Examiners' Report

Summer 2014

Pearson Edexcel GCE in Economics
6EC03 Paper 01R

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Introduction

General observations

The supported choice questions were mostly answered well by Students, with good use of diagrams and annotations; well prepared Students were able to pick up all the marks. The main problems were with question 4 confusing revenue with sales maximisation, question 5 carefully reading the question to avoid the wrong key and question 7 (monopoly power) causing a surprising amount of difficulty.

The data questions were both seen as more accessible with question 10 (supermarkets) far more popular than question 9 (elevator market). The reason for the avoidance of question 9 may have been the context being unfamiliar and a competition authorities question for 16 marks (9(d)). Students had to think their way through issues using the context rather than rely on pre-learnt responses. This made it an effective paper and there were some excellent, innovative answers balanced out by some very weak ones at the other end of the spectrum.

Question 1

This was mostly well answered by Students who were able to identify the correct key C and define it carefully as merging at a later stage (many Students saying closer to customer) of the same production process or same industry. This was a straightforward opening question and nearly all Students then went on to apply the advantages to Ford, unfortunately a few focussed on advantages to Arnold Clark. Very few Students identified likely impact on consumer of less choice, instead they focussed on the advantage to Ford preventing competitors or having a dedicated sales force.

Question 2

Some students appeared to rush into this question or were confused in identifying C incorrectly and not spoting that the firm was making a contribution to fixed costs. Stronger students did identify this and went on to say that if this continued in the long run it would leave the industry.

One of the most common ways to pick up a mark was to define or identify a characteristic of Perfect Competition. Another effective way was to comment that the firm was making a loss (AR>AC).

As with many questions which provide a diagram, Students often used the diagram effectively. The most common effective way was to highlight the box where AC is greater than AR and annotating loss. Less common but also rewarded was add a contribution box with very few Students adding the supply curve shifting left, illustrating firms leaving the industry, showing that the price would be higher and output would be lower in the industry.

Students made good use of the diagram in picking up knock out marks for A, B and E identifying loss in the diagram and profits discussed in the key.

Question 3

This question tested Students understanding of calculating Marginal Revenue and Marginal Cost with the majority completing the two boxes in full and accurately. A few students went further adding a third column showing total profit and thereby earning a third mark. It was somewhat surprising that a few Students chose to enter AR and AC calculations, given the options available and the prompt in the question referring to a 'profit maximising firm'.

Effective written responses went on to identifyprofit maximisation occuring when MR = MC and were confident in discussing marginal analysis.

Very few Students used eliminating incorrect keys as knock out marks for this question.

Question 4

Students that identified the correct key swiftly picked up a mark by defining sales maximisation (AR = AC) or making use of an accurate diagram and the rationale for sales maximisation. Students should use a diagram where possible, and in discounting incorrect answers
should ensure that more economics is provided rather than repeating the key in a negative format. For example,' it is not A because that is revenue maximisation' does not contribute any economics to the answer.

Diagrams are a very effective way of picking up the marks for all questions such as this which are based on an important model of microeconomics and where no diagram has been provided in the question. There is one mark for finding AR=AC (if not already given in the definition) and one for showing the level of output.

Although not intended as a difficult question, there was much confusion in the mind of some Students on the sales maximisation objective when contrasted with revenue maximisation. A significant number were distracted by the option A, revenue maximisation.

Question 5

Most Students answered this well making careful use of the information provided in the question and correct key A. Many students identified non price competition and collusion being illegal. There was some confusion about understanding 'tacit' being implied rather than a cartel. In addition stronger responses usually identified interdependence/oligopoly and the rationale for collusion.

A significant number of Students incorrectly identified C perhaps as a result of not carefully reading the question.

Question 6
An impressive high number of Students correctly defined monopolitic competition and identified the correct key, E. As with question 4 Students should use a diagram where possible, and many accurately did so but for some there was either confision with the sales maximisation diagram or non identification of output at MR=MC.

Strong students ensured they defined normal profit and discussed new firms entering if there is supernormal profit. Few Students attempted a rejection mark, for example not Abecause it operates where AR+AC which although at MC=MR is not AR=MC.

Question 7
Students found this question the most difficult perhaps focussing on 'monopoly' rather than 'monopoly power'. Most identified the merged firm would have a market share of 34.9% but then identified incorrectly keys A, B or C rather than the reason why the merger is blocked.

Impressive responses went on to explain the impact on the consumer if the merger went ahead as the large firm have more control over price and output or by preventing the merger there are lower prices and more choice. Students often then linked this to the role of the competition authority.

Question 8
Students often responded well to this question displaying a confident grasp of game theory and the use of the data provided. While Nash's equilibrium and Pareto optimum are not in the specification a significant number of students referred to it, although those that did not equally performed strongly with fluid references to price wars, oligopolistic markets, overt collusion and collusion being illegal.

Question 9a
Most students easily gained full marks. First, there was a mark for identifying the market structure (Oligopoly, Duopoly, or Monopoly) and a second mark for a brief explanation of a single or few firms dominating or abusing the market or interdependence. Two marks were then available for application by either calculating the concentration ratio (2-8 firms) or in the case of monopoly one mark for identifying that it is above the legal 25% market share and another for identifying that Otis has 27%.

Question 9b
The first four marks explaining a type of barrier to entry made good use of the data to support usually two types of barrier.

Moving on from the analysis, there were four marks available for evaluation. There were several effective approaches to evaluation: common approaches were to refer to the impact of the fines and magnitude of barriers. These were carefully explained and related again well to the elevator market.

Most students appeared confident in assessing significance for an 8 mark response but some still did not evaluate or did so in a generic manner.

Question 9c

Many students earned their first two marks by drawing a diagram showing a loss with AC>AR for one mark at profit maximising output MC=MR for the additional mark. The diagram caused a problem for some students as they did not attempt to draw one.

Reasons and evaluation made effective use of the data. Many students referred to the loss of 1.8 billion euros and poor management given the 'worst investment in the company's recent history. Evaluation was carefully placed in context with reference to inefficiences could be addressed, restructuring and signs of a world recovery that may lift revenue.

It should be remembered that using three evaluation points is the best approach to a 12- mark question. A significant number of students only made one short evaluative point for each of the two reasons provided.

Question 9d

Well rewarded answers exhibited a good structure with well developed paragraphs that analysed and evaluated the issues the competition authorities might face in the context of the elevator industry. By drawing heavily on the data they were easily able to identify four clear separate issues.

Most students started by defining the role of competition authorities to promote competition in the consumer interests. The degree of competition/collusion provided ample opportunity to debate separate issues, looking at Extract 2: rigging bids for procurement contracts, fixing prices, sharing confidential information. Students also used figure 1 c to identify high concentration ratios and problems of domestic versus global regulation. Given a confident understanding of the problems competition authorities face students carefully developed additional points such as brand dominance and consumer inertia with Otis and Schindler. Extract 2 also provided a rich resource for evaluation with evidence that such issues were being overcome.

For those who left adequate time for this question and were prepared to think carefully about the data provided, there were some high scoring responses. Weaker responses did not go beyond a generic and superficial coverage of the issues and failed to evaluate.

Question 10a

For the students that realised that Average Cost rises this was a straight forward answer. After identifying AC rises for one mark an additional mark could be easily earned by a simple AC formula revealing less is being sold, given spare capacity, means TC relative to Q rises. Surplus capacity though seemed to confuse many students with some arguing that AC had fallen.

Two marks were then available for application, and while there
was much in the passage, some students only used a very brief point and could only earn one mark. Careful reading of the question and the data would have prevented this problem.

There was substantial evidence that Students could use to back up the fall in Q,

for example 'falling out of love with hypermarkets' for one mark or even a rise in TC, buying Giraffe for 50 million pounds, for an additional mark.

Question 10b
Almost all students could identify two benefits from the data that H+H business might gain through its Tesco connection and therefore earned four KAA marks.

The evaluation for this question was very poor in some cases. Although the question asked Students to assess the benefits, students decided often to give just one evaluative point. Strong students were well versed in using the data's indication that H+H may lose its 'artisan' feel and in Business Economics understanding of how Tesco's as a PLC may mean it placed short term profits above long term investment.

Question 10c
Many students earned their first two marks by drawing a diagram showing a loss with AC>AR for one mark at profit maximising output MC=MR for the additional mark. Alternatively the most common response was to show AR and MR shifting in for one mark with the new profit area for the additional mark. It was also possible to earn diagram marks for showing costs rising. More care could be taken with diagrams to ensure they are clear and accurate.

Reasons and evaluation made effective use of the data. Many students referred to the Britons 'falling out of love with supermarkets' on the demand side and the cost of acquiring H+H. Students were not required to provide one demand and one cost reason and many identified two separate demand reasons. Evaluation was carefully placed in context with reference to Tesco's future in-store strategy may prove successful, the fall in profits as temporary and Tesco's ability to retaliate online.

It should be remembered that using three evaluation points is the best approach to a 12- mark question. A significant number of students only made one short evaluative point for each of the two reasons provided.

Question 10d
Students responded carefully and well to this question; identifying pricing and non pricing strategies that supermarkets might use to increase revenue. Students that did not achieve high marks usually did not link their reposne to an increase in revenue.

In most cases there were four points analysed and evaluated in depth through well structure paragraphs. Unfortunately there were occasions where the analysis and/or evaluation became repetitive especially when discussing predatory and limit pricing or non competitive sales promotion methods. A key point behind a well explained predatory and/or limit pricing approach was how it increased revenue and sadly, as already indicated, ths was missing at times.

Strongest students embraced the synopticity of this question leveraging in monopsonistic pressure to cut prices for consumers depending on the PED and separately game theory evaluation

For those who left adequate time for this question and were prepared to think

carefully about the wording, there were some high scoring responses. However some answers were short and not related to the question as presented.

Paper Summary
Based on their performance on this paper, students are offered the following advice:
• Regurgitation of notes is not helpful.
• There is always a good return for investment in time exploring the basic concepts of the theory of the firm.
• The use of diagrams and annotation of the ones given is a very successful approach.
• Always use the data provided to score the very highest marks.
• The top level answers tended to have well-built sentences, in paragraphs
• Include application as part of the analysis, and make a thorough use of the extracts.
• Use extended evaluation, covering a wide variety of issues. This accounts for half of the marks available in the 8, 12 and 16 mark questions.
• In conclusion, many of the answers were a credit to excellent teaching within centres, and careful preparation by the students, and there are dividends for students who invest time in working through past papers and mark schemes.

Grade Boundaries

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http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx