

GCSE Economics

Unit 12 – Investigating Economic Issues

- Additional Specimen Mark Scheme

Dominant Firms



1

Total for this question: 23 marks

1 (a) Explain **one** reason why the big energy companies can make such high profits.

*(3 marks)***Possible reasons may include:**

- as the big energy companies dominate the market (they control 99% of the market) they can keep prices high and so make high profits
- as energy is a necessity people find it difficult to reduce their demand so as prices go up profits are likely to go up too
- customers tend to stay with one supplier so as prices rise they pay the higher price
- it may be difficult for new companies to enter the energy market and compete with the big six so they can continue to make high profits.

Level	Descriptor	Marks	Assessment Objective
L2	Reason explained in context.	3–2	AO2
L1	Reason identified.	1	AO1
L0	No valid response.	0	

1 (b) Explain why Ofgem might be concerned about the lack of competition in the energy market.

*(6 marks)***Answers might include the following:**

Industry regulators like Ofgem aim to protect the consumer from powerful firms so a lack of competition will mean that:

- the big energy companies can charge consumers higher prices for gas and electricity without losing business to other companies. They will increase their profits at the expense of the consumer
- there will be less pressure on the energy companies to keep their costs down by finding cheaper ways of producing energy so consumers will lose out
- prices are kept high which will affect those on low incomes which could cause hardship and poverty in the country which could have important social consequences.

Level	Descriptor	Marks	Assessment Objective
L3	Effect(s) explained in context.	6–5	AO2
L2	Effect(s) described.	4–3	AO1
L1	Effect(s) identified.	2–1	
L0	No valid response.	0	

1 (c) Ofgem is considering how it might reduce the power of the big six energy companies to help the consumer. It has a number of options:

- Option 1 force the companies to reduce their prices
- Option 2 make them simplify their pricing information
- Option 3 encourage new companies to supply energy

Which option do you think it should use? Give reasons for your recommendation. Use **Item A** and what you have learnt from your investigation of this topic to give reasons for your answer.

(14 marks)

Suggested answers:

Option 1:

- making the companies reduce their prices would help consumers especially those on low incomes in the short term as it would make energy cheaper for them and reduce their cost of living
- cheaper energy would benefit industry and help them to reduce their prices benefiting the consumer
- If companies had to reduce their prices it might make them try to cut their costs so to protect their profits.

However:

- the energy companies say that the prices of energy are affected by world prices not by them so if they have to reduce their prices they would make less profits
- If the energy companies have fewer profits – they will have less money to invest in improving the supply of energy which could hurt the consumer in the long term
- lower energy prices and profits might discourage new companies from entering the market
- lower energy prices might discourage people from trying to conserve energy.

Option 2

- simplifying their pricing information would make prices much clearer to consumers and they would be able to see which company had the lowest prices and move to them
- other suppliers would need to reduce their prices so not to lose customers. This would make the market much more competitive and benefit the consumer.

However:

- research shows a lot of consumers don't change suppliers. This might not change even if pricing information was simpler
- making pricing information clearer does not solve the problem if prices are set too high by the energy companies.

Option 3

- new companies entering the market may be able to supply energy at a lower price and force the other companies to do the same
- new companies entering the market could increase the supply of energy and this would help to lower prices.

However:

- new companies might find it difficult to enter the market as they might need a lot of money to set up
- they might find it difficult to compete against well-known names eg British Gas which advertises widely.

Level	Descriptor	Marks	Assessment Objective
L3	Analyses reason(s) for chosen recommendation.	8–6	AO3
L2	Describes reason(s) for chosen recommendation.	5–3	AO2
L1	Identifies reason(s) for chosen recommendation.	2–1	AO1
L0	No valid response.	0	

In addition, (and separately) award marks for evaluation using the grid below.

Note: AO3 also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E2	Candidate offers judgement with clear justification. Ideas are communicated with a clear structure and use of technical terms. There are occasional errors in accepted conventions.	6–4	AO3 and Quality of written communication
E1	Candidate offers judgement with limited support. Ideas are communicated in a simplistic way, with limited use of technical terms. Errors in accepted conventions are noticeable.	3–1	
	No valid response.	0	