# Mark Scheme (Results)

Summer 2018

Pearson Edexcel GCE A Level
In Economics A (9EC0)
Paper 01 Markets and Business Behaviour

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Summer 2018
Publications Code 9EC0_01_1806_MS

**General Marking Guidance**

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

| Question Number | Answer | Mark |
|---|---|---|
| **1(a)** | **Application 2**<br><br>**Application:**<br>Calculation of original opportunity cost of producing 50 capital goods is 120 -100=**20** consumer goods. (1 mark)<br><br>Calculation of new opportunity cost of 50 capital goods is 170 -140=**30** consumer goods. (1 mark) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **1(b)** | **The only correct answer is D**<br><br>***A*** *is not correct because this would be describing a change in actual output such as W to V from inside the PPF XY*<br><br>***B*** *is not correct because PPF shows potential output and not the cost of output*<br><br>***C*** *is not correct because PPF shows potential output and not the demand for a good or service* | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **1(c)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge/understanding:** 1 mark for e.g.<br>Position **W** represents an<br>• inefficient allocation of resources (1)<br>• unemployment of resources (1)<br><br>**Analysis:** 1 mark for e.g.<br>• It is possible to increase output of both consumer goods and capital goods by using unemployed resources (1)<br>• The economy could produce at either 100 or 140 consumer goods but is currently producing 80 (1)<br>• The country is operating inside the PPF (1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **2(a)** | **Application 2**<br><br>**Application:** 1 mark for appropriate calculation e.g.<br>£2 ×73 million = £146 million (1)<br>**OR**<br>£0.24 ×73 million = £17.52 million (1)<br>**OR**<br>£1.76 ×73 million (1)<br>**OR**<br>correct answer with no millions (1)<br><br>Answer = **£128.48 million** (accept between £128 million and £129 million)<br><br>**Award 2 marks for correct answer (128m)** | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **2(b)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge:** 1 mark for e.g.<br>• The demand for use of gaming machines is likely to increase (1)<br>• It is a substitute for national lottery tickets (1)<br>• Substitutes have a positive cross elasticity of demand (1)<br><br>**Analysis:** 1 mark for e.g.<br>• Increase by 128% in response to a 100% increase in the price of national lottery tickets (1)<br>• 1.28 cross elasticity of demand indicates they are **close** substitutes (1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **2(c)** | **The only correct answer is C**<br><br>***A*** *is not correct because the flood defence scheme is non-exclusive*<br><br>***B*** *is not a private good because flood defence scheme is non-exclusive so you are unable to charge private individuals that benefit from the scheme*<br><br>***D*** *is not correct because it is a distractor in lacking meaning but also indicating that the candidate is confusing rivalry with the non-rivalrous nature of public goods* | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **3 (a)** | **Application 2**<br><br>**Application 2:** 1 mark for appropriate calculation /formula e.g.<br>$\frac{1.3 \times £489\,000}{100}$ (1)<br>**OR**<br>489 000 ×0.013 (1)<br>Answer = **£6 357**<br>**Award 2 marks for correct answer (6 360)** | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **3(b)** | **The only correct answer is C**<br><br>***A*** *is not correct because the candidate has mistakenly done the average house price in North East of England to the average house price in London*<br><br>***B*** *is not correct because the candidate has made a computational error*<br><br>***D*** *is not correct because the candidate has made a computational error* | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **3(c)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge / understanding:** 1 mark for one reason e.g.<br>• differences in average income or wealth (1)<br>• employment or unemployment rates (1)<br>• migration or population change (1)<br>• foreign buyers (1)<br>• availability of land to build on (1)<br><br>**Analysis**: 1 mark for a linked development e.g.<br>• Higher average income in London mean people are able to obtain larger mortgages and so pay higher prices (1)<br><br>• Higher employment rate or lower unemployment rate in London mean greater demand for housing from its population (1)<br><br>• Foreign buyers attracted to invest in London due to high rental returns or expectations of increase in value of property or better market knowledge (1)<br><br>• Shortage of land to build on in London, especially with green belt restrictions (1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **4(a)** | **Knowledge 2, Application 2**<br><br>**Knowledge/Understanding: (up to 2 marks)**<br>1 mark for identifying each correct price/output level<br>e.g.<br>Identify profit maximisation position: for example, where MC=MR or output level 25 or price £17 (1)<br><br>Identify revenue maximisation position: for example, where MR=0 or output level 36 or price £12 (1)<br><br>**Application: (up to 2 marks)**<br>Calculate total profit at profit maximisation position: for example, total revenue – total cost = total profit:<br>£425 – £200 = **£225** (1)<br>**OR**<br>£17-£8=£9, £9 ×£25 = £225 (1)<br>**OR**<br>Calculate total profit at revenue maximisation position:<br>£432 - £324 = **£108** (1)<br>**OR**<br>£12-£9=£3, £3 ×£36 = £108 (1)<br><br>£108 -£225 = -**£117** or **£117**<br><br>**Award full 4 marks for -£117 or fall of £117 or £117** | **(4)** |

| Question Number | Answer | Mark |
|---|---|---|
| **4(b)** | **The only correct answer is B**<br><br>***A*** *is not correct because sales maximisation occurs when AC equals AR which is at an output higher than revenue maximisation*<br><br>***C*** *is not correct because AC is higher at sales maximisation output than revenue maximisation*<br><br>***D*** *is not correct because abnormal profit is removed and only normal profit is now made* | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **5(a)** | **The only correct answer is A**<br><br>***B*** *is not correct because the candidate has divided by the new year rather than the original year*<br><br>***C*** *is not correct because the candidate has looked at the difference in quantity sold between 2014 and 2015 rather than answering the question between 2011 and 2015*<br><br>***D*** *is not correct because the candidate has looked at the decrease in the quantity of PC's not the percentage decrease* | **(1)** |

| Question Number | Answer | Mark |
|---|---|---|
| **5(b)** | **Knowledge 1, Analysis 1**<br><br>**Knowledge:** 1 mark for likely reason in the decrease in sales of PCs e.g.<br>• Development of substitutes such as Tablets or iPads or iPhones (1)<br>• Fall in global real incomes (1)<br>• Fall in price of substitutes (1)<br><br>**Analysis:** 1 mark for linked development e.g.<br>• Tablets are more convenient to carry round (1)<br>• New technology in other personal devices so becoming more powerful in their functions (1)<br>• Fall in global incomes means that consumers are less likely to buy normal goods such as PCs (1) | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **5(c)** | **Application 2**<br><br>**Application 2** 1 mark for appropriate calculation /formula e.g. the sum of 5 largest figures = 190 239 (1)<br><br>$\frac{190\ 239\ \text{(million)}}{276\ 700\ \text{(million)}} \times 100$<br><br>Answer = **68.8%** (Accept between 68% and 69%)<br><br>**Award 2 marks for correct answer (68.8)** | **(2)** |

| Question Number | Answer | Mark |
|---|---|---|
| **6(a)** | **Knowledge 1, Application 1, Analysis 3**<br><br>**Knowledge/Understanding:** (up to 1 mark)<br>• Real price of gas and electricity refers to their price adjusted to remove the effects of inflation (1)<br>• Increase in demand (1)<br>• Decrease in supply. (1)<br>• The lack of competition (1)<br><br>**Application:** (up to 1 mark) e.g.<br>• Figure 1 indicates the real price of gas and electricity has increased since 2004: electricity from 70 to 119 or rises 70% (accept approximations) (1)<br>• Gas from 58 to 121 or rises by 108% (accept approximations) (1)<br><br>**Analysis:** up to 3 marks for linked development of one reason e.g.<br><br>• Rise in price (1) due to non price determinant of demand e.g. income, economic growth, population growth (1) explained using contraction in demand or extension in supply or other extended analysis of market forces (1)<br>• Rise in price (1) due to non price determinant of supply e.g. increase in cost of production, finite resources (1) explained using contraction in demand or extension in supply or other extended analysis of market forces (1)<br><br>• Energy firms have sought to increase profits (1) tacit collusion (1) provide more dividends and higher share prices for shareholders (1) directors salaries linked to profits (1)<br>• Energy firms able to exploit consumers not behaving rationally due to: influence of other consumers (1) habitual behaviour (1) computation difficulties (1) | **(5)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **6(b)** | **Knowledge 2, Application 2, Analysis 4**<br><br>• **Measures referred to will increase competitiveness by removing imperfect information, addressing asymmetric information, reducing barriers to entry and exit.**<br><br>• Customer database will help producers to directly contact consumers to offer better deals. *It may encourage firms to enter the market – the extract refers to recent new entrants having a combined market share of 12% for gas and electricity. Firms may enter as they have more market knowledge of customers for each energy supplier and are permitted to contact them directly offering their service.*<br><br>• Smart meters will increase market information for consumers on their electricity consumption so may seek better deals. *Scope exists to enter as 70% of domestic customers of the six largest energy firms on an expensive standard tariff. Smart meters provide more information to customers on energy usage and price / reduce issue of asymmetric information / forcing energy suppliers to become more price competitive.*<br><br>• Price cap for vulnerable customers on pre-paid meters will help limit increases in energy bills and so offer some protection as a surrogate for competition. *Price cap may offer some degree of certainty over the price firms could charge / encouraging market entry.*<br><br>• Other evidence from Extract A demonstrates that measures have been successful in the past e.g. new entrants in the market<br><br>**NB: Answers must relate to *effectiveness* of *measures***<br>**NB: Arguments that the measures are successful may be seen as KAA and unsuccessful as evaluation or vice versa** | **(8)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 3–5 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 6–8 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **6(b)** continued | **Evaluation 4**<br><br>• Some consumers may still not switch to cheaper energy tariffs / due to problem of computation, inertia or habit.<br><br>• Customer database may lead to unintended consequences e.g. customer annoyance at telephone calls so they ignore calls, information overload resulting in making it harder to compute to make a decision.<br><br>• Significant barriers to entry exist in the domestic energy market: large economies of scale/established firms have some customer loyalty / advertising costs / licences required to supply energy.<br><br>• Price cap is only temporary and covers just 4 million customers / energy prices through pre-paid meters already exceed standard bills.<br><br>• Price cap may discourage firms from entering the market / as less profit incentive.<br><br>• Price cap may automatically become the price each company sets and so reduces competition and may increase prices.<br><br>• CMA found no evidence of anti-competitive practice. | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **6(c)** | **Knowledge 2, Application 2, Analysis 2**<br><br>• Understanding of profit cap (a limit on profits as a percentage of total revenue).<br><br>Linked development: profit cap is usually introduced in industries where supernormal profits are regarded as excessive / profit cap may be necessary where little competition exists or where collusion is possible.<br><br>• Chair of CMA recommended 1.25% profit cap against industry return of 7%.<br><br>Linked development: profit cap is proposed in the retail sector of the energy industry which involves just marketing, billing and metering energy.<br><br>• Impact on consumers: lower energy bills and so households may be better off in real terms / may increase energy consumption / domestic firms that consume energy may become more competitive due to lower costs of production / rising consumer surplus.<br><br>• Impact on energy producers: lower revenue and so lower profits / less funds for investment and so risk of energy supplies in future / falling share prices and dividends / change in objective e.g. from profit maximisation to sales maximisation.<br><br>**NB: For Level 3 response candidates must refer to consumers and supplies**<br>**NB: Negative effects on consumers and producers may be seen as KAA and positive effects as evaluation or vice versa** | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no link between causes and consequences. |
| Level 2 | 3–4 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or the answer may lack balance. |
| Level 3 | 5–6 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are applied appropriately to the broad elements of the question. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **6(c)** continued | **Evaluation 4**<br><br>• There may be upward effects on price for consumers as firms become more x-inefficient or reduce total investment.<br><br>• Depends on the level of profit cap on energy firms / how long it may be applied: if it is 1.25% it may be too harsh compared to other industries such as supermarkets.<br><br>• It is a vertically integrated industry – so energy companies can make profits in the generation of electricity and gas.<br><br>• Energy firms appear to have made huge profits over previous years and so may be able to cope with lower profits.<br><br>• Energy firms may increase sales revenue and so profit values may still be high.<br><br>• Energy suppliers experience low levels of risk in their retail operations so necessary rewards are lower.<br><br>• Unintended consequences such as a reduction in new entrants to the industry and less competition, risk of power shortages due to under investment or excess demand.<br><br>• Multinational owners may use transfer pricing to avoid profit cap. | **(4)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/ reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Answer | Mark |
|---|---|---|
| **6(d)** | **Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Accept answers based on switching between electricity suppliers as well as switching from electricity to other energy sources**<br><br>**Knowledge/Understanding:** 2 marks for identification of two reasons (1+1) e.g.<br>• It takes time for consumers to switch demand following price changes<br>• Existing contracts make it difficult to switch in the short term<br>• More substitutes available in the longer term<br><br>**Analysis:** 1 mark for linked explanation of each reason (1+1) e.g.<br><br>• Demand more price inelastic in short run as: takes time for consumers to adjust their consumption habits (habitual behaviour) / imperfect market information / no close substitutes.<br><br>• Demand less price inelastic in long run as: some consumers are able to change their habits improved market information / substitutes may emerge such as greater use of gas appliances or installation of solar power panels.<br><br>**Application:** 2 marks for reference to data (1+1), e.g.<br><br>• Idea that demand is price inelastic (1) becoming less inelastic / more elastic in the long run (1)<br><br>• Use of Extract A e.g. 70% of domestic consumers do not switch (1)<br><br>• Development of new technology that reduces electricity consumption / electricity saving lightbulbs or energy efficient kettles (1)<br><br>• Increased awareness of measures to become more price sensitive (1) to become more energy efficient (1)<br><br>• Costs and time involved in switching to energy-saving appliances (1) | |

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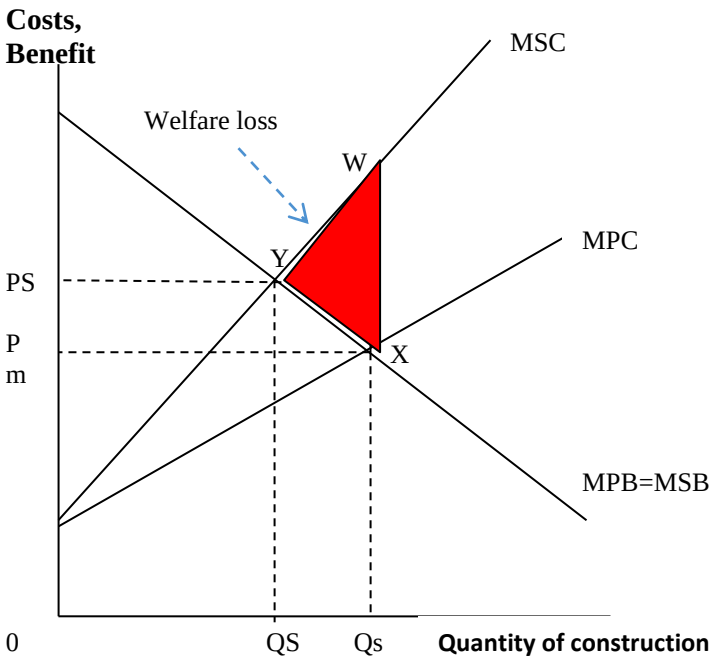
| | • Improved consumer knowledge of consumption through smart meters (1)<br><br>• New firms might enter the market using gas / biofuel / solar / wind / households producing their own rather than buying electricity (1)<br><br>**Evaluation:** 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one comment<br><br>• The figures are averages for all households – but great variation exists between households; for example, there may be no effect on households who have little concern for energy saving measures.<br><br>• High income households may not be affected by rising electricity prices as it comprises such a small part of total income - so demand remains very price inelastic.<br><br>• Some households may suffer from imperfect market knowledge in long run or cannot change their habits – so demand remains very price inelastic.<br><br>• Consideration of the magnitude of the change in elasticity (from -0.35 to -0.85); quite substantial in terms of doubling elasticity / or electricity demand still remains price inelastic in the long run as no suitable alternatives. | **(8)** |

| Question Number | Indicative content | Mark |
|---|---|---|
| **6(e)** | **Knowledge 3, Application 3, Analysis 3**<br><br>Policies may include:<br>• **Increase investment in training programmes** to raise quantity and quality of human capital and productivity / increase provision of modern apprenticeship schemes / it may involve government subsidies or tax breaks to firms.<br><br>• **Recruit skilled workers from overseas** via careers fairs and trade journals / provides a ready supply of labour.<br><br>Accept policies referring to geographical mobility of labour if linked to the energy sector.<br><br>• **Change industry image** so it appeals to more female school leavers and graduates – this may involve restructuring of careers advice / marketing programmes and information on career paths and opportunities.<br><br>• **Retain ageing workforce** by improving working conditions and rates of pay / offer flexible working hours and part-time work / raise state retirement age; older workers have higher levels of human capital and so productivity could be increased.<br><br>**NB: For Level 3 response candidates must refer to at least one business policy and one government policy.**<br>**NB: For Level 3 response candidates must refer to the energy sector.** | **(9)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–3 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response; chains of reasoning are developed but the answer may lack balance. |
| Level 3 | 7–9 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **6(e)** continued | **Evaluation 6**<br><br>• **Training programmes** involve (opportunity) costs to businesses and government / time period to train labour, especially in higher order technical skills / quality of training programmes.<br><br>• **Recruitment of skilled workers from overseas** may create problems such as access to UK jobs following Brexit decision / language barriers / differences in qualifications and skills to those required / possibility of higher staff turnover if overseas workers intend to return home / family ties and high house prices may create geographical immobility of labour.<br><br>• **Changing energy sector image** may require high levels of marketing expenditure / some jobs may not suit parents with family commitments.<br><br>• **Retain older workers** could lead to problems of poor health and low productivity and ability to learn new tasks. Also the underlying skilled labour shortage remains – eventually older workers will retire.<br><br>• **Other policies** to overcome labour shortage for example, new technology to substitute labour with capital, means that reducing labour immobility is not a priority. | **(6)** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No evaluative comments. |
| Level 1 | 1–2 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches which is unbalanced.<br>Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning. |
| Level 3 | 5–6 | Evaluative comments supported by relevant chain of reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and/or is critical of the evidence. |

| Question Number | Indicative content | Mark |
|---|---|---|
| **7** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>• Understanding of private costs and external costs (may be implicit).<br><br>• Explanation of private costs in nuclear power station: purchase of land, machinery, construction of buildings, labour costs, security costs, raw materials.<br><br>• Explanation of external costs: visual eyesore, impact on wildlife, impact on local property prices, air pollution, road congestion, risk of leak or contamination.<br><br>• Diagram depicting private costs and external costs<br><br>  <br><br><br>➢ Original MPB / MSB and MPC curves<br>➢ MSC curve (accept a parallel shift of the MSC curve)<br>➢ Identification of market equilibrium and socially efficient quantity<br>➢ Identification of triangle of welfare loss<br><br>**NB: For a Level 4 response, candidates must include an accurate diagram and consideration of both private and external costs.** | **(25)** |

**Costs also include**:

- Risk from major nuclear plant failure.
- Imperfect market knowledge: risk from incomplete technology for developing the nuclear reactor.
- Risk from foreign ownership and control of major nuclear power station (funded and built by French and Chinese companies).
- High price of electricity consumers will pay – above the market price.
- Accept macro point e.g. long term income outflow on the balance of payments.

**Evaluation**

- Difficulty in measuring and attaching a monetary value to private costs and external costs.
- Time lag in building plant – at least 10 years.
- Government intervention may reduce size of external costs e.g. construction noise abatement measure.
- Risk of government failure; some argue it could not withdraw from the Hinkley Point project without major loss of trade with China.
- Accept macro point e.g. short and long run effects on the balance of payments.

Significant private and external benefits from the project which offset costs and/or reduce welfare loss, may include:

- Employment and income creation / positive multiplier effects at local, national and international level / French and Chinese firms view it as a first step to securing further contracts from around the world.
- Increased security of energy supply for the future – some 7% of UK electricity for sixty years / given the closure of many coal power stations.
- Diversify UK energy production and so spread risks from uncertainty on non-renewable sources

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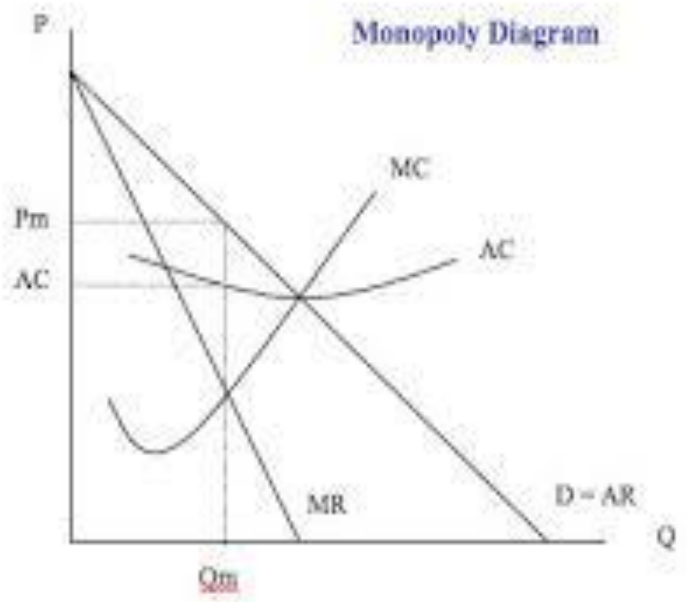
| | such as wind power and solar power.<br><br>• Stable price of electricity for consumers for next sixty years.<br><br>• Less damage to the environment / nuclear energy has low carbon emissions / easier for government to achieve internationally agreed carbon emission targets.<br><br>• Extremely tight safety regulations to be imposed on the building and operation of the nuclear power station / one of the greatest safety regulations in the world. | |

| **Knowledge, application and analysis** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 5–8 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two stage chains of reasoning only. |
| Level 3 | 9–12 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 13–16 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| **Evaluation** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 4–6 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

| Question Number | Answer | Mark |
|---|---|---|
| **8** | **Knowledge 4, Application 4, Analysis 8, Evaluation 9**<br><br>• Understanding of monopoly (may be implicit). This may include natural monopoly or state imposed monopoly<br><br>• Use of data e.g. Apple has 38% market share which exceeds CMA definition of 25% market share.<br><br>• Understanding of operating in consumer interest: for example, impact on price, choice, product quality, customer service, improves allocative efficiency and investment.<br><br>• Market structure diagram made relevant to argument presented: this is most likely to be a monopoly diagram.<br><br>  <br><br><br>One firm may operate in consumer interest since:<br><br>• Limit pricing/may act as a surrogate for competitive pricing. Revenue/sales maximisation may move closer to allocative efficient pricing and output.<br>• Super normal profits may result in dynamic efficiency gains e.g. choice, product quality, customer service and investment. | |

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| | • Economies of scale resulting in lower cost passed on as lower prices<br><br>One firm may operate against consumer interest since:<br><br>• Consideration of profit maximisation pricing strategy as opposed to lower prices set in a competitive market.<br><br>• There may be greater possibility of collusion (overt or tacit) due to the high market share.<br><br>• One firm may use its market power to increase entry barriers e.g. for Apple by locking their phones and thus, reduce consumer choice.<br><br>• Consideration of product quality or customer service. No significant innovation, quality updates or features added, but price has risen. Loss of consumer surplus/dead weight loss of monopoly argument.<br><br>• X inefficiency resulting in higher costs and higher prices.<br><br>• **NB: For a Level 4 response, candidates must include an accurate diagram**<br>• **NB: Candidates can argue that one company acts in the consumer interest as KAA, and against consumer interest as evaluation or vice versa.**<br><br>**Evaluation**<br><br>• Real price increases of products may be due to higher wholesale costs / production costs or an increased global demand.<br><br>• It depends on how powerful the other firms are in the market. E.g. competition may make firm compete effectively even in a oligopoly or duopoly.<br><br>• Depends on the effectiveness of regulation by CMA.<br><br>• Depends on the objective of the firm. | |

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| | • Depends on how contestable the market is e.g. New entrant such as China's Huawei has recently joined the smartphone market and is expected to gain a large market share, offering new consumer choice.<br><br>• Higher market share can benefit the consumers via lower prices (efficiency savings / scale economies can be passed on).<br><br>• Higher profits could lead to higher investment producing innovative and high quality products | **(25)** |

| **Knowledge, application and analysis** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | A completely inaccurate response. |
| Level 1 | 1–4 | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences. |
| Level 2 | 5–8 | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two stage chains of reasoning only. |
| Level 3 | 9–12 | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance. |
| Level 4 | 13–16 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| **Evaluation** | | |
|---|---|---|
| Level | Mark | Descriptor |
| | 0 | No evaluative comments. |
| Level 1 | 1–3 | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning. |
| Level 2 | 4–6 | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning. |
| Level 3 | 7–9 | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |

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