2 + 2 or fewer points up to four marks each Strategies must be linked to 'increasing profitability'. If not, award identification mark only per factor. The strategies might include: • Pricing strategies – must be related to increased profit e.g. Cut price, e.g. limit pricing, predatory pricing, sales max, rev max. These can count as more than one factor • price competition, e.g. price wars, if linked to profit • Improve quality, sales service, if linked to profit • and other non-price competition, e.g. advertising, reinforcing brand, packaging, BOGOF, free gifts in petrol stations • Mergers and acquisitions • Use of game theory to illustrate problems of increasing market share in oligopoly • Other use of strategies mentioned in the question paper. Diagrammatic analysis could be included and rewarded. Evaluation (8): 2 + 2 + 2 + 2 or fewer points up to four marks each • Some policies better than others in context of recession. It might not be possible to increase profits in the context • Unpredictability in oligopolies – game theory might be used to support this argument • Illegality of some policies, eg predatory pricing • Unstable outcomes/lack of information • Discussion of short run vs long run profitability • Difference between supermarkets and other petrol retailers. Different sectors will have very different strategies.	**(16)**

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