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Mark Scheme (Results)

Summer 2022

Pearson Edexcel International Advanced Level
In Economics (WEC13)
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.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

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Section A

Question	Quantitative skills assessed	Answer	Mark
1		The correct answer is **B** **A** is incorrect because this would increase the geographical mobility of labour **C** is incorrect because this would increase the geographical mobility of labour **D** is incorrect because this would increase the geographical mobility of labour	**(1)**
2	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The correct answer is **D** **A** is incorrect because price is greater than MC **B** is incorrect because the firm would remain in the industry as ceteris paribus it would be making supernormal profit **C** is incorrect because the firm is not producing at the lowest point on the AC curve	**(1)**
3	**QS6:** Calculate cost, revenue and profit (marginal, average and total) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The correct answer is **C** **A** is incorrect because this is average fixed costs at 300 units **B** is incorrect because this is average variable costs at 400 units **D** is incorrect because this is average total costs at 300 units	**(1)**
4	**QS1:** Calculate, use and understand ratios and fractions **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The correct answer is **B** **A** is incorrect because this is the four-firm concentration ratio **C** is incorrect because this is the four-firm concentration ratio plus others **D** is incorrect because this is the six-firm concentration ratio	**(1)**

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5		The correct answer is **D** **A** is incorrect because this is not related to the impact of government intervention **B** is incorrect because this would improve the impact **C** is incorrect because this would improve the impact	**(1)**
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The correct answer is **A** **B** is incorrect because the number of employees would be lower **C** is incorrect because wages would be lower **D** is incorrect because wages and the number of employees would be lower	**(1)**

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Section B

Question	(a) With reference to Figure 1, calculate the percentage change in Amazon's revenue between 2010 and 2020. **Answer**	Mark
7(a)	**Application 2** **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms Up to 2 marks for calculation: • (386.06-34.20)/34.20 **(1) or** 351.86/34.20**(1)** 10.2883 x 100 = 1028.83% **(1)** **Accept within the range 1028 to 1029** **Award full marks for correct answer regardless of working.** **Accept 1029/1028.8/1028.83**	**(2)**

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Question	With reference to Figure 2, explain the market structure of cloud infrastructure providers. **Answer**	Mark

7(b)	**Knowledge 2 Application 2**
	
	Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.
	
	Knowledge:
	One mark for identifying oligopoly **(1)**
	
	And one mark for understanding of the market structure e.g.
	
	An oligopoly is when a few large firms dominate the market/
	There is interdependence in the market/
	An oligopoly market structure is an imperfect market structure/
	Oligopolies have some market power **(1)**
	
	Reward for identifying legal monopoly (1) with understanding (1)
	
	Application
	up to 2 marks for application to Figure 2
	
	• Calculating:
	  ○ two-firm concentration ratio is 51%/
	  ○ three-firm concentration ratio is 59%/
	  ○ four-firm concentration ratio 65%/
	  ○ five-firm concentration ratio is 70% **(1+1)**
	
	• Amazon web services has a 33% market share **(1)**
	• Microsoft Azure has an 18% market share **(1)**
		(4)

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Question	With reference to Extract A, analyse the impact on consumers of **two** methods by which Amazon competes with other retailers. **Answer**	Mark
7(c)	**Knowledge 2 Application 2 Analysis 2** **Quantitative skills assessed: QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, analysis and application** For each of the two methods identified: 1 mark for application to Extract A, 1 knowledge mark for identification of one method of competition and 1 mark for linked analysis e.g. • Amazon focuses on convenience **(1AP)** by providing access to its goods and services online **(1K)** making it more convenient for consumers than having to travel to a store **(1AN)** • Amazon competes with low prices **(1AP)** making it more price competitive **(1K)** encouraging consumers to switch from alternative products/increase in consumer surplus **(1AN)** • Amazon offers faster delivery **(1AP)** by providing better customer services **(1K)** customers receive their goods without delay **(1AN)** • Amazon focuses on choice for its consumer **(1AP)** by providing alternatives/more options **(1K)** helps Amazon meet its consumers' needs **(1AN)**	**(6)**

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Question	With reference to Extract A, examine **two** likely effects of the global health crisis on Amazon's profits. **Answer**	Mark
7(d)	**Knowledge 2 Application 2 Analysis 2 Evaluation 2** **Quantitative skills assessed: QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, analysis and application** For each of the two effects identified: 1 mark for application to Extract A, 1 analysis mark for expansion of this and 1 mark for knowledge linked to profit e.g. As consumers could not access physical stores **(1AP)** leading to increased demand for goods and services from Amazon **(1AN)** resulting in increased profit **(1K)** As Amazon increased their sales to $386.1 billion **(1AP)** due to higher demand for online shopping **(AN)** resulting in increased profit **(1K)** Additional 400 000 workers employed by Amazon **(1AP)** this increase in number of workers employed adding to costs **(1AN) resulting in** decreased profit **(1K)** Due to a fall in labour productivity **(1AP)** as the workforce at Amazon expanded so rapidly **(1AN)** resulting in decreased profit **(1K)** Increase in costs of production by $4 billion **(1AP)** reducing profit margins **(1AN)** resulting in decreased profit **(1K)** **Evaluation** **Up to 2 marks for evaluative comments, e.g.:** • The effect on profit depends on the relative increase in revenues and costs. Revenues increased by $105.6 billion whereas costs of production increased by $4 billion **(1+1)** • The increase in revenues may not be sustained in the long-run if the global health crisis is resolved as shops will reopen and consumers use alternatives to Amazon **(1+1)** • The increase in revenues may not be sustained in the long-run if the global health crisis continues **(1+1)** • With experience, staff will become more skilled, helping to improve productivity in the long-run **(1+1)** • Amazon may substitute out labour for capital due to lower productivity helping to restore profits in the long-run **(1+1)**	**(8)**

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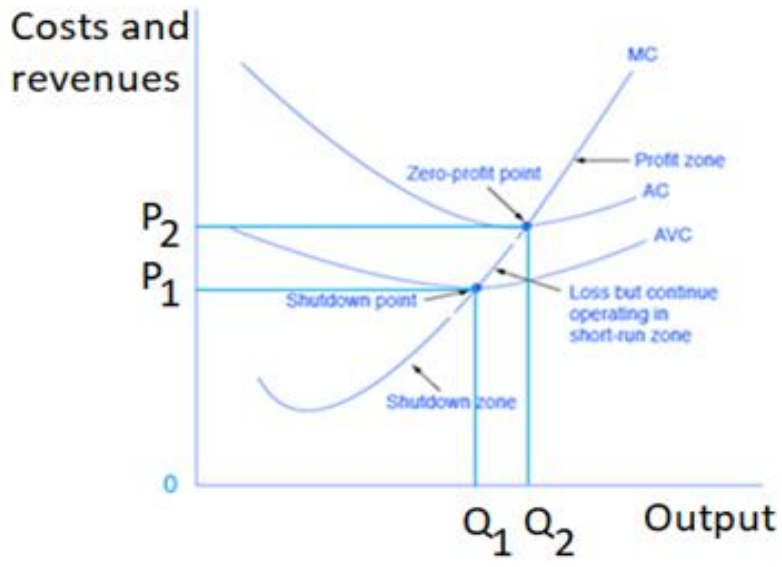
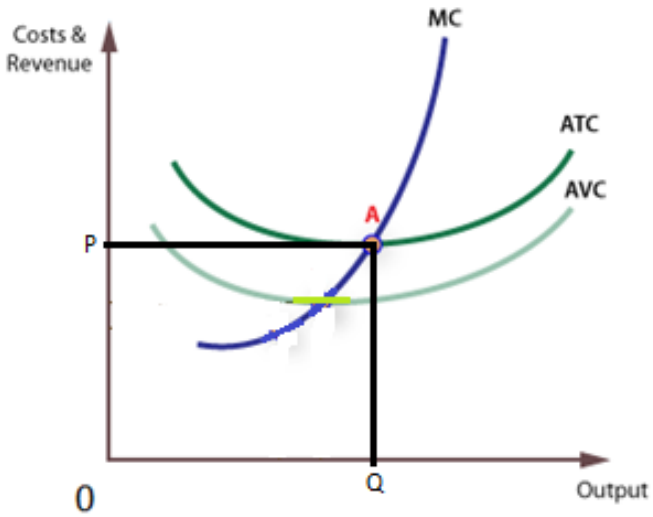
Question	With reference to Extract B and your own knowledge, discuss reasons why many SMEs in South Africa shut down in 2020. Illustrate your answer with an appropriate diagram. **Indicative content**
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** • Definition of shut-down point. o In the short-run a firm may shut down if the price it receives does not cover its average variable costs of production. o In the long-run firms will shut down as they cannot afford to produce more output therefore cannot make enough revenue to cover average total costs. • Reasons for shut down: o Fall in demand decreasing TR and AR o Increasing costs- ATC and AVC o Difficulties specific to SME- e.g. lack of retained profit 

- Many SMEs are not receiving enough revenue to cover their variable costs. If this happens the firms will need to shut down in the short-run
- Diagram showing short-run price below AVC curve 0-P_1 and shut down output 0-Q_1
- The survey showed that small enterprises were 26 times more likely to close than larger enterprises
- SMEs required R1.1 trillion of government financial support if they were to have any chance of not shutting down in 2021



- When price is below P (ATC) the business would shut down in the long-run
- Reward diagrams that shift AR/MR appropriately

NB A diagram is required to achieve Level 3

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Not all firms were negatively impacted, essential services either increased profits or profits stayed the same • 64% of the enterprises that were closed indicated that they expected to reopen • If the R1.1 trillion of government financial support by the government is provided, enterprises would survive • 70% of enterprises reported that they cut back on business spending and possibly were able to survive by lowering costs • Half of medium-size enterprises were able to either close parts of their business or reduce capacity to decrease costs and prevent having to shut down	

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Section C

Question	Evaluate the benefits of growth by merger. Illustrate your answer with an appropriate diagram(s). **Indicative content**
8	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** **Knowledge, Application, Analysis (12 marks) – indicative content** • Definition of merger: joining of two or more firms to form one organisation • Businesses such as PhotonLens and Shadow Creator would benefit from sharing resources, human capital, and expertise, to enable them to develop new products more quickly • Growth by merger enables businesses such as PhotonLens and Shadow Creator to enter new markets that they do not operate in such as moving from VR glasses into the software needed for these to work. This allows these firms to diversify and benefit from risk bearing economies of scale • Mergers increase market share more quickly than organic growth. This would increase sales, revenue, and profits • Businesses may benefit from increased profits through economies of scale if the merger allows production to rise and costs to fall. PhotonLens and Shadow Creator may be able to share development and innovation costs, reducing overall costs and increases profits • Firms may merge to guarantee supplies/lower costs of supplies (backward vertical integration) • Firms may merge to increase market share • Firms may merge to become more competitive • Firms may merge to eliminate competitors (horizontal integration) • Businesses can benefit from economies of scale and a fall in long-run average total costs. Long-run average total costs fall as output rises. Reducing costs and reaching the MES, improving productive efficiency

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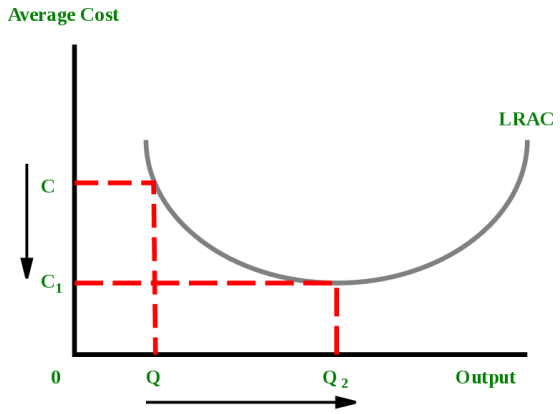

Benefits to economic agents- e.g. consumers benefit from higher quality goods

Accept reverse argument
NB if no diagram candidate can achieve a maximum of Level 3.

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Growth by merger is more costly than organic growth, which may reduce profits for the firm • If there is a culture clash, the merger may not be successful and harmful to the business's profits and reputation • Some businesses may not have the option to grow by merger as it may be blocked by the competition authorities • If communication problems occur between the firms, diseconomies of scale may set in • Entering new markets where the business does not have expertise may cause the business's costs to rise • If the merger causes job losses, employees may become demotivated, reducing productivity	

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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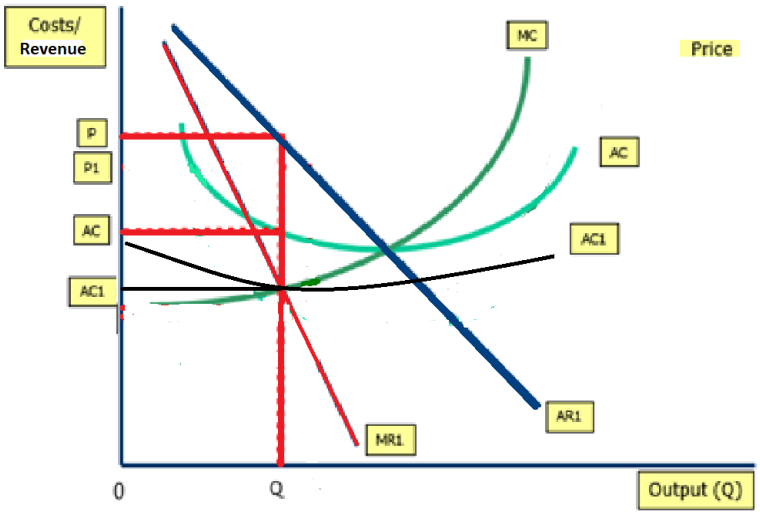
Question	**Evaluate methods that a government could use to promote competition in a market.** **Illustrate your answer with an appropriate diagram(s).** **Indicative content**
9	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • Definition of competition: a number of rival firms operating in a market • The Government in Singapore introduced tax incentives to new firms to encourage them to operate. A reduction in the tax burden should incentivise more new firms to start up in Singapore which increases the level of competition in the market • The tax incentives of S$100 000 should result in a decrease in average costs leading to an increase in profits • Fall in AC to AC1 showing a new equilibrium with a higher profit level AC1- P1, 0- Q  • Government intervention will increase the level of supply in the market causing the supply curve to shift otwards, with a higher quanity and lower equlibrium price

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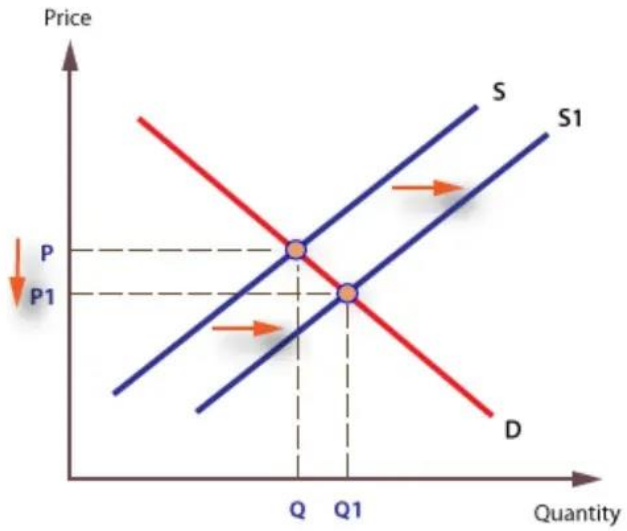

- Deregulation makes it easier for a firm to set up and expand, as it reduces time/costs. This increases the number of firms entering the market improving the level of competition
- Deregulation reduces the barriers to entry into the market, as less legal expertise is needed, increasing competition
- Privatisation moves an industry from the public sector into private sector, allowing an increase in competition between firms, if more firms enter the market
- Competitive tendering for public sector contracts encourages firms to compete over price and quality, encouraging firms to become more competitive. The removal of long-term contracts also reduces the barriers to entry in the provision of public sector services
- Trade liberalisation removes barriers to entry that may stop foreign firms from being able to enter a market, encouraging more market entrants and competition
- Measures to control mergers must relate to how this improve competition

NB if no diagram candidate can achieve a maximum of Level 3.

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • If tax incentives are not generous enough, they may not incentivise small business to set up • Reducing the tax burden may not be enough for small firms/FDI to enter the market. There might be more significant factors stopping firms, such as market conditions or access to finance • Deregulation may reduce the costs of production for incumbent firms, allowing prices to fall, making it more difficult for new firms to enter the market and compete over price, increasing barriers to entry • If deregulation encourages more FDI, smaller domestic firms may find it hard to compete, reducing competition	

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	• If privatisation creates a private monopoly, then competition may not be increased • Competitive tendering may not reduce barriers to entry/improve competition if a cartel is in operation in the industry, as new firms would not be able to undercut the cartel to make an offer and win the bid • Trade liberalisation can lead to foreign monopolies undercutting smaller domestic firms, reducing the level of competition and increasing barriers to entry in the market

Level	Mark	Descriptor
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Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Question	Evaluate the use of non-price and price competition in oligopolistic markets. Illustrate your answer with an appropriate diagram(s). **Indicative content**
10	**Indicative content guidance** **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4: Construct and interpret a range of standard graphical forms.** **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.** **Knowledge, Application and Analysis (12 marks) – indicative content** • Non price competition may include improvements in the features, quality and design of the product; such as new technology in smart phones, advertising and branding, celebrity endorsement, after-sales service . • These forms of non-price competition are designed to increase demand for smartphones and make demand less price elastic • Non-price competition may increase revenue for firms e.g. Apple, Samsung and OnePlus • Non-price competition may increase choice for consumers as there are more phone providers in India • As only a few large phone companies dominate the premium phone market, each firm has a high market share. Producing at a larger output enables the firms to spread their long-run average costs across a higher output than in competitive markets. This enables the firms to reduce xtheir prices to compete on price. This increases consumer surplus • The phone companies like Apple may use their supernormal profits to invest in technology enabling the quality of the products to be improved so benefitting consumers • Limit pricing, predatory pricing, price wars analysed • Diagrams showing pricing decisions and impact on profits. Use of game theory diagram – analysis may be used as KAA or Ev as appropriate

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Firm A

	Low £250	High £300
Low £250	£100m / £100m	£70m / £140m
High £300	£140m / £70m	£120m / £120m

Firm B

NB Price and non-price competition must be included to achieve Level 3

NB if no diagram/pay-off matrix candidate can achieve a maximum of Level 3

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
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Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Non-price competition increases the costs of production which may result in a reduction in profits if there is little impact on demand • Non-price competition generates sunk costs for oligopoly • Price competition may result in a reduction of profits for the firms, limiting their ability to invest and product quality may be reduced • Price wars/predatory pricing may result in some firms leaving the industry so reducing choice for the consumer • If the oligopolies collude or form a cartel then price competition will not occur • Interdependence means reaction from competitors are unpredictable	

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	• Some practices are illegal, e.g. predatory pricing resulting in possible government action

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	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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