Mark Scheme (Results)

Summer 2017

Pearson Edexcel International Advanced Level in Economics
(WEC03)
Paper 01 Business Behaviour

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

Summer 2017
Publications Code WEC03_01_1706_MS

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.

Section A: Essay questions

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

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1</td><td>

Indicative content

Type/ Ownership: broad distinction between public and private ownership; small and large businesses

Private sector: non-government owned organisations include **for profit** organisations (e.g. companies, mutuals and co-operatives) and **not for profit** organisations (e.g. charities)

Public sector: owned by the government (the state); both national and local – e.g. government departments, (typically – health, education, defence, law & order) and more commercially oriented organisations (this will vary according to the country but may include for example, transport, postal services, utilities)

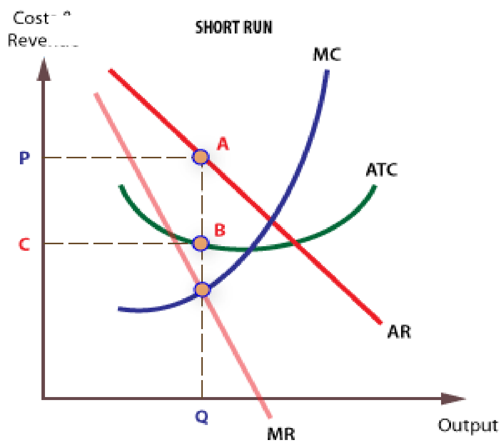
Business objectives may vary according to type and ownership:

Range of objectives – includes:

- profit maximisation
- revenue maximisation,
- sales maximisation
- profit satisficing
- social objectives
- growth

- **profit maximisation - where MC = MR**

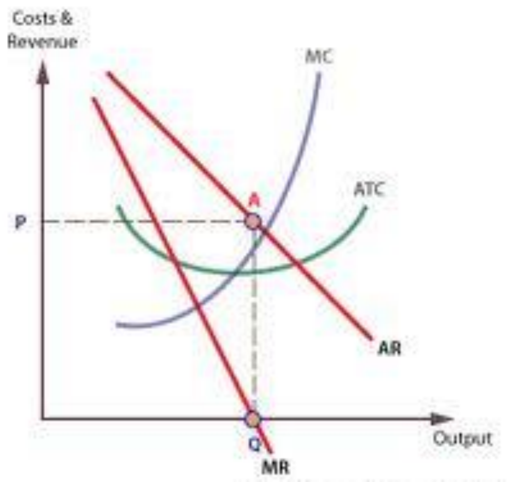
DIAGRAM (Accept perfect competition or monopoly diagram)



- More likely to apply in the private sector - but not necessarily to all types of business in that sector

- **revenue maximisation - Output where MR = 0**

</td><td></td></tr>
</table>



- **sales maximisation - where AC = AR (normal profit)**

  Aim of both of the above is to gain market share. May apply more to those in the private sector. May be a short run objective for large private sector firms in order to deter new entrants

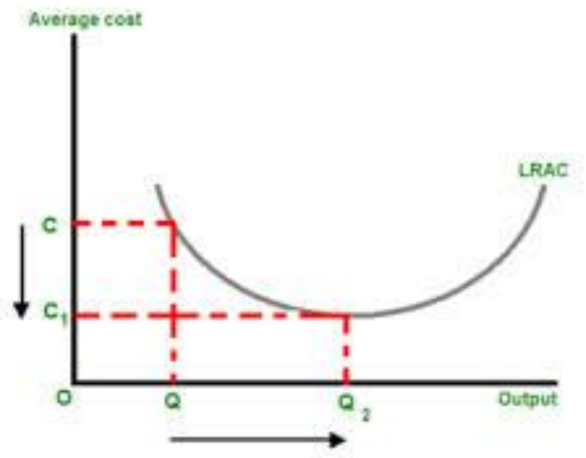
- **profit satisficing** - can apply to all forms of ownership. Large private sector organisations where there is a divorce of ownership and control, co-operatives and mutuals and public sector organisations

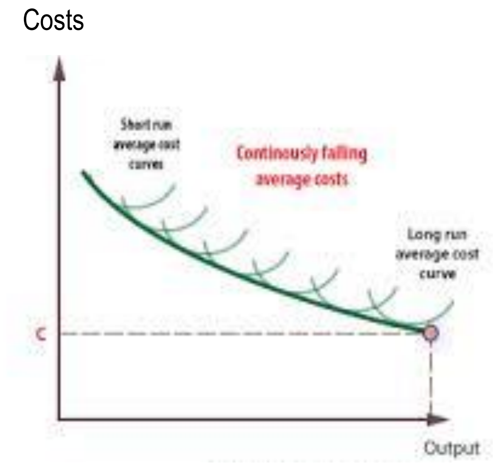
- **social responsibility** - public sector, not for profit private sector, (but possibly in other parts of private sector e.g. where environmental factors are prominent, high emphasis on employer/employee relationships)

- Most organisations in the private sector must make a profit to survive in the long run, whereas public sector organisations can be financed through tax revenues so a profit objective may be non-existent or less important- e.g. provision of transport services, postal services

- Public sector often provides public goods - where profit is highly unlikely

	Evaluation Similarities of business objectives between different forms of ownership • Some private sector organisations are non-profit making (e.g. charities), others may prioritise social factors e.g. co-operatives. This is similar to organisations in the public sector • Commercially-based public sector organisations often have a profit objective much the same as in the private sector. May be a question of the extent to which profit is an absolute requirement for survival and/or growth • Changes in emphasis within the public sector over time e.g. the impact of privatisation and the diminishing importance of nationalisation; public & private sector partnerships/initiatives • Business objectives can change for all ownership forms depending on circumstances - macroeconomic conditions (e.g. in recession, survival will be a prime objective) - changes within a market (e.g. more competitive conditions may involve sacrificing some profit in the short run for private sector firms) - new government legislation (e.g. tightening up on environmental laws may emphasise social responsibility) • Overall conclusions	**(20)**

Question Number	Answer	Mark
2	**Indicative content** Cost advantages arising from growth of the firm may relate to economies of scale - falling LRAC due to growth in the size of the firm  Explanation - as firm size increases from producing output OQ to OQ_2, LRAC falls from OC to OC_2 <u>Causes of EOS</u> • Technical – e.g. increased dimensions, capital investment • Marketing – e.g. advertising economies, more choices of media • Managerial – e.g. more specialist managerial staff • Purchasing – e.g. bulk buying – equipment, supplies etc. • Financial - e.g. access to finances –high level of profits available for re-investment and/or external funding • A large firm may be able to continue to benefit from EOS and grow without experiencing diseconomies of scale – high level of MES; LRAC continues to fall - not 'U'- shaped • Dynamic efficiency – innovations in production techniques • Capital intensive industries - technical EOS • The firm can diversify and gain from marketing and purchasing EOS. Distribution channels e.g. internet, social media • The firm has more options on how to expand – e.g. internationally, merger or takeover • Setting up production facilities in low-cost locations	



- Growth of the firm, and consequent EOS, will also be more likely where;

  - the market for the firm's product is growing

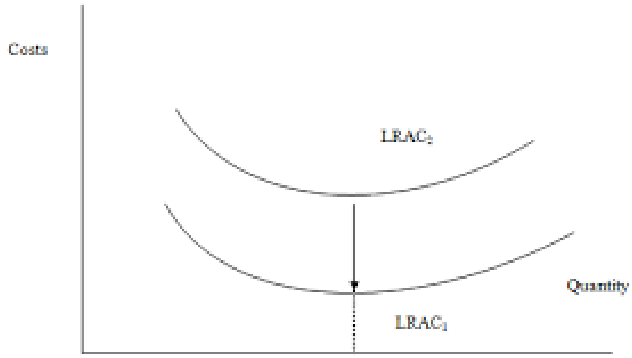
  - where consumer incomes are rising (normal goods)

- Further advantages may also arise through exerting monopsony power over suppliers - hence paying low prices for materials, resources

Candidates may also reference external EOS since large firms may benefit to a greater extent than smaller firms

- External EOS - falling LRAC due to a growth in the size of the industry

<u>EXTERNAL EOS</u> - a downwards shift in the LRAC curve



- Large firms gain from externally provided training courses for workforce, improvements to infrastructure etc.

	Evaluation **The following point all act as constraints/limiting factors to a firm achieving further cost advantages** • Diseconomies of scale - at what level of output does the firm expand beyond its point of lowest LRAC? (See diagram) • Reasons for diseconomies of scale - e.g. lack of control & difficulty of co-ordination • x- inefficiency • Government policy towards <u>large</u> firms- legislation to control mergers and takeovers, control of monopoly power • Lack of scope for growth within the market because of limited market demand • Many other firms competing in the market • The market becomes more contestable • Limits on the extent to which the firm is able to diversify and gain cost advantages • Slow growth or recession in the economy - low aggregate demand • Future uncertainty in the economy – economic, political etc. • By comparison, small firms may be able to group together to share resources (e.g. farm machinery); benefit from government support which gives them a cost advantage over large firms	**(20)**

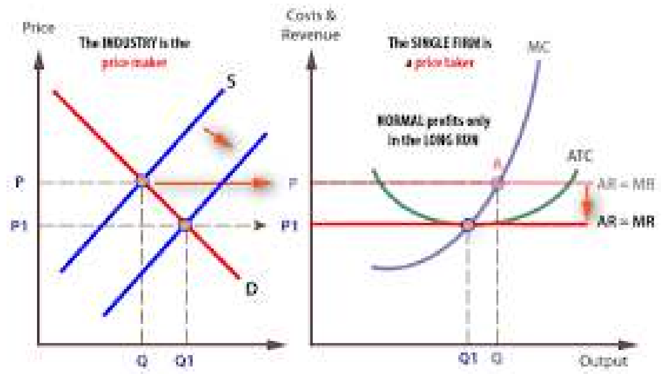
<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>3</td><td>

Indicative content

- Definitions of efficiency – productive (lowest point of AC), allocative (p=MC) and dynamic (technical)

PERFECT COMPETITION

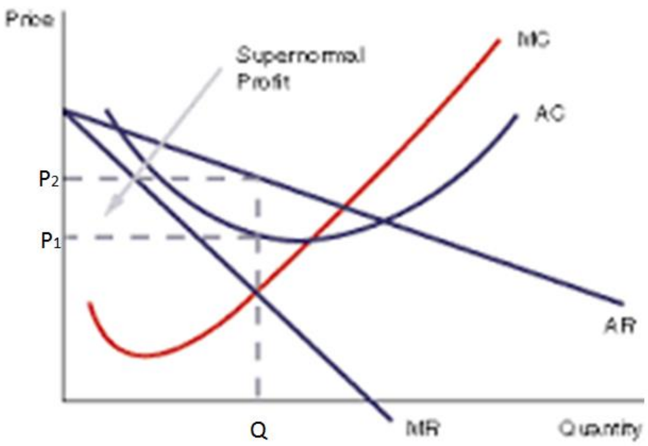
- Definition of perfect competition – conditions of model – large number of buyers & sellers, perfect information, identical product, no barriers to entry & exit
- As a consequence, firms are price takers – hence perfectly elastic demand
- Use of diagram to show that market forces lead to downward pressure on price
  - Any supernormal profit in short run is removed in the long run with new entrants.
  - Rightward shift in market supply curve, shift downwards in firms' AR=MR=D curve i.e. lower price from P to P1



- Diagram shows that, in the short run, the supra- normal firm achieves allocative but not productive efficiency. In the long run all firms achieve both productive and allocative efficiency and make normal profit

MONOPOLY

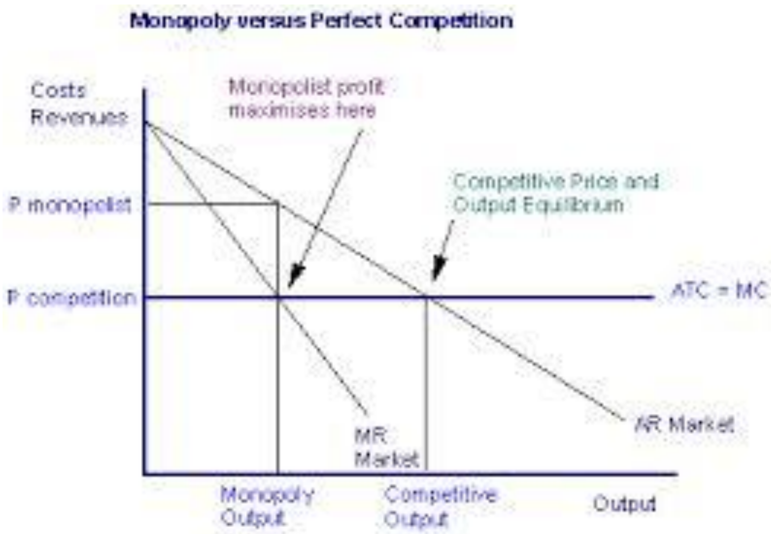
- Definition of monopoly - the sole supplier in the market
- Monopolist is a price maker and it faces a downward sloping demand curve. Demand tends to be relatively inelastic



</td><td></td></tr>
</table>

- Profit maximising monopolist - output Q at MC = MR
- Absence of efficiency - output below lowest point of AC; price above MC

- Price higher & output lower compared to perfect competition
  ALTERNATIVE DIAGRAM - compare both market structures on one diagram



- Price is lower and output is higher under perfect competition

- Monopolist erects barriers to prevent entry of new firms - lack of competition leads to x-inefficiencies

Evaluation

- Monopoly is a larger firm and so more scope for economies of scale:
  - Lower LRAC may result in efficiency gains being passed on to consumers – lower prices & higher output

- Monopoly has 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 – contestable market theory predicts a monopolist may opt for normal profit and possibly achieve productive efficiency

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

(20)

Question Number	Answer	Mark
4	**Indicative content** • Define international competitiveness - the ability of a country to compete in international markets Government measures to promote international competitiveness may include: • Greater levels of (or more targeted), spending on education and training – to raise investment in human capital and improve productivity levels • More spending on health care – to create a healthier more productive workforce. Increase in GNP and improvements in quality of output • Incentives for exporters- subsidies, tax breaks for exporters, lower interest rates - to lower costs and market prices • A depreciation/devaluation of the domestic currency –in order to reduce relative export prices and make exports more price competitive • Developments to the infrastructure - improved transport links and communications - to encourage more trade and to increase efficiency • Policies to attract more FDI into the economy – encourages technological improvements **Evaluation** • Limits to how effective and influential intervention can be e.g. government's ability to manipulate exchange rates may be highly constrained • Depreciation of the exchange rate increases the costs of imported materials • Opportunity cost of government spending – e.g. more on health care/education etc. may mean less for business sector (at least in the short run) • Levels of investment (both internal and FDI), will depend on longer term confidence in the economy – incentives may be insufficient/ineffective where confidence is low	

	• Success in attracting FDI is partly dependent on the relative attractiveness of other economies • May result in excessive levels of government spending • Lower interest rates may be inflationary • Time lags of policies – e.g. tax breaks may be more effective in the short term but investment in education/health may have more long term impact • Attracting more FDI may result in transfer pricing/tax avoidance - inflicting damage to economic well being • Prioritisation of measures. Which measures might be more effective and why? • Distinction between SR and LR – is the support financially sustainable in the long run? • The possibilities of government failure – costs of intervention may outweigh benefits	**(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.

Section B: Data response

Question Number	Answer	Mark
5(a)	**Knowledge and Application (up to 4 marks)** **Knowledge** – up to 2 marks • Definition: Predatory pricing is where a firm sets a low price below the cost of production/below average cost (1) • In order to deliberately force other competing firms out of the market (1) OR The firm will make a loss in the short run (1) Any other valid developed point 1 mark **Application –** up to 2 marks • In the short run this is likely to benefit consumers' because of lower prices (1) • In the long run, consumers may suffer if prices rise again once competitors are eliminated from the market (1) • Predatory pricing is usually illegal/subject to some form of government control (1) • Predatory pricing may often be ineffective (1) • Any relevant examples of predatory pricing (up to 2 marks)	**(4)**

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

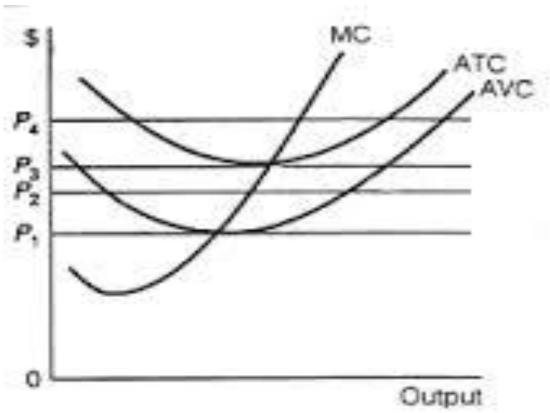
Knowledge, application and analysis – indicative content

Explain the term 'loss making business' – a firm is unable to cover its costs of production (or it is earning less than its normal profit AR ≤ AC)

Distinction between the short run and long run

Diagram

- In the short run the online business can survive as long as it covers its average variable cost –minimum price of P1
- P2 shows a contribution to fixed cost but still loss making
- P3 shows where normal profit is made - minimum price in the long run
- P4 shows supernormal profit



Survival may be possible if:

- Online businesses are financed by investors who may accept short term losses for the chance of long term gains
- Some firms may be able to cross-subsidise using profits from other parts of the business (at least in the short run)
- The Chinese government provides financial support to online businesses

ACCEPT DIAGRAM SHOWING IMPERFECTLY COMPETITIVE MARKET

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the implications for a loss-making business. 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 implications for a loss-making business 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 implications for a loss-making business, 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		
	• Car8 was failing to even cover its AVC (price below P_1) - 10 yuan price, 17 yuan cost; so unable to survive in the short run. The greater the sales the higher the loss • High failure rate of online service businesses in China - estimated at between 30% - 40% in just a few months • Intense competition of online businesses is likely to lower the chances of survival even more • Brand loyalty is low for Chinese online services	
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		Mark
5(c)		**(12)**
Knowledge, application and analysis – indicative content		
	'Many small to medium sized firms which are able to differentiate their products' describes monopolistic competition (allow reference to small or medium-sized firms in oligopoly) Types of differentiation include: - Physical product differentiation e.g. product features – colour, shape, design - Marketing differentiation e.g. packaging, advertising, promotions - Differentiation through distribution e.g. online selling The strategy may increase profits as **the demand for the firm's products increases**: REASONS FOR INCREASED DEMAND • a rise in consumer awareness from advertising, packaging and promotion • specific varieties of the product aimed at different sections of the market (e.g. varieties of tuna). PED may vary between different parts of market • differentiated products provide more choice/variety for consumers e.g. tuna and ketchup product for younger consumers • distinctive packaging to make products appear more unique-stay fresh packaging for tuna • enables firm to charge higher prices and make supernormal profit (short run) • Higher profits can be used to further innovate and develop new product lines	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the financial effects of a product differentiation strategy. 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 financial effects of a product differentiation strategy 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 financial effects of a product differentiation strategy 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

The strategy may lead to a **fall** in profits

- Advertising by a large number of firms under monopolistic competition may be expensive and not compensated for by a sufficient rise in revenue
- It may not be an appropriate strategy when consumers are spending less - e.g. economy in recession (ref. to Spanish consumers in Extract 3)
- A large number of different brands under monopolistic competition may lead to confusion for consumers and lower sales
- Higher profits (and prices) may attract new firms into the market - long run reduction in profits
- **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.

Question Number		Mark
5(d)		**(12)**
Knowledge, application and analysis – indicative content		
	Consumers are likely to benefit because • Consumers will be able to buy more of the same product • Consumers will have more income left over to spend or to save • Improved quality of products as firms invest due to higher profits from increased sales • There will be a rise in consumer surplus (may be shown on Supply & Demand diagram)	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the potential benefits of reduced prices to consumers. 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 potential benefits of reduced prices to consumers 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 potential benefits of reduced prices to consumers 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		
	Possible **negative** effects for consumers • Lower prices for consumers may only apply in the short run. In the long run prices may rise due to firms leaving the market if profits fall. Resulting in fall in consumer surplus • Less choice in the long run • Predatory pricing or limit pricing may reduce competition. Although Extract 1 suggests this rarely happens • It may result in firms reducing quality to maintain profit margins • Hit and run tactics of firms entering the	

	industry to try to make profit and then leaving the industry • Overconsumption may cause negative externalities to consumers	

Level	Marks	Description
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

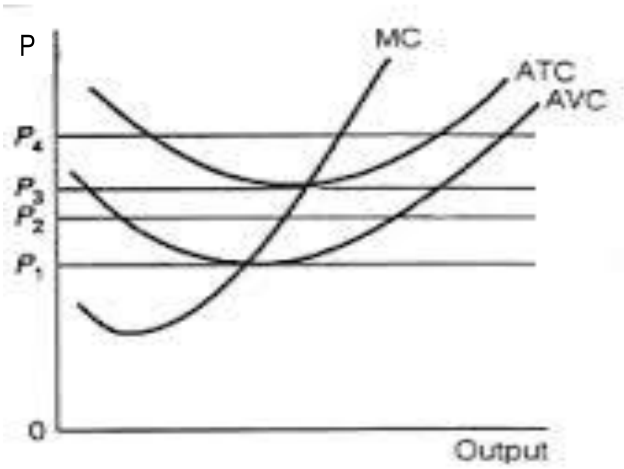
Question Number	Answer	Mark
6(a)	**Knowledge and Application (up to 4 marks)** **Knowledge** – up to 2 marks: • Oligopoly (1) with **one** characteristic of oligopoly • Small number of dominant large firms (1) • Interdependence of firms (1) • There may or may not be a large number of smaller firms in the market (1) • Any other valid knowledge point (1) **Application –** up to 2 marks: • Calculation of concentration ratio: 3 firm 62%, 4 firm 73%, 5 firm 78%, 7 firm 87%. (2 marks for an accurate calculation) • Rest of the supermarkets have 13% between them (1) • Tesco is the dominant firm with 29% (1)	**(4)**

Question Number		Mark
6(b)		**(12)**
Knowledge, application and analysis – indicative content		
	• Define contestable market – one with few, if any barriers to entry and exit. Absence of sunk costs, lower consumer loyalty Evidence suggests that the industry is becoming more contestable: • Amazon plans to enter the online UK grocery market • Changing consumer shopping habits with preferences changing towards online shopping and smaller stores • Rapid growth in share of sales for both Aldi & Lidl • Negative sales growth for two of the largest firms - Tesco & Sainsbury • 'Big Four' share of UK grocery market the lowest for 10 years • Future growth of Aldi (plans to double in size by 2022, unlike the biggest stores which have abandoned expansion plans) • These trends may provide greater opportunities for new entrants in the future	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the concept of contestable markets. 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 contestable markets 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 contestable markets 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			
	• Aldi & Lidl have a relatively small combined market share (9% in Oct 2014), so it may not have any significant effect on the behaviour of the larger firms • The same will apply to Amazon - at least in the short run • Tesco is still a very dominant firm in the market. Asda, Sainsbury and, to a lesser extent, Morrison still likely to have significant market power • Information in Figure 1 is a snapshot and Figure 2 is only for 1 year • The larger stores may be offering online selling and smaller convenience outlets • No clear evidence that the market is more contestable - e.g. are **new** entrants likely to emerge? Aldi & Lidl are not new entrants - but have grown recently • There may still be substantial barriers to entry and/or exit e.g. branding, distribution networks and sunk costs **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.	

Question Number		Mark
6(c)		**(12)**
Knowledge, application and analysis – indicative content		
	• Some dairy farmers are making losses - unable to cover costs of production  • Some UK dairy farmers were unable to cover their average total costs (price below OP_3) - 23p average retail price per litre of milk, but 32p to produce • Price paid to farmers would need to be at least OP_1 **in the short run** - meeting average variable costs, but making no contribution to fixed costs • Therefore some dairy farmers are leaving even in the short run - the price is below OP_1 <u>ACCEPT DIAGRAM SHOWING IMPERFECT MARKET</u> • Production costs have been rising by 36% since 2007 whilst prices have continued to fall • High number of dairy farmers have left the industry - nearly 10 000 since 2002 • Past trends suggest the number of dairy farmers is likely to continue to fall	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the reasons why some firms may exit an industry. 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 why some firms may exit an industry 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 why some firms may exit an industry 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.

<table>
<tr><th colspan="4">Evaluation – indicative content</th></tr>
<tr><td></td><td colspan="2">Some UK dairy farmers may be surviving:
Covering their average variable costs in the short run
23p is an average price – some dairy farmers may be charging higher prices to their customers
Using retained profits/selling off assets
Managing to reduce costs of production - becoming more efficient
Cross- subsidisation
Benefiting from economies of scale because farms are larger
Gaining from UK Government financial support
Candidates may take either perspective for KAA and the reverse perspective for evaluation</td><td></td></tr>
<tr><th>Level</th><th>Marks</th><th colspan="2">Descriptor</th></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>

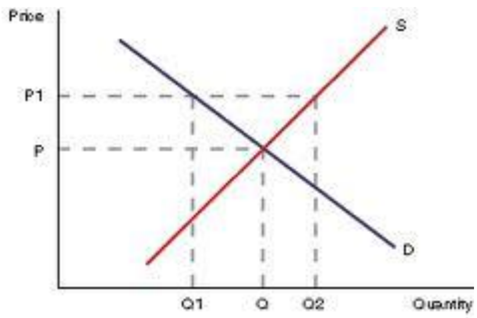
Question Number		Mark
6(d)		**(12)**

Knowledge, application and analysis – indicative content

Measures are aimed at preventing exploitation of suppliers by large powerful buyers (monopsonists)

<u>Methods of intervention to protect suppliers from monopsony power</u>

- Setting minimum prices for dairy farmers to charge large UK supermarkets



- Equilibrium price at P deemed to be too low to sustain suppliers, minimum price of P_1, supply rises to Q_2

- Higher price raises incomes for suppliers - greater likelihood of survival

- Government measures to increase contestability within the monopsony market
- Encourage supermarkets to agree to a voluntary code to improve their buying behaviour
- Paying subsidies to the suppliers
- Restrict imports of milk - quotas, tariffs

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of government measures to protect suppliers. Material presented is often irrelevant and

		lacks organisation. Frequent punctuation and/ unclear.
2	4-6	Understanding of government measures to protect suppliers 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 measures to protect suppliers 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			
	- Setting a minimum price leads to - - higher prices to consumers - particularly adverse for low income groups and those on fixed incomes. Milk and other dairy foods are basic, staple products - lower profit margins for supermarkets - supermarkets cut costs in other areas – e.g. purchase milk from overseas suppliers, reduce employment, cut investment - Some government measures may protect inefficient suppliers e.g. subsidies, protectionism - Subsidies are a cost to taxpayers - Limits to the powers of the government if monopsonists are very powerful in the market - Market forces argument - price is a reflection of the forces of supply and demand, intervention distorts the market		
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.	

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL, United Kingdom