



Examiners' Report June 2018

IAL Economics 3 WEC03 01

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Introduction

This was the fifth series for a summer examination of WEC03 Business Behaviour. A further six papers have been set for previous winter and autumn series.

The examination seeks to test the candidates' abilities to select and apply appropriate economic concepts, theories and techniques in a variety of contexts. As Unit 3 is a synoptic unit, the examination may draw on material from Units 1 and 2.

Candidates choose to attempt two out of four essay titles in Section A. Each essay is marked out of a total of 20 marks using five levels of response performance criteria.

Question 1 was the most popular question ('Discuss possible reasons for demergers'). Question 2 also proved to be a popular choice ('Assess the extent to which collusion is a rational business strategy').

This was the first paper where an actual example of the relevant concept was provided at the beginning of the question. The candidate **may** choose to use this example in the course of attempting the question but this is **not** a requirement. The example is primarily given for illustrative purposes.

Candidates choose one out of two data response questions in Section B. Each question has four parts to it. Part (a) is worth 4 marks and parts (b) to (d) are each worth 12 marks. For parts (b) to (d) it is vital that candidates make effective use of the information provided in order to access Levels 2 and 3 for knowledge, application and analysis marks. A further 4 marks are available for evaluation. Question 5 was the most popular question.

Successful candidates were able to:

- Clearly identify what they were being asked to do. For example, in Question 3 to focus on **how the business behaviour of monopsony firms may be affected by pressure group activity** and in Question 5(b) to focus on the differences, (and possible similarities), in **business objectives**.
- Draw and label appropriate diagrams accurately. For example, showing the minimum efficient scale on a long run average cost curve for Question 1 and efficiency levels of output on a monopoly diagram for Question 5(c).
- Effectively time manage their answers. As was the case in more recent series, there was less evidence of candidates having to rush part (d) of Section B.
- Select and apply relevant information from the extracts to enhance their answers in Section B

Less successful candidates often:

- Misinterpreted the question. This was the case with Questions 3 and 4 where candidates did not analyse and evaluate the impacts on **business behaviour**.
- Discussed price competition and not product differentiation in Question 6(b).
- Confused contestability with competitive in Question 6(c).
- Failed to use the extracts effectively in Section B. In some cases, the relevant extract(s) was not

referred to in a candidate's answer which automatically restricts the mark to Level 1 KAA.

The main implications for future teaching, learning and examination preparation are:

- To ensure that **all** parts of the specification are taught and internally assessed.
- To encourage candidates to make full use of previous examination papers, mark schemes and examiners reports.

Question 1

Candidates who performed well were able to identify a range of possible reasons for demergers and how they may benefit an organisation. A sound response typically analysed three or four reasons in some depth. Diagrams were used to show how an organisation may need to reduce its size in order to move closer to its minimum efficient scale. Such a response would potentially achieve a Level 4 mark of 13/14.

Evaluation which considered reasons why a demerger may turn out to be a wrong decision or create adverse effects for the organisation would open up the possibility of achieving a Level 5 mark.

An answer which lacked scope and only considered a limited type of reason, for example to reduce diseconomies of scale, but with sound analysis would have scored high Level 3, since the response would have lacked sufficient breadth.

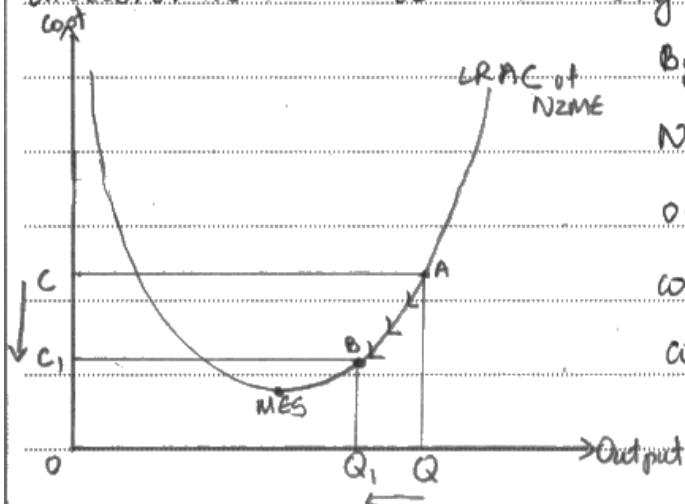
Put a cross in the box indicating the question from Section A that you have chosen for your FIRST essay. If you change your mind, put a line through the box and then indicate your new question with a cross .

You must answer TWO essays in this section.
Please start your second essay response on page 8.

Essay Choice 1: Question 1 Question 2 Question 3 Question 4

A Demerger refers to when a business decides to sell off part of its enterprise. By selling off Australia's APN News & Media, NZME may be benefitting from avoiding future losses if APN News was not performing well. This would also bring in more revenue and profits into NZME through the sale of assets thus giving them more resources to focus on their core competency which is entertainment news. This was also seen previously by the airline Qantas which sold off its frequent flyer business to focus more of its resources, time & efforts on its domestic airline business instead. This could also make shareholders of NZME happier as there is less dilution of ownership and higher profits available to distribute as dividends.

Further, by demerging NZME could avoid operating at diseconomies of scale and rising average cost in the long run.



By reducing its scale of production NZME would be lowering the risk of conflicts and rising average costs from coordination and communication issues which come about when a firm grows too large.

and starts operating at a point beyond its minimum efficiency scale (MES). Thus the demerger will lower NZME's long run average cost of production and bring it closer to its MES allowing the firm to reduce the price charged to subscribers and thus increase its demand and market share.

Moreover, by demerging the firm will be able to reduce inefficiency. As there would be fewer levels in the hierarchy when the firm becomes smaller, there would be a better flow of information & communication causing the principal agent problem to become lesser and result in higher x-efficiency. X-efficiency is when managers are more motivated causing the output produced to increase given the quantity of input. It would also increase productive efficiency, which is when the firm produces a given quantity of output with the same amount of input for the lowest possible cost. As the demerger moves NZME's long run average cost closer to its MES, the firm will be more productively efficient.

Lastly, the demerger may be a result of the two firms being unable to find synergies as teams were overlapping and not complementary. As ~~NZME~~ NZME is in the entertainment news industry and APN News is in a similar industry they may have merged hoping to create a higher value end result (synergies) and when such outcome does not take place they would choose to demerge. ~~to~~ They may also be demerging to avoid the attention of regulators if their market share is increasing.

On the contrary, the demerger would be less beneficial to the firm if it causes them to lose an opportunity to gain economies of scale. By reducing their production capacity their average cost ~~may~~ per unit may rise as they no longer benefit from financial economies of scale (when risks are low and banks lend for cheaper) & technical economies of scale (when dimensions are smaller and cost per unit increases) thus causing ^{average} cost to rise and prices to rise causing demand & market share to fall.

Further, the demerger may also cause NZME to regret their decision to sell of APN News & Media if the new buyers & managers of the company manage to turn it into a profitable business.



The candidate successfully analysed several relevant reasons for demergers. At times, the analysis was developed and very well explained. The diagram of the long run average cost curve was accurately drawn and labelled and analysed in an appropriate way. The response was well structured and cohesive.

If the final evaluation section had been a little more extensive and detailed the mark awarded would have been a Level 5.

As it stands the response was awarded a top of Level 4 = 16 marks



Keep your definition(s) brief and to the point. You can then get to the heart of the question which this example clearly shows.

Question 2

Candidates who performed well were able to identify and analyse three or four justifications for collusion as a means of benefitting the business. Sound responses typically included at least one diagram to show the potential impact on profit. With balanced evaluation such a response would gain a high Level 4 or Level 5 mark.

Candidates who performed less well tended to resort to a list of possible reasons why firms might collude without analysing in any sort of depth.

Candidates could attempt this question from two opposing directions. One approach would be to consider collusion as a rational business strategy where evaluation discusses the irrationality of such a strategy. The alternative approach would be to reverse the argument. Each approach was equally valid.

Put a cross in the box indicating the question from Section A that you have chosen for your FIRST essay. If you change your mind, put a line through the box and then indicate your new question with a cross .

You must answer TWO essays in this section.
Please start your second essay response on page 8.

Essay Choice 1: Question 1 Question 2 Question 3 Question 4

2) Collusion occurs when two or more firms join together formally ~~or~~ or informally to restrict competition by fixing ~~price~~ level ~~or~~ of price and limiting the output. Collusions are of three types:

• Tacit collusion: When firms ~~join together with~~ collude without any ~~explicit~~ ~~agreements~~ or without having communicated ~~between themselves~~ at all. A common ~~form~~ form of tacit collusion is ~~price~~ price leadership.

• Overl collusion: ~~It~~ When firms collude ~~to~~ by meeting ~~secretly~~ and ~~also~~ deciding on level of price and ~~output~~ output.

• Cartel collusion: ~~Cartel~~ Collusion occurs through formation of cartels where firms openly fix price and output ~~of~~ quota of each firm.

Collusion is often a business strategy ~~by~~ undertaken ~~by~~ by firms in an oligopolistic market. In such a market, firms are increasingly ~~interdependent~~ interdependent ~~on~~ on each other's decision making and ~~price~~ price reductions of one firm can lead to ~~a~~ a price war between firms in an

economy, which leads to a loss of potential profit in the industry. Collusion will restrict competition between firms, so they can maximise profits through joint-profit maximisation. Restricting output will also lead to higher prices, which will increase supernormal profits for firms in the market. Moreover, collusion reduces uncertainty and unpredictability, as firms are co-operating together rather than competing against each other. This will reduce any chances of unpredictable price wars and will lead to stable profit margins of firms. Firms who are not included in collusive agreements may face losses and as other firms might cross-subsidise and engage in limit pricing or predatory pricing, forcing loss-making firms to leave the market. This will lead to strategic benefits for colluding firms such as gaining larger market share. Moreover, collusion between them

However, game theory suggests that colluding firms have an incentive to cheat on the agreement as ~~There~~ ^{There} is a chance of whistle blowers ~~to those who~~ ^{blowers who} were one of the firms can pass the information of collusion to the ~~at~~ government, and ~~and~~ whistle blowers will not be penalised. ~~Such +~~ [⊗] This suggests firms are better off competing ~~ag~~ against each other through non-price factors. Price wars will lead to a collective ~~loss~~ ^{loss} of potential profit ~~take~~ ^{for the industry}, which is not beneficial for any firm ^{in the long long run}. Moreover, ~~collusion~~ ^{collusion} is illegal, and strict ~~regulation~~ ^{regulations} and monitoring by competition authorities may ~~expose~~ ^{expose} collusion, ~~causi~~ ^{cause} which will lead

to fines. This is not beneficial for firms. Collusion is further, collusion ^{is more} ~~is~~ applicable in industries ~~where~~ ^{where} firms are extremely ~~power~~ ^{powerful} and governments ~~cannot~~ ^{cannot} take action ~~ag~~ against them. An example is OPEC, where firms in oil industry ~~openly~~ ^{openly} fix prices and output. Strategies such as predatory pricing is also illegal and can ~~cause~~ ^{cause} firms to ~~achieve~~ ^{achieve} ~~be~~ ^{be} fined by the government.



The candidate starts by defining the various types of collusion. This is fine in principle but will only gain knowledge marks at Level 1, so definitions need to be brief. The analysis which follows is correct, albeit lacking in detail. There is a reference to supernormal profit which would have been enhanced if a diagram had been included.

The evaluation section adds more to the response and discusses the possibility of firms 'cheating' on other colluders and the issue of government controls.

The mark awarded was 13/20 – just into Level 4.



Do not spend too long on your definitions. Be sure to develop your analysis and use a relevant diagram where you think it is appropriate.

Question 3

Good quality answers focused on how monopsony firms might respond to pressure group activity to protect the interests of suppliers.

Credit was given to answers which identified a range of relevant activities and the sort of government measures which may be enacted. This type of answer would typically be awarded a mid-Level 2 mark.

Where the candidate clearly analysed how a monopsonist might react and explained why they might not *need* to react (e.g. large size of firm, weak influence of pressure group), the mark moved up to Level 4 or Level 5.

Put a cross in the box indicating the question from Section A that you have chosen for your FIRST essay. If you change your mind, put a line through the box and then indicate your new question with a cross .

You must answer TWO essays in this section.
Please start your second essay response on page 8.

Essay Choice 1: Question 1 Question 2 Question 3 Question 4

Monopsony refers to a market, where there is a sole buyer of a product or commodity in the industry, for example the market for electricity or power supply etc. Large super markets may operate as monopsony firms if they have high market share and exert control over prices to suppliers.

Suppliers are usually paid low prices by monopsony firms to reduce costs and enjoy higher supernormal profit, while it reduces revenue income and profits for the suppliers.

Pressure groups are organizations or groups formed to influence certain government (public) policies or to advance a particular cause.

Pressure groups may persuade firms with monopsony power to pay fair prices to consumer farmers through public creating public awareness. Pressure groups may convince consumers to reduce or

stop purchasing goods from monopsony firms that pay unfair prices to farmers. This will reduce their sales, hence profits and they as a result, they are obliged to pay fair prices to farmers in order to maintain their reputation.

Pressure groups such as National Farmers Union may protest and convince the government to impose legislations such as minimum price, which is a price floor below which prices can not fall, in order to protect farmers from being exploited by supermarkets through low prices.

Also, pressure groups may use adverse media coverage to bring forward the unfair practices done by supermarkets in order to allow legal actions being taken.

Such pressure group activities will lead to supermarkets being forced to pay higher prices to the farmers.

They might pass on the additional cost of paying higher prices to farmers to consumers, in order to maintain their own profits. This will result in less a fall in consumer surplus.

Similarly, ~~firms~~ supermarkets may be forced to supply poor quality products to reduce costs and buy supplies from cheap and poor quality sources. This will reduce utility for consumers as they will not benefit from good quality products.

⊕ On the other hand, monopsony firms may use ~~to~~ regulatory capture, which involves government regulatory bodies to work in favour of the firms through unfair means such as bribes to avoid following the legislations.

However, the impact of pressure group activities on firms depend on the size, reputation and strength of the pressure group. A pressure group with more significant power is more likely to be able to influence the behaviour of large supermarket.

Supermarkets may not necessarily involve into unfair practices ~~like~~ like regulatory capture. Rather, they might use their brand name to retain customers.

The If they are forced to pay higher prices to farmers, they may use it as a promotional strategy and claim social as their corporate social responsibility, which may encourage many consumers to willingly accept the higher prices to contribute to social welfare. As a result, firms will be able to retain high profits, without ~~sacrificing~~ ^{sacrificing} quality.

X Supermarkets may not choose to compromise on quality and go to a cheap supplier in order to retain market share, as consumers may switch to rivals who provide better quality product. ~~or input as most of the firms will be.~~

lastly, the extent to which pressure groups can influence behavior of ~~it~~ ^{it} ~~super~~ ^{super} ~~market~~ ^{market} ~~lets~~ ^{lets} with monopsony power depends to on the other factors such as the size of the firm. If the firm is a large TNC or has a brand-loyal ~~base~~ ^{customer} base, they are least likely to be affected.

Nevertheless, pressure group activities

may influence behavior to firms to some extent, if not to a very large extent, provided their claims are spread reached to people and required measures are effectively taken and monitored.



Having defined a monopsony and pressure groups, the candidate attempted to analyse what the monopsonist might do in response to pressure group activity. Paying 'fairer prices' to suppliers, cutting costs and improving brand image in terms of social responsibility were identified and analysed to some extent. In the absence of evaluation this would have been worth a mid-level 3 mark.

The candidate also makes evaluative comments with some development. For example, the size of the monopsonist, the influence of the pressure group, the degree of consumer brand loyalty.

The final mark awarded was 14.

In order to achieve a high Level 4 or Level 5 mark the analysis would need to be more rigorous. Links could have been made to efficiency concepts in relation to cutting costs and to price elasticity of demand in relation to brand loyalty.



Be sure to develop your analysis. Think about how you can relate your comments and observations to relevant economic theories and concepts.

Question 4

There was a clear division between candidates who had read the question carefully and those who had not.

Sound responses discussed the ways in which government measures to control TNCs might affect the behaviour of such organisations. For example, a response which discussed the degree to which TNCs may need to comply, how such measures might affect the reputation of a TNC, the possibility of a TNC pulling out of the economy and other related factors would potentially be in Level 4 or Level 5.

Higher level responses also offered valid evaluation. For example, by discussing the possible limited impact of such measures in relation to the power and influence of a TNC and the difficulties faced by a national government imposing restrictions on transnational organisations.

Less successful responses identified a range of government measures but provided tenuous links as to how these might affect the behaviour of TNCs. Such a response would not attain anything above a mid-Level 3 mark.

Question 5 (a)

Two knowledge marks were awarded for a correct definition of price elasticity of demand (PED) which included a correct formula. Knowledge marks were also awarded for defining inelastic and/or elastic demand.

Two application marks were awarded for a correct calculation of PED. An application mark was awarded for stating that demand was inelastic.

Some candidates were wrong in thinking that a fall in demand when price rises means that demand is elastic.

48.3% of candidates were awarded 3 or 4 marks for this question.

Question 5 (b)

There was plenty of information in the extracts to enable candidates to apply their understanding of business objectives. The best responses were able to use the extracts effectively and to make valid evaluative comments. For example, the fact that, as a public sector postal delivery service, Australia Post would most likely have a social responsibility objective and have an obligation to deliver to areas of the country which are unprofitable, whilst DHL may not have such an obligation.

By contrast, Australia Post is a commercially-based organisation and it had been profitable up until 2014. Therefore, like the private sector, it may have an objective to make an overall profit.

As with the other Section B 12 mark questions, lower marks were awarded where there was little or no effective application to the context.

(b) Discuss the extent to which the business objectives of a firm such as Australia Post may differ from those of large private sector companies.

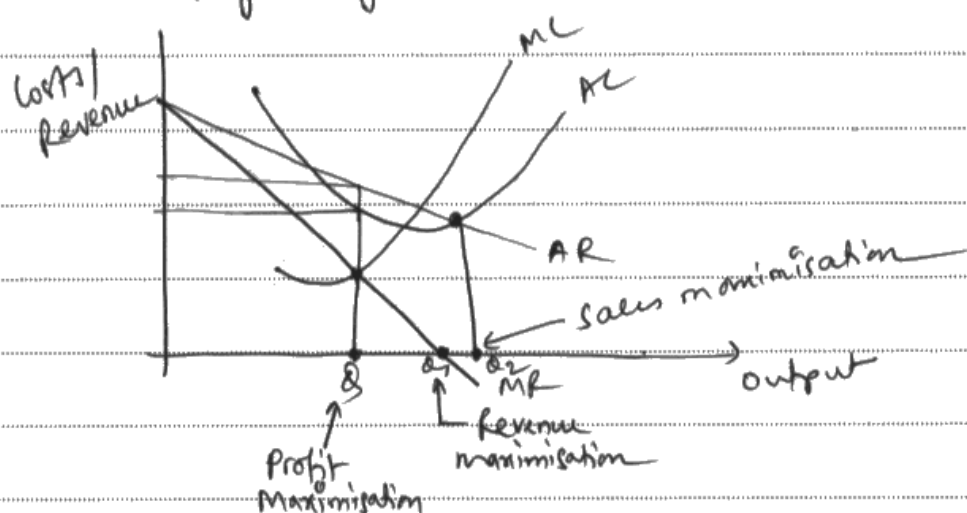
(12)

Australia Post is a government owned firm. So it is under the public sector. Public sector consists of firms that are owned by the government or state. Whereas private sector companies are owned by private individuals.

The main objective of public sector organisations is to provide social welfare. Public sector organisations can either be for government-based ~~work~~ activities like providing education, defence, healthcare, etc. They or they may be commercially-based organisations for providing services like transport, postal delivery, etc. So Australian Post is a commercially based government organisation. Its main purpose is to ~~pro~~ make sure that the services are provided in sufficient amount at low cost to the consumers. Extract 1 says that it ~~on the other hand~~ has a legal monopoly over the delivery of standard letters, which weigh less than 250g and cost no more than AUD \$2.80 to send. Also extract 2 says that Australian Post is required to deliver 94% of letters on-time or early. These show that their main purpose

is to provide services to consumers as efficiently as possible.

On the other hand private sector organisations like DHL and FedEx have main objective of raising profit. They plan to do it through either profit maximisation or profit satisficing. However, they may also have other objectives like profit sales maximisation or revenue maximisation or simply growth.



However, there are mutuals, co-operatives and not-for-profit organisations in private sector whose main objective is social welfare.

Also, commercially based organisations like Australian Post also ^{sometimes} demand profit to run the firm in long run. Extract 3 shows that they want to raise price

to reduce their losses.

Private sector firms need to gain profit to survive in long run.

Whereas, public sector firms can gain funds from government for their operation.

Initially, both private and public sector firms may want profit since they face sustained losses.



This response attempted to make effective use of the information. References were made to Australia Post being in the public sector and that it has a social welfare objective. However, this valid point was not developed sufficiently. The rest of the response was descriptive, followed by a generic section which was not linked to the context. This meant that the KAA mark was in Level 2.

Evaluation comments about not-for-profit in the private sector and commercially-based Australia Post was worth 2 evaluation marks.

The mark awarded was 7/12.



Make sure that you use the information provided effectively in your answer. If you write a generic answer you are in danger of only scoring up to 3 marks for KAA, instead of a possible 8 marks.

You are being tested on how well you are able to apply your economic knowledge and understanding to a given context. This is a skill which you need to practise.

Question 5 (c)

Successful candidates combined the concepts of efficiency, (productive, allocative and dynamic), with an assessment as to whether or not Australia Post could operate efficiently. They used evidence from the extracts such as legal monopoly, exceeding targets for letter deliveries, the threat of new entrants on the one hand, and customer complaints and losses on the other hand.

A diagram showing points of efficiency or showing a long run average cost curve for a natural monopoly helped to enhance the answer.

Such a response would be awarded the maximum 12 marks.

Again, it is vitally important that the context is used within the response. There was a significant number of generic answers to this question.

Question 5 (d)

Sound answers identified 3 or 4 relevant ways in which incumbent firms might respond to the entry of new firms such as Japan Post. For example, being more competitive by improving delivery times, introducing electronic bookings for parcel deliveries and reducing prices for deliveries were relevant strategies discussed in context. Such a response would likely achieve a Level 3 KAA mark of 7 or 8.

Evaluation marks were awarded to candidates who considered why new entrants may not have a significant impact on incumbent firms. For example, consumer loyalty, relative sizes of new and incumbent firms and hit and run tactics of new entrants were all valid evaluative points.

(d) Evaluate the likely effects of the entry of more firms into the letter and parcel delivery industry on the behaviour of existing firms.

(12)

According to extract 3, several more international companies like Japan Post have entered the national market.

As more firms enter the market, competition increases. Market is more contestable. Since competition increases, existing firms will lower their price and improve the quality of their goods to increase competitiveness.

They may spend more on research and development and innovation to increase consumer choice and product quality.

Also, they may undertake policies like predatory pricing or limit pricing to restrict entry of new firms. Limit pricing is when the existing firm charges a price lower than the cost of production of the new firm. Since costs are high and profits will be low, new firms do not enter the market.

The existing firms may also cut down labour and introduce more machinery in firm to increase efficiency and reduce costs of wages. How

If the firm is a monopoly like the Australian Post, it might be difficult for new firms to increase their demand due to consumer inertia. So the monopoly may continue to charge high prices to the consumers.

If ^{existing} firms have brand name, consumers are more likely to purchase their services despite high prices. So it becomes difficult for new firms to gain market share and the existing firms do not lose much market share. So they may not change their behaviour much.



This response starts by identifying that international companies such as Japan Post have entered the market. So the scene is set.

Several valid points are then made relating to the behaviour of incumbent firms. These points are not fully developed and are also made in isolation from the context. Because several valid points are there and the context was established at the start, the KAA mark is Level 2 – 5/8.

Two valid evaluation comments are made, monopoly power and consumer loyalty. The latter was better explained and the evaluation mark was 3/4.

Hence this response was awarded 5 + 3 = 8 marks.

The mark would have been higher if the candidate had analysed those points in context.



It can be a good idea to relate your answer to the context from the start but make sure you use the information provided at points throughout your answer.

Question 6 (a)

Up to two knowledge marks were awarded for explaining that a higher price may be charged because of an increase in demand, to ration excess demand or to price discriminate according to the time of day.

Application marks were awarded for example, by explaining that demand may be more inelastic at peak times, revenue and profit can increase with a rise in price, or higher prices will cut down on queues for taxis.

An appropriate diagram could be used to access knowledge and application marks.

Only one reason needed to be identified and explained to gain up to 4 marks.

48.6% of candidates were awarded 3 or 4 marks on this question.

Question 6 (b)

There was plenty of evidence provided in the extracts to enable candidates to select product differentiation strategies being used by the taxi firms and discuss whether or not it may result in higher profits.

For example, candidates were rewarded for references to the use of apps, improved customer service, and age, size and quality of taxi. Good analysis of 3 or 4 strategies with links to increasing profit, resulted in a Level 3 KAA mark.

Evaluation marks were awarded for considering why such a strategy may *not* be profitable. For example, increased costs exceed increased revenue, and it is a competitive market therefore other firms are carrying out similar strategies.

The reverse argument was equally valid when answering this question.

Question 6 (c)

Sound responses were able to correctly define contestability and use the information provided to analyse whether or not Nairobi's taxi market was more contestable. There was ample evidence to draw conclusions on one side or the other.

The reverse argument was equally valid when answering this question.

Weaker responses confused contestability with more competitive but were still able to gain marks for evaluation.

(c) Discuss the extent to which Nairobi's taxi market is contestable.

(12)

In a contestable market, there is no sunk cost or barriers to enter or exit. The Nairobi's taxi market ~~is not~~ has low barriers for entry since according to extract 1, even unlicensed taxi operators are allowed to ~~join~~ ^{enter} into the market. Also the taxi companies use old cars which costs less than the newest cars causing the sunk cost to be low which results to high contestability. Also they use predatory pricing (charging lower than its rivals) causing ~~the~~ a rise in competition among the companies. Also, the Nairobi's taxi market has become innovative, due to which some taxi firms such as Kittle cabs ~~uses~~ ^{uses} an IT system which lets consumers to get a taxi at a low price, they also uses apps which allows the consumers to place orders from anywhere at anytime which increases the contestability.



The candidate starts with a succinct definition of contestability. There then follows examples of how the market is becoming more contestable – unlicensed operators, low cost of old vehicles and the use of apps. This places the response in Level 2 KAA.

If the candidate had made stronger links with the concept of contestability this would have been a Level 3 response. For example, an explanation that the use of apps makes it easier for new entrants to set up and attract consumers away from other firms which offer a more traditional service. The lower start-up costs also mean that it is easier to exit the market at any time in the future.

Actual KAA mark – 5.

Question 6 (d)

There was a clear division on this question between candidates who produced a sound response and those who did not. It was encouraging to note that a significant number were able to 'assess the case'. In other words, provide a balanced response in context.

The main concepts when arguing the case for more regulation covered issues such as pollution, safety standards, private versus public transport and external costs and benefits in general. The case for less regulation covered issues such as government failure and how greater competition in the taxi market may result in more self-regulation.

The KAA and evaluation marks could be reversed depending upon the stance taken by the candidate.

(d) Assess the case for more regulation of Nairobi's taxi market.

(12)

Regulation happens when a government decides to put more legal barriers in a market. In Nairobi, environmental pressure groups ~~are~~ are asking the Kenyan Government to introduce greater regulation of taxi firms. It is because it is unclear whether the growth in number of taxis will help to reduce Nairobi's severe air pollution and congestion concerns. Since in the future, many more taxi firms are expected to enter the market in Nairobi, it's very likely that ~~more~~ the number of taxis will increase. This would affect the environment very badly and could potentially cause ~~severe~~ negative externalities in terms of health. Also the number of taxis that would be out there would cause more congestion, leading to more potential car accidents and even loss in life. It can also reduce the use of public transport which would further contribute to more congestion and pollution. Since the market for taxi firms is a very competitive one, the prices may even

further decrease with the expected increases in competition, making it more likely for people to stop using public transport services.



There was some good application in this response with references to negative externalities, effects on health, more accidents, congestion and less use of public transport. This placed the response at the top of Level 2 KAA.

What was missing were stronger links with economic concepts such as a divergence of social cost from private cost and taxis as a substitute good for public transport. As it stands the analysis lacked the depth needed for Level 3.

Actual KAA mark – 6 marks.



Be sure to make the links between your application and relevant economic analysis. Make it clear which concepts apply and provide detail (depth) to your analysis.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Make sure that you read each question very carefully before starting your answer.
- Draw and label your diagrams accurately. Make sure that diagrams are relevant and appropriate.
- Even though a brief context is provided at the start of each question in Section A you do not need to use it in your answer.
- Include evaluation comments in all of your answers apart from Section B part (a).
- Do not copy out large sections of the extracts in Section B. If you do copy a small part of the extract use quotation marks.
- Your analysis in Section B needs to be in context, so use the information as directed by the question.

Grade Boundaries

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