

ResultsPlus

Examiners' Report January 2011

GCE Economics 6EC03 01

ResultsPlus
look forward to better exam results

Edexcel is one of the leading examining and awarding bodies in the UK and throughout the world. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers.

Through a network of UK and overseas offices, Edexcel's centres receive the support they need to help them deliver their education and training programmes to learners.

For further information, please call our GCE line on 0844 576 0025, our GCSE team on 0844 576 0027, or visit our website at www.edexcel.com

If you have any subject specific questions about the content of this Examiners' Report that require the help of a subject specialist, you may find our **Ask The Expert** email service helpful.

Ask The Expert can be accessed online at the following link:

<http://www.edexcel.com/Aboutus/contact-us/>

Alternatively, you can contact our Economics Subject Advisor directly by sending an email to Colin Leith on BusinessSubjectAdvisor@EdexcelExperts.co.uk

You can also telephone 0844 372 2187 to speak to a member of our subject advisor team.

ResultsPlus

ResultsPlus is Edexcel's free online tool that offers teachers unrivalled insight into exam performance.

You can use this valuable service to see how your students performed according to a range of criteria - at cohort, class or individual student level.

- Question-by-question exam analysis
- Skills maps linking exam performance back to areas of the specification
- Downloadable exam papers, mark schemes and examiner reports
- Comparisons to national performance

For more information on ResultsPlus, or to log in, visit www.edexcel.com/resultsplus

To set up your ResultsPlus account, call 0844 576 0024

January 2011

Publications Code UA026255

All the material in this publication is copyright
© Edexcel Ltd 2011

Introduction

General observations

The paper was accessible in particular in the data questions, but much evidence suggested that the SCQs were more demanding than in earlier papers, and testing previously untested areas meant that there was little 'repeated' material.

In general, the performance did not appear to be as strong as January 2010 and although exam technique was largely strong, basic economic understanding was lacking in answers below 32/72 and it is not felt that the E grade should go far below this. Even the weakest answers scored 16/32 on SCQs owing to the knowledge and knock-out marks, and a further 16 marks on data could be earned easily because of the extremely accessible data.

The A grade similarly should not go below 55/72 because at this level there are serious flaws in understanding the essential diagrams and concepts, and evaluation is fairly superficial.

Popularity of questions

Online, the ratio question 9:10 was 2:1 and the mean for questions 9 and 10 were very similar.

Question 1

This was a good 'opener' and many candidates could use the explanation to demonstrate a high degree of knowledge. A good approach is to explain the role of the regulator, and apply the concepts of increasing competition to the context, for example the possible increase in competition and consumer surplus, or a possible decrease in prices. The most common distracter was D, and many candidates assume that limit pricing is illegal.

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 In March 2009 the UK Competition Commission required British Airports Authority to sell off three of its seven airports, starting with Gatwick and then Stansted.

The most likely reason for the Commission's decision was the

(1)

- A increased competition from foreign airports
- B monopoly power of British Airports Authority
- C high level of contestability in the airport industry
- D limit pricing used by the airports
- E falling average costs resulting from horizontal integration.

Answer

A

Explanation

(3)

Competition commission's main aim is to protect consumers and have the public interest. As a result of splitting up the British Airports Authority it opens up the market for competitors and makes it more competitive, as a result the will become more efficient.



ResultsPlus

Examiner Comments

Role of CC (1)
More competitive (1)
NB Max of 2 marks as wrong key selected.



ResultsPlus

Examiner Tip

Always explain the role of the competition authorities, and be careful to note context - be it CC, ECC or Federal Trade Commission.

Competition Commission is a body established to promote and ensure healthy competition, whilst also protect and enhance consumers' welfare. British Airports was a monopoly in the airport industry which enabled it to manipulate its monopoly power and manipulating the price level. This could exploit consumers benefit. By selling off some of its airports, there would be more competition in the industry, leading to greater consumers' benefit. Such as greater choices, lower price and better quality of flight services.

**ResultsPlus**

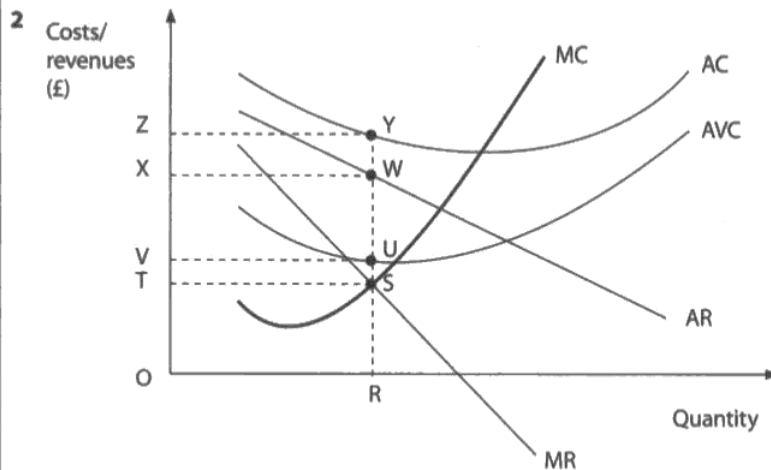
Examiner Comments

- Role of CC (1)
- More competition (1)
- Lower price (1)

Question 2

The diagram was useful in many cases, demonstrating that many assumed the ZYWX area was profit (distracter A). The other options also attracted many respondents, and the question was clearly effective in revealing misunderstanding of the concept of profit maximising and equally loss minimisation. In the context of worldwide pressures on businesses, this question seemed particularly apposite.

It is useful in questions that mention profit maximisation to start the answer with $MC=MR$, and to identify the corresponding output level on the diagram.



The diagram shows the costs and revenues for a profit maximising firm in a market. The most likely outcome for the firm, assuming no change in costs or demand, is to

(1)

- A continue in business and make supernormal profit ZYWX
- B continue in business and raise the price
- C continue in business and cut the price
- D continue in business in the short run but shut down in the long run
- E shut down immediately.

Answer

D

Explanation

(3)

Profit maximization point is where marginal cost = marginal revenue. At the moment the firm is has higher costs than they are making through revenue, so they will need to shut down in the long run to avoid making large losses. The shut down point is at point U. By remaining in business for the short run they are still making money as they have to cover AVC to remain in business.



ResultsPlus

Examiner Comments

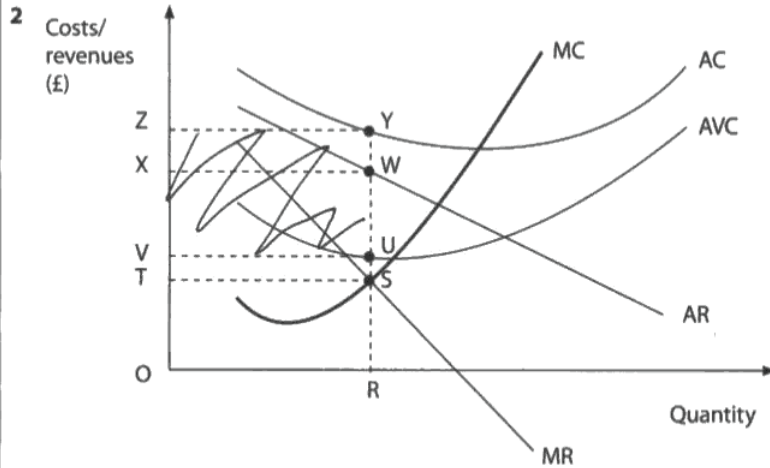
Here $MC=MR$ is found, and there is an explanation that the firm covers AVC. The long run scenario is identified, when all costs are variable - in which case the firm would not remain in business if all else remained equal.



ResultsPlus

Examiner Tip

Use the diagram!



The diagram shows the costs and revenues for a profit maximising firm in a market. The most likely outcome for the firm, assuming no change in costs or demand, is to

(1)

- A continue in business and make supernormal profit ZYWX
- B continue in business and raise the price
- C continue in business and cut the price
- D continue in business in the short run but shut down in the long run
- E shut down immediately.

Answer

D

Explanation

(3)
 The firm will continue producing in the short run because it is still producing at a level which covers variable cost, where there is an amount of contribution to the fixed cost, at area ZYVU where the firm will continue producing, and eventually in the long run. The short run is where at least one factor of production is fixed.



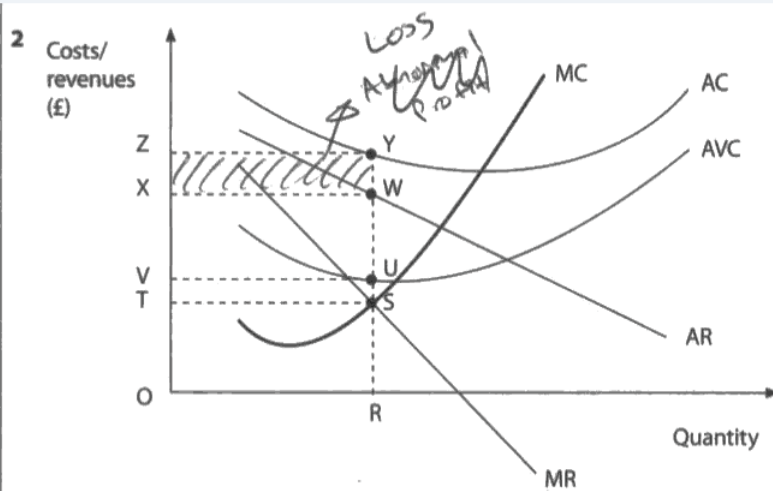
ResultsPlus
 Examiner Comments

Firm is covering its variable costs (1) Firm is making a contribution towards fixed costs (1)



ResultsPlus
 Examiner Tip

Be careful to shade the area of contribution correctly - this exemplar demonstrates how **not** to do it.



The diagram shows the costs and revenues for a profit maximising firm in a market. The most likely outcome for the firm, assuming no change in costs or demand, is to

(1)

- A continue in business and make supernormal profit ZYWX
- B continue in business and raise the price
- C continue in business and cut the price
- D continue in business in the short run but shut down in the long run
- E shut down immediately.

Answer D A is wrong because the firm is making a loss.

Explanation

(3)

Profit maximisation occurs at $MC = MR$. ~~$AC = AR$~~
 ~~$AC - AR$~~ is the loss the firm makes. ~~$ZYWX$~~ is the loss the firm makes. The firm will continue in the short run since AR is above AVC , & the ~~exp~~ revenue above AVC is used to pay off the fix cost. It will shut down in the long run since it is making a loss.
 B is wrong because the firm profit maximises if produces at R where $MC = MR$.

(Total for Question 2 = 4 marks)

ResultsPlus
 Examiner Comments
 1 + 3
 An effective answer.

ResultsPlus
 Examiner Tip
 Knocking out incorrect options scores a mark, but you must be specific about the item knocked out, and give a reason using economic analysis.

Question 3

A good deal of elimination and guesswork was employed in answering this question. A surprisingly large number got the correct key but could not find an economic rationale.

MR=0 is a good way to start a revenue maximisation question.

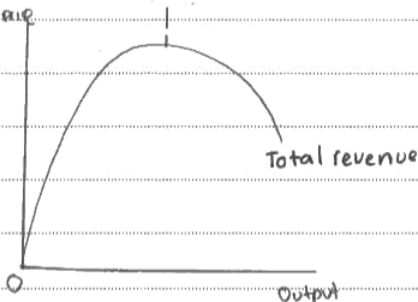
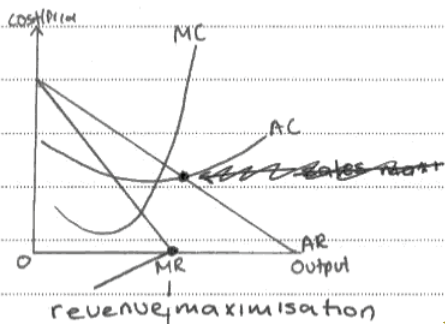
3 At the end of a day's trading a flower seller cuts the prices of all the stock that has reached its 'sell by' date. This pricing strategy is most likely to be (1)

- A fixed cost pricing
- B limit pricing
- C revenue maximisation pricing
- D predatory pricing
- E productive efficiency pricing.

Answer C

Explanation (3)

Revenue maximisation occurs when $MR=0$. It is likely that the trader will slash prices in order to sell all spare stock regardless of the extra revenue the firm will gain from it as this will as if it were not sold, it would represent wasted stock and extra unnecessary costs.



ResultsPlus
Examiner Comments

There is a sense, in the explanation, that not selling the flowers incurs a cost. While this was not necessary for the full marks, this was an acceptable approach.

ResultsPlus
Examiner Tip

This diagram earns an automatic two marks, because MR ties up with TR max.

3 At the end of a day's trading a flower seller cuts the prices of all the stock that has reached its 'sell by' date. This pricing strategy is most likely to be

(1)

- A fixed cost pricing
- B limit pricing ✗
- C revenue maximisation pricing ✓
- D predatory pricing ✗
- E productive efficiency pricing.

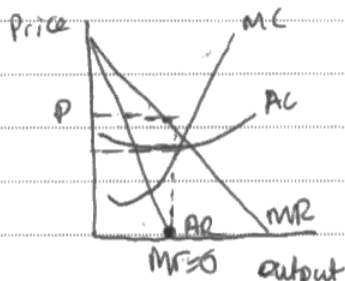
Answer

C

Explanation

(3)

Revenue maximisation is when marginal revenue is equal to 0. This ensures that the total revenue is at its highest. If the flower seller cuts price then he can sell off his products without them going to waste.



The answer is not D as there is no other firm. Limit pricing is setting your price below average cost of the other firm.

The answer is not D as he is not necessarily selling below his AC (predatory pricing) because his aim is not to remove a competitor, it is just to sell off his flowers.


ResultsPlus

Examiner Comments

Definition (1 mark) Diagram shows AR and MR the wrong way around (0 marks) Knock out of D predatory pricing is valid although not very thorough and only scrapes this mark (1 mark).


ResultsPlus

Examiner Tip

When discussing predatory pricing, it is advisable to stress $P < AC$ in the short run, and the long run rise in prices.

Question 4

The main distracters were B and E, with many answers confused by the negatives. Some thought the demand for stamps was price elastic so a fall in price would increase sales which contradicted the '£3 million items a day' reduction in the stem. Many crossed out the correct answer (D) and replaced it with E, again confused by the negatives in the question, perhaps.

- 4 In December 2009 the Royal Mail announced that it had made a 4% increase in profits compared to 2008, despite a fall of 3 million items a day in the amount of post being sent. The most likely reason for the increase in profits was (1)
- A an increase in contestability in the postal market
 - B a fall in the real price of postage stamps
 - C a rise in nominal wages of postal workers
 - D a fall in employment in the Royal Mail
 - E external diseconomies of scale in the postal industry.

Answer

D

Explanation

Royal Mail were in a bad way back in 2008 as they were exposed as being inefficient. too many workers were employed to do hardly any work. Royal mail were forced to lay off some workers despite opposition from their trade union. This means the ~~fixed costs~~ total costs of Royal mail fell and allowed for a small profit to materialise. (3)



ResultsPlus

Examiner Comments

Total costs fell (1)
Nothing else in the answer is helpful, and it is unwise to make comments that are not relevant.



ResultsPlus

Examiner Tip

Use all the parts of the question - the fall in revenue, the increase in profits of 4%, and link these to what must be an outweighing fall in total costs.

- 4 In December 2009 the Royal Mail announced that it had made a 4% increase in profits compared to 2008, despite a fall of 3 million items a day in the amount of post being sent. The most likely reason for the increase in profits was

(1)

- A an increase in contestability in the postal market
- B a fall in the real price of postage stamps
- C a rise in nominal wages of postal workers
- D a fall in employment in the Royal Mail
- E external diseconomies of scale in the postal industry.

Answer

D

Explanation

(3)

super normal profits ~~is not~~ are profits above normal profits ($AC=AR$); in other words when AR is higher than AC . By letting some employees go, the firm reduces costs. therefore, even though revenue has fallen, costs must have fallen by a more than proportional amount to increase profits by 4%.



ResultsPlus

Examiner Comments

- 1 for definition of profits
- 1 for firm reduces costs
- 1 for costs fell more than proportionally



ResultsPlus

Examiner Tip

Here the information in the stem is useful very effective.

Question 5

The question was effective in drawing out good knowledge of the RPI-X + K application in the water industry. Many answers started with a good understanding of the role of the regulators, their aims and ultimately their effects.

An effective answer here.

- 5 On 26 November 2009 the water regulator Ofwat announced that water bills must be cut by an average of £3 a year per household over the next five years and that there must be an extra £1 billion investment by water companies. The most likely reason for these decisions was

(1)

- A to increase producer surplus
- B to increase the returns to investors in water companies
- C to reduce contestability in the water industry
- D to force unprofitable firms out of business
- E to increase efficiency in the water industry.

Answer

E

Explanation

(3)

Ofwat are applying RPI-X. This means that the water firms profit is lowered so they have to become more efficient. This is key as water supplies have a local monopoly ~~both~~ and therefore could become lazy and inefficient and raise prices. The £1bn investment would be its R+D for new technologies which would increase efficiency in the long run.



ResultsPlus

Examiner Comments

- 1 for RPI - X
- 1 for become more efficient
- 1 for investment

5 On 26 November 2009 the water regulator Ofwat announced that water bills must be cut by an average of £3 a year per household over the next five years and that there must be an extra £1 billion investment by water companies. The most likely reason for these decisions was

(1)

- A to increase producer surplus
- B to increase the returns to investors in water companies
- C to reduce contestability in the water industry
- D to force unprofitable firms out of business
- E to increase efficiency in the water industry.

Answer

E

Explanation

(3)

The price capping used by the regulator for industries such as water is RPI-K - the K stand for the amount of investment the regulator thinks is needed in the industry. It used for five years - this allows firms to know how to plan for the longer-term. However, there is a problem with regulator capture; this when the regulator becomes too close to the firm & as is softer & more lenient. It cannot be A as Ofwat are for the consumer not the producer.

(Total for Question 5 = 4 marks)



ResultsPlus

Examiner Comments

RPI - K has sense of investment but not the X for price cap (0)
 Sense of K for investment (1)
 Role of Ofwat (1)
 Total 1 + 2 = 3



ResultsPlus

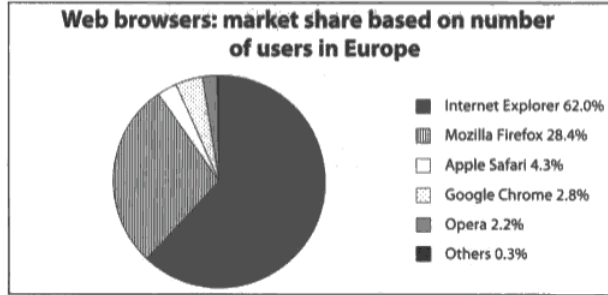
Examiner Tip

For water regulation, remember there is a -X and a +K. These separate concepts earn marks individually.

Question 6

This was clearly seen as an easy question, and there were many extensive answers, most with a calculation of the CR, and other effective use of the data.

6



Source: <http://www.atinternet-institute.com/en-us/browsers-barometer/browser-barometer-september-2009/index-1-2-3-180.html>

The chart shows the usage-based market share of internet web browsers in Europe. In 2008 the Microsoft computer software company was fined €1.68 billion by the European Competition Commission for pre-installing its browser, Internet Explorer, on computers running the Windows operating system. In December 2009, Microsoft agreed to allow consumers to choose their web browser on setup.

The most likely impact on the market for internet web browsers is

(1)

- A an increase in the five-firm concentration ratio in the web browser market
- B an increase in profitability for Microsoft
- C an increase in advertising revenues for Internet Explorer web space
- D a worsening of the quality of the browser products offered in the market
- E a decrease in market share for Internet Explorer.

Answer

E

Explanation

(3)

The Competition Commission is an independent public body responsible for making markets more competitive. Microsoft were exhibiting anti-competitive behaviour so was fined in the aim to discourage them from doing so which will cause their market share to decrease so the answer is E. It is not C as if the market is more competitive, advertisers have a choice which browser they choose to advertise on.

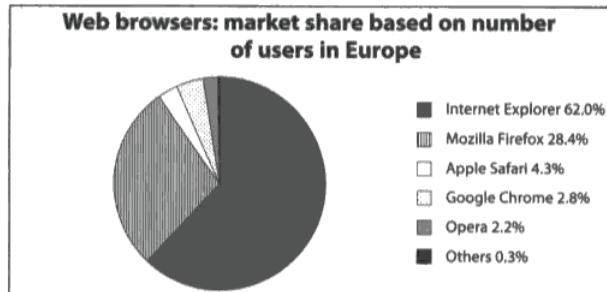
ResultsPlus
Examiner Comments

1 mark for knock out of C acceptable
1 mark for role of competition commission

ResultsPlus
Examiner Tip

Use the data! Here you can calculate the concentration ratio.

6



Source: <http://www.atinternet-institute.com/en-us/browsers-barometer/browser-barometer-september-2009/index-1-2-3-180.html>

The chart shows the usage-based market share of internet web browsers in Europe. In 2008 the Microsoft computer software company was fined €1.68 billion by the European Competition Commission for pre-installing its browser, Internet Explorer, on computers running the Windows operating system. In December 2009, Microsoft agreed to allow consumers to choose their web browser on setup.

The most likely impact on the market for internet web browsers is

(1)

- A an increase in the five-firm concentration ratio in the web browser market
- B an increase in profitability for Microsoft
- C an increase in advertising revenues for Internet Explorer web space
- D a worsening of the quality of the browser products offered in the market
- E a decrease in market share for Internet Explorer.

Answer

E

Explanation

(3)

European competition commission - investigates unfair competition and can stop mergers / take overs

~~Not E~~ - If Microsoft is allowing consumers to choose then it implies the market will ^{change as consumers have choice} improve! But eventually we don't know.

Not D - The quality is likely to improve as there will be more competition between firms

Not B - If Microsoft is unable to simply install internet explorer their profits are likely to decrease especially as they were fined \$1.68 B



ResultsPlus

Examiner Comments

Reason for IE market share will decrease is convincing (1)
B and D knock outs are valid (2)



ResultsPlus

Examiner Tip

Knocking out answers is an effective policy, but you must be specific about which letter you are knocking out, as here, 'Not D - etc'.

Question 7

The concept of tacit was not firmly understood. Many answers include a pay-off matrix, but the top right and bottom left boxes were often incorrect, or there was insufficient labelling to ascertain a collusive strategy, e.g. both charge a high price.

- 7 Game theory can be used to illustrate which of the following examples of competitive behaviour? (1)
- A Price leadership in perfect competition
 - B Revenue maximisation in monopolistic competition
 - C Limit pricing in monopolistic competition
 - D Tacit collusion in oligopoly
 - E Price discrimination by a monopolist.

Answer D

Explanation (3)

In oligopolist markets (few firms - branded, high barriers to entry) there is a risk of illegal collusion if caught it can result in large fines for the company & prison sentence of up to five years. Game theory & the prisoner dilemma suggest that even though their best strategy is to go for Box A because the firms don't trust each other they break the collusion and go for Box D. - this is the Nash Equilibrium. This maximises would be box B or C and the maximin is box D. Industries commonly being investigated for collusion include Gas in British Gas etc.

	Firm A	
	£20m Each	A = £10m B = £9m
Firm B	A = £8m B = £12m Each	£10m Each

diagm A Prisoner Dilemma (Total for Question 7 = 4 marks)

ResultsPlus
Examiner Comments

1 for definition of oligopoly
1 for long run equilibrium (prisoners dilemma)
Pay-off matrix does not show strategy

ResultsPlus
Examiner Tip

This pay-off matrix does not show the price strategy for the firms. Detail is so important!

7 Game theory can be used to illustrate which of the following examples of competitive behaviour?

(1)

- A Price leadership in perfect competition ✗
- B Revenue maximisation in monopolistic competition ✗
- C Limit pricing in monopolistic competition ✗
- D Tacit collusion in oligopoly -
- E Price discrimination by a monopolist. ✗

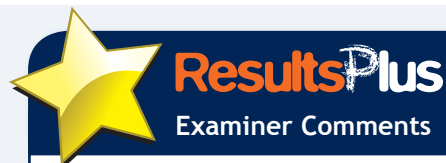
Answer

D

Explanation

(3)

Game theory is where firms in a market must decide whether to collude and fix prices ^{with other firms}, or use their dominant strategy and work independently. It is most commonly found in oligopolies, where there are a few dominating firms who lead the market. Thus game theory is most likely to result in tacit collusion in oligopoly which is a legal practice, forming price leadership.



1 + 2

Tacit collusion can be described using the ideas of price leadership, but this is only part of the story. Tacit means 'unspoken', and there are many forms it can take, some of which are legally acceptable, and some of which are not.

Question 8

The understanding of PFI or PPPs was rarely convincing, and often thought to be privatisation or a cost-saving measure! Question B was often knocked out as the incorrect answer.

This is a good, efficient answer.

- 8 A report by the University of East Anglia into the Private Finance Initiative and the Norfolk and Norwich University Hospital in June 2009 argued that the hospital was costing £20 million a year more than if it were run in the public sector.

Source: http://www.uea.ac.uk/polopoly_fs/1.116276!Three%20page%20briefing%20-%20NNUH%20report%20-%20June%202009.pdf.

Which of the following is a reason why the government has encouraged Public Private Partnerships?

(1)

- A It is easy to accurately forecast the future costs of projects
- B The government has a fiscal surplus
- C To increase x-inefficiency in the public sector
- D Performance targets have never been set in the public sector
- E To make use of private sector finance to fund major projects.

Answer

E

Explanation

(3)

Private finance initiatives are when the public and private sector work together. Usually the gov. contracts private sector firms to ~~see~~ complete a project eg. Building a school. The private sector has vast amount of money which the public sector can use and pay back over long periods of ~~the~~ time eg. in the form of rent.



Definition of PFI (1)
 Defers government payment (1)
 By charging them rent (1)

- 8 A report by the University of East Anglia into the Private Finance Initiative and the Norfolk and Norwich University Hospital in June 2009 argued that the hospital was costing £20 million a year more than if it were run in the public sector.

Source: http://www.uea.ac.uk/polopoly_fs/1.116276!Three%20page%20briefing%20-%20NNUH%20report%20-%20June%202009.pdf.

Which of the following is a reason why the government has encouraged Public Private Partnerships?

(1)

- A It is easy to accurately forecast the future costs of projects ✗
- B The government has a fiscal surplus ✗
- C To increase x-inefficiency in the public sector ✗
- D Performance targets have never been set in the public sector ✗
- E To make use of private sector finance to fund major projects.

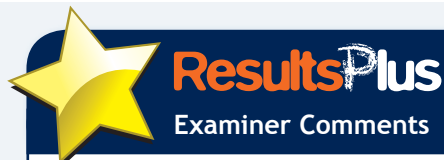
Answer

E

Explanation

(3)

Using the private sector finance to fund major projects within the public health sectors would help the government have money to spend on other activities. With funding the hospital there is an opportunity cost which could be spent somewhere else. Public private partnerships allow the best of both worlds; the finance from the private sector and the efficiency of the public sector.



More money to spend on other activities (1)
Repeating the key does not add any marks
and the efficiency of the public sector is not
justified.

Question 9(a)

Most could identify the type of integration, but the use of data was very weak.

(a) Using the evidence, explain the type of integration involved in the agreed merger between BA and Iberia.

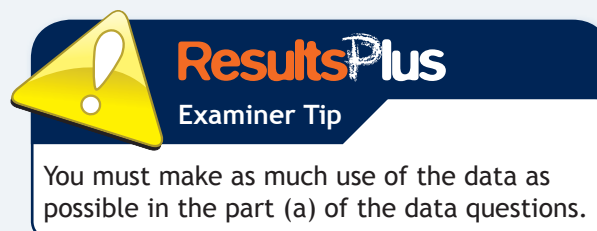
(4)

Horizontal merger as both the firms are ~~is~~ very similar firms at the same stage of production.

Both Iberia and BA are "national flag-carriers in Spain and the UK" meaning that they are very similar companies just based in different countries.



ResultsPlus
Examiner Comments
2 + 1 ap



ResultsPlus
Examiner Tip
You must make as much use of the data as possible in the part (a) of the data questions.

Iberia and BA are both airlines so their integration is horizontal integration as it is between two airline firms in the same industry and at the same stage of production (providing flights to consumers). By merging externally, the firm is growing larger so can increase market share, increase profits and gain economies of scale which has become an ("attractive means to make substantial cost savings"). Economies of scale are when output increases, the cost per unit decreases such as financial economies where it is easier and cheaper to take out a loan.

The reason to merge was that "BA had made big pre-tax losses" and so a merger would help BA to gain profits.

**ResultsPlus**

Examiner Comments

Theory 2 marks

Application reference to flights and cutting costs 2 marks

Question 9(b)

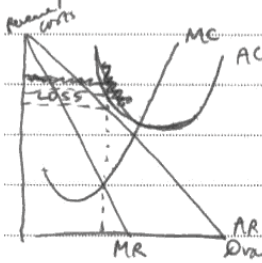
Many candidates scored 4 marks or fewer out of a possible 8. The majority of candidates were able to provide two suitable reasons and wrote about them at length (although only two marks were available for providing the reasons). Most candidates considered the demand side and the best candidates described and illustrated both demand and supply impacts. Diagrams were mostly provided, but many candidates simply drew a loss being earned and ignored the demand/supply shift, and a significant minority used simple supply and demand diagrams. Some used economies of scale diagrams, which could earn a mark for showing the fall in costs, but were ineffective in showing the loss area. Many candidates described the analysis in detail but failed to provide any evaluation. Those who did evaluate often only provide one evaluation point worth two marks.

This is a typical answer, in that the majority of the answer is focused on identifying reasons, and the evaluation is left until the very last line.

(b) Examine the likely reasons why Iberia made a loss during 'the usually profitable summer months'; (Extract 1, line 7). Use a diagram to support your answer.

(8)

The airline industry has suffered hugely during the ~~last~~ few years as the global economic crisis and the credit crunch has meant that the demand for luxury goods, such as flights, has decreased dramatically. This means that where AR before was above the AC curve, implying profit, possibly investments being made, the firm are now making a loss, as in the diagram.



Here, the loss is clearly indicated, as AR is below AC. In this industry it is very hard to lower costs without significant growth as there are so many restrictions and regulations that they have to meet, with health and safety and security, high security is now particularly for airports. ~~at~~ The losses would have continued during the usually profitable summer months because flights are seen as a luxury as they are very expensive, as there are very cheap alternatives available at home in ~~the~~ ^{Spain or the UK or their best flight route.} Also, as the crisis was global, there would not be as high demand in other parts of the world to keep profits up during this period. ~~The~~ ^{This} normally spread risk the way. ~~the price of fuel rockets~~ ^{the price of fuel rockets} ~~is also~~ ^{is also} ~~quite~~ ^{quite} ~~high~~ ^{high} ~~and~~ ^{and} ~~difficult~~ ^{difficult} ~~to~~ ^{to} ~~manage~~ ^{manage} ~~to~~ ^{to} ~~make~~ ^{make} ~~a~~ ^a ~~profit~~ ^{profit} ~~in~~ ⁱⁿ ~~2008~~ ²⁰⁰⁸ ~~and~~ ^{and} ~~not~~ ^{not} ~~in~~ ⁱⁿ ~~2009~~ ²⁰⁰⁹. The losses made were not necessarily during the summer, as the passage only says in the quarter which included the usually profitable summer months. They ~~also~~ could have managed to ~~keep~~ ^{keep} ~~make~~ ^{make} ~~a~~ ^a ~~profit~~ ^{profit} ~~but~~ ^{but} ~~and~~ ^{and} ~~just~~ ^{just} ~~have~~ ^{have} ~~made~~ ^{made} ~~terrible~~ ^{terrible} ~~losses~~ ^{losses} ~~in~~ ⁱⁿ ~~the~~ ^{the} ~~rest~~ ^{rest} ~~of~~ ^{of} ~~the~~ ^{the} ~~quarter~~ ^{quarter} ~~and~~ ^{and} ~~the~~ ^{the} ~~business~~ ^{business} ~~overall~~ ^{overall}.



ResultsPlus

Examiner Comments

- 2 reasons
- 1 diagram mark - loss area shown, but no shift
- 1 evaluation attempt at the end
- Total 4/8 marks



ResultsPlus

Examiner Tip

Remember that 50% of the marks are for evaluation, for all the data response questions (except the 4-marker, where 50% of the marks are for application).

The better answers wrote succinct answers that identified more than one reason (for 2 marks), included a diagram showing a loss-making shift in AR & MR and/or in AC & possibly MC (for 2 marks), and went on to incorporate some valid evaluation (for up to 4 marks).

Common weaknesses were failure to include a supporting diagram (although specifically required by the question and for which 2 marks), and/or spending too much time and space explaining likely reasons (for which only 2 marks) at the expense of any evaluation (for which up to 4 marks).

Although the costs of negotiating the merger might reasonably have been cited as having increased Iberia's costs, not a few answers confused the timeline and assumed the merger had already taken place, thus incorrectly arguing that post-merger integration problems, diseconomies of scale, or BA's existing losses were the cause of Iberia's loss.

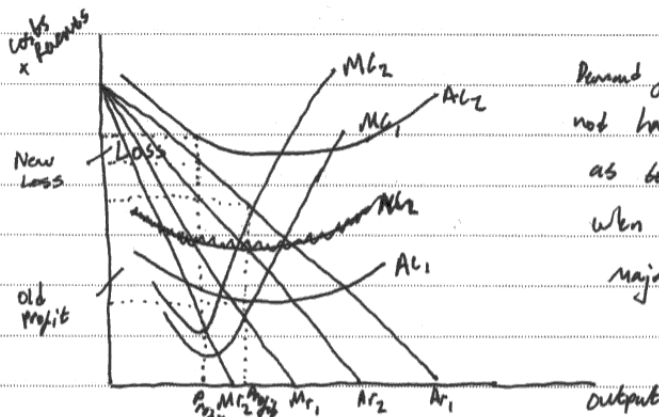
It was disappointing that many of the answers who did offer diagrams seemed unable to do so accurately and clearly. Although this did not directly affect the marks, MC often failed to cut AC at its minimum. More worryingly, output was not drawn where $MR=MC$, and profit and loss areas were commonly misidentified.

(b) Examine the likely reasons why Iberia made a loss during 'the usually profitable summer months'; (Extract 1, line 7). Use a diagram to support your answer.

(8)

It may have made a loss due to the global crisis where people had less money to spend on luxury goods like air travel. Therefore demand may have decreased, in the short run.

Also the price of raw materials such as oil, which is used in the airline industry may have increased and this is a more important factor as the price of oil increased rapidly, causing price of tickets to increase and the demand to decrease.



Demand for air travel may not have changed as much as ~~business~~ summer is when demand increases majorly.

Graph shows how costs increase and revenues decrease therefore from $Ar_1 \rightarrow Ar_2$ and $Mr_1 \rightarrow Mr_2$ therefore making profits into loss.

- However firm may counteract increase in costs by cutting staff numbers and flights.

ResultsPlus
Examiner Comments

Here there are two evaluation attempts, but they are very brief. Total 6/8

Question 9(c)

Generally, this question was answered well. The concept of contestability was understood well, with very few candidates confusing the term with competition. A range of factors were considered demonstrating a good understanding of the concept. Few candidates described limit pricing. Evaluation was strong for this question. Candidates made use of the text (landing slots) and their general knowledge of the airline industry (more planes available to lease).

There were many sound answers that correctly defined 'contestability' (whether explicitly or implicitly) and, mostly, - although some found other valid lines of argument - explained and evaluated the likely effects on contestability of increased economies of scale and of the possibly increased risk of collusion.

Arguments as to increased market share / market power were not always convincingly related to contestability.

A few - even some who had parroted an acceptable definition of contestability - disastrously confused contestability with competitiveness and, so, generally earned very few marks if any.

Mostly, the parts of the text referring to the possible BA/Iberia link with American Airlines were carelessly read and/or poorly understood, and few were able to use them to develop convincing arguments - although some did correctly identify that, if BA were to accept a requirement to give up slots at Heathrow, that would represent an increase in contestability. Although clearly flagged in the text as an American protectionist stance, the 25% limitation on foreign ownership of an American airline was commonly confused with the 25% market share guideline of the UK Competition Commission or of an American equivalent: mostly, such answers were writing about competitiveness rather than contestability anyway.

A few answers, including some who had reproduced acceptable definitions of 'contestable' and who did show some understanding of the concept and arguments involved, still had difficulty in deploying the terms 'contestable', 'not contestable', 'more contestable', 'less contestable' reliably - sometimes (though rarely consistently so) giving them the exact opposite of their correct meanings.

Although not usually to any detriment in terms of marks, a number of answers mislabelled differing economies of scale - financial and commercial economies being the labels most commonly confused.

*(c) Assess the likely impact on contestability of the airline industry resulting from the mergers and agreements referred to in the evidence.

(12)

A contestable market is one which has ~~low~~ ^{low} sunk costs, barriers to entry and more perfect information. You could argue that as a result of the mergers in the airline industry the market has become less contestable. This is because mergers will ~~be~~ mean that companies have a larger market share ~~and~~ can benefit from economies of scale and will therefore have lower average costs in the long run. This would make it hard for a ~~new~~ new firm to join the market, as it would have higher costs, due to it not having as much economies of scale, and therefore they may not be able to compete with the price.

Another ~~barrier~~ reason the market would become ~~less~~ ^{less} contestable is that the ~~new~~ ^{new} mergers will have ~~better~~ ^{under} market knowledge ~~and~~ ^{ideas} due to gaining ~~the~~ ^{ideas} and techniques from the other companies they merged with. This means that they have an advantage over a firm which wishes to enter the market, as there is more asymmetric information. Consequently the firm ~~entering~~ ^{entering} the market will have to spend more on researching these techniques and getting to know the industry well. Therefore it is likely the firm will have higher costs than the bigger firms in the industry. A further reason which would make the ~~market~~ ^{market} less contestable would be ~~that~~ that the mergers would be big

companies that could ~~also~~ have a lot of brand loyalty, therefore for new firms it may be difficult to ~~attract~~ ^{convince} customers to use their service instead.

However, ~~as~~ you could say that the market could be relatively contestable. We know that new ~~firm~~ ^{cheap} ~~airlines~~ have entered which have lower costs ~~due to~~ ~~being able to~~ due to cutting costs on ~~things~~ like airport meals or having their planes land in a cheaper place. Therefore there is still scope for ^{low budget} airlines to be able to ~~cost~~ undercut the bigger airlines' costs. ~~Also the internet~~

Also you could agree that people do not care so much about brand loyalty in airlines, and will switch their ~~airline~~ airline due to price.

Also the ^{short term} cost of a merger ~~is not~~ could be expensive for the airlines and so the airline ~~cost~~ industry could still remain relatively contestable in the short run, before the bigger mergers can subsequently cut costs.

However overall it is likely the market will be less contestable.



ResultsPlus

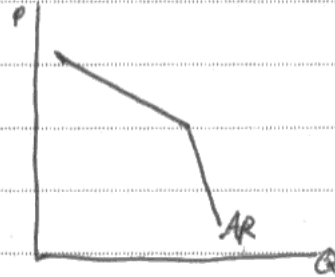
Examiner Comments

KAA 6 - 3 fair points including a definition
 Eval - 3 attempts are valid 2 + 1 + 1 - two
 for low costs airlines, one for brand
 loyalty and one for the cost of merging.

*(c) Assess the likely impact on contestability of the airline industry resulting from the mergers and agreements referred to in the evidence.

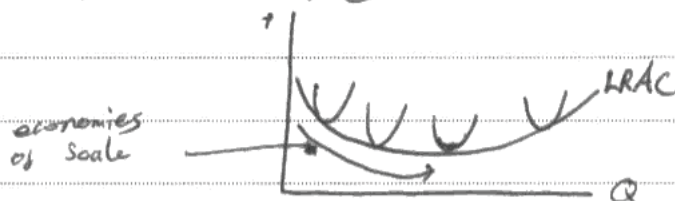
(12)

As BA and Iberia merged this will cause them both to now have higher economies of scale and higher market share. As they now have higher market share this means they have stronger price setting power in an Oligopoly market, however they may not change their prices due to the kinked demand curve.



As if they decrease their price all other firms will follow, and if they increase their price consumers will go to the other firms. So they will most probably compete using non-price strategies, like after sale service.

As their economies of scale has got better this means their LRAC has decreased



This means they can now bulk buy or use financial economies of scale to be more contestable as this means that their sunk costs will be bigger as they can afford more advertising, making the market more difficult for new firms to enter and produce at the same price.

**ResultsPlus**

Examiner Comments

Market share and consequently market power (2)
Economies of scale (2) application of types of economies cannot be awarded because answer refers to 'more contestable' not less
Eval using kinked demand (2)

**ResultsPlus**

Examiner Tip

Note that Sweezy's kinked demand curve can earn marks, but it is not necessary for full marks - game theory is always sufficient, if used correctly.

Question 9(d)

This question was answered well. Candidates drew upon points in the text for analysis and evaluation. Most candidates provided four separate benefits and some provided more analysis than what was required. Candidates indicated a strong understanding of the benefits/costs of mergers but did not always develop points sufficiently and/or provide a sufficient number of points.

Although a few answers had run themselves too short of time, most were able to identify, explain and evaluate a sufficient range of benefits.

Many successfully identified benefits to the merging firms themselves - usually in terms of one or more economies of scale, of rationalisation, of market share, and of possible collusion - but others equally successfully considered benefits to a range of stakeholders.

[The first of these approaches is likely to have involved not a little overlap between answers to 9c) and to 9d).]

Again (as with 9c), although not usually to any detriment in terms of marks, a number of answers mislabelled differing economies of scale - financial and commercial economies being the labels most commonly confused.

*(d) Evaluate the likely benefits of the agreed merger between BA and Iberia.

(16)

The main benefit of the agreed merger between BA and Iberia would be economies of scale. Economies of scale occur when long run average costs decrease as output increases. There are various types of economies e.g. technical economies of scale and managerial economies of scale. Technical economies of scale include benefitting from better technology, for example, BA may have a higher-technology internet booking system or checking in system which Iberia can of course benefit from. Managerial economies occur because the merger allows the firms to employ specialist managers in finance, marketing and other such departments, so productivity increases and long run average costs fall as a result. This is a benefit for both BA and Iberia and also consumers because the fall in average cost will be seen as a decrease in the price of flights for the consumers.

Another benefit of the agreed merger could be that now, BA and Iberia can use the same routes and so have an increased customer base because they will be able to go to more places than before i.e. Iberia can use BA's routes without any extra cost so demand for flights with Iberia increases and so profitability increases. The increased profits may then be reinvested into the business so that better airplanes can be bought or better in-flight entertainment systems etc.

The merger of BA and Iberia will lead to a better, more specialist research and development team which can work on how to make the flights nicer so more consumers will want to travel with BA/Iberia. The R&D team can also work on how to make the booking process

quicker or other such aspects which will attract consumers and therefore increase profits for BA and Iberia.

Also, the merger between BA and Iberia will mean that they have more market share and hence more market power. They could exploit this market power and increase prices to benefit them and make excessive profits. However, if they do start exploiting their increased market power, it is likely that the Office of Fair Trading will investigate a merger possibly leading to BA and Iberia being forced to demerge as it is not in public interest to increase prices for the firm's benefit. Another disadvantage is if the firm becomes too big then they could suffer from diseconomies of scale i.e. as the firm moves away from its minimum efficient scale, long run average costs start to rise and as output increases. This could occur due to a breakdown of communication, lack of motivation for employees as the firm gets too big. In the long run, there is a huge disadvantage to consumers "∴ prices will rise as BA/Iberia gain more power and go towards forming a monopoly."

Also the merger will mean many employee redundancies as the firm will not need so many workers.



ResultsPlus

Examiner Comments

The evaluation is condensed into the last 10-12 lines, and while valid, it does need to go further and deeper.



ResultsPlus

Examiner Tip

Spend 16 minutes on the 16 mark question - and remember that half the marks are evaluation so don't cram this in an off minute at the end, as in this answer.

* (d) Evaluate the likely benefits of the agreed merger between BA and Iberia.

(16)

There are many benefits of the agreed merger.

Firstly they will make substantial cost savings as they have more buying power. Not only for bulk buying ~~the~~ necessities such as maintenance gear but also the buying of airplanes. They may be able to negotiate with ~~airplane~~ airplane manufacturers such as Boeing and Airbus, getting lower prices as they buy more planes. This would lower costs of production for BA and Iberia and would in turn lower their ticket prices. This is good for the consumer and ~~the~~ BA and Iberia as they are able to compete with low-cost airlines.

The merger of BA and Iberia will "put the firms back into the big leagues of European aviation." This is a major benefit for an airline as it makes access to foreign airports and landing strip destinations easier as they are a major airline once again. With more access to other destinations, they are likely to increase profits as ~~the~~ ~~customers~~ the consumers choose them over other airlines.

Another benefit of the merge between BA and Iberia is that Extract 1 states that "size will become an important factor if consolidation among airlines goes global." This would ~~to~~ mean that BA and Iberia would save a lot of money on major Transatlantic routes.

Particularly for BA the merger would reduce the amount of strikes as they will be ~~likely to need to cut back on costs~~ less likely to need to cut back on costs and spending on the BA crew. This would save money through less strikes.

**ResultsPlus**

Examiner Comments

KAA 8: best four
2 buying power
2 lower prices
2 able to compete with low cost
2 more access
2- save on transatlantic routes
No evaluation awarded

Question 10(a)

An effective question, with only a few not being able to identify a trend and use the data to back this up.

(a) Explain **one** possible reason for the trend in newspaper sales as shown in Figure 2.

(4)

From 2001 to 2005, the sales of newspaper fell dramatically across the board. In addition, from 2005 to 2009 the majority of newspaper also saw reductions in their sales. This could be due to the ever increasing popularity of the internet where news is available free of charge. Furthermore, the internet is becoming more accessible with users able to access free news from almost anywhere on any device^{at any time}: from laptops and notebooks to mobile phones, and from wifi to 3G connections. This could ~~mean~~ that explain the trend as readers switch from having to buy their newspaper at a store to being able to view ^{free and current} material online. The power of the internet is also increased by having the capability to be updated throughout the day so news is always current.



ResultsPlus

Examiner Comments

The trend for falling sales is 1 application mark
 The sense that not all newspaper saw falls in sales from 2005 to 2009 is 1 application mark
 Reasoning is 2 out of 2 marks

(a) Explain **one** possible reason for the trend in newspaper sales as shown in Figure 2.

(4)

The decrease in newspaper sales is due to more people going online to read articles for free. This is an example of monopolistic competition. Although the products are varied, for example you can't take a computer on the train to read the news whereas a news paper you can. However readers are getting the same information from both sources therefore many are choosing the free option.



ResultsPlus

Examiner Comments

- 1 application mark for decreasing sales
- 1 +1 more people going online to read articles for free



ResultsPlus

Examiner Tip

Use the figures in the data.

Question 10(b)

This question proved difficult for many candidates suggesting that candidates did not really understand which concepts to apply to the answer. Most candidates argued that the newspaper firms would leave the industry. The best candidates described the shut-down point in the short run and drew a suitable diagram. Many candidates, however, did not describe this point and often diagrams were drawn to illustrate a loss with no AVC curve present. Evaluation was not very strong. Evaluation points were often insufficient in number and insufficiently explained.

A few strong answers analysed the market trends and assessed whether they might lead to subnormal profit often supporting the analysis with appropriate diagrams.

Better answers sometimes identified the fact that falling circulation would likely lead to a loss of advertising revenue as well as to the loss of sales revenue.

Also, better answers were able to identify that the decline in sales volume documented in Fig. 2 was slowing and with the FT actually showing a small recovery.

Some answers shrewdly sought to distinguish between the stronger and weaker printed papers, but several amongst them had some unconvincing prejudices concerning which were which - often at odds with the data in Fig. 2.

Most answers chose to show some awareness of $P < AVC$ issues and usually attempted relevant diagrams. However, very few were clear that $P < AVC$ requires *immediate* shutdown but that $ATC > P > AVC$ still requires continuing production *in the short run* in both cases to minimise loss / maximise subnormal profit - and contribution was a concept very rarely mentioned. Similarly, very few seemed aware that all costs are variable in the long run, and that, even if $P > AVC$, $P < ATC$ means failure to earn normal profit and will still lead to shutdown in the long run.

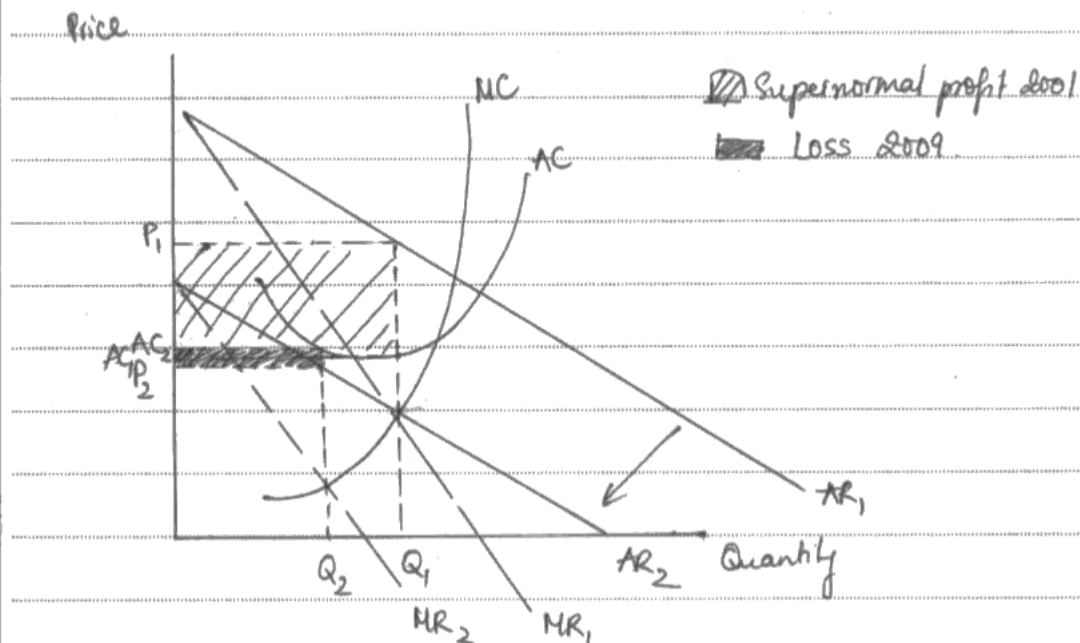
A few answers seemed to think that only supernormal profit would be enough to keep a firm in business in the long run.

It is a limitation of the basic economic model that it considers only profit or loss whereas, in the real world, it is cash flow not profit or loss that determines whether a firm can remain in business in the short run. Those studying Accounting or Business Studies as well as Economics ought to have been aware of this, but none seemed to be thinking outside the box for the subject examined here.

As with 9b), it was disappointing that many of the answers who offered diagrams seemed unable to do so accurately and clearly. Not usually disastrously so, MC often failed to cut AC at its minimum. More disastrously, output was not drawn where $MR = MC$, and profit or loss areas were commonly misidentified. Contribution areas were not attempted at all.

(b) Assess the possibility of some printed newspapers shutting down as a result of the trend in newspaper sales.

(8)



From figure 2, demand for newspaper fall significantly from 2004 to 2009, causing AR and MR to fall, and possibly $AR < AC$ and firm will make a loss.


If in short run, the price is above average variable cost it can still continue but if the situation does not improve the firm will be shut down.

However, it depends on the price elasticity of demand. If the newspaper is popular and demand inelastic, it may be faced a smaller fall in demand and still make profit. Thus, it is not likely to shut down.

Secondly, firm may be big and have very large economies of scale, therefore it has low long run average cost, thus even with demand fall, ^{revenue} it is still above cost and earn profit, or make normal profit. It may not be forced to leave the industry.

Newspaper firm can takeover and merge with other firms to achieve

economies of scale and save cost through rationalisation. It can spread risk by selling magazines and cross subsidise, thus can continue to operate.



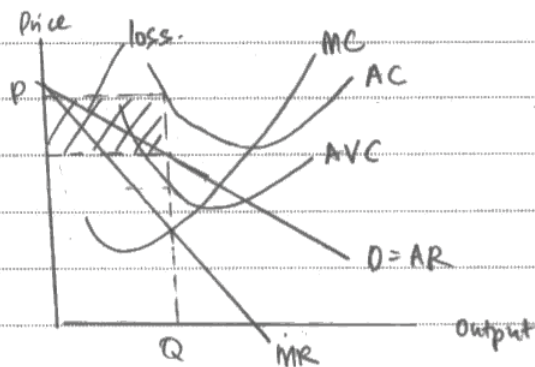
ResultsPlus
Examiner Comments

Full marks here.

(b) Assess the possibility of some printed newspapers shutting down as a result of the trend in newspaper sales.

(8)

The possibility of some printed newspaper shutting down in the short run is avoidable.



In the short run, reducing trend in newspaper sales may likely cause the publication firms to suffer losses. The firm may continue its business to minimise losses. At least to cover the variable cost and part of its fixed cost.

If it shut down immediately, the losses will be larger as ~~loan~~ fixed costs are still there. For instance, loan payments and rental costs. Thus, it is ~~prob~~ the firm is more likely to continue operating to reduce losses. However, if it happens in the long run where sales continue to fall, the firm should shut down.

Besides that, it all depends on the trend. If consumers are charged at high prices for online newspapers, they will switch back to read printed newspapers as they are cheaper.



ResultsPlus

Examiner Comments

The following KAA marks are for arguing that the firm will not shut down
 2 for firm can cover AVC, 1 for diagram showing contribution to fixed costs
 Evaluation marks are for arguing that the firm will shut down AND other evaluative comments, 2e long run shut down, 2e for the switch back to printed newspapers



ResultsPlus

Examiner Tip

A diagram can add marks even when not specifically requested. Make sure you use AC MC AR and MR, not D and S.

Question 10(c)

The concept of contestability was understood but suitable analysis points were not always identified and developed sufficiently. There was little reference to the data and often the relevant data piece was identified but no explanation of what the data indicated was given. Candidates struggled to provide a sufficient amount of evaluation, while many candidates provided no evaluation. Overall, this question proved difficult for candidates.

As with 9c), there were many sound answers that correctly defined 'contestability' (whether explicitly or implicitly), and, here, these mostly assessed set-up costs sometimes including branding.

Fewer answers than with 9c) made the disastrous mistake of confusing competitiveness with contestability.

A number of weaker answers mistakenly took the data on advertising in Extract 1 to refer to sunk costs rather than revenues. The data on willingness to subscribe online and on brand loyalty online in Extract 2 were commonly misunderstood. It was not uncommon for answers to lose sight of whether the data referred to online or to printed newspapers with damaging consequences for their line of argument.

As with 9c), a few answers, including some who had reproduced acceptable definitions of 'contestable' and who did show some understanding of the concepts and arguments involved, still had difficulty in deploying the terms 'contestable', 'not contestable', 'more contestable', 'less contestable' reliably - sometimes (though rarely consistently so) giving them the exact opposite of their correct meanings.

* (c) To what extent might the contestability of the markets for online news and printed newspapers differ?

(12)

Firstly, a contestable market is one that has low sunk costs, low barriers to entry/exit.

The online news market may ~~offer~~ ~~higher costs~~ ~~therefore~~ require firms to invest in technology to allow successful broadcasts. However ~~this is~~ a marginal cost as technology is constantly being updated and will force firms to spend more. And if they choose to leave they will have ~~low~~ lower sunk costs as

This will allow firms to have lower sunk costs as it is easier to ~~re~~ use the technology or update it. However for printed newspapers sunk costs will be higher as the ~~mach~~ printing machinery will be sold at a ~~low~~ will be much harder to recover the costs.

With understanding the difference in sunk costs between online news and printed newspapers, we can examine the barriers to entry. Theoretically low sunk costs mean low barriers to entry/exit and high sunk costs will mean

high barriers to entry/exit as firm may not be able to cover the costs. This theory can be based to explain the contestability between online news and newspapers.

Online news will have more firms entering the market due to ~~the~~ ^{the} low barriers to entry making the market more contestable and the printed news papers will be less contestable as firms may not have sufficient funds to purchase ~~machinery~~ ^{the machinery}.



ResultsPlus

Examiner Comments

KAA

1 for the definition, 2 for higher sunk cost for printing,
2 for ease of entry for online firms

Ev 1 ev for online news firms require costly technology



ResultsPlus

Examiner Tip

Crossing out work is not always advised - the marker will mark positively (adds marks, not taking away) so you will not lose marks if you make a mistake.

Try to make your answer tidy, and avoid asterisks and non-sequential answers. It makes the argument hard to follow.

*(c) To what extent might the contestability of the markets for online news and printed newspapers differ?

(12)

Contestability is how contestable the market is. In other words a market would be contestable if there were low sunk costs and therefore low barriers to entry, so more firms can contest in the market. Contestability for printed newspapers, you would envision to be pretty low because of the high start up costs of getting the machinery for printing getting people to write columns and articles in your newspaper and being the difficulty with distributing the newspapers. Also the ~~from~~ newspapers are relatively low in price (e.g. The Sun is 20p) & so ~~the~~ newspapers must be working at ~~of~~ high levels of ~~the~~ efficiency in order to be able to have their costs below what they are selling the newspapers for. ~~So~~ So firms ^{thinking of entering} ~~entering~~ the newspaper market would not be able to make profit so would therefore ~~not~~ not enter. ~~the~~

~~the~~ However online newspapers would be more contestable because the start

if costs are much lower, you would need to employ much less people because its a website and money would be gained more from advertising than actually paying to read the articles. So if your online newspaper is popular you will receive more money for advertising because more people look at it your sight.

However ~~the costs~~ of barriers to entry may be higher than thought because you will need to employ specialists to get your newspaper known on the internet which ~~is~~ could increase costs. and take up alot of time so more established brands eg. BBC news would remain most popular because of brand loyalty and ~~also a~~ ease of access.



ResultsPlus

Examiner Comments

- 2 KAA costs of printing machinery
- 2 KAA managerial efficiency
- 2 KAA for low costs of on line entry
- ev 2 ev high costs for on line entry employ specialists
- 2 ev BBC brand loyalty



ResultsPlus

Examiner Tip

The terrible spelling in this answer is off-putting for the marker, and from all the crossings out, it clear the students writes before thinking. The answer would earn the full KAA allocation on a shorter response, and if there had been more thought involved the full evaluation marks might well have been awarded.

Question 10(d)

This question was answered well. Candidates demonstrated a good understanding of the available price and non-price strategies, but sometimes failed to develop explanations. A number of errors were made such as the explanations of predatory pricing and limit pricing being the wrong way round, and a number of candidates did not link limit pricing and revenue/sales maximisation to increased profitability. Most candidates provided some degree of evaluation, but some resorted to undeveloped comments, straying away from the concept of profitability. A significant number of candidates considered the kinked demand curve theory and game theory in reference to both price and non-pricing policies, but more often the analysis used to develop non-pricing policies was weak and could have been produced without having read an Economics textbook.

Only a few answers had run themselves too short of time, and most were able to identify, explain and evaluate a sufficient range of strategies.

Very few answers failed to consider both price and non-price strategies and suffered the marking cap involved.

However, not a few answers unthinkingly rehearsed limit pricing, and/or revenue and/or sales maximisation - all strategies which *reduce* profitability in the short run and, at least with limit pricing and, depending on motivation, with the others too, in the long run as well - but without giving any indication of how the strategy might increase profitability in the long run or, say, with limit pricing, increase profitability compared with what might otherwise have been the case, and, so, without actually answering the question set.

* (d) Evaluate price and non-price strategies newspaper organisations may pursue to increase profitability.

(16)

Price strategies are used by firms in oligopoly in order to compete on price and maximise SNP's, since they are price makers. The strategies used by newspaper organisations would vary depending on whether it was an online paper or printed. Prices for printed newspapers tend to be stable, due to the kinked demand curve theory, as firms face elastic demand to price increases and inelastic demand to price decreases. In evaluation, many readers have a certain brand loyalty and would be unwilling to change to a cheaper substitute. Price competition may exist through offering two newspapers; a condensed, cheaper paper such as 'i', and a larger, more expensive paper 'the Independent', although they are essentially the same newspaper. However, this is a recent entrant to the market and competition is not really present, although it could be in the long-term. Pricing strategies also occur online, as extract 1 describes; the American newspapers mentioned went from charging a subscription fee to charging nothing. Extract 2 also explains a pay-off matrix between firms:

Firm A

	£2	Free	
Firm A	£2	£10 million	A - £12 million B - £5 million
Firm B	Free	A - £5 million B - £12 million	£8 million

maximise
 maximise
 maximise
 fees or advertising revenue

The pay-off matrix demonstrates the likely outcome of a pricing strategy. Although a firm seeks to maximise profit, the likely outcome is maximise - where firms settle to

offer a free service to online readers. This is a limited strategy in terms of evaluation, since the revenue gained from advertising revenue is not fixed on price, but on the ~~readers~~ customer base of the paper. Furthermore, pricing strategies are limited online, since a ~~rise~~ rise in contestability in the market, and a firm's market power is reduced, thereby reducing a firm's ability to engage in a price war if it were to develop. Furthermore, ~~Figure 1~~ Figure 1 shows that a price rise ~~in~~ for the Guardian newspaper would lead to a fall in ~~profitability~~ profitability due to free services, such as the BBC website, a-line.

Non-pricing strategies can be employed by firms in oligopoly in order to raise profitability and raise barriers to entry in the market. Firms can compete on the content which they offer such as political orientation and the pull-factors or supplements which are included. However, some readers may not regard the supplements as being important and may not consider it when buying a printed newspaper. Limited papers may offer promotions or deals or competitions in order to increase profitability, too, in order to ~~increase~~ increase sales. However, this is arguably more common in tabloid papers and may not relate to broadsheet or local papers, for example.

Another non-pricing strategy might be through advertising, either through television, billboards or

endorsements. This ~~example~~ is a common feature of digital, for firms to create through advertising. However, this may be limited in the newspaper industry as the product, is a daily item, and brand loyalty to printed papers might reduce its importance. In non-price competition, the content is more influential than other forms of promotion.

**ResultsPlus**

Examiner Comments

This is an exceptionally good answer, 16/16. There is evaluation all the way through the answer. The pay-off matrix is used well, clearly showing the price options and the consequent outcomes for firm A and firm B. If anything, the answer goes too far into game theory, and only simple game theory is required.

**ResultsPlus**

Examiner Tip

Only use a pay-off matrix if you can refer to it, and show the short-run advantages of non-collusion.

This answer has many ideas, but only one of the six concepts suggested properly developed. Only four factors are awarded in a 16 mark question, at most.

* (d) Evaluate price and non-price strategies newspaper organisations may pursue to increase profitability.

(16)

There are a number of strategies available to firms to increase their profitability; these include the price strategies like quality etc ^{and} non-price strategies like advertising etc.

A ^{non} pricing strategy that a newspaper organisation could adopt is the quality of ~~these~~ their product. This could be maybe to make their paper stand out on the shelves more than its competitors however I don't feel that this would be a viable option as newspapers are printed on paper so are all the same quality ~~plus~~ also customers build up a loyalty to their favourite newspaper and say for example; they will still buy the telegraph despite the sun being more colourful and attractive.

A non-pricing strategy which could be implemented could be advertising. Advertising would mean that more people get to hear about your paper and what it has to offer so it ~~can~~ could definitely have ~~its~~ positive results however the problem of brand loyalty could also have a play in this as consumers already know what the like and which newspaper suits them best.

A further ~~non~~ non-pricing strategy could be branding. This could attract new consumers to that newspaper as it could break down stereotypes surrounding the newspaper. For example the Sun could rebrand its easy-to read image with a lot ~~off~~ more of a financial perspective. This could then interest ^{current} ~~current~~ financial times readers to buy the Sun as it would also cater for their needs and this could boost the sales of the Sun newspaper, however papers like the Sun will always be known for their quick and easy to read - no fluff paper so it may not necessarily work.

A final pricing strategy that a newspaper organization could introduce could be the cost of their paper. This could lead the more expensive papers like the Telegraph to become cheaper and thus more competitive. However the firms may not be able to withstand lower costs in the long run as their costs of production may not be covered by a cheaper price.



ResultsPlus

Examiner Comments

5 KAA: 1 mark for quality, 1 mark for advertising, 2 marks for branding, 1 mark for lower cost (BOD lower price)
3 evaluation marks: 1 ev difficulty to build up loyalty, 1 ev branding might not work, 1 ev not covering cost of production



ResultsPlus

Examiner Tip

The allocation of marks is now very standard and there is a clear pattern in the way marks are awarded. Long lists of points are not going to do well. Stick to at most four points, and develop them fully.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

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

Further copies of this publication are available from
Edexcel Publications, Adamsway, Mansfield, Notts, NG18 4FN

Telephone 01623 467467

Fax 01623 450481

Email publications@linneydirect.com

Order Code UA026255 January 2011

For more information on Edexcel qualifications, please visit
www.edexcel.com/quals

Edexcel Limited. Registered in England and Wales no.4496750
Registered Office: One90 High Holborn, London, WC1V 7BH

Ofqual




Llywodraeth Cynulliad Cymru
Welsh Assembly Government

