Examiners' Report
January 2013

GCE Economics 6EC03 01

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January 2013

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Introduction

The SCQs were perceived as being exceptionally difficult, but there is evidence that the paper was no more complex than papers in the past, and the questions were all drawn directly from the specification.

The questions which caused the main problems were 2 (Sally's potatoes), 4 (the car park), 5 (price discrimination in the night club), 7 (MR<0 and MC rising) and 8 (diseconomies of scale as a reason for a demerger).

Question 9 (PFI and regulation) was significantly less popular than Question 10 (Tesco's and the hairdressers) by a ratio of 1:3. However the performance was much better on question 9, with the stronger candidates tending to choose this question. The material was very helpful for students constructing their arguments and evaluation. The quality of answers was higher on the b and d questions in both 9 and 10, compared to January 2012. This was the main factor explaining the higher mean for this session.

The A grade was set at 56 (54 in January 2012) and the E at 36 (34 in January 2012), which reflects the 2.5 increase in the mean to 50.6. The standard deviation fell 0.3 to 9.8.

Question 1

This was a high scoring question with the vast majority of students correctly identifying backwards vertical integration and understanding the associated advantages.

Application was the key to getting full marks. Candidates made good use of knockout, with rejecting option A being the most popular. Candidates are reminded that a successful knockout mark must include a relevant economic point, rather than just being a reversal of the key.

Some students confused the situation with horizontal integration, probably because they read the question too quickly.

Section A: Answer all the questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 ArcelorMittal is the world's biggest steelmaker. It uses a large quantity of coal in its production process. In October 2011 it made a bid to acquire Macarthur Coal in Australia. The proposed takeover bid was likely to have been motivated by a desire to achieve the benefits of

(1)

A horizontal integration

B increased contestability

C decreased concentration

D backwards vertical integration

E forwards vertical integration

Answer D

Explanation

(3)

Backwards vertical integration is where the companies are at different stages of production and moving back towards the source of the raw materials. Coal is a raw material that the company use in order to produce thier main output of steel. A is incorrect as this would mean that they are at the same stage of production in the same market and the two goods aren't from the same market.

ResultsPlus
Examiner Comments

1 mark for correct key
2 marks for explanation of backward vertical intergration as different stages of production (1) and moving back towards the source of raw materials (1)
Note that candidates do not need to specify that it is the same production process or good to get these marks.
1 mark for application for the use of coal as a raw material of steel.
Total 1 + 3

ResultsPlus
Examiner Tip

This answer demonstrates the practice of elimination of a key, which can earn up to two marks on each of the supported choice questions at A2 level.

Section A: Answer all the questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

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(1)

A horizontal integration

B increased contestability

C decreased concentration

D backwards vertical integration

E forwards vertical integration

Answer ~~D~~ A

Explanation

(3)

Horizontal intergration is when two firms at the same stage of production in the same market merge together. A benefit of an horizontal merger would be the ability to mine for coal themselves and not be dependent on a supplier which may provide coal for them at higher prices or who may even go out of business therefore this merger minimises risk. The answer cannot be E as forwards vertical integration occurs when a firm in the same industry merges with another at a different stage in production e.g primary merging with secondary however this merger is primary merging with primary discounting answer E.

ResultsPlus
Examiner Comments

This is a very tricky response because the candidate has not understood that coal is used in the production of steel. Incorrect key so explanation capped at 21 mark for 'not be dependent on supplier' which gives a sense of the benefit of the merger1 mark for knock out E that it is not a forward vertical integration, as this would have involved merging from primary to secondary which is not the case.
Total 0 + 2

ResultsPlus
Examiner Tip

Reading the stem carefully should make it clear how the firms are related. A surprisingly large number of candidates said that because both firms are in the primary sector then this must be horizontal integration!

Question 2

Most students recognised perfect competition and were able to gain full marks through a labelled diagram and profit maximisation equation. Many chose incorrect key A but still drew a correct diagram. Almost all students gained a mark for a correct profit maximisation equation.

2 Sally's farm grows and sells potatoes and she aims to maximise profit. She believes that the market price of potatoes will not be affected by changes in her farm's output. She will

(1)

A sell as much as she can produce in the long run

B become a monopolist, because she can supply the whole market

C produce at the level of output where marginal cost equals price in the short run

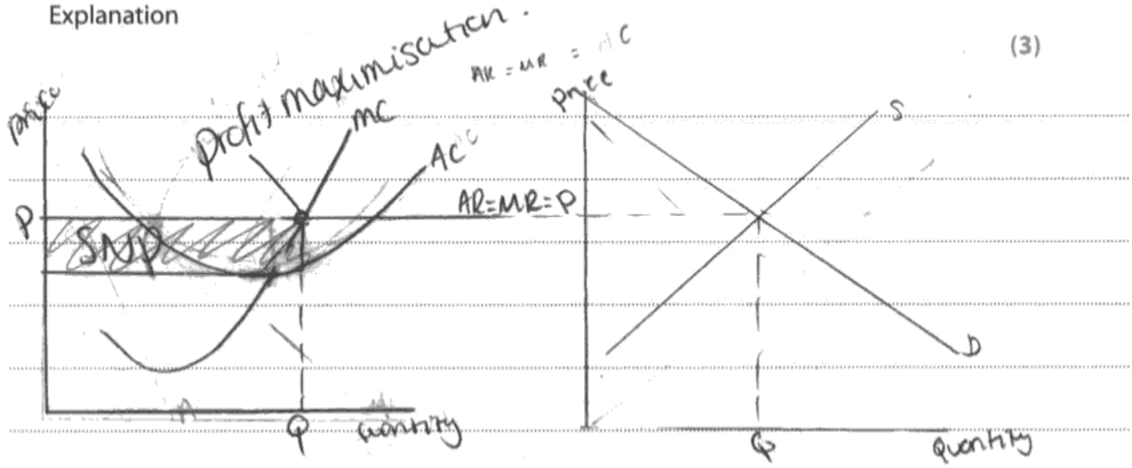
D produce at the level of output where average cost equals price in the short run

E produce at the level of output where average fixed costs equals marginal revenue

Answer C

Explanation

(3)



profit maximisation occurs where marginal revenue = marginal cost.
This is shown on the diagram at the point where MR = MC.

ResultsPlus
Examiner Comments

Correct key - 1 mark
Diagram horizontal AR = MR (1) and output at level of MC = MR (1)
Written identification that profit maximisation is where MC = MR (1)
Total 1 + 3

ResultsPlus
Examiner Tip

A picture saves a thousand words! Here the diagram does the work for the candidate.

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(1)

A sell as much as she can produce in the long run

B become a monopolist, because she can supply the whole market

C produce at the level of output where marginal cost equals price in the short run

$MC = P$.

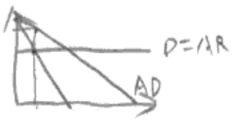
D produce at the level of output where average cost equals price in the short run

$AC = P$

E produce at the level of output where average fixed costs equals marginal revenue

$AFC = MR$.

Answer $\boxed{C}$



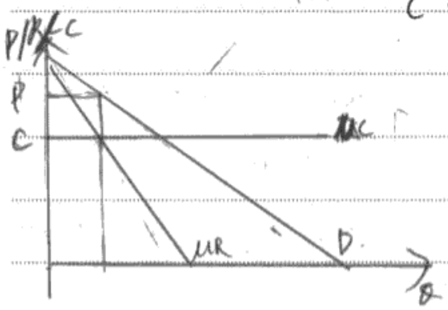
$\frac{TFC}{Q} = \frac{TR}{Q}$

Explanation

(3)

profit maximising position = MR = MC.

C is right as where MR = MC the profit will be maximised and ∴ ~~tt~~ when price remain unchanged. ~~P~~ P = MC ∴ C is right.



ResultsPlus
Examiner Comments

Correct key - 1 mark
Written identification that profit maximisation is MR = MC (1)
Note that the diagram cannot be awarded any marks as this is a diagram showing a downward sloping D = AR curve whereas the diagram must show a horizontal AR curve

Total 1 + 1

ResultsPlus
Examiner Tip

A surprisingly large number of candidates draw a horizontal AC=MR rather than AR=MR for perfect competition.

Question 3

Little use was made of diagrams, but where they were used they tended to be very effective. Simply drawing a downward sloping AR was enough to secure the first mark. Many marks were awarded for characteristics of both markets with a rejection of either A or E. A surprisingly large number of students think that 'monopolistic' is synonymous with 'monopoly', leading to real difficulties with the question.

3 Which of the following characteristics is shared by a monopolist and a firm operating under conditions of monopolistic competition?

A Low or no barriers to entry to the industry

B Productive efficiency in the long run

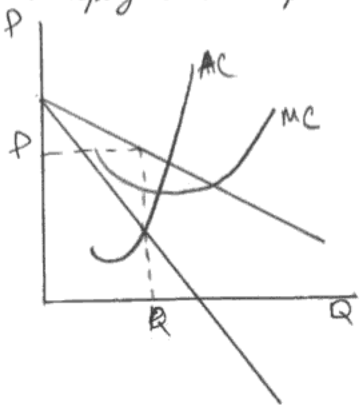
C Some degree of price setting power

D Supernormal profits in the long run

E Allocative efficiency in the long run

Answer: C

monopoly & mon. competition in the s.r. (1)



Explanation **(3)**

Monopoly – firm = market, high barriers to enty, so not A.
Monopolistic competition – little price setting power, a lot of ~~good~~ firm, slightly differenciated goods, low barriers to enty.
There are ~~some~~ no barrier to enty in competition in the ~~short~~ long run, so there will be no supernormal profit earned, so not D.
It's C, because monopolist have a price setting power, and because in monopolistic competition ~~sor~~ good are a bit ~~differentia~~ differenciated there is a price setting power.

ResultsPlus
Examiner Comments

Correct key - 1
Monopoly as firm equals market - 1
Knockout of A as monopoly has high barrier to entry - 1
Characteristic of monopolistic of competition - 1
Total 1 +3

ResultsPlus
Examiner Tip

Don't forget to label the main reason for this diagram - the AR curve!

3 Which of the following characteristics is shared by a monopolist and a firm operating under conditions of monopolistic competition?

(1)

A Low or no barriers to entry to the industry – cannot be 'A' because there are extremely high entry and exit barriers in a monopoly, for example piping with a water monopoly – Thames Water

B Productive efficiency in the long run

C Some degree of price setting power

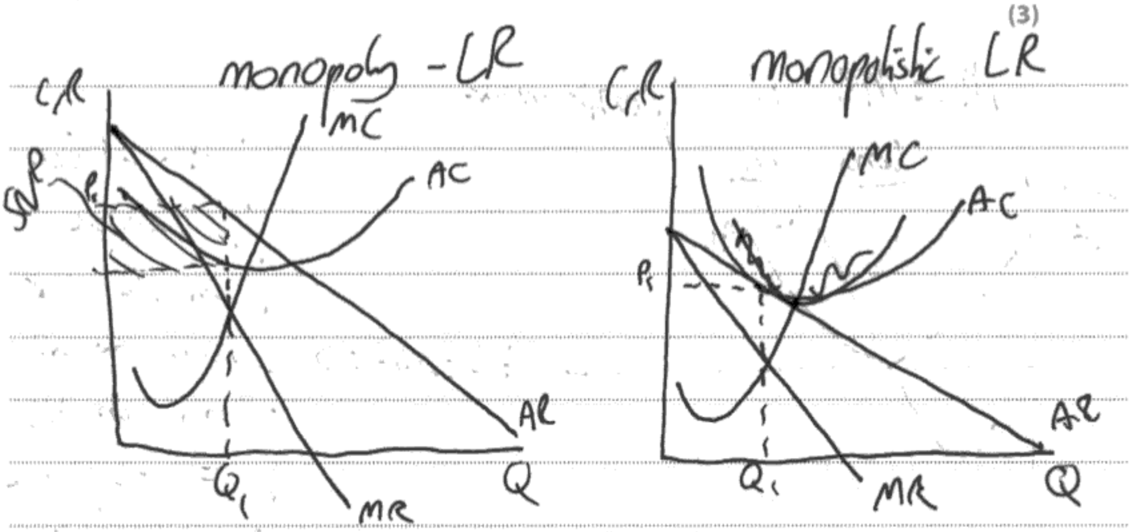
D Supernormal profits in the long run

E Allocative efficiency in the long run

Answer C

Explanation

(3)



Some monopolistic firms can price set to a degree due to niche markets.

(Total for Question 3 = 4 marks)

ResultsPlus

Examiner Comments

This is a good example of a well answered question
Correct key - 1
Diagram two marks - 1 for downward sloping of AR curve in monopoly diagram and 1 for drawing comparison between profits levels in long run between monopoly and monopolistic competition
Knockout of A - 1
Total 1 + 3

ResultsPlus

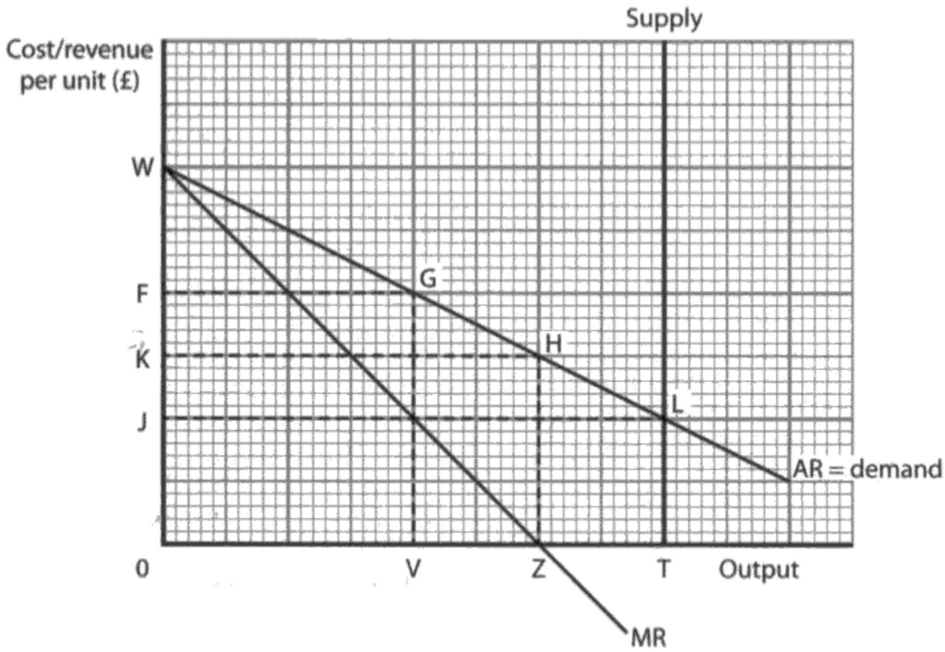
Examiner Tip

On questions where there seems to be a shortage of space, it is fine to write at the top in the gap, but also below the line. It is a good idea to draw and arrow to show you have gone below the line, however. If in doubt as to whether there is more material unseen, the examiner will check.

Question 4

Revenue maximisation was identified by the majority of students regardless of which key was selected. Only a few students annotated the diagram with the total revenue area but a TR curve was drawn more often. A very effective use of a diagram connecting TR max to MR=0 (or Z in the diagram provided) earned 2 marks for many students. Students commonly discounted options A and B to gain further marks.

4 The diagram shows the supply, demand and marginal revenue schedules for parking spaces in a local government car park.



What single price will ensure that the local government maximises total revenue?

(1)

A Zero

B 0J

C 0K

D 0F

E 0W

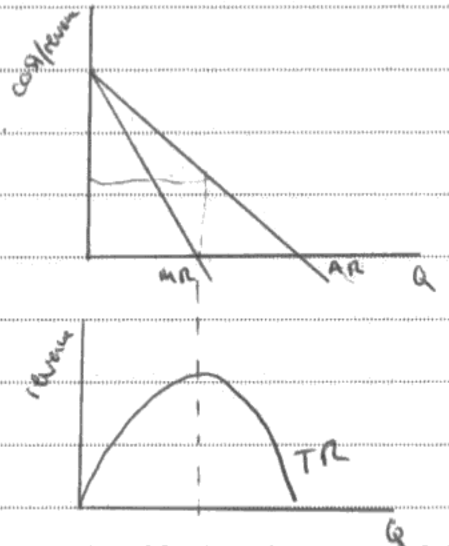
Answer C

Explanation

(3)

Revenue maximisation occurs where MR=0.

Marginal revenue is the change in total revenue divided by the change in output.



(Total for Question 4 = 4 marks)

ResultsPlus
Examiner Comments

Correct key
Definition of revenue maximisation as MR = 0
On a diagram the parabola shape Total Revenue = 1 and connected to the diagram above where MR = 0 one more mark
Total 1 + 3

ResultsPlus
Examiner Tip

This diagram showing TR max where MR=0 is incredibly useful to explain revenue maximisation. 2 marks if properly annotated, as here.

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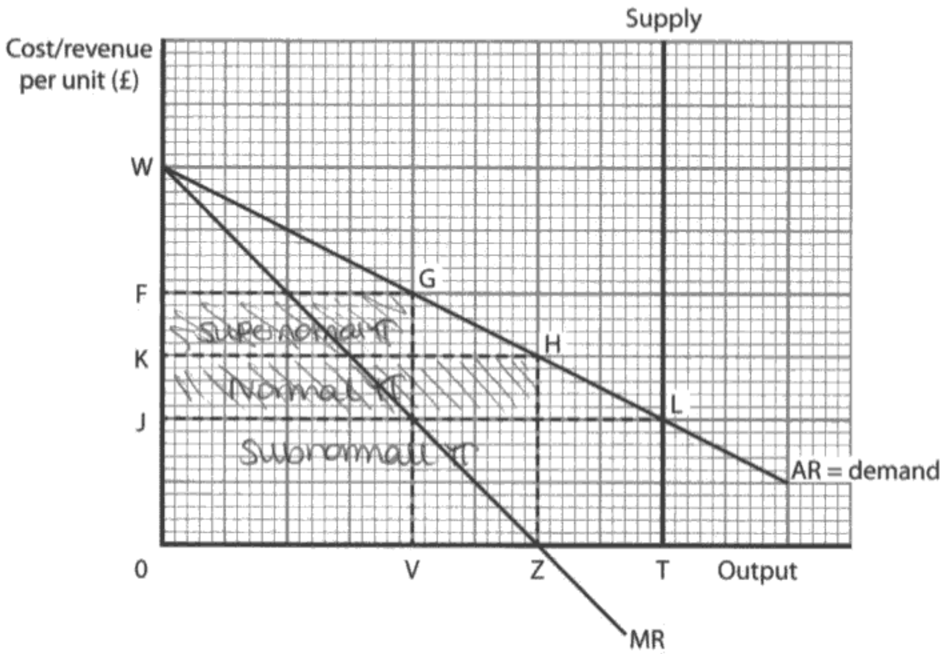


What single price will ensure that the local government maximises total revenue?

(1)

A Zero

B 0J

C 0K

D 0F

E 0W

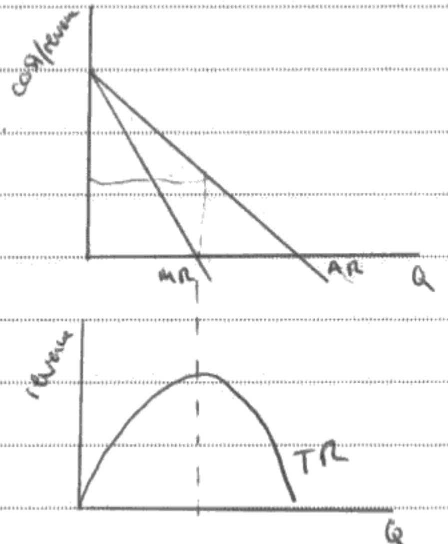
Answer B

Explanation

(3)

Revenue maximisation occurs where MR=0.

Marginal revenue is the change in total revenue divided by the change in output.



(Total for Question 4 = 4 marks)

ResultsPlus

Examiner Comments

Incorrect key

Although the diagram is annotated there is nothing which is correct - the area shown is revenue not profit

Sales max is being confused with revenue max, so TR max is not where AR = AC

There is no mark for saying that supply is perfectly inelastic because this is not relevant

Total 0 + 0

ResultsPlus

Examiner Tip

When you see a question on revenue maximisation, find and label MR=0.

Question 5

The option B was often selected and therefore although some application marks were awarded the definition of price discrimination was inadequate. Clearly the product is different, for anyone travelling in economy class is usually considered to be happy to be upgraded to business class! Candidates who selected the right key went on to gain full marks for the definition and application. Conditions for price discrimination were usually correctly described regardless of the key selected, and there were many useful diagrams showing the relative elasticities in the sub-markets.

5 Which of the following is the best example of price discrimination?

(1)

A A bus company charges less than a train company for a single ticket from Oxford to London ×

B An airline charges less for economy seats than for business seats

C A café charges less for a cup of tea than a cup of coffee

D A nightclub charges women less than men for admission

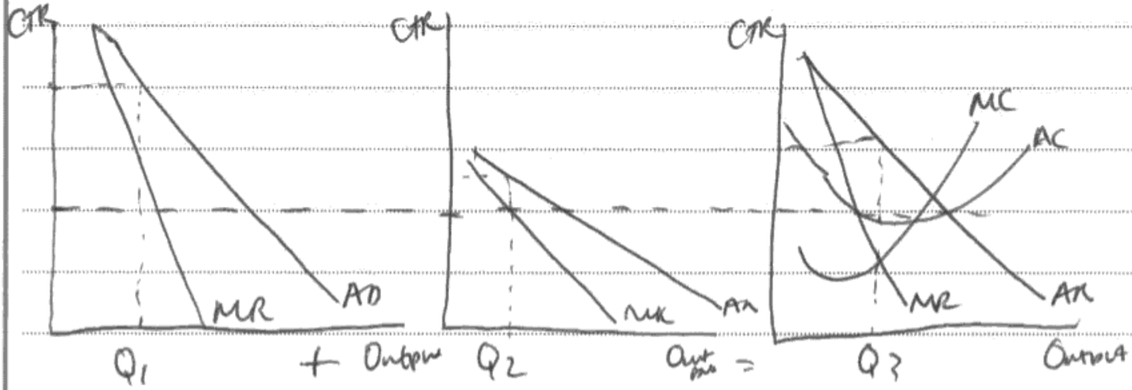
E A university charges higher fees for Chemistry than for History undergraduate degrees

Answer $\boxed{B}$

Explanation

(3)

Price discrimination is when a firm charges different prices to different consumers in the same market. It must have market power, seperate the markets, have different elasticities for the good and be able to prevent resale



Business flights inelastic

Economy flights - elastic

Total revenue for $Q_1 + Q_2 = Q_3$

ResultsPlus
Examiner Comments

Incorrect key (0) and so explanation capped at 2
Different elasticities (1)
Conditions for price discrimation having different elasticities (1)

ResultsPlus
Examiner Tip

For price discrimination, remember that the product supplied must be exactly the same.

5 Which of the following is the best example of price discrimination?

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B An airline charges less for economy seats than for business seats

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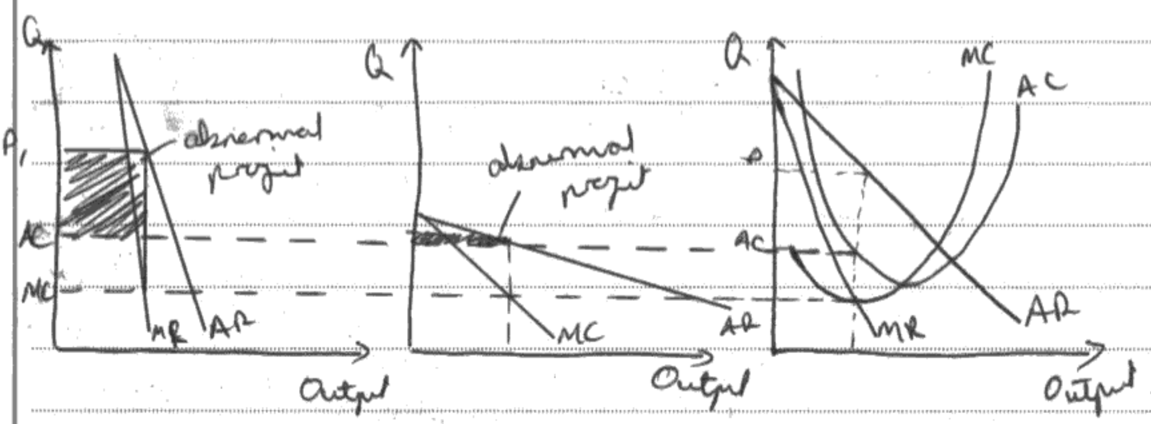
D A nightclub charges women less than men for admission

E A university charges higher fees for Chemistry than for History undergraduate degrees

Answer D

Explanation

(3)



Entrance to a nightclub is the same product/service for men/women. But men have more inelastic demand for entrance as women generally have more alternatives. Therefore, they can profit maximise, increase total revenue by charging the 2 different types of clients/customers different amounts.

Not B because economy/business seats are a different service/product.

(Total for Question 5 = 4 marks)

ResultsPlus
Examiner Comments

Correct key (1)
Diagram (although not applied to context) but does show high price inelastic demand (1)
Defintion of price discrimation in whole explanation of same product but different price (1)
Comment that men have more inelastic demand (1)
Allow knockout mark as applied that seats are different products (1)
Also allow comment that firms can profit maximise through price discrimation (1)
Therefore there are plenty of ways to get the marks here

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Examiner Tip

This diagram is also very effective!

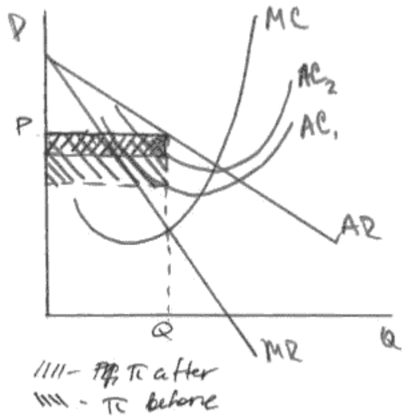
Question 6

Most students gained a mark for identifying profit maximisation MC=MR, and a further mark for explaining fixed costs but incorrect key E was often selected and limited the students to only 2 marks. Diagrams were commonly used regardless of the key selected, but when a shift of MC was included they were likely to be unhelpful. Careful use of the diagram, including the changes in profit area and the non-change of price and output, were valuable tools.

6 In October 2011 Boeing's 787 Dreamliner aircraft entered commercial operation. The firm announced that its fixed costs of development had been much higher than expected. Assuming the firm is profit maximising, what impact is an increase in fixed costs likely to have on output, price and profit?

(1)

	Output	Price	Profit
A	No change	No change	No change
B	No change	No change	Fall
C	No change	Rise	No change
D	Fall	Rise	No change
E	Fall	Rise	Fall



Answer B

Explanation

(3)

MC - is a cost per one more unit sold.

Fixed cost have no impact on MC, because MC changes with output, while Fixed don't, so ↑FC means only shift from AC_1 to AC_2, which decreased a profit, but because MC = MR equilibrium didn't change, P & Q stayed the same. So B.

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Examiner Comments

Correct key (1)
Fixed costs have no impact on MC (1)
MC = MR (1)
Diagram shift in AC (1) change in profit area (1)
MC = MR (1) diagram could score up to 3 marks
1 + 3

ResultsPlus
Examiner Comments

This diagram puts joy into the heart of the examiner.

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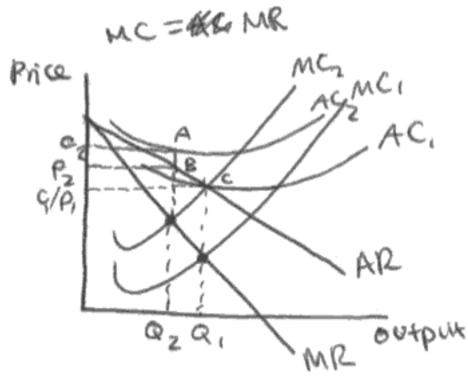
E	Fall	Rise	Fall



Answer $\boxed{E}$

Explanation

(3)

The answer is E because as you can see from the diagram the output level falls from Q_1 to Q_2. The price rises from P_1 to P_2. and the profit falls from making normal profit to making a loss of C_2ABP_2. This is because a rise in fixed costs, costs that donot vary directly with output, causes a ~~fixe~~ rise in AC from AC_1 to AC_2 and a rise in marginal costs from MC_1 to MC_2. The answer is not C because no change in output and a rise in price would cause profits to rise and not remain constant.

ResultsPlus
Examiner Comments

Incorrect key (0)
MR = MC written above the diagram (1)
Definition of fixed costs that do not vary with output (1)
0 + 2

ResultsPlus
Examiner Tip

When fixed costs change, do not shift the MC.

Question 7

The definition mark was usually awarded but descriptions of the Law of Diminishing Returns were generally poor and clumsy. Diagrams were frequently unclear and confused, but credit was given for rising MC and MR<0. Many answers included a shift in MC, and sometimes a shift in demand. Clearly this kind of question is not often rehearsed. The knock out of D was clearly described and many attempts to discount incorrect option E was successful in saying that there was not enough information to know whether the firm made a loss or a profit. This was a standard 'textbook' question, and discriminated well.

7 A firm cuts the price of its product. As a result, total revenue falls and marginal cost rises. Over this range of output, it can be inferred that

(1)

A the price elasticity of demand is relatively elastic and there are diseconomies of scale

B the price elasticity of demand is relatively inelastic and there are diminishing returns to a variable factor of production

C the price elasticity of demand is unitary and there are diseconomies of scale

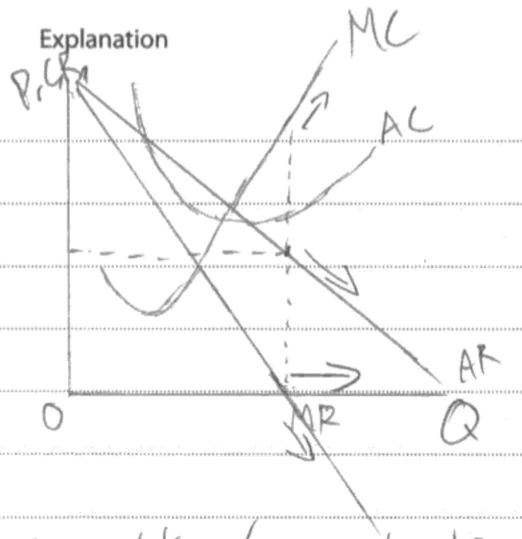
D the firm's marginal profit would increase

E the firm is making a loss

Answer B

Explanation

(3)



As price falls, it means that it is moving forwards in the AR curve, ~~I~~ if ~~MR~~ ~~rises~~ total revenue falls, it means that MR is negative so it is beyond MR=0. The price elasticity is relatively inelastic as if price increases, the firms' revenue will rise and as MC increases, it means that there ~~is~~ are diminishing returns to variable factor of production as ~~price~~ costs are increasing with output.

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Examiner Comments

Correct key (1)
Diagram - this is a good example of a diagram highlighting the key point of the question by showing the area of the graph where both MR is greater than zero and MC is rising (2)
MR is beyond MR = 0 (ie is positive) (1)
1 + 3

ResultsPlus
Examiner Tip

This diagram says it all.

7 A firm cuts the price of its product. As a result, total revenue falls and marginal cost rises. Over this range of output, it can be inferred that

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B the price elasticity of demand is relatively inelastic and there are diminishing returns to a variable factor of production

C the price elasticity of demand is unitary and there are diseconomies of scale

D the firm's marginal profit would increase

E the firm is making a loss

Answer $\boxed{B}$ $MC = \frac{\Delta TC}{\Delta Q}$

Explanation

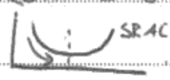
(3)

PED = is the responsiveness of Demand to a change in price. $\frac{\%\Delta Qd}{\%\Delta P}$

An inelastic product has a PED > 1

So as price falls so will demand

Diminishing Returns is when ~~TR~~ short run average cost falls



$MC = \frac{\Delta TC}{\Delta Q}$

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Examiner Comments

Correct key (1)
Definition of marginal costs (1)
Note that although the candidate also defines inelastic PED only one definition mark can be given
1 + 1

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Examiner Tip

Don't confuse the law of diminishing returns with any long running issues, such as here with the LRAC.

Avoid giving more than one definition - the assessment objectives only allow one mark for knowledge.

Question 8

Candidates demonstrated a good understanding of demerger but often struggled to apply this knowledge to identify the correct answer. Where candidates scored high marks they typically were able to successfully identify relevant diseconomies of scale and included a diagram showing output falling and unit costs falling.

Option D was frequently chosen due to confusion over decreasing contestability. Few students chose the correct option and even the definition of a demerger was often too weak to award a mark. There were few diagrams and it was broadly a low scoring question with incomplete and vague answers.

8 Carphone Warehouse, a phone retailer, and TalkTalk, a broadband provider, were previously jointly owned. In March 2010 they separated into two companies and were listed individually on the stock exchange. A potential benefit of this demerger is that

(1)

A Carphone Warehouse can reduce long run average costs

B Carphone Warehouse can gain technical economies of scale

C TalkTalk gains an exclusive retail outlet

D Consumers benefit from a decrease in contestability

E There will be an increase in external economies of scale

Answer ~~A~~ ~~D~~ E

Explanation

(3)

~~External Economies of Scale is It Contestability is the where there is low barriers to entry or exit in a market. If two companies demerged contestability~~ External economies of scale is where external firms become larger and the firm benefits from it. Other firms can ~~en~~ get TalkTalk to provide broadband for them easier as they ~~are not~~ do not have to provide for Carphone Warehouse anymore. It is not D as ~~it~~ demerging will increase the contestability as the firm cannot use Economies of Scale to lower their costs so barriers to entry ~~to~~ and exit is lower

(Total for Question 8 = 4 marks)

ResultsPlus
Examiner Comments

Incorrect key (0) Allow knock out of D (1)
0 + 1I

ResultsPlus
Examiner Tip

This tricky question involves a fall in diseconomies of scale, a combination of two negatives. A diagram helps the mind cope with this!

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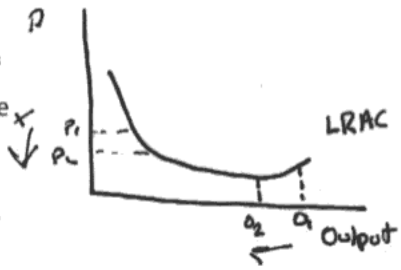


Answer A

Explanation

(3)

The demerger suggests that the merger of the two companies had resulted in diseconomies of scale, a making the AC increase as workers a feel more demotivated and there are communication issues. With a reduce of output they can go back to the minimum efficient scale allowing for lower prices. Not D as due to there being more companies in the market contestability has increased, which benefits the consumer as lower prices can be seen.

ResultsPlus
Examiner Comments

Correct key (1)
Identification that merger has lead to diseconomies of scale (1)
Diagram (2) showing falling costs and falling output
Knock out of D (1)
1 + 3

ResultsPlus
Examiner Tip

Another very effective diagram.

Question 9 (a)

This question was generally well answered, with candidates aware of the need to incorporate both theory and application into their answers. A number of candidates however omitted a reference to the leasing or renting element of PFI contracts and so did not obtain all the full theory marks available. The majority of answers were able to successfully refer to two separate pieces of evidence from the case.

(a) Using examples from the data, explain what is meant by the *private finance initiative (PFI)*, (Extract 1, line 1).

(4)

A PFI is when the Government, the public sector, ask a company ~~the pri~~ in the private sector to build and manage a project which the Government will then 'rent' off them. This means the Government doesn't have to come up with large amounts of money straight away. PFI has 'delivered 700 major items of British infrastructure.' It also means that the Government get experts to manage the project and 'the private sector takes the risk.'

ResultsPlus

Examiner Comments

2 for theory (1 for build and manage a project, 1 for government will rent off them) 2 application (1 for 700 major items, 1 for the private sector takes the risk).

ResultsPlus

Examiner Tip

There was plenty of data to use it. The question wanted 'examples' so make sure you use two pieces of data.

(a) Using examples from the data, explain what is meant by the *private finance initiative (PFI)*, (Extract 1, line 1).

(4)

The private finance initiative is a tendering service, whereby the government pays a fixed annual rate to build something - 700 major items of UK infrastructure - then the government pays a fixed lump sum at the end of the agreed period and manages the product. Building include hospitals, schools, prisons and new roads. The government are able to impose fines if the agreed work is not finished on schedule.

ResultsPlus
Examiner Comments

Tendering service is not correct. 1 mark for major/instructure2 marks ap: schools and hospitals.

ResultsPlus
Examiner Tip

Remember 2 marks for theory and 2 for application.

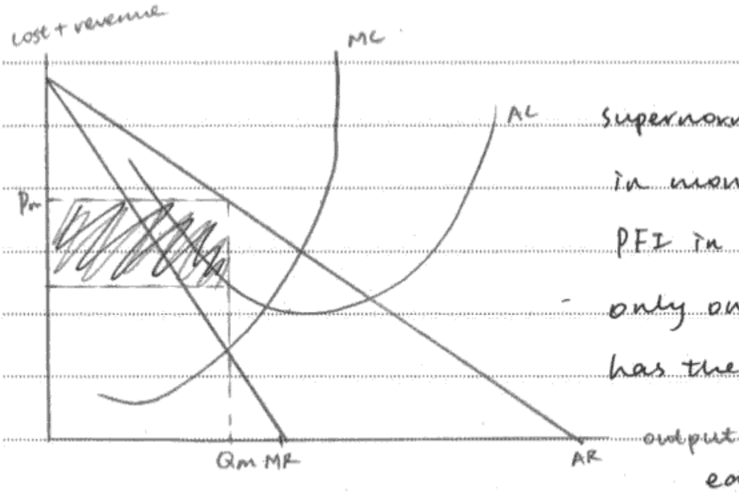
PFI is not the same as contracting out.

Question 9 (b)

This question was generally well answered with candidates showing a good understanding of the monopoly diagram and many were able to successfully apply this to the context of the case to achieve all of the KAA marks available. Evaluation was pleasing with the majority of candidates able to successfully evaluate their responses within the context of the questions. Weaker answers relied on textbook theory and were not able to apply their responses to the case, or merely failed to evaluate at all.

(b) Discuss how PFI operators can earn *supernormal profits* (Extract 2, line 22). Use a monopoly diagram to support your answer.

(8)



supernormal profit can be made in monopoly.
PFI in the market, means only one firm in the market, has the monopoly power.
in Extract 2, PFI can earn profit of up to 71% of the projects.

Because ~~with~~ in the PFI, they may have some specialised person who have the specialised knowledge on how to build a new hospital or school. They can use the lowest production cost to finish the project in a very quick time, and generate more profits from what they gained. In Extract 1, line 12, 'private sector borrowing cost more than government borrowing, when they finish the project, they can have ~~have~~ the rest of the finance that they didn't use, therefore they can get supernormal profit.

With PFI's monopoly power, it can lower down the price, increase output, get more revenue and generate ~~get~~ more profit.

(the total cost of PFI is often far more than the value of assets)

However, we need to consider that not all PFI can generate supernormal profit. Some project may go over the budget, in Extract 1, line 15, 16. The London's Jubliee line extension went over the budget and the lose they made had to be paid by tax payers.

Also, e.g the fire control, a PFI replace the 46 call centres, but they have technical problems. Therefore the fire centre may have to replace them again, and PFI can't make any supernormal profits and instead have to do them again, which cost more.

Secondly, the PFI also takes the risk, the PFI pays fines or losses if the delivery late or over budget, e.g Extract 1, line 10-11, Therefore they wont make supernormal protit, profitability will fall as well.

ResultsPlus
Examiner Comments

This is an excellent answer, 8/8.

Data is used, the diagram is clear (even if MC doesn't go exactly through the lowest point of AC) and there is an understanding that 50% of the marks will go for evaluation.

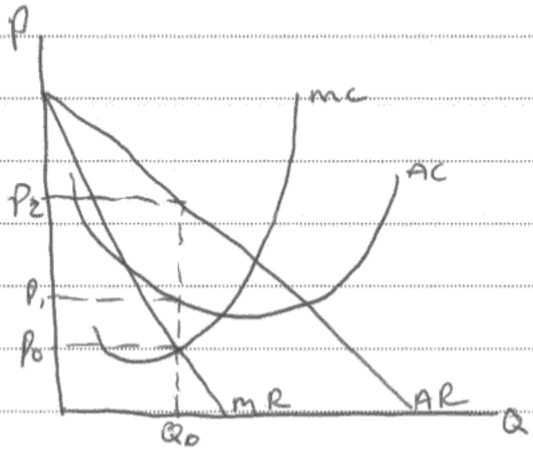
Eval: 2+2

ResultsPlus
Examiner Tip

Make sure you remember that even the 8 mark questions are 50% evaluation, and with 2 marks for the diagram, there is not a lot of scope for lengthy writing on the analysis descriptions.

(b) Discuss how PFI operators can earn *supernormal profits* (Extract 2, line 22). Use a monopoly diagram to support your answer.

(8)



The diagram shows a monopoly earning supernormal profits, ~~at~~ ~~at~~ this is because the average cost is less than the average revenue.

PFI operators can earn supernormal profits as they are getting paid the government over time as leasing.

This is because the cost of the PFI schemes is a lot more than the value of the asset, therefore the operators can build cheap with high promising returns.

However there is risk within this, if the ~~PFI~~ PFI operators go over budget they can be fined a great deal.

They can earn supernormal profit as the market is almost uncontestable once the contract is agreed. This means as a monopoly they can set the price and as inflation increases they can earn more supernormal profits.

ResultsPlus
Examiner Comments

Diagram - 2 although SNP isn't labelled the written analysis next to diagram is clear that this is shown on the diagram
KAA - 2 for comments at bottom of page about uncontestability and setting prices
1 EV for comment about risk of going over budget
4+1 = 5

ResultsPlus
Examiner Tip

Make sure the profit area is shaded, or at the very least, described carefully in the text.

Question 9 (c)

There were many excellent responses to this question. Many candidates successfully incorporated information from the case and provided three separate benefits of PFI schemes to either the government or the end user. There was a plethora of information in the case study material, both for and against the issue. However, candidates are reminded of the fact that half the marks are available for evaluation, and their arguments should be equally weighted.

*(c) In the light of the information provided, assess the likely benefits of PFI schemes to consumers.

(12)

PFI schemes have ~~many~~ benefits to consumers, as shown in the extracts. One major benefit is that PFIs allow for quick improvements to services without short run costs to consumers in the form of tax. However in the long run tax ~~will~~ may rise in order to meet PFI repayments as they are subject to interest rates, which also allow PFI operators to gain supernormal profits.

PFIs also reduce government risk if a project goes over budget as the operators are liable for this. This acts as an incentive for operators to deliver the projects on budget and on time which benefits consumers. This benefit is, however, subject to government contracts and the time period may already be agreed to take a long time and this does not benefit consumers.

Another benefit to consumers is that PFIs are subject to public and governmental scrutiny (and fines) and quality once the project is complete is ensured. PFI operators will be gaining public attention from these schemes and it is in their interest to perform to standard. Also, revenue from fines if the project is late can help the government to reduce tax increases in the long run. However it has been argued that the high payments that services such as the NHS are required to meet ~~have~~ have led to a fall in quality as NHS budgets are fixed but PFI repayments are not.

ResultsPlus
Examiner Comments

3 points made, each with some evaluation (though the second paragraph it is scoring just 1/2).

This is succinct, accurate, and makes excellent use of the data provided. All in one page!

ResultsPlus
Examiner Tip

Use the data! There is a large amount of material provided, which is especially helpful for questions such as these which are not fully discussed in most textbooks. The answers are in the questions!

*(c) In the light of the information provided, assess the likely benefits of PFI schemes to consumers.

(12)

Government takes on PFI contracts to pay for required public services and buildings that might not otherwise go ahead because of the large initial cost of them. ~~The~~ The large initial cost is prevailing factor because the government is in debt and is imposing austerity measures.

This allows the government to let those projects go ahead and pay them in termly instalments to a private company that funds the initial large cost. This mean that the government doesn't need to raise taxes, or take money away from other vital public services to pay for it, however the government will end up paying more than the high initial cost of it in the long run because the private firm needs to make a profit, the government needs to carefully weigh these two options up.

Another factor of the PFI contract is that the private firm will manage and maintain the project after its completion because the private sector achieves better efficincies and often better quality results than the public sector, However this better management will also need funding and this could mean that consumers end up paying more in the long run

ResultsPlus
Examiner Comments

2 knowledge marks for 1st paragraph for large initial costs
2 knowledge marks for the next paragraph for opportunity costs
2 for evaluation for paying more than the initial costs
2 knowledge for last paragraph effiency and better quality and finally 1 evaluation where benefit of doubt was given as the point was similar to the previous evaluation but it is a slightly different reason for higher costs
Although they got 6 knowledge marks, because there is no application it is capped at 5.
Total 5 + 3ev

ResultsPlus
Examiner Tip

It's really clear that using the data and evaluating it is key to doing well.

Question 9 (d)

There were many excellent answers to this question, with candidates demonstrating a clear understanding of methods of government intervention to promote efficiency in markets. Strong answers followed a clear structure of discussing a method of intervention and then evaluating the method and thus scored high marks.

Price capping, performance targets and deregulation were the most common, which were indicated in the text. There were many answers giving RPI-X and RPI=K as separate points, and this was fully acceptable. Evaluation depended on the points chosen, asymmetric information and regulatory capture were most common. Many students knew the structure required, it was really a question of making enough points in the time available rather than ability to access this open-ended question.

*(d) Apart from PFI, discuss ways in which government intervention might promote economic efficiency in markets. 8 8 (16)

The government intervention like price capping RPI-X, ~~it with~~ 'X' reflects the efficiency gains that the regulator thinks that the firm could reasonably achieved.
Price capping will protect consumers benefits and ensure the business can remain its profits. It will help to reduce price for consumers and firms have to cut cost, which will make them more productively efficiency.
Also, the ~~RPI~~ RPI-X+K, which used in the water industry, the 'K' reflects the capital that the water company use to invest which will improve the quatity or quality of the water. This will make them more dynamically efficiency.
Thirdly, government intervention (deregulation) like contracting out some firms non-core activities by competitive tendering. for example, the NHS may contract out their landuary services to small firms, small firms ~~can~~ in the niche market can do this in a very low cost and also increase the employment, they gain that business, then more people can get to

work, then NHS will have the opportunity cost to spend on medical treatment for consumers, which will benefit them, make it more allocatively ~~effect~~ efficiency.

However, we need to consider that the price capping, if it's set too high, then there will be not enough profit to reinvest, and missed opportunities to ~~be~~ become more productively efficiency, and no improvements or increase capacity. Therefore productively efficiency may not be significantly

Secondly, for a competitive tendering, they may have asymmetric information about the products they are going to produce, or the work they are going to do.

~~The government~~

Thirdly, regulatory capture may happen in the market, where the firm may use their political influence to ensure the appointment ~~between~~ by goverment of personnel to regulatory agency is sympathic to their development, take more account of the directors' interest than consumers'. Then allocatively efficient may not be significantly.

ResultsPlus
Examiner Comments

Price capping identified and explained - 2
RPI + K identified and explained - 2
Contracting out identified and well explained with example - 3
First ev - lack of incentives to invest - 2e
Second ev - asymetric information not linking to the question - 1e
Third ev - Regulatory capture - 2e
Total 7 + 5 ev

ResultsPlus
Examiner Tip

It is good to see contracting out applied here to laundry services.

This answer was going well, but clearly the student runs out of time.

*(d) Apart from PFI, discuss ways in which government intervention might promote economic efficiency in markets.

(16)

The government could implement performance targets, whereby the government set a goal for a firm to acheive, this would allow the firm to increase allocative efficiency and allow consumers to gain from greater quality of services, for example, in the ~~NHS~~ or the building of hospitals, the government could aim for low queing times and short levels of time for an issue to be resolved, this would increase customer experience.

However there is a trade off for the government/regulator in acheiving allocative efficiency and productive efficiency. As regulators want consumers to gain from a good service, as well as low prices. Although it is often difficult ~~which~~ to decide which type of efficiency should be implemented more.

The government could implement a large fine on a firm that isn't productively, nor allocatively efficient. This would act as an incentive to become efficient, in order to reduce the likelihood of a fine and thus reduced profits. Firms will invest, as well as cut costs in order to increase efficiency

However, it depends upon the size of the fine. ~~The~~ A large fine would act as a discincentive to be efficient, however, in the short run a large fine would reduce a firms ability to invest and therefore consumer choice and quality will fall and reduce dynamic efficiency.

The government could use a price cap, using the RPI-x formula, where RPI is inflation and x are the efficiency improvements. This ~~...~~ is the maximum price increase that a firm can impose onto the consumer, this will ensure that the firm remains productively efficient.

However, the government/regulator may suffer from regulatory capture, whereby they are left ineffective due to direct or indirect bribery, in addition they may suffer from information assymetry, whereby the govnt relies on the firm for information, thus the firm could feed false information, leaving the regulator ineffective.

The government could ruin the reputation of a firm that is not productively nor allocatively efficient, by making its case public and increasing awareness of inefficient markets. This will reduce their customer base and will reduce profits in the long run, which will encourage firms to be efficient.

However, brand loyalty reduces the effectiveness of the governments role in ruining reputation. For example, Starbucks who paid minimal cooperation tax still have a large customer base as over the years they have marketed and advertised their brand in order to gain a loyal and large customer base, therefore the scope of the governments ~~role~~ in trying to reduce this ~~be~~ loyalty is limited.

However, government intervention is only a short term solution to increase efficiency and in the long run the firm will be required to be efficient without the government nor the regulator, therefore in the long run the ~~fp~~ market may remain inefficient.

ResultsPlus
Examiner Comments

Performance targets - 2
Ev - trade off E2
Fines - 2
Ev - negative impact of fine E2
Price capping - 2
Ev - regulatory capture - E2
Ruin reputation as an example of naming and shaming - 2
Ev - consumer loyalty remains - E2
Total 8 + 8ev

ResultsPlus
Examiner Tip

A gap between your paragraphs makes it easy on the examiner - and setting out points clearly in this way will help you work out if you have made a well-balanced answer.

Question 10 (a)

Candidates often failed to spot that this was an example of vertical integration as Dunnhumby was a supplier (of information) to Tesco. This candidate found the application marks accessible but often did not achieve the full theory marks. Candidates needed to explicitly state a reason for the takeover; often candidates chose to simply explain why Tesco used Dunnhumby's services (ie to know the customer better). The key to obtaining full marks was appreciating why Tesco wanted to change the status quo and buy Dunnhumby. Candidates who adopted this approach typically scored full marks.

(a) Using evidence from Extract 1, explain **one** reason for the takeover of Dunnhumby by Tesco.

(4)

To increase brand loyalty. This is because they ~~could to~~ used Dunnhumby to collect data from customers and useds this data to increase customer awareness therefore increase brand loyalty.

ResultsPlus

Examiner Comments

1 for data for saying what Dunnhumby does in a general sense.

ResultsPlus

Examiner Tip

Brand loyalty cannot be awarded because there is no increased brand loyalty just because Tesco bought Dunnhumby. Dunnhumby already collected the data for Tesco and there will be no increase in data provided.

(a) Using evidence from Extract 1, explain **one** reason for the takeover of Dunnhumby by Tesco.

(4)

Vertical intergration - the merger / takeover between the firms that are at a different stage of production process.
Tesco might gain from taking over Dunnhumby as it will be able to absorb profit margins. Previously, Dunnhumby was earning profits from Tesco as they had profit margins when selling information to Tesco. However, now this profit margins belong to Tesco, which will either result in lower costs for Tesco or will be passed over to customers as a reduction in price, leading to higher demand.

ResultsPlus
Examiner Comments

This answer is exceptionally good - and rare.

2 for theory

2 for application.

ResultsPlus
Examiner Tip

Remember two marks for theory (here, vertical integration, well explained) and 2 for application. There is more than enough here.

Question 10 (b)

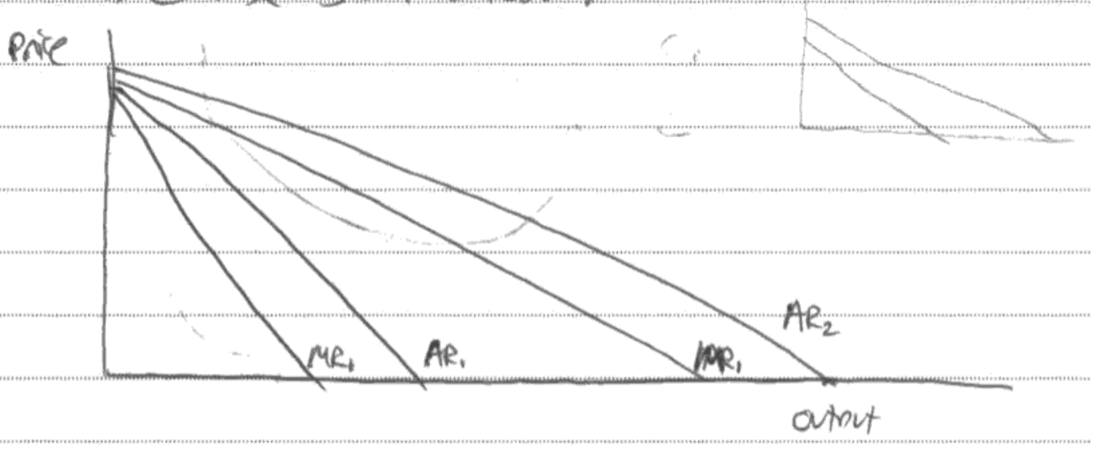
Candidates were able to achieve full marks for successfully applying any relevant market structure diagram to the information provide, provide the market structure chosen was justified. The most popular approach was to use monopolistic competition as the appropriate market structure. A popular method of evaluating was to compare profitability over time. Candidates who attained high marks on this question typically were able to set their answers clearly within the context of the case and avoided "textbook" responses.

Students are becoming more familiar with the requirements of these kinds of question. The evaluation was certainly of a better standard this year.

(b) In the light of the information provided in the first paragraph of Extract 2, assess the likely profitability of a firm in the hairdressing industry. Use diagrammatic analysis to support your answer.

(8)

Hairdressers operate in in a monopolistically competitive market structure, characterised by having some brand loyalty in the form of returning customers and thus will be able to set prices to an extent. We are told ~~that~~ in extract 2 that 70% of hairdressers' customers can be described ~~described~~ as "fully loyal". This is a significant amount, and allows hairdressers to exploit their customers; knowing that they will likely stay with them, they can slightly increase profits by increasing price, knowing that the demand for their goods by these returning customers is inelastic — so, a rise in price will have a disproportional (smaller) fall in demand, and thus total revenue will rise, and so will their profits. This can be shown below:



As shown, ~~total~~ average revenue increases from AR_1 to AR_2 as a result of the rise in price, which increases the firms level of supernormal profit.

However, it can ~~b~~ also be argued that the hairdressing industry is not very profitable. Firstly, there is the issue ~~of~~ mentioned in extract 2, ~~[illegible]~~ that when a stylist leaves a salon, customers are likely to switch hairdressers. This presents a problem for hairdressers, who will therefore try to keep hold of their staff. Moreover, we are told that women tend to be more loyal. This implies that the same may not apply to men, suggesting that ~~male~~ male hairdressers may not be as loyal and thus not as profitable.

Finally, in the long run, due to hairdressers operating in a monopolistic competition, supernormal profit will ~~not~~ not be possible due to low barriers to entry and the entry of new firms to compete profits away, until only normal profits are ~~[illegible]~~ made.

ResultsPlus
Examiner Comments

KAA 1- definition/explanation of monopolistic competition
KAA 1 - 70% of customers are loyal
1 for the diagram downward sloping AR
Ev 2- loyalty of customers to specific hairdressers can create a problem.
Ev 2- Candidate suggests there are low barriers to entry in this market,
Total 3 + 4ev

ResultsPlus
Examiner Tip

The cost curves do appear, but very feint.
No profit area seen.

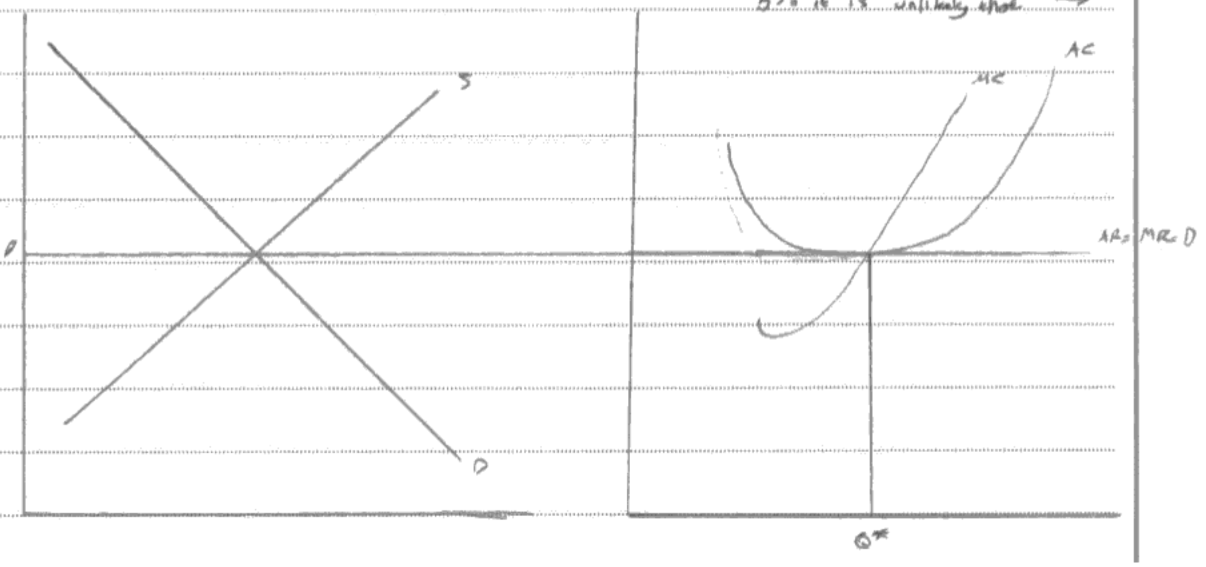
Make sure you draw diagrams in a very dark colour, and don't use hard pencil or red/ green pen.

(b) In the light of the information provided in the first paragraph of Extract 2, assess the likely profitability of a firm in the hairdressing industry. Use diagrammatic analysis to support your answer.

(8)

The profitability of a firm is determined by its revenue – costs. In the hairdressing industry it would appear that the potential profitability is determined solely by customer loyalty, which, in turn, is determined by firms loyalty to "existing employees": "when a stylist leaves a salon, the customers are also likely to go elsewhere." This also means that PED is inelastic, customers "will continue to go to a particular stylist, even if there are cheaper or more convenient alternatives available."

This should mean that established hairdressing firms, probably in a prime location should be the most profitable of hairdressing firms. This is because if previous generations of families have gone to that hairdresser, the likelihood is that this tradition will continue, and will probably be the case for other families. However, as stated, uncertainty arises in this industry when there is a change of personnel, people trust the same people to cut their hair as they have previously. However, as this is an industry that, I'd imagine, is not particularly taxing to the individual employees could remain in the same salon for maybe 30 or 40 years meaning that shouldn't often be a change in supply. However, ~~if~~ as Figure 1 states that no one firm has over 5% it is unlikely that →



supernormal profits will be made, it is likely that only normal profits (profits that are satisfactory; enough to keep a firm within an industry) will be made. Certainly for new firms entering the market, profitability would be very hard to achieve as the strong customer loyalty would mean that it is unlikely that firms would switch hairdressers for a new firm.

ResultsPlus
Examiner Comments

KAA 2- recognition of inelasticity due to customer loyalty with quote from text.
No marks for the diagram due to wrong market structure.
The discussion is difficult to follow but there are two evaluation marks above the diagram for the discussion of loyalty to a particular stylist.
On the 2nd page the candidate comments that new firms may enter the market so only normal profits are made in the long run. This point is developed further as the candidate then comments that this may not happen due to customer loyalty - 2 e
Total 2 + 4ev

ResultsPlus
Examiner Tip

This answer shows how a candidate can develop evaluation through depth/layers.

Question 10 (c)

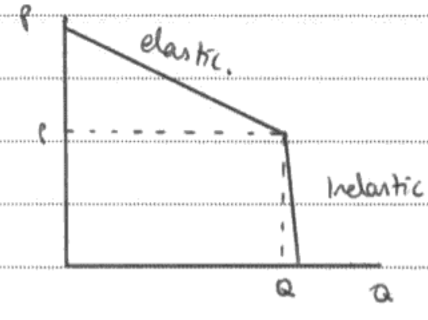
Candidates found this question challenging, with candidates often reproducing an inaccurate payoff matrix. Candidates are advised to practice applying payoff matrices to a variety of situations and to demonstrate clearly which firm is being referred to in each quadrant. Candidates are reminded of the need to incorporate applied theory into their answers – the context chosen lead to a variety of appropriate strategies being reviewed. However, candidates did not need to use a payoff matrix to gain the marks reserved for game theory. Many candidates did demonstrate a good understanding of the prisoner's dilemma and made good references to the interdependence of many firms when making decisions. Strong answers reviewed a range of strategies to increase loyalty and applied them successfully to their chosen industry.

Evaluation tended to be rushed on this question. Evaluation marks can be earned through the use of game theory, but are not automatically attached. There must be critical distance in the answer.

*(c) With reference to an industry of your choice, examine strategies firms might use to increase consumer loyalty. Use game theory to support your answer.

(12)

Firms in industries with oligopolistic market structures will see non-pricing competition such as in the airline industry. Firms will compete on non-pricing strategies such as branding — advertisements which create high sunk costs, making it potentiall an uncontestable market, and warranties on goods and after-sales care. This is because in oligopolies there is price rigidity where firms choose to remain at a certain price which is beneficial for all. This can be seen by the kinked demand curve.



As can be seen, if firms choose to increase price no firms will follow as this is on the elastic part of the demand curve resulting in a less than proportionate increase in demand meaning loss of revenue. Additionally if a firms lowers its price others will follow to avoid losing market share but as it is on the inelastic part they will again lose revenue due to a less than proportionate increase in demand. Firms in the airline industry are interdependent, ones decisions are based on what the other firm does, this is called game theory.

~~IF~~ This can be seen by a pay off matrix. This pay off matrix will show two firms; Virgin and BA and the interdependance of their decisions and the effect it has on their profits.

		BA	
		high output	low output
VIRGIN	high output	virgin : £100m BA : £100m	virgin : £80m BA : £0
	low output	virgin : £0 BA : £80m	virgin : £75m BA : £75m

~~IF~~ This shows how there is incentive to cheat, If Virgin and BA decide to collude and ~~charge~~ sell a low output they can both make £75m, whereas if BA cheats and chooses a high output they can make £80m while virgin will make 0. This would give them a greater market share.

Firms may provide loyalty cards for consumers such as air miles, encouraging them to fly with only one airline so in the future they can get discounts. Additionally the service they offer, virgin may try and increase worker efficiency such to reduce queue times and improve food quality.

Firms would also choose to price at the allocative efficiency point P = MC where the cost of producing the good equals the ~~demand~~ ~~gr~~ ~~dem~~ ~~gr~~ benefit gained by the consumer from it.

Additionally firms could choose to sales maximise where AC=AR to produce a high quantity at a low price, meaning more consumers can buy it ~~at~~ due to the fact there is more and more can afford it. This can increase market share at the compromise of profits in the short-run. Firms may choose to ~~profit max~~ switch to profit maximise in the long-run.

ResultsPlus
Examiner Comments

KAA 1- advertising
KAA 2 - game theory marks for discussion of interdependent firms
Please note that the payoff matrix does not get any marks because it is incorrect- the highest profit figures should be where the two firms are colluding, in this case where they both have 'low output'. In these questions it is very important to actually check that candidates have drawn payoff matrixes that 'work', particularly when it comes to the values used in these diagrams.
KAA 2 - customer service/quality
KAA 2- loyalty card would encourage people to stick to flying with the same airline
KAA 2- sales maximisation explanation
EV 2 - Sales maximisation leading to loss of profit in intial run which has been indicated throughout but comes to fruition in the last paragraph
Total 6 + 2ev

ResultsPlus
Examiner Tip

Also, remember that only the best three KAA points can be rewarded up to a maximum of six marks *(c) With reference to an industry of your choice, examine strategies firms might use to increase consumer loyalty. Use game theory to support your answer.

(12)

~~AM A strategy which firms might use~~

There are two strategies the firm may use to increase consumer loyalty.

Firstly, they might adopt pricing strategies such as predatory pricing. This is when a firm in the existing industry decreases their prices (lower than costs) in order to increase market share (thus increasing consumer loyalty) and ~~deter~~ deter incumbent businesses from entering the market. An example of this is when Tesco decreased ~~Another strategy they might use is limit pricing accomodated with loyalty Cards~~ their prices of groceries in order to deter ~~the~~ local grocery stores from taking their customers.

Another strategy the firms may adopt is loyalty cards. ~~IO~~ Especially in the supermarket industry, there is ~~and therefore~~ are examples of Tesco clubcards which ensure that regular customers of Tesco ~~benefit~~ & benefit from their constant shopping in tesco's. ~~The~~ They also include coupons which is specific to only their products, however, ~~they~~ this increases consumer loyalty as they will be more willing to shop at tesco's.

Another strategy may be to increase advertising, for instance in the phone market industry, Apple spend millions or even billions of dollars in advertising their new goods such as the iPhone 5, which shows the updated features etc.

Finally, firms can offer better services through R&D and innovation, and mergers and acquisitions. For instance T-Mobile and Orange merged to form the EE network which rewards their customers with faster service and better connection.

However, Predatory Pricing is illegal and therefore, firms might be investigated by the Competition Commission and may even be subjected to fines and even jail terms for the managers.

Also advertising requires millions of pounds, some firms may not have that level of capital to invest and thus this acts as a significant barrier to entry.
Finally, in the short run firms may decrease price in order to get customers and develop ~~brand~~ customer loyalty, but in the LR, they are likely to increase prices in order to maximise profits.

ResultsPlus
Examiner Comments

KAA 2- explanation of predatory pricing
KAA 2- explanation of loyalty cards
KAA 2- explanation of advertising
Ev 2- predatory pricing is illegal
Ev 1- advertising is expensive
Ev 1- firms may raise prices in long run
Total 4 + 2ev

ResultsPlus
Examiner Tip

Note that there is no reference to game theory in this answer, and so therefore it can be awarded a maximum of 4/6 for KAA

Question 10 (d)

This was a challenging question and led to a wide variety of responses. Candidates who were awarded high marks on this question paid close attention to the words of the question (ie reasons for dominance vice versa). Strong answers were able to successfully compare the two separate markets using comparative language and explaining why the differences in the market characteristics helped to explain the differences in the market structure. Good answers effectively used the concept of contestability to help justify the reasons why the two markets differ.

Most candidates made good use of the data provided, referring to the relevant concentration ratios, and discussing the issue of consumer loyalty to individual stylists. Generally this was an accessible question, which candidates could write something relevant in response to. The largest error in answering this question was to write a response based purely in economic theory, rather than applying the appropriate theoretical points to the two industries of food retail and hairdressing. For example, many candidates wrote that the food retail industry is dominated by just a few firms **because** it is an oligopoly, this being one of the characteristics of an oligopoly (often going on to explain the other characteristics at length, but with no application to the food retail industry), and similarly this is not the case for hairdressing **because** that is an example of a monopolistically competitive industry, and this is one that has many buyers and sellers. This obviously missed the main thrust of the question which was to explain **why** food retail is an oligopoly, and **why** hairdressing is monopolistically competitive. Whilst weaker candidates could usually go on to explain some of the relevant features of the two industries, for example, high/low barriers to entry and exit, high/low sunk costs, extent of economies of scale, they were unable to give relevant applied examples of these from the two industries. Conversely, more able candidates could discuss the specific factors of production that one might need to set up in either industry, or explained specific types of economies of scale that might be encountered, often successfully relating these to the industries in question. The most common option here was to discuss the degree of monopsony power that supermarkets might hold over farmers/ food manufacturers, and contrast this with the much lower quantities of shampoo etc. that a hairdresser would need to purchase. Many candidates wrote about the artificial barriers to entry that supermarkets may constuct to maintain their monopoly power. Of these limit and predatory pricing tended to be well explained, but although candidates could identify that collusion may occur, they could not satisfactorily explain why this might limit the number of firms in the industry. Evaluation of these points did not go beyond the possibility of investigation and prosecution by competition authorities in the vast majority of scripts, so more knowledge of why these may not occur would be useful. Very few students brought any knowledge of game theory into their answers here, which was surprising given that the previous question had required them to consider this. More generally, candidates achieved higher knowledge, application and analysis marks than evaluation marks in this question, as they did not make enough evaluative points, and/or found it difficult to go beyond either a simple statement that the opposite was true in the other industry ('there are high sunk costs in food retail as entrants would need to launch an expensive advertising campaign, **but sunk costs are low in hair dressing'**), or tended to rely on general, rote learned evaluative points which they did not apply to the specific context of the question ('however predatory pricing is illegal'). While these earned candidates some marks, there is perhaps still not enough understanding that half of the 16 marks are awarded for evaluation on these highest mark questions. Finally, weaker answers strayed away from answering the question into a consideration of the merits and demerits of each kind of market structure for society, and were sometimes confused by the reference in the extract to their being considerable customer loyalty to individual stylists, as they took this as customer loyalty to salon chains, and hence a barrier to entry into the industry.

*(d) Assess the reasons why a few large firms dominate the food retailing industry but not the hairdressing industry.

(16)

A few large firms dominate the food retailing industry because they have the money and power to control the market.
As you can see from figure 1, the industry for food-retail is most likely an oligopoly, while for hairdressing is most likely ~~monopolistic~~ perfect competition.
The food-retailing industry ~~is~~ ~~are~~ will have ~~high~~ high barriers to entry and high sunk costs, which means contestability is low and not many firms will be able enter because they do not have ~~the~~ ~~req~~ enough money to pay for the advertising and setting-up that is required. This is the opposite in the hairdressing industry ~~because~~ - there a low barriers to entry + exit and hardly any sunk costs if you are local and rent the equipment. This means many firms can enter and exit the industry without losing too much.

~~Large ure~~ Large firms may also benefit from economies of scale and vertical integration where they control the suppliers. This means many supplies will only sell to the big companies and others cannot afford to buy them out especially when they just entered the market.

However, there are a few food-retailing industries in the market that are not anywhere near as big as the main ones but still manage to survive because they will usually be local and offer local deals to regular customers.

The hardressing industry is so concentrated because ~~like~~ ~~lots~~ people are able to start up easily. However, many hardressing firms will usually have to ~~g~~ leave because ~~they~~ ~~cannot~~ ~~afford~~ other firms enter when SNP is made.

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Examiner Comments

This is a repetitive answer, which only discusses barriers to entry (which is repeated by discussion of high start up costs) and vertical integration (which is linked together with economies of scale but this is not developed). The two points are evaluated, so can earn 2+2 KAA and 2 + 2 eval.

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Examiner Tip

Make four distinct points, and develop them in unique ways, applying your economic theory as well as the data provided.

*(d) Assess the reasons why a few large firms dominate the food retailing industry but not the hairdressing industry.

(16)

~~Supermarkets~~ Large firms can exist in the food retailing industry as they can benefit from purchasing economies of scale. Large Supermarkets like Tesco and Sainsbury's have stores across the UK so they can negotiate deals with suppliers. Economies of scale are a fall in long run average costs as output increases. Purchasing economies of scale refers to the ability of large firms to buy in bulk. However, hairdressers can't buy on the same large scale as supermarkets, because they have less stores and ~~hair p~~ one bottle of shampoo can be used on several customers whereas one bottle of shampoo in a supermarket is sold to one individual consumer.

However, hairdressers benefit from managerial economies of scale which involve specialisation amongst staff to increase efficiency as specialist staff can ~~do to~~ perform certain tasks quicker. At hairdressing salons, there's often stylists, hairdressers for men, hairdressers for women, ~~peop~~ staff to wash hair.

Another reason why large firms dominate the food retailing industry is because there's high barriers to entry. Supermarkets operate in an oligopoly where the sunk costs of advertising and warehouses are high. Meanwhile hairdressing firms in monopolistic competition have low barriers to entry as they can work in their home with a pair of scissors and a comb. This allows new entrants to enter the market profitably whereas new entrants into the food retailing industry will struggle.

However, there ~~are many~~ is a strict competition policy in the UK which strives to make markets more contestable, which could reduce the ~~dominance~~ ~~high~~ 76.1% concentration ratio in the food retailing industries. Cornershops and food markets have been set up which suggests that the industry ~~doesn't have~~ has a certain level of competitiveness, allowing such firms to remain in operation.

A third reason why a few large firms dominate the food retailing industry is because of collusion. Collusion happens ~~why~~ when firms agree to restrict output to increase prices. If the supermarkets trust each other to keep to the agreement, collusion can help them generate more profits which they can then reinvest and use for research into the market and consumer preferences.

However, collusion is illegal and can lead to investigation by competition authorities such as the Office of Fair Trading who can impose a fine on the supermarkets involved. This will also be unpopular with consumers and they could lose customers instead.

ResultsPlus
Examiner Comments

This scores 7 + 8 evaluation.

It is an impressive answer, with three good points made, developed and applied, followed each time by evaluation. For a secure 16 marks, 4 points should be attempted, however.

ResultsPlus
Examiner Tip

Short answers can be effective, but ensure you develop the points deeply, and you have enough breadth in your range of responses. 4 good points are recommended, although 3 can get you to full marks.

Paper Summary

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

- Learn the meaning of important words like monopolistic;
- Annotate your diagrams correctly so that they are made clear;
- Check the breakdown of the marks for each question so that you do not waste time on questions;
- Use diagrams if this can help you to explain a concept;
- Always read the question thoroughly, so if you are asked for two pieces of data, give two;
- Remember to allow time for evaluation if this is part of the question - there are valuable marks here;
- Well laid out answers make it clear to read what you are writing about.

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