Mark Scheme (Results)

January 2007

GCE Economics 6354 (Unit 4)

A PEARSON COMPANY

Mark scheme

Section A: Supported Multiple Choice

1	2	3	4	5	6	7	8	9	10
B	C	A	B	E	C	B	D	C	D

- Candidates can be rewarded up to a maximum of two marks for correct explanation even if they have the wrong key.
- Candidates can be rewarded a maximum of two marks for identifying and explaining incorrect options.

Question 1
Definition of Concentration ratio **(1 mark)**: the concentration ratio is the market share of the largest three firms in the market.
Calculation of concentration ratio for three leading firms and reference to data **(2 marks)**

Question 2
Identification of the inability of a firm to maintain super normal profits in the long run **(1 mark)** because of a lack of barriers to entry **(1 mark)**.
A diagram showing industry supply increasing, industry price falling and consequential impact on the firm or written explanation to the same effect **(2 marks)**.

Question 3
Identification of profit maximisation condition MC=MR **(1 mark)**.
Identification of revenue maximisation condition MR = 0 **(1 mark)**.
Diagram or reference to change in price and output **(2 mark)**.

Question 4
Definition of price discrimination **(1 mark)**, i.e., reference to different prices to different customers.
Any one condition for price discrimination: i.e. different PED, separation of customers, monopoly power **(1 mark)**.
Application to cinema **(1 mark)**.

Question 5
Definition of collusion **(1 mark)**: firms acting together to reduce consumer welfare.
Explanation of role of Competition Commission **(1 mark)**: to promote competition in order to protect consumer welfare.
Comment on reasons why fines can be imposed by the Commission **(1 mark)**
Application to JJB and Manchester United and explanation of restrictive practices **(1 mark)**

Question 6
Price capping is undertaken by the formula RPI-X or RPI + K or a definition of price capping **(1 mark)**, where RPI is a measure of inflation **(1 mark)** and 'X' is based on expected efficiency gains or 'K' capital expenditure needs **(1 mark)**.

If the candidate identifies a benefit to the consumer **(1 mark)**, e.g., consumers may gain through price changes being controlled by the regulator, e.g., a real price decrease may occur depending on size of '- X' **(1 mark)**.

Allow consumer may gain with '+K' since the regulator will ensure sufficient funds for investment and thus improved service. **(1 mark)**

Price capping operates in Natural Monopolies providing essential services **(1 mark)**.

Question 7
Identification of Profit Maximising condition MC = MR **(1 mark)**
Calculation of Marginal Revenue **(1 mark)**
Calculation of Marginal Cost **(1 mark)**
If the candidate correctly identifies Profit Maximisation from the total cost and total revenue including calculations of difference between TC and TR reward full marks

Question 8
Definition of price discrimination **(1 mark)**
Identification of conditions necessary for Price Discrimination **(1 mark)**
Application to Rail industry **(1 mark)**

Question 9
Definition of Marginal revenue:
Extra revenue gained from the sale of one more unit **(1 mark)**
Identification of A as revenue maximisation **(1 mark)**
Explanation of why MR=0 is revenue maximisation **(1 mark)**
Use of diagram to show relationship and MR=0 **(1 mark)**

Question 10
Identification that the firm is making a loss **(1 mark)** OR annotation of loss on diagram **(1 mark)**
Identification of shut-down point at bottom of AVC **(1 mark)**
Will operate at current level of output making a contribution toward fixed costs **(1 mark)**
Only in the short run, as they can shutdown and leave industry in the long run **(1 mark)**

11 (a) Oligopoly (1 mark) 4
Explanation of the characteristics of an oligopoly (2 marks), e.g., no. of firms interdependence
Reference to data e.g. identification of other retailers with large market share (1 mark)

(b) Diagram showing profit maximising firm, shift in downward sloping AR & MR. (4 marks) (correct diagram with no shifts max. 2 marks) 12
Identification and explanation of 2 relevant points (2 x 2 marks)
Evaluation of each point e.g. discussion of significance etc (2 x 2 marks)
E.g., barriers to entry, new geographic markets, mergers, lower costs, non-food sales.

(c) Identification, explanation and application of 2 reasons (up to 2 x 3 marks) 6
E.g., Financial resources
Brand loyalty and image
Supply network
Economies of scale
Market control

(d) Advantages of new markets – relate to economies of scale, UK market saturated, expensive to operate in and inability to expand through takeovers in the UK market – therefore access to new markets. Relate to profit maximisation, revenue maximisation, sales maximisation and profit satisficing, or elasticity. (2 points x 3 marks OR 3 points x 2 marks) 8

Evaluation: prioritising reasons for expansion, discussion of significance of expansion, success of such expansion, May result in increased costs as a result of international expansion (2 marks)

(e) Explanation of the basis on which the OFT based its decision (2 marks) 10
OR
Explanation of the role of the OFT (2 marks)
Explanation of one reason why the commission would have allowed the purchase to be completed e.g. results in lower prices, increased consumer surplus, through economies of scale, greater levels of consumer convenience (3 marks)

Evaluation based on whether this is in the best interests of the public, whether it will create competition (5 marks)

12　(a)　(i)　Oligopoly (**1 mark**) identification and explanation of a　**4**
characteristic of an oligopoly (**2 marks**) reference to data (**1 mark**)

(ii)　Identification that oligopoly can price fix, candidates should　**8**
make reference to the characteristics of the market structure to
support this **3 marks**

Candidates should then consider factors that make price fixing
more likely – kinked demand curve/game theory **3 marks**

Evaluation x 2 marks relative significance, likelihood of success,
scope for improvement, illegal nature of collusion

(b)　Identification of two points (**2 marks**), explanation and　**8**
application to Toyota/cars (**2 marks**)
E.g. concentrate on own brand image, incompatibility of existing
technology, avoid diseconomies of scale - managerial,
experience of other firms, cost implications, maintain control
over growth and business

Evaluation x 2 marks relative significance, likelihood of
diseconomies of scale, consideration of success of Toyota and
growth without mergers

(c)　Discussion of 2 reasons – identification (**1 mark**) and explanation　**4**
(**1 mark**) x 2 points

These may include: need to spend on expensive R & D, need to
advertise and support different products and distribution
networks.

(d)　Identification (**1 mark**), explanation and application to GM/cars　**8**
(**1 mark**) **x 1 price strategy** and **x 1 non-price strategy**

Price – Predator pricing, limit pricing, sales maximisation,
revenue maximisation, loss leaders, cost plus pricing

Non-price – Quality of service, quality of product, marketing &
advertising, new ranges, promotions, increase size of dealer
network, quality of after-care

Evaluation: 2 marks x 1 price strategy and **x 1 non-price
strategy**

(e)   Definition of contestability **x 2marks**   **8**
       Explanation that it is contestable – new firms from China and
       India have entered industry – reasons why e.g. design of models
       and fall in cost of technology, few sunk costs associated with
       leasing rights to models especially within growing markets,
       capital can be sold on to other producers x **3 marks**

       Evaluation - However, big 5 still dominate market – latest designs
       can be expensive, technology expensive – sunk costs associated
       with launch of new car, distribution and marketing of new car x **3
       marks**

Unit 4: Assessment Objectives Grid

Question	Knowledge	Application	Analysis	Evaluation	Total
Section A					
Q1	2	1	1		4
Q2	2	1	1		4
Q3	1	1	1	1	4
Q4	1	1	1	1	4
Q5	1	1	1	1	4
Q6	1	1	1	1	4
Q7	2	1	1		4
Q8	2	1	1		4
Q9	2	1	1		4
Q10	1	1	1	1	4
Total	15	10	10	5	40
Section B					
Q11 (a)	2	2			4
Q11 (b)	1	2	5	4	12
Q11 (c)	1	3	2		6
Q11 (d)	1	1	4	2	8
Q11 (e)		2	3	5	10
Total	5	10	14	11	40
Q12 (ai)	2	2			4
Q12 (aii)	1	3	2	2	8
Q12 (b)		3	3	2	8
Q12 (c)	2	2			4
Q12 (d)			4	4	8
Q12 (e)			5	3	8
Total	5	10	14	11	40
Overall Total	20	20	24	16	80