



# Examiners' Report June 2022

IAL Economics WEC13 01

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## Introduction

The number of entries for WEC13 in June was higher than in the previous two series. There was a high number of impressive responses to all parts of the paper, this was especially true of section B part 7e and section C questions 8 and 10, where the candidates were clearly prepared for the topics questioned and had taken the advice on board from previous examiners reports.

In Section A, the multiple choice section, candidates performed best on the questions examining variable costs and concentration ratios. The questions the immobility of labour and monopsony were the least well done questions in the section and highlights the need to cover labour markets by centres. Questions Many candidates were able to accurately answer the questions on monopoly and government intervention. In nearly every case candidates crossed the correct box and when they changed their mind they crossed through this in the correct way and offered a replacement answer.

Section B, the data response section is based on Amazon and SME's in South Africa. On the whole students were able to use the information provided to support their answers with high quality application. There were less generic answers than in previous exam series. For question 7a most candidates achieved 2 marks for accurately calculating the percentages change, however quite a number were unable to produce a correct calculation and achieved no marks. In part 7b, candidates needed to identify the market structure of cloud infrastructure firms. Marks were awarded for the correct identification of either oligopoly or legal monopoly with a further mark for development. Two marks were awarded for application. The strongest students were awarded two marks for the correct calculation of a concentration ratio. Most students were able to achieve full marks on this question. 7c required candidates to analyse the likely impact on consumers of two methods by which Amazon competes with other retailers. Most students could access four marks on this question by accurately identifying an impact from the case study and support this with application. The analysis was not as strong on this question and many students dropped marks for explaining the link between the way Amazon competes and the impact on the consumer. 7d questioned the effects of the global health crisis on Amazon's profits. Many candidates achieved 6 out of 8 marks for correct identifying the increase in demand and the increase in costs, some candidates support their arguments with impressive diagrammatic cost and revenue analysis. However, many candidates did not include any evaluation, therefore they did not access the final two marks available. Question 7e examined reasons why many SMEs in South Africa shut down in 2020. Better responses supported their understanding of both short and long-run shut-down points with diagrams and application, reaching level three for knowledge, application and analysis. Responses not achieving the higher levels often included diagrams that were not completely labelled or had the equilibrium points missing or these responses were often generic or included limited chains of reasoning. Evaluation on this question was strong and candidates were able to counter their arguments using the case study for evidence.

Section C, the essay section offered candidates the opportunity to choose between three questions. This section was more demanding and this is reflected in the mean scores on all questions. Candidates tended to perform better on question 8 on mergers than on questions 9 and 10, government intervention to improve contestability and price and non-price competition in oligopolistically competitive market. Question 8 was the most popular choice and question 9 the least. Candidates showed a good understanding of economic theory in all questions, however candidates did not always offer much application in context of the question. Many candidates struggled to fully develop their chains of reasoning. Evaluative comments were often made and however, only a few candidates were able to provide application or development of their evaluative comments. Diagrammatic analysis on the work from the better candidates was accurate and was integrated with their written analysis. They were able to include a written analysis of their diagrams to support their answers. This enabled them to reach the higher levels for knowledge, application and analysis.

Most candidates were able to complete the paper in the time available. However, a number of candidates' second essay was much shorter, suggesting timing was an issue.

The performance on individual questions is considered in the next section of the report. The feedback on questions shows how questions were well answered and also on how to improve further.

## **Section A: Multiple choice**

### Question 1

The question asked which policy would reduce the geographical mobility of labour within a country. Many candidates were unsure of the correct response and may have confused the geographic with the occupational immobility of labour leading to an incorrect answer.

### Question 2

The next question looked at a monopolistically competitive firm in the long-run and required candidates to interpret a diagram showing a firm making normal profit. Many students were able to correctly identify option D, however a large number were not able to identify this, often opting for option B, the firm would leave the market if average costs rose.

### Question 3

Candidates were often able to accurately calculate the average variable costs of production for this question, making it one of the most accurately answered on the paper.

### Question 4

Candidates had clearly learned concentration ratios well and most were able to provide the correct answer.

#### Question 5

This question tested candidates understanding of the limitations of government intervention in the housing market. A few candidates were not confident on this topic and there was a wide spread of inaccurate answers. Most did select regulatory capture as the correct answer.

#### Question 6

This question was the most badly answered in section A. Many candidates were not confident on the monopsony topic and there was a wide spread of different answers to this question. It was evident that candidates need to revise the impact on wages and levels of employment after the introduction of a monopsony in the market.

## Question 7 (a)

Candidates were asked to calculate the percentage change in Amazon's revenue between 2010 and 2020. Most were able to do this accurately, however quite a few were not able to and centres are advised to practise this with their students.

Candidates are advised to include all their workings, just in case they miscalculate the answer as they will achieve one mark for workings.

- 7 (a) With reference to Figure 1, calculate the percentage change in Amazon's revenue between 2010 and 2020.

(2)

$$\text{percentage change} = \frac{\text{new} - \text{old}}{\text{old}} \times 100$$

$$= \frac{386.06 - 34.20}{34.20} \times 100$$

$$= 1029\%$$



**ResultsPlus**  
Examiner Comments

This candidate achieved full marks for a correct calculation.

- 7 (a) With reference to Figure 1, calculate the percentage change in Amazon's revenue between 2010 and 2020.

(2)

$$\frac{386.06 - 34.20}{34.20} \times 100\%$$

$$\approx 10.29\%$$



**ResultsPlus**  
Examiner Comments

This candidate was awarded one mark for workings.



**ResultsPlus**  
Examiner Tip

Always show your workings you may achieve one mark.

## Question 7 (b)

Candidates needed to identify the market structure of cloud infrastructure providers. There were two marks available for knowledge and two for application. Candidates were able to identify either legal monopoly or oligopoly from the data provided. This needed to be developed by identifying a characteristic of the market for a second knowledge mark. Up to two marks were available for application to figure 2.

(b) With reference to Figure 2, explain the market structure of cloud infrastructure providers.

(4)

The market structure of cloud infrastructure providers is oligopolistic market. In an oligopolistic market, there are a small number of dominant firms in the market, such as "Amazon web services, Microsoft Azure, and Google Cloud" in this case, which are the dominant firms. This is evident in a high concentration ratio. The 3-firm concentration ratio according to Figure 2 is 59%. There is the characteristic of ~~interdependence~~ interdependence between firms in an oligopolistic market. There is imperfect information, heterogeneous products and use of non-price competition in an oligopolistic market as well.



This candidate achieved full marks. They correctly identified the market as an oligopoly, then developed this to identify it is a market with a small number of dominant firms for a further development mark. The candidate was awarded two application marks for the calculation of the 3 firm concentration ratio.





Always remember to develop your knowledge in a four mark question to achieve two marks.

Apply your answer to the figure identified in the question.

(b) With reference to Figure 2, explain the market structure of cloud infrastructure providers.

(4)

It is a competitive oligopolistic structure where there are few large firms that hold a high market share percentage. There is high competition and the giants are Microsoft Azure and Amazon web services being the two largest. And there are few other companies, the market is highly concentrated.



This candidate did not apply their answer to figure 2, therefore they did not achieve the application marks available.



Always remember to apply your answer in section B.

## Question 7 (c)

In this question students were asked to analyse the likely impact on consumers of two methods by which Amazon competes with other retailers. This question proved to be very accessible to most students and they were able to identify two reasons and included two references to extract A for the application marks. Not all students were able to fully develop the link between the method of competition used by Amazon and the impact on the consumer, this stopped them from achieving the analysis marks available. Some responses were quite repetitive and candidates explained their identification point using the same language as their application, for example convenience. Students must be aware they cannot be awarded the marks twice for the same point. Evaluation was not needed for this question, though a number of candidates included it.

(c) With reference to Extract A, analyse the likely impact on consumers of two methods by which Amazon competes with other retailers.

(6)

Competition is rivalry which exists between firms.

Amazon services includes fast delivery, lower prices and choice for consumers it focuses on convenience for its consumers. This allows consumers to satisfy their needs and wants for a affordable price by giving them quality products for lower prices with choice therefore this improves consumer satisfaction and loyalty for Amazon as they differentiate their services from rivals.

Amazon offers products through online ~~site~~ website which has been really useful during the 2020 global health crisis. Customers were not able to visit physical stores and therefore they had the ~~same~~ convenience of online shopping which Amazon offers. Amazon is able to gain sales of rivals who do not offer online services which led to a rise in demand for ~~Amazon~~ Amazon's online service.



This candidate was awarded full marks, they have clearly identified two methods of competition used by Amazon, lower prices and choice, then online shopping. They have used the case study to apply the convenience and the inability to shop at physical stores for application then has clearly explained the impact on the consumer.



Remember, there are two knowledge, two application and two analysis marks in a 6 mark question. You do not need evaluation.

(c) With reference to Extract A, analyse the likely impact on consumers of **two** methods by which Amazon competes with other retailers.

(6)

Amazon uses marketing ~~of~~ branding ~~the~~ product differentiation to compete with other retailers.

\* 'It focuses on convenience, fast delivery, low prices and choice for its consumers.' This is extremely convenient ~~for consumer~~ & attractive to consumers as they is a variation of products and the orders are delivered speedily.

Another ~~pos~~ <sup>method</sup> factor is Amazon operates mainly online, but also has physical stores. This makes Amazon services and products accessible to both online & offline customers.

Customers are able to spend less from the low prices and are able to buy more things. ~~It~~ So Amazon provides an increase in consumer surplus.

→ Product Differentiation is the variation of products either by physical differentiation (features of products are varied), marketing (packaging) or distribution, (offline, online).



The first paragraph was awarded knowledge and application marks. It did not explain how these methods of competition impact the consumer fully.

The analysis in the second paragraph did not link to the point identified, therefore it was not credited.

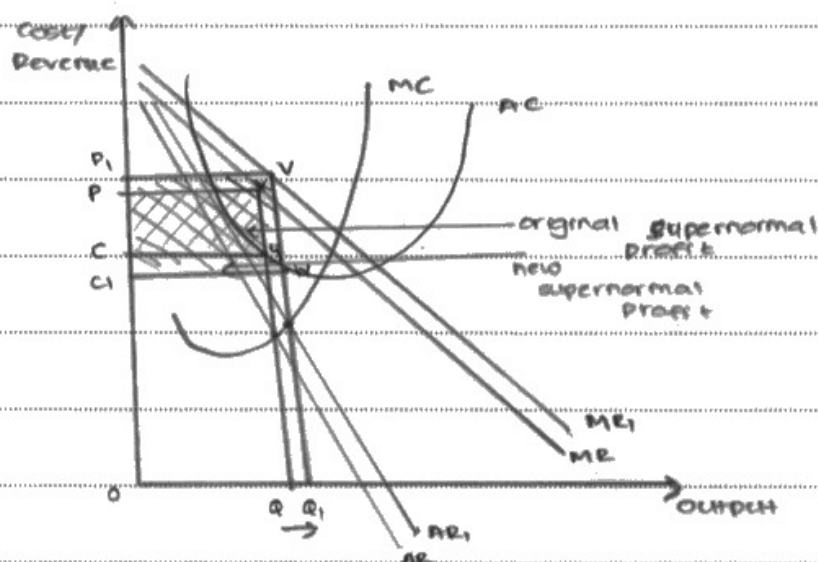
## Question 7 (d)

This question asks candidates to examine two likely effects of the global health crisis on Amazon's profits. It was pleasing to see how well applied the case study was to responses for this question. Most candidates were able to identify an increase in demand causing revenue to increase, along with an increase in costs from Amazon expanding its workforce. A number of candidates included accurate cost and revenue diagrams to support their points. Though not necessary, these were rewarded as analysis. Many candidates included evaluation of their analysis. Those that did often argued the relative significance of the increase in revenue against the increase in costs leading to an overall increase in profits. The long-run effects of Covid was also a popular evaluation point. Centres are advised to remind candidates that there are two marks available for evaluation on 8 mark questions.

(d) With reference to Extract A, examine **two** likely effects of the global health crisis on Amazon's profits.

(8)

Profits are defined as the difference between a firm's revenue and costs. Profits could be either of the type supernormal profits or normal profits. As per the extract, it is evident that the global health crisis led to a prevented consumers from visiting physical stores. As a result, more people used Amazon to purchase products online. This in turn led to an increase in demand for the goods supplied by Amazon, leading to a rise in sales, which in turn leads to a rise in revenue causing a rightward shift of the AR and MR curves and leading to a rise in Amazon's <sup>supernormal profits</sup> profitability from  $P_C X Y$  to  $P_1 C_1 V_1 W$ . This is illustrated via the diagram below;



Additionally, the global health crisis also led to an increase in Amazon's cost of production by \$4 billion, mainly as a result of employing an additional 400,000 workers in 2020.



the end of the year, it is said to have employed a 1.3 million full-time and part-time workers globally. As Amazon increases its workforce, this increases the wage costs they have to incur which is a variable cost. Variable costs are defined as costs that are dependent on the production process and vary with the level of output produced. As variable costs rise, this leads to a rise in the firm's average costs and marginal costs, which leads to a fall in output and a rise in price, which is likely to lead to a reduction in Amazon's ~~super~~ profits.

However, as the global health crisis is slowly but surely combatted and people are able to begin visiting physical stores again, this is likely to lead to a fall in demand for goods supplied by Amazon as they may no longer need to purchase goods online. Thus, the rise in Amazon's profits as a result of the global health crisis is likely to be short-lived.



This candidate clearly identifies the reasons for increased demand and revenue from the case study and supports their analysis with a well-constructed diagram. They continue to identify the increase in variable costs from Amazon increasing their workforce by 1.3 million workers leading to a fall in profits. This section was awarded 6/6 for knowledge, application and analysis. The evaluation was also effective, this discussed the long term likelihood of the rise in profits for Amazon, achieving the two marks available for evaluation.



Remember to evaluate on 8 mark questions.

(d) With reference to Extract A, examine **two** likely effects of the global health crisis on Amazon's profits.

(8)

Profit = total revenue - total cost.

Due to the health crisis many countries imposed lockdowns so that the people ~~so~~ were able to buy products online since they were unable to visit physical outlets. so this promoted online shopping thereby many people started to order goods from online. so this lead to increase the sales of Amazon. ~~so that the prof~~ from \$280.5b to \$386.1b so this lead to increase profits.

Moreover due to lockdown all the physical shops-chops were closed so Amazon's retail outlets were closed so this reduced the running expenses of Amazon retail outlets such as no lighting cost, no physical advertisements, cleaning the shops so this reduced costs for Amazon so that the profits of Amazon increased.

to \$167.8b.

However Amazon's cost of production increased by \$4b.

because due to increasing demand for Online shopping Amazon employed 400000 workers in 2020 so this increased the wage cost for Amazon so this reduced the ~~top~~ increased the running cost to Amazon so this reduced the profits of Amazon.



**ResultsPlus**  
Examiner Comments

This candidate offered three analysis points, two for increased costs and one for increased demand. This response achieved four marks in total. Both knowledge marks and both application marks. The analysis was not clear and points were repetitive. There was no evaluation present.

## Question 7 (e)

This question required candidates to discuss reasons why many SMEs in South Africa shut down in 2020. This question required candidates to include an accurate shut-down diagram to achieve level three knowledge, application and analysis. Better responses were able to provide accurate shut-down point diagrams that were fully labelled and integrated into their answer. These were well applied to the context and linked to falling revenue, the need for government support and the increased likelihood of small firms closing. The strongest responses provided a dynamic diagram, with a shift in either revenue or cost curves.

Evaluation was normally present and many candidates had picked up on the ability for small firms selling essential items to remain open. Many candidates also argued that a number of firms had been able to cut back on business spending and were able to survive by reducing the production costs. When diagrams were not accurate or fully integrated, candidates were not able to move out of level two KAA.

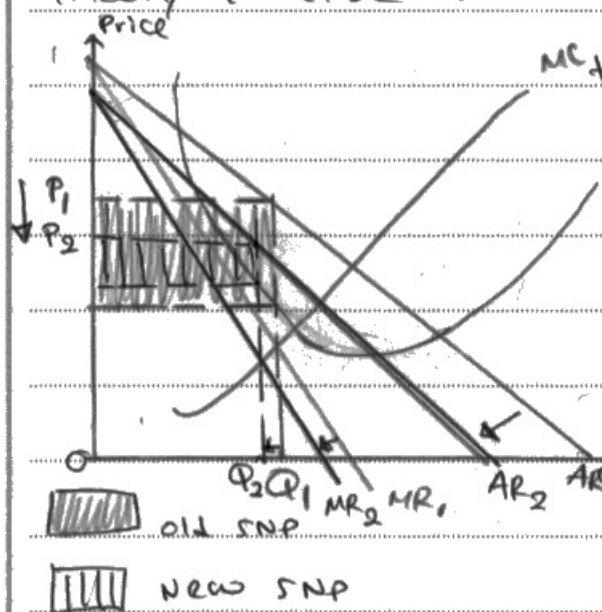
(e) With reference to Extract B and your own knowledge, discuss reasons why many SMEs in South Africa shut down in 2020.

Illustrate your answer with an appropriate diagram.

(14)

SMEs are ~~medi~~<sup>small to</sup> medium enterprises which often have 250-500 employees at maximum and an annual turnover of  $\text{R}50 \text{m}$  & SOFP of  $\text{R}43 \text{m}$ . Shut down point refers to when a firm's AVC exceeds its AR, and in the long run when even normal profit cannot be earned.

According to extract B, as a result of the global health crisis the revenues of many South African enterprises fell significantly, with 21% of enterprise closed and ~~64%~~<sup>SME's being 26 times more</sup> indicated that they likely to close than much larger enterprises. This depicts

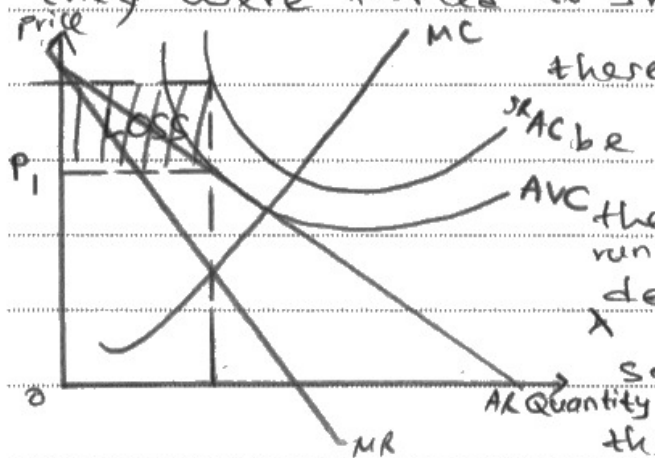


that due to the global health crisis many SME's faced lower demand for their goods/services and thereby AR & MR curves shifted to the left, with total revenues falling from  $OP_1 \times OQ_1$  to  $OP_2 \times OQ_2$ . Thus lower ~~revenue~~<sup>revenue</sup> making

it difficult to continue its operations and be more ~~competitiveness~~<sup>profitable</sup> in the market.

In addition, according to extract B, in the survey, 70% of SMEs reported that they cut back on spending to survive, and that the revenue of

many SMEs did not cover their variable costs and they were forced to shut down. This depicts that



in South Africa these SMEs were likely to be operating at losses and their AVC exceeding AK. Short run shutdown point as depicted by the diagram so difficult to survive in the market in the short run

thus have to shut down operations and leave the market as a result.

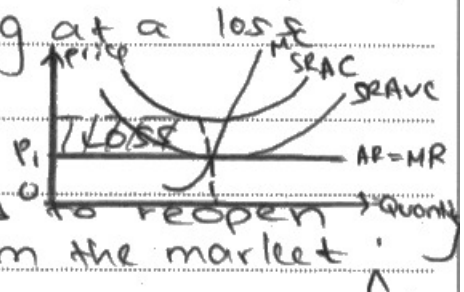
Furthermore, increasing costs of production were also another reason that SMEs in South Africa may have had to shut down in 2020. According to extract B, over half of SME were only able to survive by closing parts of their business or reducing capacity until the economic situation improved. This depicts that due to the worsening economic situation as result of COVID-19, the purchasing power of consumption of customers were low so lower profits and possibly increasing ~~to~~ demand for wage increases as people/workers want higher incomes, thus rising AC falling profits of the business making it difficult to operate in the market.

However, extract B states that South African SMEs make up 98.5% of the total

no. of enterprises and contribute to 39% of <sup>country's</sup> GDP, and with R1.1 trillion government financial support it is possible to remain open in 2021. Thus this depicts that possible government intervention in the markets such as <sup>provision of subsidy</sup> are likely to ~~increase~~ encourage firms to stay in the market rather than shut down as they are possible to use these <sup>subsidies</sup> ~~costs~~ to reduce costs.

Further, extract B also states that SMEs offering essential services, such as food reported an increase in revenues, although costs had risen, profits had either remained constant or had increased. This elucidates that not all SMEs are likely to have shut down in 2020 as they may be <sup>earning</sup> ~~operating~~ higher profits based on different industries, so it depends on the nature of the product business is producing and type of industry.

In addition, SMEs in South Africa may not shutdown as they are operating at a loss currently and may be seeking to maximize profits in the long run, by deterring rivals from the market.



In conclusion, the extent to which SMEs' nature of the industry and time lag, overtime condition may shut down in South Africa in 2020 depends on the <sup>improve</sup>





This response achieved full marks. The candidate starts their answer with some good knowledge of key terms. They use application well to explain why revenue has shifted inwards below the average cost curve, to the point where the firms would shut down. This diagram is well supported in their write up achieving full marks for KAA.

The evaluation is well constructed and supported with relevant evaluation. They have impressively included a diagram to further develop their evaluation points.



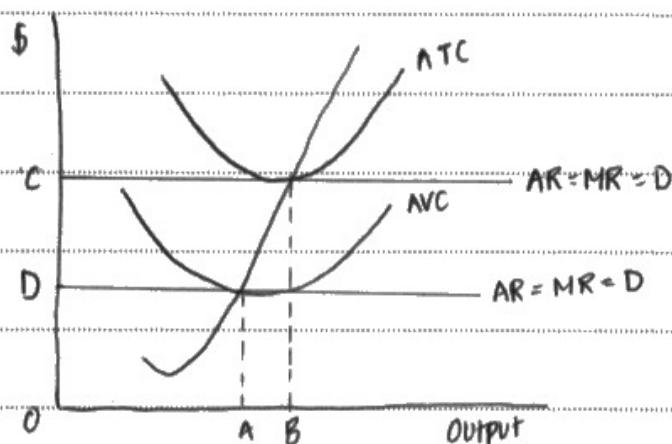
Include shifts in diagrams when appropriate and always explain these in your analysis.

(e) 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.

K = 2  
A = 2  
A = 4  
E = 6

(14)



Short-run shut down point occurs at OA and OD.

Many SMEs in South Africa shut down in 2020 because they could not cover their variable cost, and if a firm cannot cover their variable cost in the short-run, they had to shut down so the SMEs were forced to shut down.

21% of enterprises were closed but, of these, 64% indicated that they expected to reopen. So many SMEs in South Africa shut down in 2020 for a short-term. They decided to remain closed until the economic situation improved. This may be because if they had remained open, they would not have been able to cover their cost or survive in the market due to the significant fall in revenue.

However, many SMEs also managed to survive or continue operating in the market. SMEs cut back on their spending

their variable costs. Some SMEs also managed to survive by closing parts of their business or reducing capacity until the economic situation improved. This helped them reduce their costs and cover their variable costs. Other SMEs managed to survive because they offered essential services such as food. This was a need for the consumers so SMEs offering such services either saw an increase in their revenues or it remained the constant. Although their costs had also risen, SMEs had their profits increased or it remained constant.

Overall, SMEs had to face a lot of problems. ~~They~~ Many SMEs can still open by 2021 if the government gives them financial support.



**ResultsPlus**  
Examiner Comments

This response offered a well-drawn diagram, however they did not reach level 3 KAA. The diagram was not linked to their write up. They also didn't reference any increase in costs or fall in revenue as reasons why the firm shut down.

## Question 8

This question asked candidates to evaluate the likely benefit of a merger to a business.

This was the most popular of the essay questions and it required candidates to evaluate the benefits of growth by merger. Candidates were able to include an economies of scale diagram or a cost revenue diagram to showing either an increase in revenue or a fall in costs. Most candidates were able to explain how a merger would increase economies of scale to a firm with a diagram. Less confident responses focused too much on explaining the different types of economies of scale and did not accurately explain the link with these and mergers. Some of these answers were very generic and did not attain higher than level 2 for KAA. Better responses were able to provide application to support their ideas. Many candidates had identified PhotonLens and Shadow Creator as a form of vertical integration and analysed how the newly formed firm would benefit from increased expertise improving dynamic efficiency. Candidates who were able to develop their chains of reasoning in context often achieved level high level 3 or level 4 for KAA. A number of candidates still provide multiple short analysis points which only achieve level 2. Diseconomies of scale was the most referenced evaluation point, better candidates were able to link this theory to a diagram and example to achieve level three evaluation.

A merger is when two companies group up together and share ideas and skills within themselves to produce a final product

when a company merges with another company there are many benefits, one can be that for when two companies that are from the same market but they are specialized for different things merge they can make a high quality final products as the idea and skills are shared within the companies and the efficiency level will increase as a result consumers will be highly satisfied and the companies revenue will increase helping them with high retained profits and more growth.

Also when two companies merge <sup>they might need more</sup> ~~more job opportunities~~ labour as a result this ~~will be~~ ~~will be created~~ will increase the job opportunities for people resulting in UK's unemployment rate falling and the living standards of people will increase.

Further-more when a merger takes place the companies will have high amounts of capitals due to this they will be able to increase their production and if the average cost of the company falls they will be able to achieve economies of scale in the long run as a result this would lead the companies to make super-normal profits in the long run.

Also when two companies merge they will

produce big amounts in their statements and due to this the uk government will be able to ~~charge~~ earn higher tax revenues as a result they can increase their expenditure on education, health etc... and due to this the life span of the people in uk will increase due to good high quality health services available.

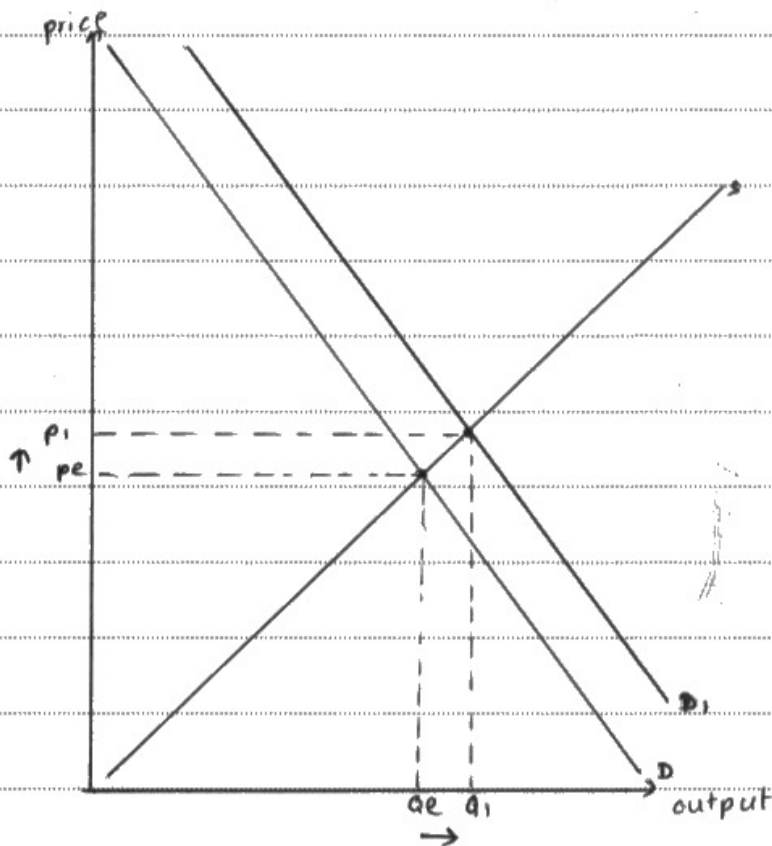
on the other hand there can be some drawbacks of growth by ~~m~~ merger, one can be that when ~~a~~ two companies merge they might highly skilled labour so they may start laying off normal employees as a result this will cause the unemployment rate to ~~a~~ rise and the standards of living will decrease.

Also when two companies merge their costs of production will increase due to high number of employees as a result there might be higher chances of the company facing dis-economies of scale.

However ~~due to~~ as per extract ~~due to both companies~~ Photo lens and shadow creators merge is very worth it because shadow creators can produce a high quality software for the virtual reality glasses and photo lens can create a high quality virtual reality glass as a result this will make the final products quality very high and this will attract more customers and both the companies can easily dominate the competition in the market and become market-leaders.

~~But~~ But it all depends on how both companies

recruit the right workers for the right areas and they should also make sure that everything is under their control.



**ResultsPlus**  
Examiner Comments

This response offered some knowledge and understanding of merger but failed to link cause and consequence to provide developed points. Much of the answer was generic and at best only provided two stage chains of reasoning. Most of the points made were statements and the answer did not explain how a merger would cause the impacts identified. The evaluation given was either inaccurate or generic. This response was awarded 5/20 overall.

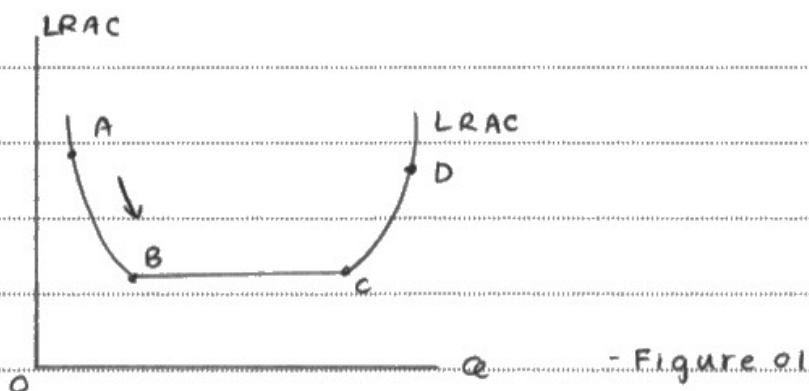


**ResultsPlus**  
Examiner Tip

Remember to include examples in your answer to avoid a generic response.

Mergers are when two firms join together to create one larger firm and it can happen in two ways; either ~~horizontal~~ <sup>vertical</sup> merger integration, like PhotonLens merging with Shadow Creator which is an example of backward integration, and ~~vertical~~ <sup>horizontal</sup> merger which occurs in two firms of the same level of production of the same industry.

~~The impact~~ Mergers are a method of inorganic growth which creates increasing returns to scale as shown in the diagram below.



As given in figure one, due to this expansion, economies of scale is created where there's high efficiency, therefore costs will fall from A to B. PhotonLens will now have a more specialized group of employees which will increase overall productivity of the firm.

However, diseconomies of scale can be created if the firm expands too vastly and the costs will rise from point D to C, due to management issues.



Through especially mergers of the same industry, the firm now has less risk and higher power over price control and competition of the market. This can later on <sup>can</sup> lead to monopolistic power where the firms will enjoy a super normal profits.

If this increase in profit is passed on to the workers, they receive better wages, therefore they will be more motivated to work more productively, which can increase the production of the firm as well as the std of living of the workers.

However if the firms decide to not pass on the benefits this could demotivate the workers and reduce productivity or even lead to some leaving the firm.

~~It is~~ Due to higher productivity the consumers will receive better quality products, which will increase their standard of living and consumer welfare.

If the firm generates monopoly power, however, and practice anticompetition methods or charge unfairly high prices, they can be charged large fines by the government. This will also create a bad reputation among the firm.

~~As a result if the firm~~ Therefore, mergers should be carefully managed under the government's supervision.

Due to this increase in power, firms can increase their prices in order to earn better profits. If Photonlens increases their prices as to the newer technology introduced, their consumers are negatively affected as they lose consumer surplus.

Due to horizontal mergers, Photonlens is introduced with newer technology which can be used to improve their products.

and the firms are likely to be more inelastic in demand  
in the virtual reality market.

Therefore, mergers should be carefully managed under  
govt supervision.



**ResultsPlus**  
Examiner Comments

This response was indicative of many of those provided by the candidates this year. It starts off with some level one knowledge providing definitions. The diagram is clear, however the development does not explain how the merger has caused the economies of scale to occur. The evaluation of this is generic, again not identifying how the merger has caused diseconomies of scale to occur. Throughout the second page the analysis provided is at best two stage chains of reasoning, the candidate does not explain the link between the merger and the impact identified. This response was awarded level 2 KAA. The evaluation is generic and not developed, achieved level one.



**ResultsPlus**  
Examiner Tip

Include chains of reasoning to reach level 3 for KAA

## Question 9

This question asked candidates to evaluate government intervention to promote competition.

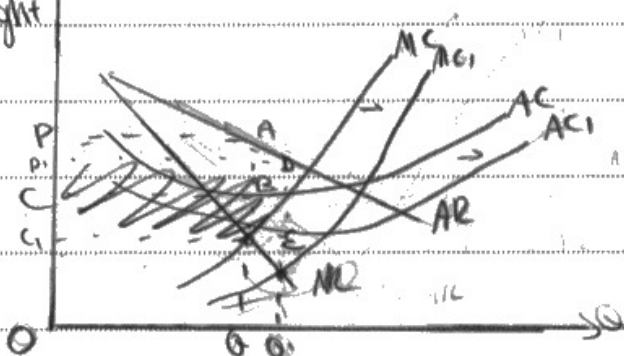
This was the least popular and least well answered of the essay questions. Candidates did not score as well on this essay because of their misunderstanding of the theory tested. A number of students included examples of government intervention of monopolies such as maximum price control, which were not rewarded as it didn't address the question posed. Most of the answers only carried a two-stage chain of reasoning, and therefore, they were not able to access level 3 KAA. Better responses provided strong analysis and diagrams of two interventions both with application. Most students used the stem effectively to develop a point on tax incentives to encourage an increase in the number of firms in the market.

Evaluation included the consideration of other economic factors as the main determinate of increased competition such as the level of demand or the level of competition. Evaluation was often not well developed. Lists of evaluative comments or generic evaluation was only awarded level 1.

Government can intervene in a market to promote competition through various policies. Competition enhances efficiency, high choice & high prices.

One policy a <sup>government</sup> firm can use to promote competition is through tax incentives. Like the tax authority in Singapore. The government may offer to firms to pay 0 or low taxes for a period of time. This would attract competition as many firms would be attracted from low taxes. Low taxes means higher after-tax profit. A government may reduce the corporation tax, which is a direct progressive tax on firms' profits. This would lead to a fall in <sup>the</sup> costs of the firm. This causes the cost curves to shift to the right.

As the MC & AC shifts to the right  
 supernormal profits increase.



However, this would have a negative impact on the government's budget as tax revenue fall. Also, tax incentives might not promote competition if in one country there is high regulation such as frequent regulation from government or policy against transfer pricing. Also, it depends on the magnitude of tax. If tax incentives are small, no competition would be promoted.

Another way government can promote competition is through deregulation. Deregulation is the removal of government controls such as legal barriers & bureaucracy controls. If a firm operates in a highly ~~dominated~~ <sup>profitable</sup> market but it is a monopoly due to legal barriers many firms would be interested on joining. <sup>For example</sup> Thus, by removing legal barriers on Cyprus's electricity industry many firms would be encouraged to operate on that market & competition would be enhanced. Also, cutting bureaucracy reduced the cost of production of firms.

However, deregulation may not <sup>promote</sup> ~~provide~~ competition if the industry government controls are removed is not profitable. Also, it depends on the market structure. If the firm operates on a perfectly competitive market where there is perfect knowledge deregulation would not promote competition. For example, in 1970s-80s Margaret Thatcher's deregulation was successful as those industries were profitable & were attracted by many firms.

Another way a government can promote competition is through trade liberalisation. This involves the removal of protectionist measures such as tariffs & quotas. This would reduce the cost of importing core goods & thus increasing the quantity of core exports. If a country becomes a member of a trading bloc such as the EU where there is free movement many firms would want to trade with <sup>that</sup> ~~our~~ country & set their factories there. Thus, this would result in an increase in competition.

However, removal of protectionist measures may result in a damage to domestic producers if they are not able to compete with low cost countries. Furthermore,

trade liberalisation may not result in a promotion of competition if a country experiences appreciation where prices of exports are high & thus demand for exports are low.

To summarise the points above, ~~whether~~ a government can promote competition through various policies such as deregulation, tax incentives. However, whether these policies would be successful depends on various factors such as the type of market firms operate. In a market where there is high degree of contestability there is no need for government intervention as there is already high degree of competition. Also, government ~~key~~ ~~asymmetric~~ may be regulated by strong firms operating in a monopoly market (e.g.) control its activities & fail to pass policies to promote competition. Furthermore, it depends on the state of infrastructure of the ~~the~~ country. ~~if poor infrastructure~~ ~~then~~ ~~then~~ Also, these policies involve high opportunity cost ~~to~~ for the government. Also, if a government intervenes in an oligopolistic market where firms collude is unlikely that competition would flourish.



This response used the stem well to develop a strong initial point discussing tax incentives. There was a clear chain of analysis and a dynamic diagram showing the impact of falling costs on a firm's profit. This diagram was well explained in the write up. The further two analysis points on deregulation and trade liberalisation were both good with chains of analysis, however not as strong as the initial point and they would have benefited from providing less breadth and more depth.

The evaluation was not as good as the KAA and was often not developed and sometimes generic, for example the size of the tax and opportunity cost of government spending. This level of evaluation would only achieve level 1.

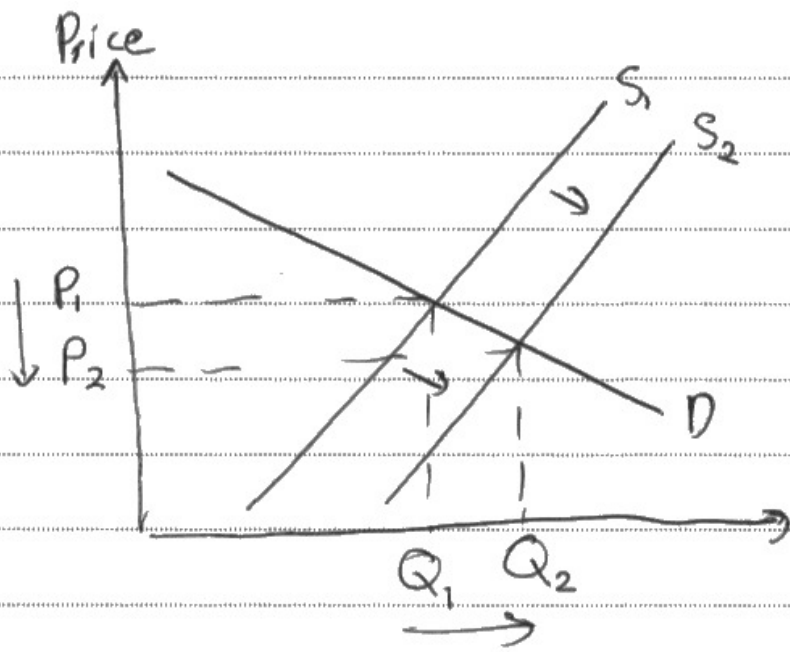


Refrain from including generic evaluation.

Always include a write up of your diagram.

Competition is when <sup>similar</sup> ~~rival~~ firms which <sup>produce</sup> ~~use~~ similar products & rival one another to attract customers to increase sales and marketshare. Government intervention is the situation where the government interjects to correct market failure that exist in the economy. One method that government could use to promote competition ~~is~~ would be by offering tax incentives as according to Singapore which has offered tax incentives upto \$1,000,000 which would help create an incentive for new firms to set up in the Singaporean market <sup>since cost of setting up is ~~not~~ cheap</sup> thereby helping ~~to~~ ~~lower~~ increase supply of firms in the market so thereby leading to increase competition in the market.



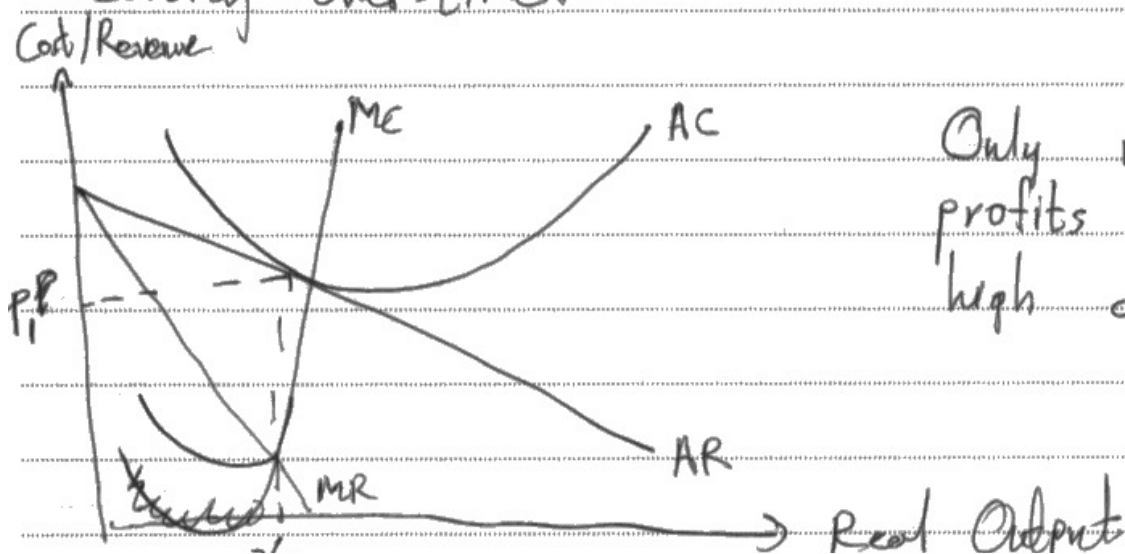


As tax incentives encourage new firms into the market it leads to an increase in the supply of products from  $S_1$  to  $S_2$ , leading to an increase in quantity from  $Q_1$  to  $Q_2$  and lower prices from  $P_1$  to  $P_2$ .

Additionally, another way that the government can increase competition would be to ~~lift~~ ~~remove~~ deregulate the market, which can be done by ~~the~~ removing barriers to entry and other legislation as a result helping to lower the initial cost of setting up operations so this could help ~~the~~ ~~it~~ even attract foreign firms into the market thereby increasing ~~the~~ competition for the existing firms in the market who may try to ~~the~~ cut costs in <sup>many</sup> other ways to remain competitive so overall competition rises in the market. At the same time the ~~firms~~ ~~the~~ government could also privatise some ~~loss making~~

inefficient public sector firms which would once privatise would likely to cut ~~costs~~ ~~cost~~ such as small cost segments to reduce ~~the~~ inefficient to remain competitive as a result leading to charge low price so the overall competition in the market would increase.

However when competition is increased in the market using such of the above methods it would lead to ~~lower~~ increase supply in the economy which lead to reduce supernormal profits earned by these firms and instead they are more likely to earn normal profits which would discourage firms and make some firms leave the market leading to lower competition ~~of firms overtime~~ in the economy overtime.



Furthermore when the government deregulate the market ~~it~~ by removing barriers it leads to ~~the~~ creaming of the market as firms set up in ~~the~~ ~~operating~~ only the most profitable areas as a result leading to lower ~~economy~~ market imbalances as the other areas may remain under developed so ~~result~~ resulting to government failure.

~~Furtherm~~ Moreover when the Singaporean government ~~charges~~ gives tax incentives upto S\$100 000 it leads to deter the finance of the government leading to less expenditure on the economy such as improving infrastructure so overall it may not create incentive for new firms to setup leading to lower competition in the economy.

Overall it is better for firms to use these methods to improve competition in the economy but to ~~be~~ have sufficient information ~~in~~ ~~the~~ about market before implementing such strategies to avoid misallocation of resources.



The evaluation of increasing competition reducing profits and incentives is strong and achieves level 3. This is further developed in the second point to explain the market distortion as firms operate in the most profitable areas. This is a good example of contextual non-generic evaluation. The KAA was not as strong, though it offers some development it did provide enough for level 4. This candidate would have benefited from providing less breadth and focusing on depth of analysis.

There are many methods a government could use to promote competition in a market.

Firstly, the Government can provide firms with incentives to work. This could encourage firms to enter the market which would reduce the barriers to entry ~~and exit~~. As more firms enter the market there would be increased competition as new firms would set prices low in order to make profits. The government could charge high sunk costs making it difficult for firms to exit the market. If more firms are in the market there will be high level of competition.

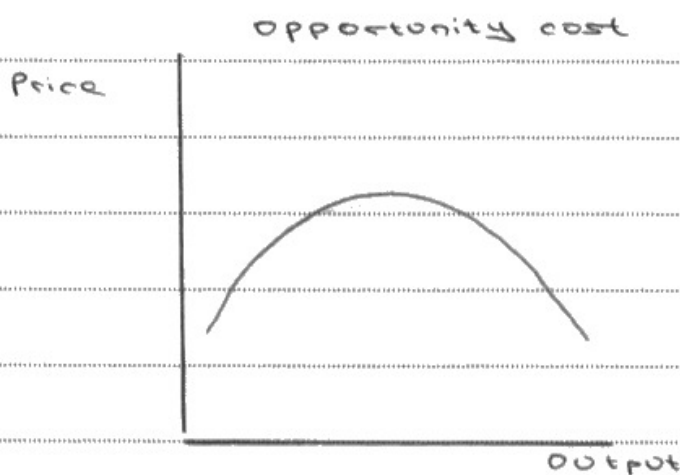
Secondly, the government can stop ~~Secondly firms who have merged~~ businesses from merging. If firms merge and have a market share of more than 25% can be stopped. ~~By~~ By stopping the merging of firms there will be an increase in competition as firms will compete with one another. This will also stop the creation of monopolies as the market will not be dominated by one firm and there will be many firms.

lastly the government can hire regulators. Regulators can search for businesses who have formed collaterals. ~~if business~~ These are businesses who have decided to limit output. If regulators find such businesses they can be fined for a very large amount. Businesses will stop doing this and hence this would increase competition.

However there could be problems of the government intervening.

Firstly there would be an opportunity cost for the government. Instead of ~~giving~~ <sup>providing</sup> incentives to work the government could improve the health & safety, Education, ~~things~~ <sup>infrastructure</sup> standards etc in the country.

Secondly if the regulator is not aware of what to do and appoints a wrong business, it could cause a great impact which would be



Secondly if the regulator is not aware of what to do, and appoint wrong businesses it could create a great impact. This would lead to government failure.

In conclusion the government can promote competition by providing incentives as it would encourage more firms to enter the market and make profits by selling better quality output than other firms.



This response lists points without fully explaining how the government intervention would impact the competition in the market. The answer is generic and sometimes confused. The evaluation is generic and unclear.

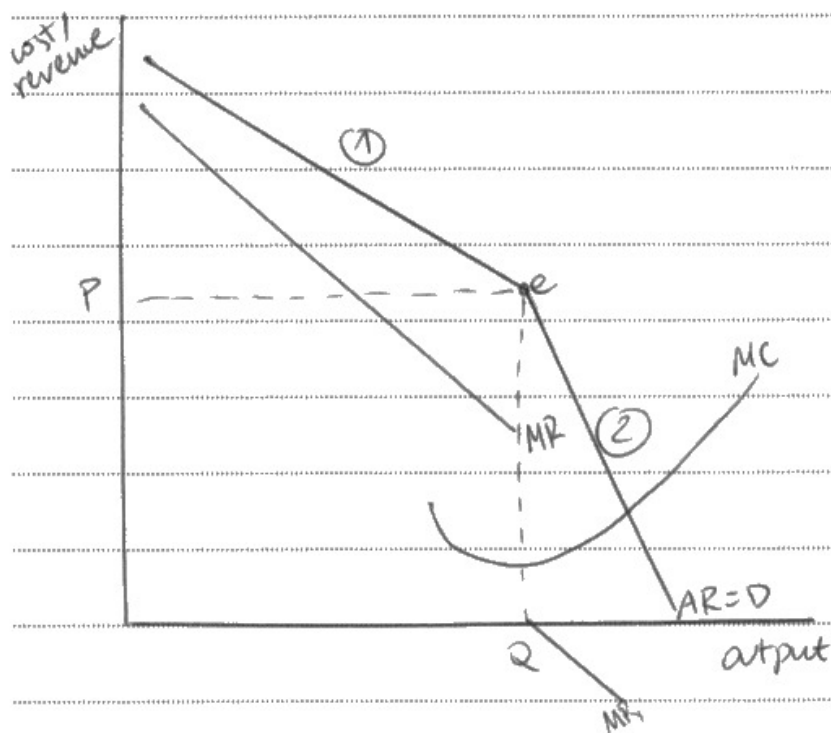
## Question 10

This question asked candidates to consider the use of price and non-price competition in an oligopolistic market. This was the second most popular essay question and the most frequently chosen as the second essay.

The stem was used well to provide application in this answer and many candidates were able to offer their own examples of oligopolies engaging in non-price competition. Stronger candidates were able to support their arguments for the lack of price competition, using game theory. Candidates often included the kicked-demand curve as part of their analysis, this is not on the specification. It was rewarded, however, centres should encourage candidates to use the pay-off matrix. Strong candidates were able to explain how the interdependent nature of the market determined the style of competition. Weaker responses listed different methods of price and non-price competition without addressing the question. This scatter gun approach will prevent the candidate achieving a level 3 or above. There were lots of examples of generic, pre-learned responses to this question and many responses were not complete. Timing is still an issue for some candidates on this paper and centres should try to include more timed practise when preparing for the exams.



An oligopoly has a few firms which are interdependent. ~~Competition~~ Competition through price is extremely difficult and therefore most companies, resolve to non-price competition. Supermarkets are a valid example of an oligopoly market. In Poland, there is a handful of the ~~major~~ <sup>major</sup> supermarkets, these include Biedronka, Lidl, Correfour, Aldi, ~~Dino~~ Dino and others. These firms ~~are~~ compete through non-price competition which is the differentiation of products to make them appealing to consumers, ~~and~~ good consumer service, location and others.



An oligopoly has a kinked demand curve, as illustrated on the diagram. At the area 1,  $PED < 1$  and it is elastic. At the area 2,  $PED > 1$  and it is inelastic demand. If one firm decides

to increase prices, then consumers will go to different suppliers as the PED is elastic. If a firm ~~lowers~~ lowers their prices then other firms will lower prices too and it is ineffective as the firm will make a smaller revenue. ~~the~~ prices ~~usually~~ typically remain the same at  $e$ , and the firms engage in non-price competition as competition with price is extremely difficult and ineffective.

Non-price competition within supermarkets, for instance, relies on a multitude of factors, one of them being consumer service and convenience. Consumers wish to shop in an easy and quick way, therefore, many supermarkets have implemented self-checkout where consumers may scan products by themselves and it is usually faster than when an employee scans them due to the queues of people. This appeals to the younger demographic who is more intent with technology, however, many people from older demographics are learning how to do this too. This is beneficial to both the consumer as well as the producer. The producer may lower their average costs by employing less people ~~as cashiers~~ or cashiers.

Such self-checkout ~~is~~ is very expensive

to set up and carries large future costs of ~~fixing~~ fixing them if anything breaks. Whether it is beneficial depends on the location and demographic. For instance, Dino stores tend to be located in smaller towns where there is an older demographic and such people do not want to do the new self-checkout method, therefore buying them would only produce unnecessary costs. Dino does not have self-checkout. Other supermarkets like Correfour which are located in larger cities do have it, though, and it ~~make~~ made more people want to shop there.

Brand loyalty is another important factor of non-price competition. If consumers stay loyal to one brand they will shop only there and are likely to encourage others to do so too. Brand loyalty may be obtained through membership cards. Such cards are carried by consumers and allow them to have a discount after a specific number of items are bought or if a specific price is met.

~~This~~ This allows consumers to maximise their consumer surplus as they can purchase their goods cheaper.

By doing this, the supermarket increases the chances that the consumers will return in the future after a while of shopping.

at one place, consumers also get used to it and even if another supermarket would offer lower prices, the consumer will stay at their preferable supermarket due to habituality.

On the other hand, ~~the~~ producers may find it difficult to gain consumer loyalty as they do not want to give large and constant discounts or this also lowers their revenue and profit. Brand loyalty may also change if a consumer repeatedly ~~experiences~~ has a negative experience, for instance with an unhelpful employee, or bad products.

Overall, in an oligopoly market non-price competition is the main method of competing with rival firms. The final outcome of the non-price competition depends on a multitude of factors and the consumers are the deciding factor. Price wars are not possible due to the interdependence of firms.



This candidate was able to provide a clear and well-constructed analysis to why oligopolies are unlikely to engage in price competition and focus more on non-price competition. They discussed a range of non-price competition activities firms would engage in whilst also providing strong context to the supermarket industry. The KAA was well developed and provided multiple chain of reasoning. The evaluation was also in context and this candidate was able to confidently argue against their evaluation by providing strong real world examples.

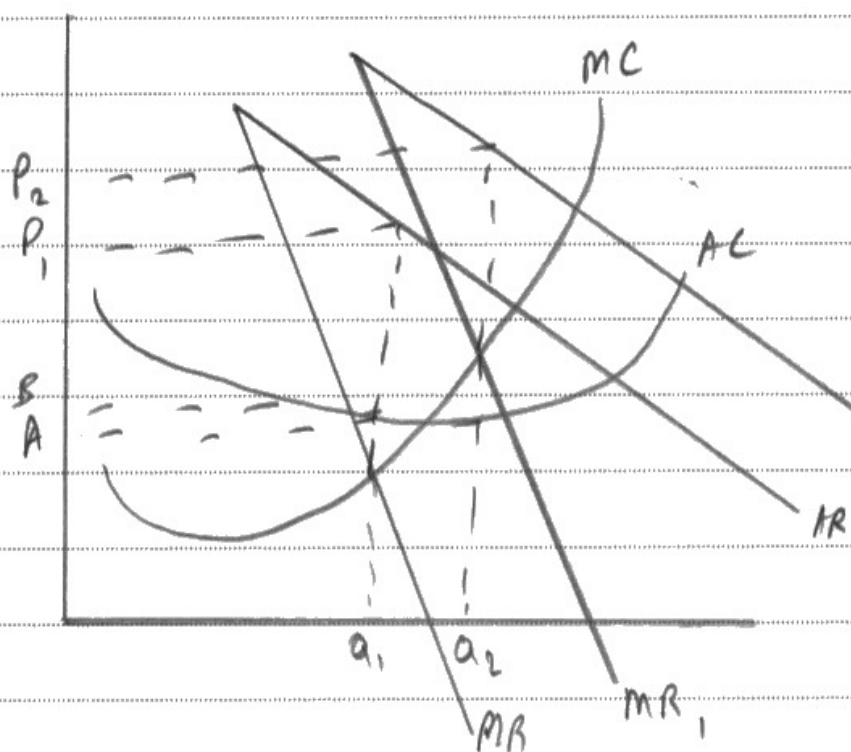


Support your arguments with real life examples for strong evaluation.

An oligopolistic market is when a few firms dominate the market.

Price competition is when firms may try to lower their prices to increase sales and grab a greater market share. Non-price competition is when firms try to increase sales in factors such as advertising, branding, product differentiation, etc.

The smartphone industry in India is dominated by Apple, Samsung, and One-Plus. If one firm decides to drop its price and gain market share, the others will have to follow or be forced out of business and they may not earn supernormal profit again. Another way to increase market share by non-price competition. Investing in advertisement would increase total revenue.



Original diagram has SNP of  $P_1$  to A on  $Q_1$ .

Shifted has SNP of  $P_2$  to B on  $Q_2$ .

AR shifts one  $MR_1$  and  $AR_1$ .

Brands, creating a brand, would increase loyalty. Firms may also decide to collude illegally and restrict supply, ~~or~~ or set up firms geographically to gain more of a supernormal profit. Non-price competition may lead to an increase in ~~per~~ marginal cost per unit greater than marginal revenue per unit. Price competition may lead to price wars. Or a firm could do predatory pricing, places a ~~per~~ price below <sup>to</sup> variable costs and forcing the other firms out to ~~decrease~~ revenue long term.



**ResultsPlus**  
Examiner Comments

This response lacked the depth needed to move into level 3 for KAA. The chains of analysis are two stages and superficial. The candidate has used the context from the stem in this answer without explaining the interdependent nature of an oligopoly when responding to falling prices in the market. The diagram provided was not in context of the question. This response achieved a low level 2 for KAA. The evaluation was limited, listing points without development. This achieved level 1 for evaluation.



**ResultsPlus**  
Examiner Tip

Always include chains of reasoning in your analysis to reach level 3.

## Paper Summary

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

Ensure that all parts of the specification are covered fully including addressing the quantitative skills examined on the paper.

Candidates must read all questions carefully, they should be taught how to approach each type of question and know when to include evaluation.

Candidates should be discouraged from learning answers to try to include in the exam, instead they should be encouraged to use context and developing their theory to consider this. They should also be encouraged to provide fewer points in depth in their answers.

### Section A: Multiple Choice

- Candidates need to understand the impact of a monopsony employer on wages and employment levels
- It is important that candidates can interpret data accurately and use this to perform calculations including calculations of different types of costs and revenue
- Candidates must read each question and consider all of the options available.

### Section B: Data Response

- Candidates must be able to calculate percentage change
- Candidates must use the case study to support their answer for application marks in all parts of section B and refrain from providing generic answers.
- If a question requires a two effects candidates should focus on developing two points
- Candidates must include evaluation for 8 mark questions
- For question 7e, many candidates were able to provide a shut-down point diagram, however they did not explain this in their answer. Candidates must always reference their diagrams in their answers to achieve higher levels.
- To achieve Level 3 for a 14 mark question, answers must be in context and analysis must offer chains of reasoning.

### Section C: Essay

- Remember to include application and context in essay questions.
- Include a diagram and explain it as part of the write up.
- Many candidates looked at many more reasons but what they gained in breadth they lost in depth as they did not provide enough chains of reasoning to access the analysis marks. The key is to analyse how the macroeconomic objectives conflict or why is consumer expenditure a benefit to the economy.



- Evaluation points should be made and linked to the context of the question. These should have a chain of reasoning or sufficient development to be able to achieve Level 3.
- To achieve Level 3 for evaluation in the essay it is necessary to include an informed judgement.

## **Grade boundaries**

Grade boundaries for this, and all other papers, can be found on the website on this link:

<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

