www.dynamicpapers.com

edexcel

Mark Scheme (Results)

January 2014

Pearson Edexcel
International Advanced Level (IAL)
Economics (WEC03) Unit 3

www.dynamicpapers.com

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

January 2014
Publications Code IA037696
All the material in this publication is copyright
© Pearson Education Ltd 2014

www.dynamicpapers.com

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.

www.dynamicpapers.com

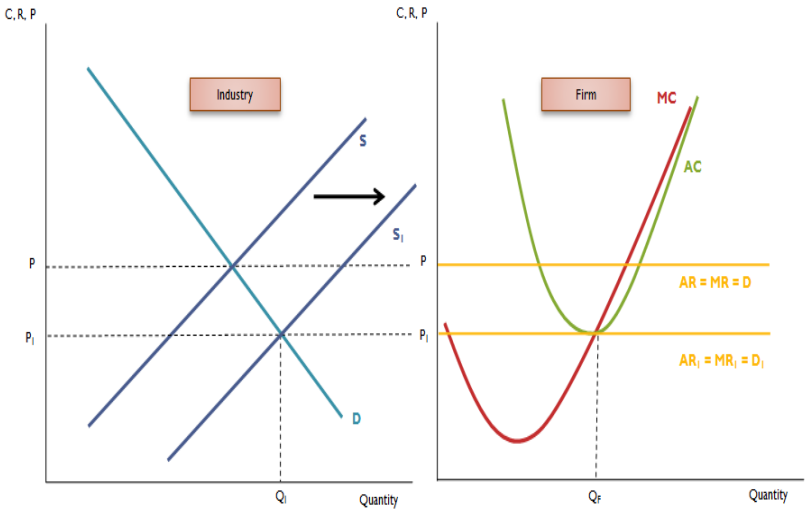
www.dynamicpapers.com

Section A: Essay questions

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

Question Number	Answer	Mark
1	**Indicative content** Explanation of the benefits of growth, may include: • Economies of scale (discussion of different types of EoS is valid) • Increased market share gives more price making power • Risk diversification • Behavioural motives - managers may want to expand as part of 'empire building' • Achieve monopsony power over suppliers **Evaluation** Firms may wish to stay small to: • Avoid diseconomies of scale (particularly in industries with a low MES) • Take advantage of a niche market (price inelastic demand / income elastic demand) • Maintain high levels of flexibility/innovation • Avoid attention, either from regulators or takeover bids • Some firms may not be able to access the finance necessary to grow • Behavioural motives - family firms / wish to maintain control etc.	**(20)**

www.dynamicpapers.com

Question Number	Answer	Mark
2	**Indicative content** • Definition of perfect competition – conditions of model – large number of buyers & sellers, perfect information, identical product, no barriers to entry & exit. Resulting firms being price takers – hence perfectly elastic demand • Use of diagram, showing SR and LR equilibria under perfect competition  • Explanation of different types of efficiency, including productive and allocative efficiency • Identification that perfect competition produces allocative efficiency in the SR and LR, as P=MC in both equilibria may be shown on the diagram, proved from the model's assumptions, or equivalent verbal analysis • Identification that perfect competition produces productive efficiency only in the LR (MC=AC), as in the SR equilibrium, MC>AC if firm is making SNP, and MC<AC if firm is making a loss. Explanation may be in terms of the extent to which economies of scale are exploited/diseconomies of scale are experienced. • Absence of x-inefficiency with explanation of why this is the case	

Evaluation is on the next page

www.dynamicpapers.com

Question Number	Answer	Mark
2 (contd)	**Evaluation** • Inability to fully exploit economies of scale in the case of a natural monopoly / industry with high MES implies a lack of productive efficiency • Absence of productive efficiency in the SR • Absence of SNP in LR implies low levels of R&D • and hence lack of dynamic efficiency (static vs. dynamic efficiency trade-off) • Possible lack of social efficiency (MSC=MSB) due to presence of externalities Overall judgement as to whether efficiency is maximised under perfect competition, with reasoning	**(20)**

www.dynamicpapers.com

Question Number	Answer	Mark
3	**Indicative content** Definition of monopsony Benefits of monopsony may include: For consumers - • Improved value for money (increased consumer surplus) for final consumers if reduced costs are passed on by the monopsonist • This increased profit may be invested into the firm to produce better products in the future For businesses – • Lower purchasing costs – higher profit margins • Greater market share if result is lower prices to consumers • Counterbalancing force in the presence of monopoly power • Increased producer surplus, and profit for the monopsonist **NB** candidates must consider benefits to both consumers and firms (monopsonist or supplier).	

Evaluation is on the next page

www.dynamicpapers.com

Question Number	Answer	Mark
3 (contd)	**Evaluation** *Candidates may evaluate either in terms of considering the costs of monopsony to consumers and businesses, or by considering the significance of their arguments.* Costs of monopsony may include: For both consumers and businesses - • Lower prices paid will lead to less being supplied to the monopsonist, which may constrain supply • May result in more regulation for the monopsonist • Less profit for supplier may result in less investment meaning a lower quality product For businesses - • May be difficult for small suppliers to make profit / stay in business • Poor relationship with supplier may lead to poorer quality • Loss of reputation for buyer and seller General evaluation points may include: • Prioritisation of factors • Overall judgement as to whether the costs or benefits are greater • It depends on whether the monopsonist passes on the benefits in the form of lower prices / higher investment • It depends on the market, e.g. is there also a monopoly, objectives of the monopsony etc. Role of PES in determining effect on supply to the monopsonist	**(20)**

www.dynamicpapers.com

Question Number	Answer	Mark
4	**Indicative content** Definition of contestability – very low (if any) barriers to entry or exit Explanation of how the level of contestability affects firms' behaviour. For example: • Firms will need to be more competitive – price, quality etc. • Firms will need to be more efficient – productive, allocative • Even monopolists may make normal profit only if a market is perfectly contestable (may contrast profit maximising and normal profit equilibria on a diagram) • Incentive to avoid hit-and-run entry - explanation of hit-and-run entry, and possible methods to discourage it, e.g. erecting barriers to entry and/or exit • Attempts to raise artificial barriers to entry, e.g. limit pricing, advertising to encourage more brand loyalty, operating with spare capacity etc. • Attempts to raise artificial barriers to exit, i.e. an increase in sunk costs • Decision whether to focus on price competition or non-price competition. Allow consideration of predatory pricing. A focus on non-price competition may make demand for firm's produce more price inelastic, making firm's revenue less vulnerable to new entrants who may under-cut the incumbent • Objectives: with high levels of contestability, firms may have to profit-maximise to make normal profit in the LR, but with lower levels of contestability other objectives are possible • Efficiency, e.g. x-inefficiency more common when contestability is low	

Evaluation is on the next page

www.dynamicpapers.com

Question Number	Answer	Mark
4 (contd)	**Evaluation** • Prioritisation of effects • SR/LR distinction e.g predatory pricing in the short run • Consideration of the degree of contestability (are any markets perfectly contestable?) The effect of government intervention/regulation of the market	**(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.

www.dynamicpapers.com

Section B: Data response

Question Number	Answer	Mark
5(a)	**Knowledge and Application (up to 4 marks)** K = Definition of unit labour costs –labour cost/output or similar definition (**2** marks for accurate definition) Identification that unit labour costs have risen **(1)** As labour costs rose at a faster rate (6.2%) **(1)** than labour productivity (4.5%) **(1)** Also accept: Relative (to OECD average) unit labour costs decreased **(1)** with correct data use **(2)**	**(4)**

www.dynamicpapers.com

Question		Mark
5(b)		**(12)**
Knowledge, Application and Analysis – Indicative content		
	An understanding/definition of international competitiveness - the degree to which a country's products are attractive/demanded in the global marketplace Korea has become more internationally competitive: • Over the period 2000-2011, Korea displayed the strongest growth in labour productivity of any OECD country. This has limited the rise in production costs, helping to maintain international price competitiveness (to some extent = evaluation). • Relative ULCs fell in Korea over the period 2000-2011, so the country's exports may have become relatively cheaper • Export prices have generally fallen since late 2008 – more competitive in overseas markets • Investment rates have generally been stronger than the OECD average, helping to encourage price (more efficient production methods) and non-price (higher quality etc. products) competitiveness • Korea has the highest proportion of young adults (25-34 year-olds) with tertiary attainment of all the OECD countries. Higher level of human capital would be expected to increase both international price and non-price competitiveness, as products become higher quality/more innovative etc. • The effects of liberalisation of the economy	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the concept of 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 the concept of 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 the concept of 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 is on the next page

www.dynamicpapers.com

Evaluation – Indicative content		
	Korea has not become more internationally competitive - • Labour productivity is still below the OECD average • Labour costs rose at a quicker rate than the OECD average over the period 2000-2011 • Export price generally higher 2008-2012 than 2002-2008 Other information would be needed to make a full judgement, e.g. relative export prices, relative tax rates 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.

www.dynamicpapers.com

Question Number		Mark
5(c)		**(12)**
Knowledge, Application and Analysis – Indicative content		
	• No significant entry or exit barriers for domestic firms • It has become easier for foreign firms to enter the market • The average 3-firm concentration ratio fell from 1999 to 2005 • High levels of investment might be a sign of high levels of competition • High % of tertiary attainment may show SK government's commitments to education	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of measures to promote competition. 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 measures to promote competition, 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 measures to promote competition 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 is on the next page

www.dynamicpapers.com

Evaluation – Indicative content		
	• It is difficult for small firms to access finance and adequate employees, meaning that they cannot compete effectively. Although this is not a result of the government's intervention. • Government has not reduced monopoly power of large conglomerates. Although perhaps it has not done so for a good reason. Possibility of regulatory capture. • Average 3-firm concentration ratio rose 2005-2008.	

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.

www.dynamicpapers.com

<table>
<tr><td>Question Number</td><td colspan="2"></td><td>Mark</td></tr>
<tr><td>5(d)</td><td colspan="2"></td><td>(12)</td></tr>
<tr><td colspan="4">Knowledge, Application and Analysis – Indicative content</td></tr>
<tr><td></td><td colspan="2">Education and training - which will improve human capital levels and productivity of staff
Incentives for investment (e.g. tax breaks for R&D, subsidies/grants to attract FDI, lower corporation tax rates, lower interest rates) - higher investment will lead to improved technology enabling higher productivity
Lower income taxes – incentives and motivation
Policies to increase competition (e.g. deregulation, free trade policies, competition legislation, control of mergers, quality standards and performance targets) - firms will be more efficient and less wasteful enabling them to compete
Protectionist measures (e.g. devaluation of the currency, subsidies to domestic producers) - this would make exports cheaper relative to the rest of the world making them more attractive</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">A completely inaccurate response.</td></tr>
<tr><td>1</td><td>1-3</td><td colspan="2">Shows some awareness of measures to increase 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.</td></tr>
<tr><td>2</td><td>4-6</td><td colspan="2">Understanding of measures to increase 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.</td></tr>
<tr><td>3</td><td>7-8</td><td colspan="2">Clear understanding of measures to increase 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.</td></tr>
</table>

Evaluation is on the next page

www.dynamicpapers.com

Evaluation – Indicative content		
	• Less potential for education policy as so many young adults already going to university? More effective to concentrate on training older adults? • Limited scope for increasing R&D as growth already very quick, and a large proportion of GDP? • R&D may be unsuccessful • Opportunity cost of government expenditure on any one policy • Possible time/implementation lags • Difficult to impose competition legislation when conglomerates are so crucial to success of economy • Protectionist measures against terms of trade agreements / WTO membership / may cause retaliation • Low interest rates may increase inflation, leading to higher export prices	

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	Answer	Mark
6(a)	**Knowledge and Application (up to 4 marks)** Oligopoly **(1)** with one characteristic of oligopoly **(1)** • A few firms dominate the market/industry • Firms are interdependent • high levels of marketing / brand awareness / non-price competition • A high concentration ratio • High barriers to entry Application: correct calculation of any one concentration ratio (CR_2 = 70%, CR_3 = 77%) **(2)**	**(4)**

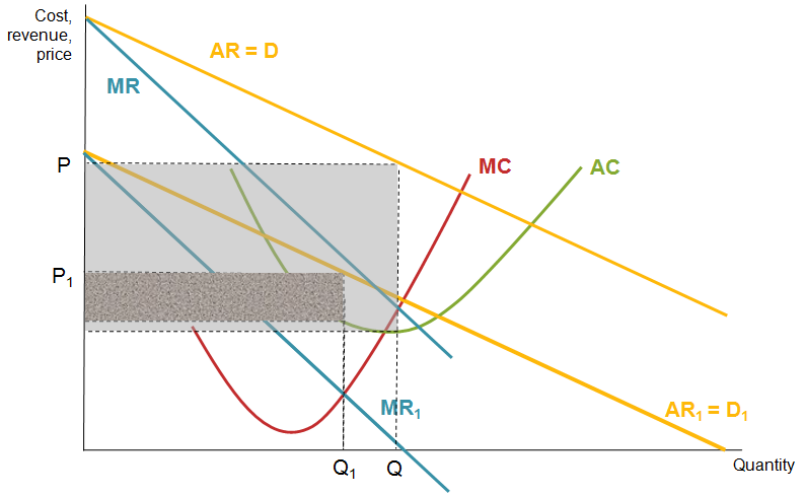
www.dynamicpapers.com

Question Number		Mark
6(b)		**(12)**

Knowledge, Application and Analysis – Indicative content

Diagram:

A diagram showing cost and revenue functions, a fall (inward shift) in demand/AR curve and original and new SNP/loss areas clearly marked



Written analysis:

- Explanation of diagram

Coles and Woolworths will lose some of their demand to Aldi, Franklins, Foodworks and IGA stores. This will mean that their prices fall, their quantity sold falls and their profit levels fall.

- Allow further analysis of the effects of lower profits e.g on investment, expansion

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the effects of a fall in demand. 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 effects of a fall in demand, with some application to context and an attempt at a valid diagram. 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 effects of a fall in demand, with effective application to context and a correct and clearly labelled diagram. 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 is on the next page

Evaluation – Indicative content		
	• Their demand may not fall if their consumers have significant loyalty (price inelastic demand), e.g. due to store convenience, lower prices, loyalty schemes etc. • There may be other barriers to entry that prevent rival supermarkets setting up in shopping centres (e.g. lack of economies of scale) • Extract 2 says that the impact of these measures would be to raise prices, not lower them	

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.

www.dynamicpapers.com

Question Number		Mark
6(c)		**(12)**
Knowledge, Application and Analysis – Indicative content		
	• Supabarn and IGA have fewer economies of scale • Supabarn and IGA have less monopsony power over suppliers, e.g. dairies/farmers • Supabarn and IGA have higher average costs due to being open longer hours, more convenient locations, more parking (higher rent/purchase price of land) • Woolworths' and Coles' customers have more price elastic demand, so reducing prices increases their revenue, whereas Supabarn and IGA's customers have more price inelastic demand, so raising prices increases their revenue. Consumers value convenience, support local retailers. • Supabarn and IGA have high start-up costs to cover • Woolworths and Coles may have retained profits which they can use to finance predatory/limit pricing campaigns	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the cost of being small / possible reasons for higher prices. 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 cost of being small / possible reasons for higher prices, 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 cost of being small / possible reasons for higher prices, 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 is on the next page

www.dynamicpapers.com

Evaluation – Indicative content		
	• Prioritisation of factors • Woolworths and Coles more likely to experience diseconomies of scale • Supabarn and IGA may experience more economies of scale over time as they grow • Predatory pricing is illegal, and so perhaps unlikely • Validity of research – small survey sample	

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.

www.dynamicpapers.com

<table>
<tr><th>Question Number</th><th colspan="2"></th><th>Mark</th></tr>
<tr><td>6(d)</td><td colspan="2"></td><td>(12)</td></tr>
<tr><td colspan="4">Knowledge, Application and Analysis – Indicative content</td></tr>
<tr><td></td><td colspan="2">• Likely to reduce existing firms' market share and hence their price making power, leading to lower prices, higher consumer surplus, more choice for consumers
• Likely to lead to new products, more innovation
• Likely to reduce inefficiency / less x-inefficiency
• Possible negative effects on existing firms' profits / share prices
• Improved product quality – impact of minimum standards
• Price regulation – impact on firms/consumers</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">A completely inaccurate response.</td></tr>
<tr><td>1</td><td>1-3</td><td colspan="2">Shows some awareness of the effects of government intervention.
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.</td></tr>
<tr><td>2</td><td>4-6</td><td colspan="2">Understanding of the effects of government intervention, 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.</td></tr>
<tr><td>3</td><td>7-8</td><td colspan="2">Clear understanding of the effects of government intervention 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.</td></tr>
<tr><td colspan="4">Evaluation – Indicative content</td></tr>
<tr><td></td><td colspan="2">• There are still likely to be significant barriers to entry (and exit) in some industries, particularly in terms of economies of scale, monopsony power, and consumer loyalty, and this limits competition
• Prices may actually rise if firms can exploit fewer economies of scale (particularly in the case of natural monopolies) / less productive efficiency
• Lower profits could result in less investment / innovation / dynamic efficiency
• It depends on the form of regulation and the industry
• Effects may not be felt in the SR</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">No evaluative comments.</td></tr>
<tr><td>1</td><td>1-2</td><td colspan="2">For identifying evaluative comments without explanation.</td></tr>
<tr><td>2</td><td>3-4</td><td colspan="2">For evaluative comments supported by relevant reasoning.</td></tr>
</table>

www.dynamicpapers.com

www.dynamicpapers.com

Pearson Education Limited. Registered company number 872828
with its registered office at Edinburgh Gate, Harlow, Essex CM20 2JE