

A2 Economics Industrial Economics 04 Jan Mark Scheme

Question 1

(1) C

Definition of concentration ratio (1 mark) Calculation of ratio for 2, 3 or 4 firms (1 mark). Understanding of 'high': a small number of firms dominate the industry (1 mark).

Also award observations about market structure: here oligopolistic.

(2) B

Explanation of components of formula: RPI inflation (1 mark), X for efficiency improvements i.e. expected cuts in costs (1 mark) therefore within the cap firms will strive to make additional efficiency gains because they can keep the resulting profits (1 mark).

Also award reference to consumer benefits as a result of efficiency gains (1 mark).

(3) E

Relevant diagram (1 mark). Explanation or indication on diagram of resulting productive inefficiency (1 mark). Explanation of only normal profit, or statement that $AR=AC$ (1 mark).

Also award definition of monopolistic competition (1 mark)

(4) B

Statement of an assumption of perfect competition (1 mark). Related to characteristic (flat AR) of diagram, or reference to "price taker" (1 marks). Indication on diagram (1) or explanation of supernormal profit (1 mark).

Also award recognition that the firm is in the short run (1 mark)

(5) D

Identification of profit maximizing condition (1 mark), explanation that this will result in higher output because MR has shifted to the right (1' mark), explanation illustration that this will result in higher supernormal profit (1 mark). Or appropriate diagram indicating results (3 marks).

Also award combinations of diagram and explanation.

If explanation ignores the flat AC condition award a maximum of (2 marks) for explanation/diagram.

(6) A

Definition of price discrimination (1 mark). Impossibility of separation of markets with milk on the shelves (1 mark) impossibility of policing second-hand transactions which undercut the discrimination (1 mark) competition from other supermarkets (1 mark). Consideration of the 'least likely' aspect of the question relative to airlines, rail etc (1 mark)

(7) C

Definition of average cost and marginal cost - this may be implicit in a correct calculation (1 mark). Appropriate calculation to show that marginal cost is rising but average cost falling over the given range of output (2 marks) diagram of MC, AC (1 mark) indication on diagram of relevant output range (1 mark).

(8) E Recognition of collusion or cartel (1 mark). Identification (1) and explanation (1) of the public interest consequences of this, e.g. in terms of higher prices, reduced output, loss of consumer surplus. Also award diagrammatic illustrations of the welfare loss from price fixing.

(9) B

Definition or indication on diagram of $MR=0$ for revenue max (1 mark), definition or indication on diagram of profit max (1 mark). Indication on diagram or explanation that output is falling and price is rising (1 mark). Also accept TR/TC diagrams (3 marks).

(10) A

Contestable markets are those with low sunk costs or low exit barriers (1 mark), explanation that branding would require heavy advertising by new entrant (1 mark), some application to chocolate confectionery (1 mark). Also award (1 mark) for definition of sunk costs.

A2 Economics Industrial Economics 04 Jan Mark Scheme

Question 11

(a) (i) Identification of horizontal (1 mark) definition (1 mark).
Reference to the passage as evidence that they both produced ice cream:
Richmond Foods is an "ice-cream company" (line 2) buying Nestle's ice-cream brands (2 marks) 4 marks

(ii) Accept any reasonable suggestion - e.g. potentially faster than organic growth, potentially cheaper in terms of acquiring established brands and equipment, influx of new ideas and personnel, access to immediately greater market share. Any one issue (4 marks) or two issues less well developed (2 marks) each. Award 'economies of scale' only if specific to an acquisition e.g. rationalisation of management.
Award (2 marks) for evaluation of the issues discussed. 6 marks

(b) Identification of concept of economies of scale (1 mark) definition in terms falling average costs (1 mark).
For each of two potential economies of scale e.g. volume, overcoming indivisibilities, marketing, bulk buying etc (1 mark) for identification, (1 mark) for application to ice cream making. 6 marks
Also award cost diagram illustrating economies of scale (1 mark).

(c) (i) Identifying oligopoly (1 mark) definition of oligopoly (1 mark).
Use of data, e.g. to point out the very high three firm concentration ratio (1 mark) the actual figure (1 mark).
Also allow monopoly (1) if candidate has also referred to dominance, market power or the 25% statutory definition
(1). Birds Eye has > 60% market share (2). 4 marks

(ii) Identification of non-price competition (1 mark) and likelihood of collusion or price wars (1 mark)
Analysis of the kinds of price competition likely under oligopoly in terms of a few large interdependent firms second-guessing each other.
This analysis may be supported by theory diagrams, e.g. the kinked demand curve or game theory (4 marks)

Reserve up to (4) marks for anyone evaluative point e.g. evaluating the specific likelihood of price competition in the ice-cream industry, the great uncertainty of behaviour of firms in this situation, the illegality of price fixing. Or for critical awareness of the analysis produced - e.g. weaknesses of the kinked demand curve. 10 marks

Also award marks if the candidate focuses on the (statutory) monopoly aspect of the industry. Identification of monopoly market power (1 mark) and thus the possibility of price setting behaviour by Birds Eye Wall's (1 mark). Analysis of the market power. The analysis may be supported by a monopoly diagram. (4) Evaluation may refer to the likelihood in this industry, e.g. to lower average costs of the dominant supplier making price competition less likely. (4)
Identifying (1) and explaining (1) two relevant barriers e.g. branding, high levels of investment leading to potentially high sunk costs, other contestability issues such as freezer exclusivity agreements. (4 marks).

(d) Definition of barriers to entry - may well be implicit (1 mark).
Evaluation: prioritizing the barriers discussed, some costs in this industry are not sunk, other firms managed to enter this industry, emergence of international competition e.g. Ben and Jerry's, coming to a formal conclusion (5 marks). Two evaluative points up to (3 marks) each to maximum of (5 marks).
10 marks

A2 Economics Industrial Economics 04 Jan Mark Scheme

Question 12

(a)(i) The acquisition involved more than 25% market share (2 marks), identification of relevant data - combined market share of 83% (2 marks). 4 marks

(ii) For each of the two motives: identification (1 mark) explanation (1 mark) application to food on trains (1 mark). e.g. economies of scope (e.g. management span reduced), diversification, bulk buying opportunities, elimination of competition, attraction of potential market power over confined customers.

Anyone evaluative point - which is the most significant motive?, uncertainty of decision making, information failure, costs, opportunity costs (2 marks) 8 marks

(b) Identification of concept of barriers to entry or contestability, or changing market conditions (1 mark) specific discussion of railway food services (1 mark).

Barriers to restaurant car entry might include: set-up costs, know-how about logistics, advertising/branding of restaurant services, reputation required for success in tendering for the contract etc. 2 marks for each of two reasons (4). Also award changing consumer demand.

Reserve evaluation marks for an explicit comparison with trolley services (low capital costs, little training required for workers etc). 10 marks (4 marks)

(c) Explanation of the public interest criterion (4 marks). Public interest criteria may include (but accept more general explanations):

"Maintaining and promoting competition in the UK Promoting the interests of consumers Promoting new products and reducing costs Maintaining and promoting the balanced distribution of industry and employment Maintaining and promoting competitive activity in overseas markets by companies in the UK"

Application to the railway catering industry or any other case study (4 marks).

Also accept answers based on the 2003 Competition Act. 8 marks

(d) Definition of two kinds of economic efficiency (allocative, productive, dynamic, or absence of X) - this may be indicated on a diagram (2 marks). .

Diagram illustrating that these may not be achieved in 'local monopoly' situation (1 mark). Written explanation of likely inefficiency (2 marks). Candidates may also argue that an increase in efficiency will result from economies of scale.

Evaluation of anyone point - e.g. unlikely to be allocatively efficient given the very high monopoly power once the train has departed, however contracts have to be re-tendered for, or relating inefficient to efficient outcomes on the diagram (5 marks). 10 marks