



GCE

Economics

H460/01: Microeconomics

A Level

Mark Scheme for June 2024

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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MARKING INSTRUCTIONS

PREPARATION FOR MARKING

RM ASSESSOR

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *RM Assessor Online Training*; *OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>
3. Log-in to RM Assessor and mark the **required number** of practice responses (“scripts”) and the **number of required** standardisation responses.

YOU MUST MARK 6 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

MARKING

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the RM Assessor 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or the RM Assessor messaging system, or by email.
5. **Crossed Out Responses**
Where a candidate has crossed out a response and provided a clear alternative then the crossed-out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed-out response where legible.

Contradictory Responses

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Short Answer Questions (requiring a more developed response, worth **two or more marks**)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

Longer Answer Questions (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there, then add a tick to confirm that the work has been seen.
7. Award No Response (NR) if:
 - there is nothing written in the answer space

Award Zero '0' if:

- anything is written in the answer space and is not worthy of credit (this includes text and symbols).

Team Leaders must confirm the correct use of the NR button with their markers before live marking commences and should check this when reviewing scripts.

8. The RM Assessor **comments box** is used by your team leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**
If you have any questions or comments for your team leader, use the phone, the RM Assessor messaging system, or e-mail.

9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.
10. For answers marked by levels of response:
- To determine the level** – start at the highest level and work down until you reach the level that matches the answer
 - To determine the mark within the level**, consider the following:

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

11. Annotations

Annotation	Meaning	Standard Annotations for all papers	
	Correct – mark awarded		Must be used on all blank pages of QP and additional objects
	Incorrect		Noted but no credit given
	Benefit of doubt	Off Page comments	Should only be used by Team Leaders for training purposes
	AO1 – Knowledge and understanding		To highlight text within candidate responses
	AO2 – Applying knowledge and understanding		
	AO3 – Analysis		
	AO4 – Evaluation		
	Not answering question		
	Too vague		
	Own figure rule		
	Confused		
	Unclear		

12. Subject Specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should also ensure that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet Instructions for Examiners.

If you are examining for the first time, you must carefully read Appendix 5 Introduction to Script Marking: Notes for New Examiners.

You must ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section B or C.

If a candidate has written two answers for Section B or C, mark both answers and award the highest mark achieved.

USING THE MARK SCHEME

Study this Mark Scheme carefully.

The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades.

Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers.

The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after at a wide range of scripts are reviewed.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way.

The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed.

Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited.

You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking.

Mark these answers according to the marking criteria.

Carefully read all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

INSTRUCTIONS TO EXAMINERS:

A: INDIVIDUAL ANSWERS

- 1 The indicative content indicates the expected parameters for candidates' answers but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Using 'best fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
 - Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
 - Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
 - Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline', but they have only achieved some of the qualities in the band descriptors.
- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

B: TOTAL MARKS

- 1 The maximum mark for the paper is 80
- 2 The quality of the extended response is assessed on this part of the question paper which is identified with the use of an asterisk (*). The assessment of this skill is embedded within each of the levels of response, and it must be considered when determining the mark to be awarded within the appropriate level.

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Strong	Precise knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using relevant and focussed examples fully integrated and good use of data where appropriate.	<p>Correct analysis with consistently well-developed links through a coherent chain of reasoning which addresses the question.</p> <p>Any relevant diagram(s) are accurate with no significant errors that affect the validity of the analysis.</p> <p>Any diagram(s) must be integral to the analysis.</p>	<p>Counter argument(s) are fully developed.</p> <p>A conclusion is drawn weighing up both sides, considering extent and alternatives and reaches a supported judgement.</p>
Good	Mainly accurate knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using some relevant and focussed examples to the given context and scope of the question. Some good use of data where appropriate	<p>An explanation of causes and consequences, developing most of the links in the chain of argument.</p> <p>Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis.</p> <p>Any diagram(s) must be integral to the analysis.</p>	<p>Counter argument(s) are fully developed.</p> <p>A conclusion is drawn weighing up both sides/comparing alternatives but without reaching a supported judgement.</p>
Reasonable	Awareness of the meaning of economic ideas, principles, and models	Ability to apply economic ideas to some elements of the given context, although possibly inconsistent examples not always relevant to the given context and scope of the question. Some use of data where appropriate	<p>There is correct analysis in the form of single links. These address the question but are not developed into a clear chain of reasoning.</p> <p>Any relevant diagram(s) may have errors that affect the validity of the analysis or are not integrated into the response.</p>	<p>Counter arguments are considered but not fully developed.</p> <p>Some attempt to conclude, which shows some recognition of the influencing factors, but without considering extent and alternatives.</p>

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Limited	Limited awareness of the meaning of economic ideas, principles, and models	Very little ability to apply economic ideas to some elements of the given context. Examples may be generic or irrelevant to the given context	<p>There is little evidence of reasoning that addresses the question asked. Simple statement(s) of cause and consequence are used. There is a lack of a clear structure.</p> <p>Absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.</p>	<p>Counter arguments are simply stated.</p> <p>Unsupported statements or assertions, or no evaluation</p>

Question		Answer	Mark	Guidance
1	(a)	<p>Explain what is meant by 'competitive supply'.</p> <p>The ability to produce different / alternative products (1) using the factors of production / inputs / resources (1) so that to increase the supply of one good requires a reduction in the supply of the alternative (1).</p>	2	Annotate with ✓

Question		Answer	Mark	Guidance
1	(b)	<p>Explain, using an appropriate diagram, the situation in the housing market described in lines 1-3.</p> <p>Average house price</p> <p>Average house price</p>	4	<p>Lines 1 – 3: <i>Between August 2020 and August 2021, average house prices in the UK rose from £239000 to £280825. 2021 was a record year for house sales in the UK. Very high demand continued, with many in the market saying that there is considerable shortage in supply.</i></p> <p>Annotate with ✓</p> <p>Up to 2 marks for a diagram which shows:</p> <ul style="list-style-type: none"> correctly labelled demand and supply diagram (1) rightward shift in demand (1) excess demand / shortage ($Q^1 - Q^2$) below the equilibrium price (1) <p><i>NB the disequilibrium may be shown before or after a shift in demand</i></p> <p>Up to 2 marks for explaining that:</p> <ul style="list-style-type: none"> current price likely to be below market equilibrium price (1) there is a shortage / quantity demanded > quantity supplied (1) which putting upward pressure on prices (1)

Question		Answer	Mark	Guidance
1	(c)(i)	<p>Calculate the percentage change in average house prices between August 2020 and August 2021.</p> <p>Using Fig. 1:</p> <ul style="list-style-type: none"> • $((138 - 125) / 125) \times 100$ (1) • $(13 / 125) \times 100$ (1) • 10.4% • Accept any answer in the range 10.3% to 11.3% <p>Using the information in lines 1 – 2:</p> <ul style="list-style-type: none"> • $((£280,825 - £239,000) / £239,000) \times 100$ (1) • $(£41,825 / £239,000) \times 100$ (1) • 17.5% (1) 	2	<p>Annotate with </p> <p>Candidates can calculate the % change using either the information in Fig. 1 or in Lines 1 – 2</p> <p>Award 2 marks for an answer of 17.5% or 10.4% (accept answers in the range 10.3% - 11.3%) with or without workings shown</p> <p>Award 1 mark for correct working but incorrect answer</p>

Question		Answer	Mark	Guidance
1	(c)(ii)	<p>Compare the trend in average house prices and rental prices between February 2015 and August 2021.</p> <ul style="list-style-type: none"> • Both average house prices and rental prices have increased (1) • Average house prices increased at a faster rate than rental prices (1) • Rental prices increased by approximately 11% (1) • Average house prices increased by approximately 38% (1) • Average house prices have increased about three times more than rental prices (1) • Average house prices have been more volatile than rental prices (1) 	2	<p>Annotate with </p>

1(d) Evaluate, using evidence from the stimulus material, the effectiveness of reducing regulation, such as planning permission, in order to increase the supply of housing and tackle the shortage of housing in the UK.

Level / mark	Descriptor
Level 2 (5-8 marks)	<p>Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s)</p> <p>Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate.</p> <p>Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis.</p> <p>Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.</p>
Level 1 (1-4 marks)	<p>Reasonable knowledge and understanding of relevant economic idea(s), principle(s) or model(s)</p> <p>Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate.</p> <p>Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response.</p> <p>Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a stated judgement or the absence of a judgement.</p>
0 marks	Response is not worthy of credit

Question 1d Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding

- regulation involves the use of rules to control or influence consumption and production in a market

Application

Application of economic ideas

- entry barriers
- entry of new firms
- demand and supply analysis
- innovation and dynamic efficiency

Relevant context

- “planning permission is no longer required to convert commercial buildings, such as shops, restaurants and gyms, into homes”
- John Lewis is closing stores and has “announced plans to convert some of its closed stores to create 100,000 new homes”
- the City of London Corporation is “planning to convert empty office space into 1,500 homes”
- other regulations remain in place and “mean that all new homes must be of a high quality and meet legal space standards and building regulations”
- concerns about the concentration of power in the housebuilding industry with firms acting as a cartel to slow down construction and control competition

Analysis

- reducing regulations lowers entry barriers
- this encourages innovation and new firms to enter the market to construct new homes
- this increases market supply of new homes
- this reduces excess demand and the shortage of houses

Evaluation

- may take time to build new homes and / or convert buildings from other uses
- effectiveness may be restricted by ownership of land by large housebuilders
- regulations remain in place which may restrict the ability to convert buildings into new homes - quality standards and building regulations
- new housing may be built but it may not be attractive to consumers if there is a lack of infrastructure eg roads, schools and healthcare facilities
- trade-offs – increased supply of housing means less supply of commercial property

Possible judgements

- depends on the cost of conversion
- depends on the ability for firms to make profit from the construction of new homes
- depends on the behaviour of large firms in the market who may restrict competition
- a better way to increase supply might be subsidies for the construction industry / new startups

1(e)* Evaluate, using evidence from the stimulus material, the extent to which the UK housing market can be considered to be an oligopoly.

Level / mark	Descriptor
Level 3 (9-12 marks)	<p>Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s).</p> <p>Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate.</p> <p>Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis.</p> <p>Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.</p>
Level 2 (5-8 marks)	<p>Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s).</p> <p>Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate.</p> <p>Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response.</p> <p>Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.</p>
Level 1 (1-4 marks)	<p>Reasonable knowledge and understanding of relevant economic idea(s), principle(s) or model(s).</p> <p>Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate.</p> <p>Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.</p> <p>Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.</p>
0 marks	Response is not worthy of credit

Question 1e* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding

- characteristics of oligopoly – market dominated by a few large firms, high market concentration ratio, high barriers to entry, product differentiation

Application

Application of economic ideas

- outcomes of oligopoly – abnormal profit, interdependence, price rigidity, product differentiation, non-price competition, collusive behaviour

Relevant context

- 3 firm concentration ratio 30%, 4 firm concentration ratio = 36%, 5 firm concentration ratio = 40%, 6 firm concentration ratio = 43%
- evidence of barriers to entry with 6 firms owning over 1 million sites awaiting development
- high profit margins (30%)
- suggestion of a cartel restricting construction

Analysis

- a small number of large firms appear to dominate the market – this is evidenced by high market concentration ratios
- in addition, the dominant firms appear to focus on specific geographical locations so competition and consumer choice is limited – this gives firms the ability to set prices and earn abnormal profits
- as a result firms are able to earn abnormal profit – evidence by the 30% profit margins of the big housebuilders
- non-price competition is likely to be important – this could be in terms of location, quality and design of houses
- ownership of sites awaiting development acts as an entry barrier – this reinforces the ability of firms to set prices and earn abnormal profits

Evaluation

- majority of the market (57%) is supplied by other firms
- little evidence of price rigidity apart from August to February 2016 – 17 and 2017 – 18
- no evidence in the stimulus material about interdependence
- reduction in regulations around planning permission reduces entry barriers and encourages new firms (John Lewis) to enter the market

Possible judgements

- depends on the degree of contestability of the market
- depends on the extent of sunk costs for new entrants
- depends on effectiveness of government policies to reduce regulations around planning permission
- depends on actions of competition authorities with respect to concerns about collusion

SECTION B**EITHER**

2* Evaluate, using an appropriate diagram(s), whether monopolistic competition benefits consumers.

OR

3* Evaluate, using an appropriate diagram(s), the likely microeconomic effects of such minimum prices.

Level / mark	Descriptor
Level 5 (21-25 marks)	<p>Strong knowledge and understanding of economic idea(s), principle(s), and model(s). Strong application of economic concepts to the context and scope of the question, which may include relevant examples or good use of data where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.</p>
Level 4 (16-20 marks)	<p>Good knowledge and understanding of economic idea(s), principle(s), and model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Good analysis of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. Good evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.</p>
Level 3 (11-15 marks)	<p>Good knowledge and understanding of economic idea(s), principle(s), and model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Good analysis of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement</p>

Level / mark	Descriptor
Level 2 (6-10 marks)	<p>Reasonable knowledge and understanding of economic idea(s), principle(s), and model(s).</p> <p>Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate.</p> <p>Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response.</p> <p>Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement</p>
Level 1 (1-5 marks)	<p>Limited knowledge and understanding of economic idea(s), principle(s), and model(s).</p> <p>Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant.</p> <p>Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.</p> <p>Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.</p>
0 marks	Response is not worthy of credit

Question 2* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and Understanding

- characteristics of monopolistic competition – large number of small firms, few entry barriers, differentiated products

Application

Application of economic ideas

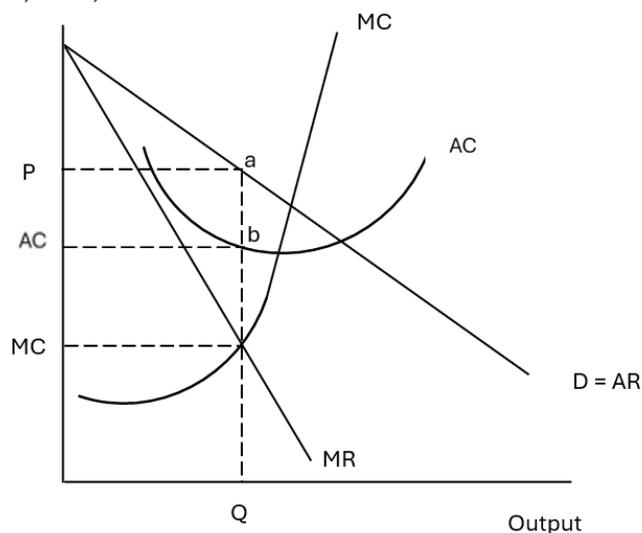
- abnormal profits in the short run, normal profit in the long run
- importance of non-price competition
- price > marginal cost

Relevant context

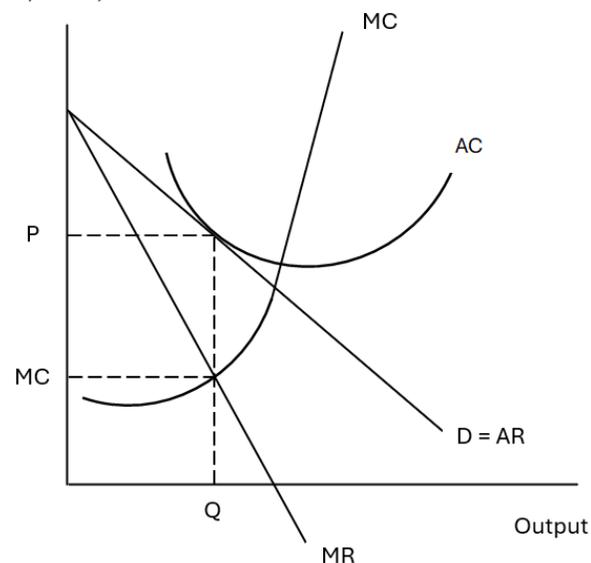
- there are a large number of dog walkers, painters and decorators and hairdressers in the UK
- there services are highly differentiated as personal service is important
- it is relatively easy to set up as a dog walker, painter and decorator or hairdresser – entry costs are low

Question 2* Guidance**Analysis****Short run equilibrium**

Price, costs, revenue

**Long run equilibrium**

Price, costs, revenue



- product differentiation means a firm's demand curve is downward sloping
- as a result, the firms have ability to set their own prices
- therefore, they will seek to maximise, producing at output Q charging price P and earning abnormal profit of $P - AC$ in the short run
- consequently, new entrants will be attracted to the market reducing demand for existing firms until only normal profits are earned in the long run
- therefore, output of existing firms will be smaller (Q) and price lower (P) and price will equal AC
- existing firms will respond to new entrants through even greater product differentiation, innovation and non-price competition
- consumers therefore benefit from:
 - consumer choice – consumers have a range of options to choose from which leads to greater consumer satisfaction and utility because they can select products that best match their preferences
 - product differentiation – firms in a monopolistically competitive market differentiate their products which encourages innovation and results in a greater variety of products for consumers because each firm strives to capture consumer attention through product development, quality enhancement, and branding
 - innovation – the intense competition in monopolistic competition fosters innovation so that firms constantly develop new products, technologies, and marketing strategies to remain competitive which benefits consumers by providing them with improved products and enhanced features

Question 2* Guidance**Evaluation**

- prices are not as low as they would be under conditions of perfect competition as $P > MC$
- if prices are higher than they otherwise would be then this reduces consumer surplus
- firms in monopolistic competition often spend resources on differentiation (such as branding, advertising, and product features) which increases their costs leading to lower profits which may ultimately impact on consumers through higher prices
- unlike in perfect competition, where consumers have complete information about all products, monopolistic competition involves differentiated products – therefore consumers may not have perfect knowledge about quality or product features and as a result choices may not be optimal
- consumers may suffer from choice overload because of the abundance of choices in the market and as a result may make ‘poor’ choices or may find making a choice complicated and time-consuming
- monopolistic competition lacks the efficiency gains associated with large-scale production because each firm operates at a smaller scale, limiting the potential cost savings from economies of scale and as a result prices may be higher than in a more efficient market structure
- firms engage in advertising to attract consumers, however, some advertising can be misleading or exaggerate product benefits with the result that consumers may end up paying more for things they do not really need or value

Judgement(s)

- depends on the value consumers place on choice vs price
- alternative market structures may deliver fewer benefits – for example, under perfect competition there is product homogeneity and under monopoly there are even higher prices
- the extent to which prices are high depends on the PED – efficiency losses impacting on consumer surplus are likely to be low given the high degree of competition in monopolistically competitive markets resulting products / services being very close substitutes
- consumers can always find a ‘better’ dog walker, painter and decorator or hairdresser if they make a ‘poor’ choice – the losses to the consumer are not significant

Question 3* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and Understanding

- minimum prices as government legislation setting a price below which it would be illegal to sell alcohol

Application

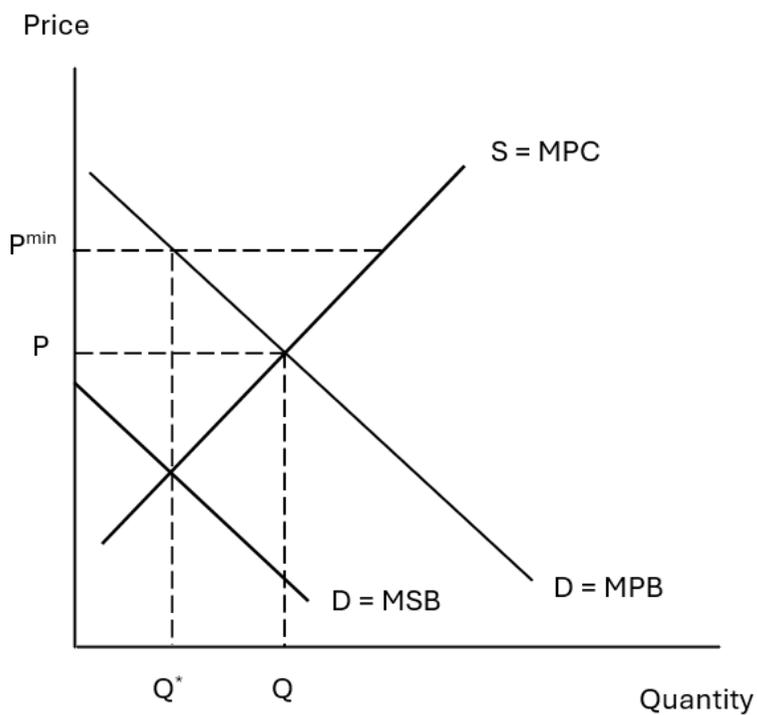
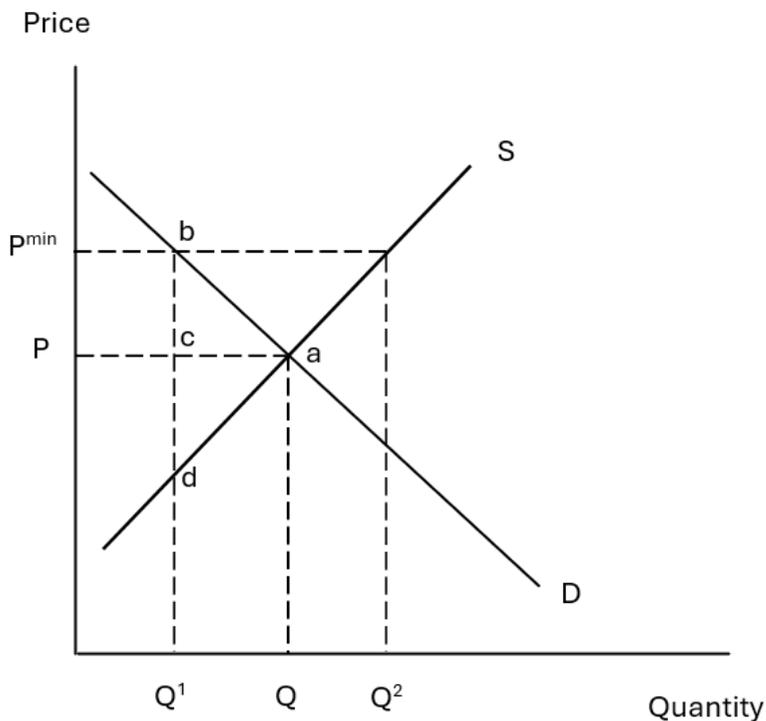
Application of economic ideas

- demand and supply analysis and minimum price diagram
- consumer surplus, producer surplus
- PED

Relevant context

- negative externalities of alcohol consumption
- alcohol as a demerit good

Analysis



Question 3* Guidance

- to be effective a minimum price for alcohol would be set above the current market price
- this would cause an increase in the price from P to P^{\min} and a reduction in the quantity of alcohol demanded from Q to Q_1
- the lower sales of alcohol would result in a reduction in the external costs of alcohol consumption
- there is a negative consumption externality which results in $MSB < MPB$, so alcohol is overconsumed
- a minimum price of P^{\min} reduces consumption from Q to the socially optimum consumption Q^*
- this would reduce pressure on healthcare services
- it is also likely that there would be an increase in life expectancy / quality of life / workforce productivity (less working days lost)
- there could be increased demand for substitute goods like low / no-alcohol beers and wine or soft drinks and an increase in employment in substitute product markets

Evaluation

- reduction in consumer surplus ($P_{ab}P^{\min}$)
- change in producer surplus ($P_{cb}P^{\min} - cad$)
- loss of economic welfare (dba)
- excess supply in the market ($Q_2 - Q_1$)
- reduction in employment in the alcohol industry
- impact on income distribution

Judgement(s)

- significance of price elasticity of demand in determining impact on price, quantity, employment
- consideration of the impact on substitutes / application of cross elasticity of demand e.g. switch to healthier substitutes
- extent of hidden/informal market
- extent of cross-border shopping (Wales -> England)

SECTION C**EITHER****4* Evaluate whether healthcare should be provided by the government.****OR****5* Evaluate the impact an increase in labour mobility is likely to have on labour markets.**

Level / mark	Descriptor
Level 5 (21-25 marks)	<p>Strong knowledge and understanding of economic idea(s), principle(s), and model(s). Strong application of economic concepts to the context and scope of the question, which may include relevant examples or good use of data where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.</p>
Level 4 (16-20 marks)	<p>Good knowledge and understanding of economic idea(s), principle(s), and model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Good analysis of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. Good evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.</p>
Level 3 (11-15 marks)	<p>Good knowledge and understanding of economic idea(s), principle(s), and model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Good analysis of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement</p>

Level / mark	Descriptor
Level 2 (6-10 marks)	<p>Reasonable knowledge and understanding of economic idea(s), principle(s), and model(s).</p> <p>Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate.</p> <p>Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response.</p> <p>Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement</p>
Level 1 (1-5 marks)	<p>Limited knowledge and understanding of economic idea(s), principle(s), and model(s).</p> <p>Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant.</p> <p>Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.</p> <p>Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.</p>
0 marks	Response is not worthy of credit

Question 4* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and Understanding

- government intervention in markets

Application

Application of economic ideas

- positive externalities
- merit goods
- market failure
- government failure

Relevant context

- healthcare as a good with positive externalities
- healthcare as a merit good
- growing waiting lists in the NHS

Question 4* Guidance**Analysis**

- government provision of healthcare may be desirable because of the under-provision of health care services in a free market
 - under-provision may be because of large external benefits of healthcare
 - as a result $SMB > PMB$ so that production / consumption is likely to be below the social optimum
 - under-provision this may also be because of information failures (merit good status)
 - difficulties of calculating private benefits from healthcare / healthcare insurance
 - actual $PMB >$ perceived PMB
- there may be concerns relating to the affordability of private healthcare insurance
- provision free at the point of use may be seen as more equitable
- government provision may avoid market failures resulting from information gaps
 - preventative earlier treatments
 - for specific illnesses – breast / cervical / colon cancer
 - for elderly and children
 - asymmetric information arising from payments to doctors deciding / recommending treatments
 - missing markets for
 - elderly
 - children
 - remote rural areas
 - congenital diseases
 - patients with pre-existing conditions
- government provision of healthcare may also be justified because of a misallocation of resources by market provision
 - administration charges
 - invoicing health insurance companies
 - profit incentive misallocating resources ahead of patient needs
- government provision of healthcare is more productively and allocatively efficient and offers better care than private sector
 - NHS operates close to capacity reducing unit costs of healthcare
 - NHS eliminates transaction costs which are high in private healthcare

Evaluation

- absence of competition / price mechanism / incentives in the provision of state healthcare
 - resulting excess demand as price does not ration allocation of resources
 - NHS waiting lists and lack of choice
 - budget constraints limit what government provided healthcare can provide
- private health care is better than government provision of healthcare because it increases choice, encourages competition and drives up standards
 - explained by functions of the price mechanism in allocating resources in private health sector – rationing, incentivising, signalling

Question 4* Guidance

Judgement(s)

- growing population and increased life expectancy may mean that government provision of healthcare is no longer affordable or efficient
- there are other solutions to reducing market failure
- consideration may need to be given to compulsory healthcare insurance with some means-tested basic healthcare available for those on low incomes
- depends on political will
- depends on reform of the NHS to encourage greater efficiencies in government provision

Question 5* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and Understanding

- labour markets and labour mobility

Application

Application of economic ideas

- labour markets – demand for and supply of labour
- labour market flexibility
- labour market failure
- wage elasticity of supply of labour

Application to context

- labour mobility has not changed significantly in the UK
- governments seek to increase the mobility of labour using a range of policies
- application to different labour markets
- rapid change in labour markets (technological change / less labour-intensive manufacturing / redundant skills)

Analysis

- advantages of increased labour mobility
- improved occupational mobility
 - achieved by removing barriers (mismatched skills / training' lack of labour market information) to the mobility of labour between different sectors / occupations of the economy
 - leads to workers previously remaining unemployed, or underemployed finding work
 - as a result there are higher incomes / higher standards of living / reduced inequality / reduction on poverty
 - labour is used in more efficient ways because of improved human capital / labour productivity
 - leads to a reduction in labour market failure
 - because labour is more more productive and there is an more allocatively efficient use of labour
 - easier for firms expanding in new markets to attract qualified labour
 - without labour mobility, innovation and expansion will meet supply constraints
 - firms can respond more quickly to changing market conditions
 - reduced costs meaning firms are more competitive
- improved geographical mobility
 - increase in the supply of labour to markets which are attractive to workers
 - as more workers enter the market, the labour supply increases
 - this may reduce labour shortages in certain occupations / reducing regional unemployment
 - this improves labour market efficiency

Question 5* Guidance

- an increase in the labour supply will lead to a decrease in wage rates
- possible increase in labour productivity
- this is because it may attract skilled labour to some regions
- this will increase MRP (demand for labour)
- increased use of the Internet and social media means that the search costs of geographical mobility are now less
- geographical mobility can help to reduce asymmetric shocks between regions
- this is because a mobile workforce allows a region to shed workers when jobs are scarce and gives those workers the opportunity to seek employment elsewhere, where opportunities might be better

Evaluation

- impact of increasing labour mobility may be limited by other factors
- these include the general availability of labour, the level of unemployment and trade union power
- there may be downward pressure on wages in some occupations / regions
- the relative decline of manufacturing has caused some workers to lose well-paid, permanent manual work
- with low education levels, new employment opportunities tend to be of a different nature (temporary, no security)
- therefore, the unemployed worker feels the labour mobility requires a decline in employment status
- an economy which relies on high levels of labour mobility can make labour markets more stressful
- workers may need to rely on zero-hour contracts without any guarantee of sufficient work.
- high levels of net migration can cause other social issues such as an impact on the limited housing stock / pressure on education and health services

Judgement(s)

- depends on the current performance / flexibility of labour markets
- depends on the relevance of geographical immobility given recent trends for working from home
- depends on time factors – improvements in occupational mobility may be very long term
- depends on time taken to train workers and also availability of training providers / adaptation of education curriculums.

ASSESSMENT OBJECTIVES GRID

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)	2				2	
1(b)	2(2)	2(2)			4	(4)
1(c)(i)		2(2)			2	(2)
1(c)(ii)		2(2)			2	(2)
1(d)	1	1	3	3	8	
1(e)*	1	1	5	5	12	
2*/3*	6(2)	6(2)	6(2)	7(2)	25	(8)
4*/5*	6	6	6	7	25	
TOTAL	18	20	20	22	80	(16)

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