A2 Economics Industrial Economics 03 June Mark scheme

(1) D
The need for a regulator (to combat market power, create efficiency gains.) (1) Price capping formula of RPI minus X, (1), explanation that this involves falling real prices if, as in this case, X is set at a positive value (1). Also award: Explaining that 'x' represents expected efficiency improvements (1)

(2) E
Definition of MR (1). Shape of the relation between AR and MR (probably most easily captured in a diagram) (2) Also accept: . Explanations based on Demand curve elasticities (2)

(3) B
Definition of contestability (1) Application to loyalty cards - e.g. irrecoverable advertising (2)

(4) D
Product differentiation assumption. (1) Any other assumption of the model. (1) Application to hairdressing e.g. local advertising, most high streets have competition, customer services differences (1)

(5) D
Sales maximisation takes place where the finn makes as high a level of output as possible consistent with making normal profit. (1) This involves producing where AR = AC (1). To the left of this point AR>AC so the finn would still be making supernormal profit. (1)

(6) A Definition of allocative efficiency, price = marginal cost (1). Either a diagram showing a firm with both profit max and allocatively efficient prices (2) or a written explanation: The banks were accused of monopoly pricing, with price above marginal cost (1). A reduction in price should allow the cost of running a business bank account to 3 fall towards the marginal cost of providing it. (1).

(7) C Definition of price discrimination - charging different customers different prices for the same product. (1) Explanation of application of anyone condition for successful price discrimination by London Underground. (2) Also award: 3 . Capturing consumer surplus (1) Appropriate diagram (1)

(8) D Definition of either MC or AC (1) Either diagram (2) or written explanation: With average costs falling marginal costs must be below average to bring the average down. (2) 3

(9) C Definition of concentration ratio (1). Understanding that this means that the largest firms have got larger relative to the market. E.g. reference to move to oligopoly (1), easier for firms to collude and adopt unspoken price agreements (1) 3 Also award: . Diagram of kinked demand curve. (1)

(10) A Definition of productive efficiency (l) Diagrams of a firm in perfect competition, with both a short-run and long-run solution indicated (2). Or a written explanation (2)

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Q.ll

(a) (i) Calculation: = 5.7/{1.1 + 1.2 + 5.7) = 71.25%, Accept 71% (2)

(a) (ii) Oligopolistic (I) - a few large firms dominate the market or reference back to high concentration ratio (1) - Also accept monopoly (1) with justification (1)

(a) (iii) Calculating that this would involve a total of 86.25% market share, or understanding that the competition commission is concerned about market power (2) Identifying 25% market share rule (2)

(b) Diagram of a firm with a downward sloping demand curve making a loss (2), explanation of diagram (2). Award only lout of the 4 for a diagram which merely shows a' fall in demand. Explanation of loss: low demand for ITV Digital and/or high average costs for example due to the contract to pay the £315m to the Football league and/or loss of advertising revenue. (4)

(c) Identification of each strategy (1) explanation (I). Award any convincing pricing and non-pricing policies. However, for the explanation mark they must be applied to the industry in question. Pricing policies might include predatory pricing or special discounts on pay-TV programmes. Non-pricing policies might include advertising and improvements in quality of service. Reserve two marks for the evaluation of each of the chosen policies, e.g. by prioritising.

(d) Application of the concept to the provision of digital TV - any two points identification (1) explanation (1). E.g. High levels of brand loyalty, the risk to customers changing suppliers because they have to buy hardware that may become obsolete if the company ceases to exist, high levels of advertising. Evaluation of each point (2).

(e) Understanding, if only implicitly on applied discussion, of 'public interest' (1). Application to digital TV (monopoly power, price collusion, choice issues, efficiency issues) - any two points (2 marks" each). Evaluation e.g. high profits may generate more stability, better programmes or service, R&D' in technology, economies of scale, innovation, - anyone evaluative point done well or combination of points up to ill . Ability to compete on a global stage thus obtaining export revenue.

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Q12
(a) (i) 1972: 1,900,000/600,000 = 3.2 2 marks
2002: 1,600,000/320,000 = 5.0 2 marks

(a)(ii) Technological improvements, investment, reform of working practices, union reform, rationalisation (better management). Identification (1) and brief explanation (1) for each of two points. 4 marks

(a)(iii) Definition of average cost and/or diagram (2). Explanation from higher productivity to likely to lead to a fall in average costs (1). Evaluation e.g. other costs are important, or the high significance of labour costs (1) 4 marks

(b) Any two effects: Identification (1) explanation (2). E.g. . S
short run rise in costs .
Greater market power .
Marketing economies of scale .
Economies of scale from larger plant size .
Managerial economies .
Higher quality of cars produced (given greater investment, more up to date designs etc.) Evaluation (4). Award (2) for each of the two points: .
Is market already saturated? .
Assessment of short 'v' long term effects. .
Corresponding diseconomies of scale? .
Rise in costs with expansion? .
Labour market tightening? .
Uncertainty? 10 marks

(c) Use of data (2). Explanation of the necessary conditions for price discrimination (2) Diagram showing firm splitting its sales into two market segments (2). Explanation of diagram the explanation may include a 3 sector diagram for 2 marks (4). Evaluation in terms of the car industry (2) If no car industry award a maximum of 6 marks 12 marks

(d) Award any two strategies: Identification (1) explanation (1) evaluation (2). The passage refers to a shift of consumer preference towards more individualised, "upmarket" cars. Non-pricing strategies: advertising might be used to promote the luxury nature of the car, the cars themselves might be differentiated into different classes, higher quality cars in terms of design and materials might be produced. However these are likely to be expensive so the implications for profits may be uncertain. Pricing strategies: allow price-cutting, although it is likely that many firms will try to throw in 'extras' rather than discounts. 8 marks