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Mark Scheme (RESULTS)

January 2019

Pearson Edexcel International Advanced Level in Economics (WEC03)
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.

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Section A: Essay questions

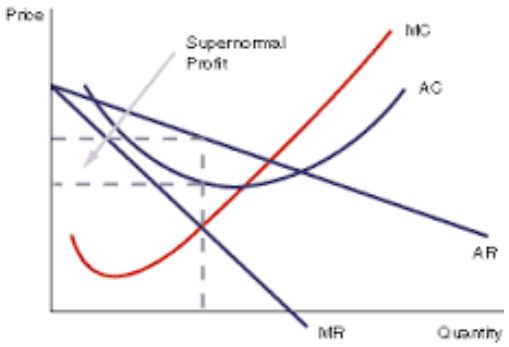
NB: Use levels based mark scheme (20 marks) to mark this section.

Question Number	Discuss how this divorce of ownership from control might influence the objectives of large private sector organisations.	Mark
1	**Indicative content** Definitions – private sector is any non-government owned business organisation. Large private sector organisations include: • for profit (e.g. companies) and • not-for-profit (e.g. charities) Divorce of ownership from control – business owned by shareholders but controlled by managers/directors. Owners (shareholders) may be unaware of the objectives of the managers. Distinction is likely to be much more pronounced in **larger** business organisations such as large PLC's, TNCs The prime objective of most **private sector** organisations is to make a profit. This may be: • profit maximisation • satisficing Other objectives may include: • revenue maximisation • sales maximisation • growth • Shareholders are more likely to desire high profit/maximisation of profit. Shareholders tend to want good returns in the form of dividend payments and a rising share price • Where there is a separation, managers may be more intent on achieving growth objectives/satisficing/building a power base • Managers may have other objectives such as power, bonuses, prestige and status • Many shareholders have no day-to-day control over managers • Many investors in a business are 'passive'. The biggest investors in some companies tend to be large institutional shareholders such as pension funds and insurance companies	

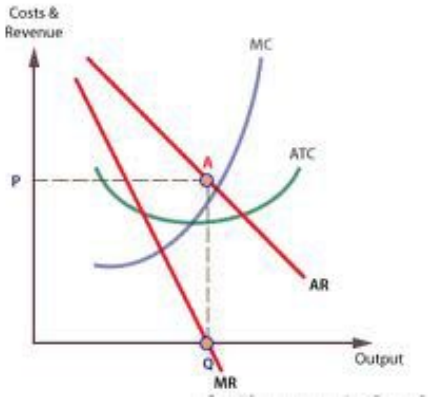
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- Diagram to show the difference between profit maximisation output level (where MC = MR) and alternatives – e.g. revenue maximisation at Q (where MR = 0). The latter may be favoured by managers for example

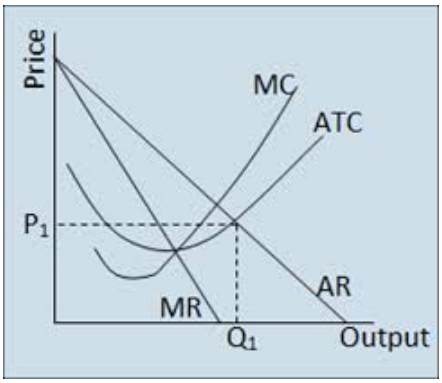
PROFIT MAXIMISATION



REVENUE MAXIMISATION



SALES MAXIMISATION



- Sales maximisation output level at Q1 (where AC = AR–normal profit). This may be a strategy for managers to increase market share or for not-for-profit organisations

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	Evaluation: • No automatic link between different objectives and separation of ownership from control • Shareholders may also prefer company growth rather than short-term profit gains • Directors and senior managers in large companies may also be major shareholders, so not necessarily a divorce between the two • In the long-run all parties are likely to seek profit as an objective (except in the case of not-for-profit organisations) • The private sector also includes co-operatives, mutuals and not-for-profit organisations. Here the divorce between ownership and control may not be as significant as the owners/shareholders are not likely to seek high profit levels and have more social objectives • May have been a rise in 'shareholder activism' – influencing the decision-making of large companies e.g. blocking big pay rises and bonuses to directors/senior managers • Incentives for managers in order to focus on achieving profit maximisation (pay awards, share schemes, bonuses etc	**(20)**

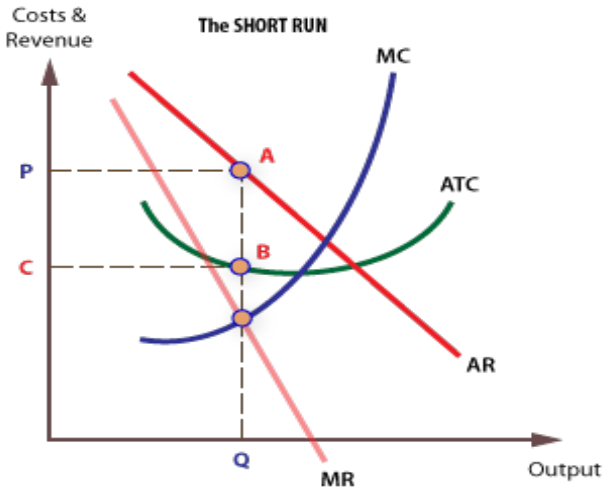
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Question Number	To what extent might a monopolistically competitive market be more beneficial to consumers than a monopoly market?	Mark
2	**Indicative content** Definitions: • Monopolistic competition – large number of buyers & sellers, no major barriers to entry or exit, differentiated product, imperfect information. In a monopolistically competitive market each firm makes independent decisions about price and output, based on its product, its market and its costs of production • Monopoly market – pure monopoly where there is only one firm in the market – a sole supplier; OR a cartel, where firms collude as one firm OR where firms have monopoly power (a very high market share) **Benefits to consumers:** • Differentiated products - provides more choice/variety compared to monopoly • Firms are small and will have little market power – lots of rival firms. Hence prices are likely to be lower compared with monopoly with lower short-run supernormal profit • No major barriers means that markets are contestable • No major barriers will lower prices further in the long-run and only normal profits can be made • Because of the proliferation of firms, industry output may be higher than under pure monopoly • Consumers may benefit from innovation - potential for dynamic efficiency because of competition	

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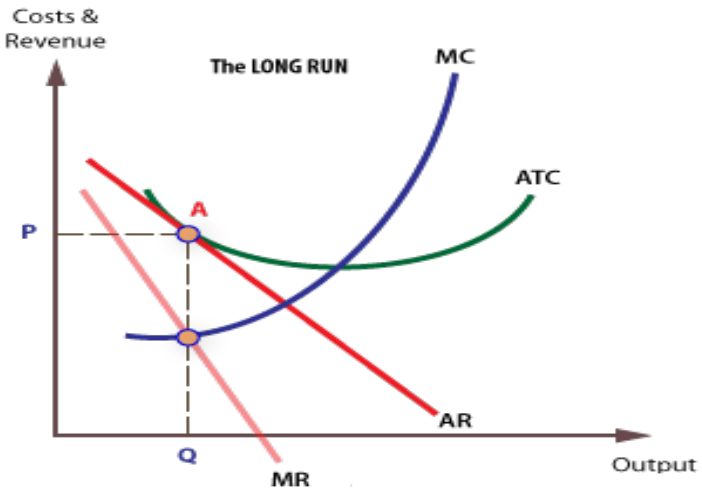
POSSIBLE DIAGRAM(S) FOR MONOPOLISTIC COMPETITION/MONOPOLY

Short-run: firms make supernormal profits of CPAB at output OQ where MC =MR



Long-run monopoly – same diagram as above–the ability to earn long run supernormal profits

Long-run monopolistic competition-no major barriers means AR shifts downwards and becomes more elastic until only normal profits are earned. Price is lower at profit max level of output of OQ than in a monopoly market



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	Evaluation • Monopolies are larger so more scope for economies of scale: lower LRAC may result in efficiency gains being passed on to consumers in the form of lower prices • Greater potential for dynamic efficiency – financial resources for investment in R & D and product innovation for consumer benefit • Monopolist has more freedom over the choice of price and may opt for a lower price to deter potential entrants – thus benefiting the consumer • Advertising by a large number of firms under monopolistic competition may be wasteful and add to the final price • Proliferation of brands under monopolistic competition may lead to confusion for consumers • Price discrimination by a monopoly may benefit some consumers **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	**(20)**

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Question Number	Evaluate the likely impact of monopsony power on businesses **and** consumers.	Mark
3	**Indicative Content** • Define monopsony power - where there is one buyer (or a few dominant buyers) and many sellers **Positive impact on consumers** • Lower prices as a result of bulk purchasing by the monopsonist • Consistency - goods sourced from same suppliers • Higher profits of monopsonists may result in more investment in R&D and hence improved product/service e.g. supermarket check-out efficiencies **Positive impact on businesses** <u>SUPPLIERS</u> • Longer-term contract with monopsonist which provides a valuable source of revenue • Less need to spend time and resources looking for customers • May result in higher revenues, lower costs and increased profit AND/OR <u>MONOPSONISTS</u> • Greater control of the market - can dictate terms to suppliers • Higher profits as a result of low prices paid to suppliers • Reliability - suppliers need to provide quality, meet delivery schedules • Less likelihood of competitors entering the market - existing high market share acts a barrier to new firms	

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Evaluation:

Negative impact on consumers:

- Consumers may be faced with a lack of choice as the sources of supply are restricted
- A monopsonist may not pass on the benefits of low costs to the consumers in the form of low prices
- In the long-run the monopsonist's market dominance can transfer into monopoly power and consumers may be faced with higher prices and less choice
  (e.g. Foodstuffs & Progressive with 95% of market)

Negative impact on businesses:

SUPPLIERS

- Monopsony firms, like Foodstuffs and Progressive in New Zealand, are:
  - Able to pay low prices to suppliers - therefore lower profits, or even losses, for suppliers
  - Able to impose stricter conditions on suppliers -such as delivery times, quality of output, exclusive purchasing terms
- Their power over suppliers may force some suppliers to exit the market

AND/OR

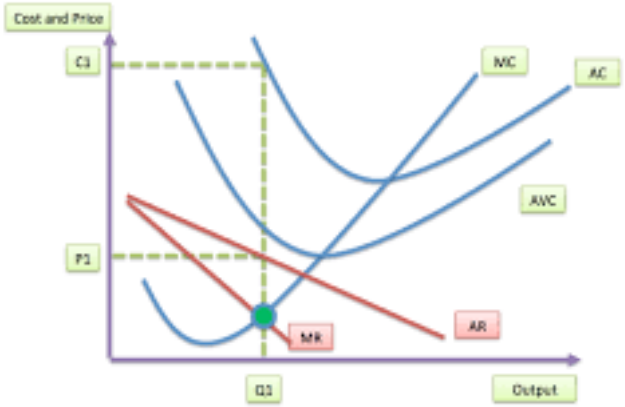
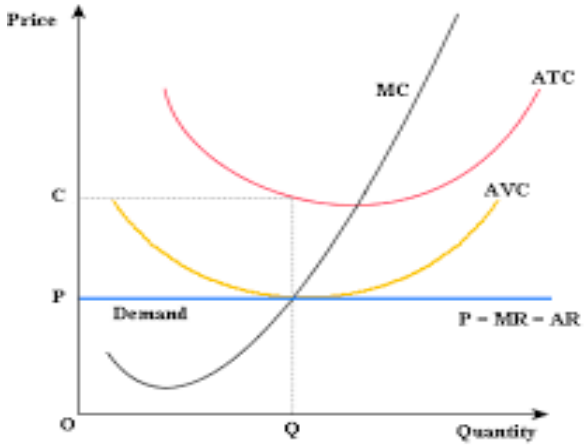
MONOPSONISTS

- Monopsonists may be faced with government action and controls e.g. minimum prices to suppliers, allowing access to the market for other firms

Candidates may take either perspective for KAA and the reverse perspective for evaluation.

(20)

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Question Number	Evaluate whether a firm should shut down if it cannot cover its costs of production.	Mark
4	**Indicative content** Definitions: • Costs of production - may include total, average and marginal cost • Shut-down point - where the firm cannot cover its costs • Distinction between fixed and variable costs The decision on whether to shut down or not depends on whether losses are short-run or long-run **SHORT-RUN** Monopoly (monopolistic competition) diagram showing loss  At MC = MR, (output Q2), the firm is not covering AVC and will shut down Perfect competition diagram  	

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- In the short-run this firm can survive as it just covers its average variable cost at price P
- In the short-run if price (AR) is below AVC the firm will shut down

LONG-RUN

- In the long-run if AR is below ATC then the firm will shut down (the firm is making a loss or earning less than its normal profit AR ≤ AC). Shut-down point is any price and output resulting in less than normal profit

- For perfect competition & monopolistic competition, firms would need to profit maximise (MC = MR) in the long-run to avoid losses
- Monopoly & oligopoly - firms can survive in the long-run without necessarily maximising profit

Evaluation

Survival may be possible if the firm:

- merges with another firm
- receives financial support from the government - e.g. grants, subsidies
- manages to reduce its costs
- successfully increases revenue
- is in the public sector and is financed by the government
- receives cross-subsidies if it is part of a conglomerate or group of companies
- is a start-up business and time is required before it can be expected to make a profit.

- The economy may be in recession and demand for the firm's products may rise once the economy recovers. The firm may be able to borrow funds from the financial sector to enable it to continue at least in the short-run

- For private sector firms the distinction between short-run and long-run is critical. Most firms are likely to shut down in the long-run if costs are not covered

(20)

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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.

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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.

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Section B: Data response

Question Number	With reference to Extract 1, explain what is meant by *vertical integration*.	Mark
5 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** - **up to 2 marks** • Definition of *vertical* integration - a firm undertakes a merger/takeover with a firm in the same industry at a different stage of production (1) + 1 development mark • Vertical ***forward*** integration/Vertical ***backward*** integration (1) • Closer to the final consumer (1) • Closer to the source of supply (1) Any other valid development point - 1 mark **Application - up to 2 marks** • CP Foods has carried out **backward** vertical integration (1) - animal feed/animal farming (1) • CP Foods has carried out **forward** vertical integration (1) - food retailing/ restaurants (1) Any other valid application point - up to 2 marks	**(4)**

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Question Number		Mark
5 (b)	With reference to Extract 1, assess the likely benefits to CP Foods of growth by takeover rather than by organic growth.	**(12)**
Knowledge, application and analysis – indicative content		
	Benefits of growth by takeover • **Vertical integration in Thailand**: - ownerships of distribution channels - control over supplies of animal feed and animals and ownership of sales outlets and restaurants Any of which should lower costs of production and raise profit levels • **Horizontal integration** - e.g. chicken processing - 33% share in Polish firm Greater market share/more market power • **International expansion**: - access to markets, USA and Europe in particular Reference to examples: e.g. UK acquisition may open up opportunities across Europe Acquisitions in developed economies with relatively high incomes and therefore higher profit potential for CP Foods • Customer bases already established in USA, Poland, UK etc. • A much faster method of growth than organic. CP Foods appears to be rapidly expanding, especially from 2016 onwards • More opportunities for gaining economies of scale as the firm's size expands more rapidly • Opportunities for synergy - gain from understanding/experience of existing staff established firms • Method of acquiring brands, patents etc.	

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Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefits of growth by takeover. 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 benefits of growth by takeover 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 benefits of growth by takeover 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 – indicative content	
• Increased likelihood of culture clashes especially when integrating with international firms • Growth is into unfamiliar markets • Acquisitions may be expensive and may take a long time before costs are recouped. e.g.$US1 billion for frozen food manufacturer • Growth may be too fast whereas organic growth may be at a more sensible rate - in keeping with market growth • More risk of diseconomies of scale compared with organic growth • More likely to be adversely affected by government competition policy than through organic growth **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	

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.

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Question Number		Mark
5 (c)	With reference to Extract 2 and your own knowledge, discuss why TNCs may choose to invest in China.	**(12)**
Knowledge, application and analysis – indicative content		
	Reasons for investing in China • China is still a fast growing economy-6.7% in 2016 which is still a relatively high growth rate • Large population size-potentially high domestic demand • Range of government measures to attract TNCs -tax incentives; fewer investment restrictions; smoother registration procedures. All of which led to 2.3% more FDI by TNCs in 2016 • China is a favoured location for many TNCs so possible benefits from external economies of scale - trained labour force, improved infrastructure etc. • Lower exchange rate means exporting from China may be cheaper • China may still have relatively low unit labour costs when compared to other economies • Lack of incentives to invest in other countries	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the reasons for TNC investment in an economy. 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 reasons for TNC investment in an economy 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 reasons for TNC investment in an economy 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.

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Evaluation – indicative content		
	Reasons for *<u>not</u>* investing in China • GDP growth has been falling for the past 7 years. Could represent a real problem if the trend continues • Downgrading of credit rating - a sign of economic instability? • Government incentives would need to be compared with other economies • Rising unit labour costs in manufacturing • Cultural differences could represent a problem for some TNCs • May still be a lot of bureaucracy involved • Other countries may be becoming more attractive to foreign investors • Overall judgements/conclusions **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	

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.
0	0	No evaluative comments.

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Question Number		Mark
5(d)	With reference to Extract 3, discuss how government measures **and** pressure group activity may impact on the business behaviour of TNCs operating in the UK.	**(12)**

Knowledge, application and analysis – indicative content	
	• Negative publicity likely to cause a fall in demand, revenue and profits for TNCs • Evidence suggests that UK Government regulation and pressure group activity is causing TNCs to cut down on transfer pricing • 15% fewer UK Government investigations in 2016 may represent an increase in compliance by TNCs • Starbucks paid significantly more profit tax in 2015 compared with previous years • Google's settlement may have caused other TNCs to be more wary about using transfer pricing • TNCs may respond by being more transparent and not attempt to use transfer pricing at all, or to the same extent • TNCs may respond by shifting profits/resources to other economies where the tax rates are lower

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of government measures **and/or** pressure group activities on the behaviour of TNCs. 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 government measures **and/or** pressure group activities on the behaviour of TNCs, 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 government measures **and** pressure group activities on the behaviour of TNCs, 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 – indicative content		
	• UK Government may be concerned about the	

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	threat of TNCs pulling out of the economy – negative consequences on jobs, incomes etc. so may limit the extent to which regulation on transfer pricing occurs • Some TNCs are very powerful – and it will often require concerted joint international action (e.g. across EU), otherwise TNCs will simply avoid profit tax in the other countries where they operate • Influence of pressure groups depends on size of group - local, national or international, degree of media coverage, TU strength, government support • The 15% reduction in investigations into TNCs suspected of transfer pricing may have been because UK Government was cutting back-budget constraints, opportunity costs • Distinction between short-run and long-run impact - evidence of greater compliance is for a very limited period	

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.

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Question Number	With reference to Figure 1, what can be inferred about the market structure of the UK gas industry?	Mark
6 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** - up to 2 marks • Oligopoly **(1)** Plus a mark for **one** characteristic of oligopoly • Small number of dominant large firms **(1)** • High concentration ratio **(1)** • Interdependence of firms **(1)** • There may or may not be a large number of smaller firms in the market **(1)** Any other valid knowledge point **(1)** **Application –** up to 2 marks: Calculation of concentration ratio: - 3 firm 58% - 5 firm 76% - 6 firm 84% **(2 marks for one accurate calculation)** **1 mark for selection of appropriate data but incorrect calculation** • Rest of the gas suppliers have 16% between them **(1)** • British Gas is the dominant firm with 35% of the market **(1)** Any other valid application point - up to 2 marks	**(4)**

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Question Number		Mark
6 (b)	With reference to Extract 1 and your own knowledge, discuss the likely benefits to consumers of non-price competition by UK energy firms.	**(12)**
Knowledge, application and analysis – indicative content		
	<u>BENEFITS TO CONSUMERS</u> • Loyal British Gas consumers are offered incentives linked to other companies: lower fees for Sky TV, lower prices on home insurance • Improvements to quality of service maintenance of appliances • Improved after-sales service • Other energy companies are offering other types of incentive - which provides more choice for consumers • More advertising can increase consumer knowledge about products and services available by rival energy companies • Meeting specific consumer needs by using promotions for different consumer groups e.g. by age • Branding can help consumers make more informed choices	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefits to consumers of non-price 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 benefits to benefits to consumers of non-price 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 benefits to benefits to consumers of non-price 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.

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Evaluation – indicative content		
	• Consumers may benefit more from price competition • The high costs of advertising and promotion could be passed on in the form of higher prices • Many of British Gas' offers only apply to loyal customers who may be better off if they switched to a rival company • The range of promotional deals may be confusing for consumers • Firms may collude with rivals on a non-price basis – divide up the market, exclusive deals etc. • By raising barriers to entry, non-price competition may dissuade other firms from entering the market **Candidates may take either perspective for KAA and the reverse perspective for evaluation**	

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.

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Question Number		Mark
6(c)	With reference to Extract 2, discuss whether a small firm, such as People's Energy, can compete successfully against much larger UK energy companies.	**(12)**
Knowledge, application and analysis – indicative content		
	People's Energy (PE) may be able to compete by: • Competing on price - lower profit margins than the large dominant firms • Offering a more ethical approach to energy supply - natural/renewable sources. Likely to appeal to consumers (product differentiation) • Offering a more personal service (product differentiation) • Offering incentives to consumers - 70% of profits returned to consumers • Loyal consumers receive free shares • Consumers able to have representation at board level • PE may have lower sunk costs - less capital investment needed • Once PE gains a foothold in the market its reputation may grow which will attract more consumers • Possible support from government authorities as a means of increasing competition in the market	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of why a small firm may survive. 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 why a small firm may survive 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 why a small firm may survive 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.

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Evaluation – indicative content		
	• People's Energy will have a very small market share • PE may have over-estimated the extent to which consumers will be attracted to them • Consumers may be habitual and reluctant to switch energy suppliers • Despite lower sunk costs small energy firms still face high fixed costs in setting up the business - investing in capital equipment, training staff etc. Significant economies of scale may not be achievable for a small firm • Large firms such as British Gas, EDF etc. may respond by lowering prices, offering more incentives to consumers • In the long-run small firms may find it difficult to survive in a market dominated by large firms • Government support may be non-existent, short-lived and/or inadequate **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	

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.

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Question Number		Mark
6(d)	With reference to the information provided, evaluate government policies which aim to increase competition in energy markets.	**(12)**
Knowledge, application and analysis – indicative content		
	Various policies may include; • Regulating prices –e.g. setting a maximum price - **to prevent abuses of monopoly power** (Reward maximum price diagram) • Greater price transparency by providing more information to consumers, possibly through OFGEM **- encourages more consumers to switch to cheaper energy suppliers** • Stronger laws and controls over monopoly power and merger and activity e.g. possible break-up of British Gas (35% of gas market), stronger restrictions on any further mergers or takeovers - **makes the energy market more competitive** • Lowering barriers to entry to increase contestability. More firms like People's Energy may enter the market **- increases consumer choice and competitiveness** • Providing subsidies to smaller firms in the market - **reduces the market power** e.g. of the Big 6 in the UK • Placing limits on profit levels or profit margins - **to prevent the very large energy companies from exploiting consumers** • Performance targets relating to customer service efficiency • Selling off state-owned energy companies	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of government policies to increase 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 government policies to increase 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 government policies to increase 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.

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Evaluation – indicative content		
	• Maximum price may have a damaging effect on energy companies' profits and cause some to exit the market. Hence less choice for consumers and possibly more market dominance for the largest companies. Setting a maximum price may lead to a net welfare loss and government failure • Limits on profit might reduce investment and have an adverse effect on efficiency • Consumers may experience inertia and be unwilling to switch • More information on different prices may cause confusion for consumers • Energy companies may need to be large to fully benefit from economies of scale (MES is at a high level of output)- government policies which aim to restrict the size of the company may be counter-productive and lead to inefficiencies • Costs of enforcing policies e.g. regulations and laws • Regulatory capture (Ofgem) • Selling off to the private sector might result in private monopolies	

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.

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