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Examiners' Report
Principal Examiner Feedback

October 2020

Pearson Edexcel GCE
In Economics A (9EC0)
Paper 1: Markets and Business Behaviour

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Introduction:

This is the delayed fourth exam in the 2015 Specification series undertaken by a smaller cohort of students than usual. The focus of this exam is on microeconomics, themes 1 and 3 of the specification. Despite the smaller cohort student answers to the questions on this paper have generally been of an expected standard. All questions were accessible, although inevitably students were scoring more highly on some than on others. A recurring theme in paper which was noticeable was that where students provided diagram, either requested or not in the question, there was a difference between those that can provide the basic foundations of the diagram and those that can provide more sophisticated responses. For example, in questions 1(a) incidence inaccurately labelled, 2(a) welfare gain misplaced and when it came to 6(e) price discrimination diagram knowledge weak or missing.

In Section A most students answered the multiple-choice questions correctly. There was a consistency in students' understanding of quantitative skills. In general there were a lot of good and accurate answers to the 2-mark questions in this section. Most students seem to be managing their time efficiently in this section and not spending time writing things that aren't going to get any marks, for example rewriting the question or including application when it hasn't been asked for

In Section B it is important that candidates read the question carefully and ensure they are answering the precise question set. For example, question 6(d) asks for a response concerning 'natural monopoly' and not just 'monopoly'. Overall, there was good use of the case study and clear practice of writing chain of reasoning in context. There was an evident lack of evaluation for a significant number of students in questions 6(b) to 6(e). It was also clear that some students spent more time on some questions for example 6(c) rather than 6(e). Although the responses to 6(e) also illustrated a substantial number of students with a solid grasp of alternative complex price discrimination diagrams.

For Section C where the candidates have a choice of which question to answer, it was question 7 was significantly more popular. In both questions' success could be found by demonstrating clearly the skills of analysis, evaluation, and application. Students need to ensure they go beyond a simplistic understanding of the concepts concerned and when they can use diagrams to stretch themselves more with more advanced illustrations, for example with regards to externalities and theory of the firm diagrams. Overall, the evaluation provided by the students in the essay responses within this paper demonstrated that they were better prepared to evaluate in Section rather than Section B. Finally, it is clear in the essay responses

that many students are spending time studying recent developments in economics that are relevant to their specification.

Question 1 (a):

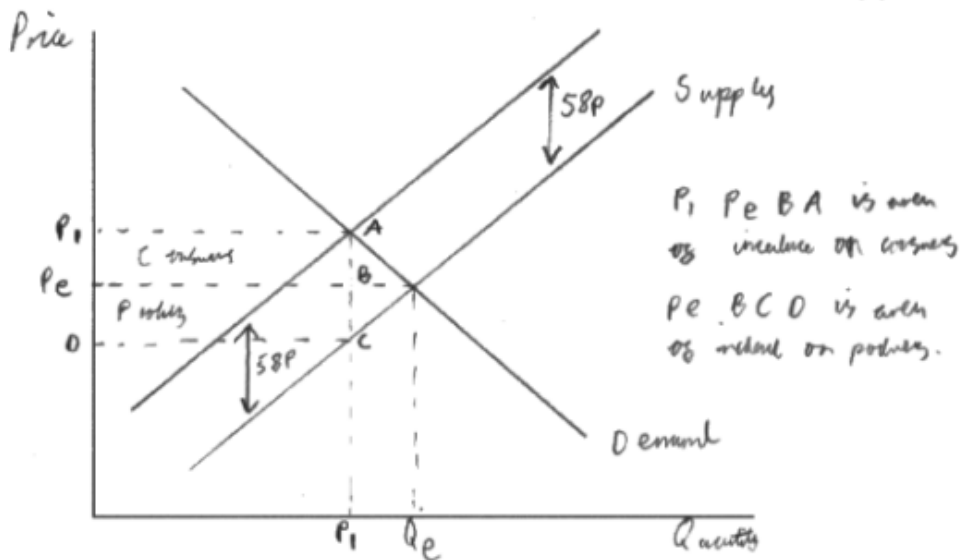
This question was generally answered well, with many candidates able to accurately draw a diagram showing for a specific tax a parallel shift left in supply to secure the two knowledge marks. A minority illustrated the shift as it was an ad-valorem tax and thus only secured one knowledge mark. The majority were also able to accurately apply the consumer and producer tax incidence.

- 1 Fuel duty is an excise tax imposed on the sale of petrol, included in the price paid by consumers, set at 58 pence per litre.

(Source: <https://www.gov.uk/tax-on-shopping/fuel-duty>)

- (a) Draw a supply and demand diagram to show the incidence of a specific petrol tax on consumers and producers.

(4)



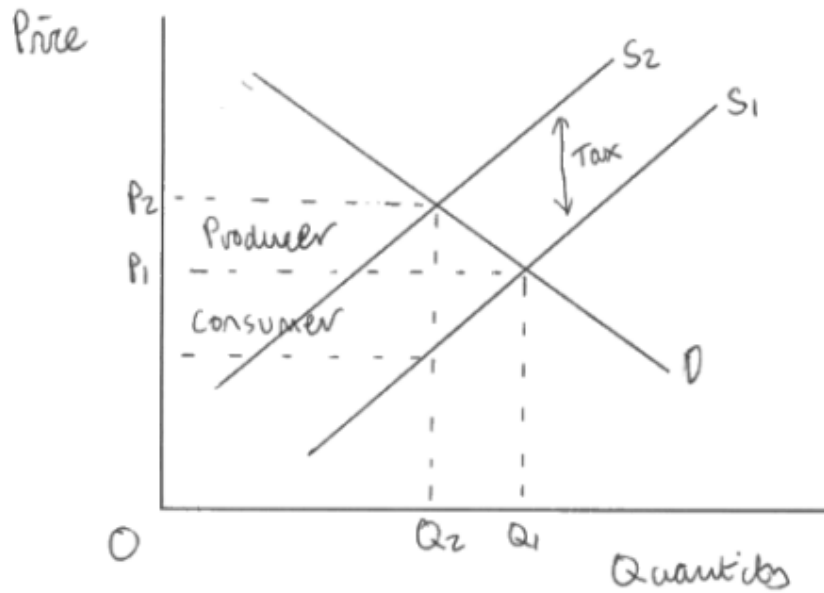
This answer scores the full 4 marks - it clearly shows a parallel shift to the left in supply and the resultant tax incidence carefully annotated to the right of the diagram as best practice, given the writing inside the boxes is not clear. Everything is also correctly labelled - all axes and lines. In addition, they have also applied accurately the tax per litre.

- 1 Fuel duty is an excise tax imposed on the sale of petrol, included in the price paid by consumers, set at 58 pence per litre.

(Source: <https://www.gov.uk/tax-on-shopping/fuel-duty>)

- (a) Draw a supply and demand diagram to show the incidence of a specific petrol tax on consumers and producers.

(4)



This answer scores the 2/4 marks. Again, it clearly shows a parallel shift to the left in supply, but the resultant tax incidence is labelled incorrectly.

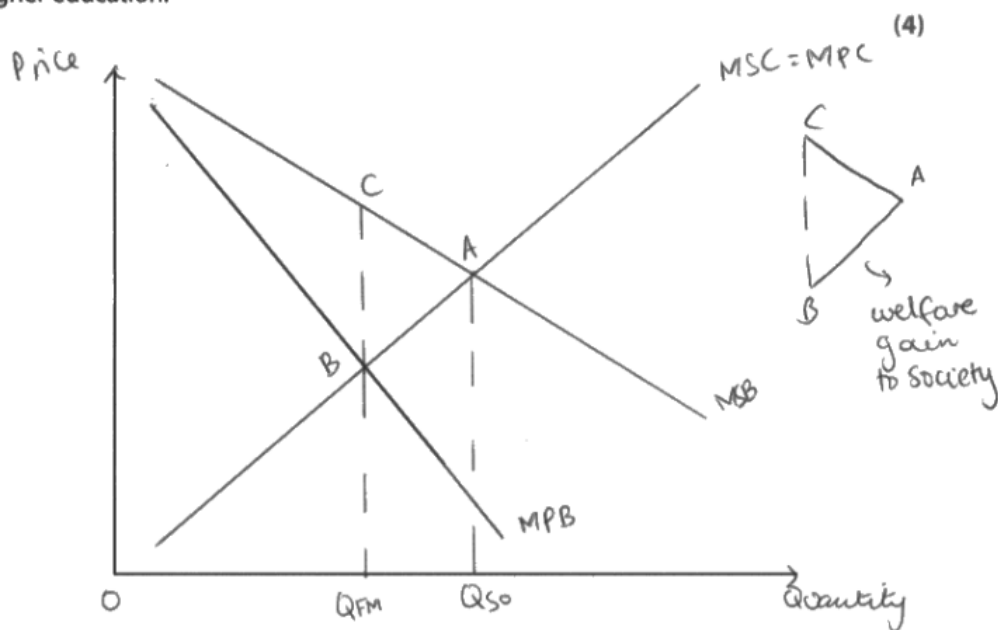
Question 2 (a):

This question was generally answered well, with many candidates able to accurately draw a diagram showing MPB, MSB and MSC. The main reason for candidates scoring 2/4 marks as opposed to 4/4 marks was not correctly identifying the external benefit/welfare gain/new social optimum equilibrium.

- 2 The external benefits of higher education include increased tax revenue, faster economic growth, greater innovation and labour market flexibility. $\uparrow TR, \uparrow EG$

(Source adapted from: <https://www.timeshighereducation.com/news/higher-education-its-good-for-you-and-society/2008681.article#survey-answer>)

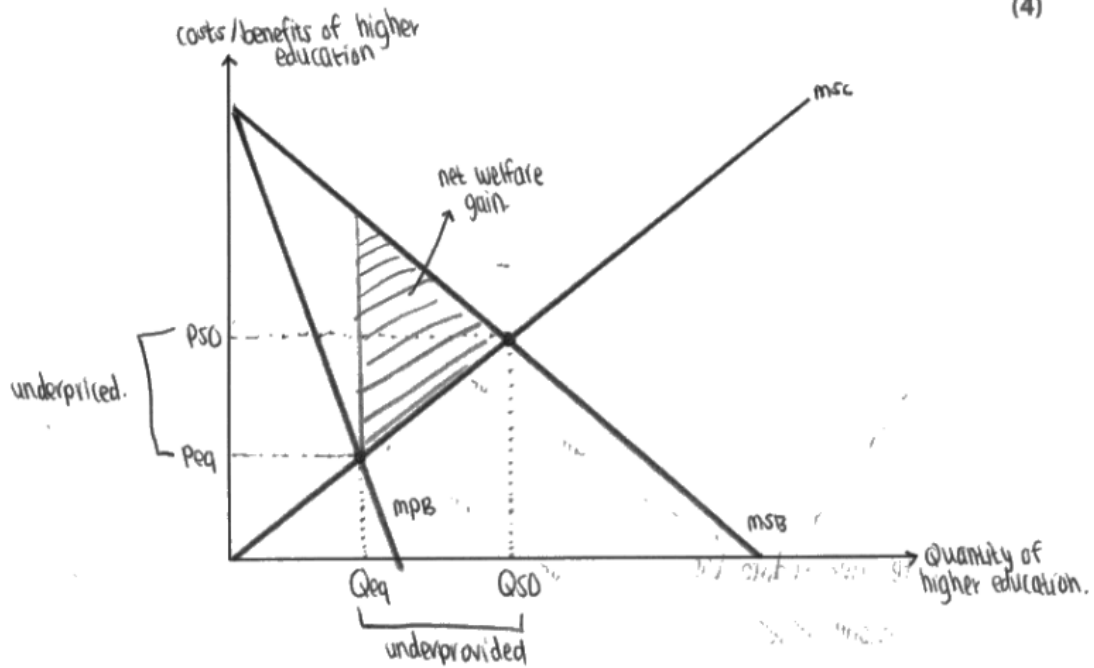
- (a) Draw an externalities diagram to show the likely impact of the consumption of higher education. *positive externality*



This answer scores the full 4 marks - it clearly shows the welfare gain as well as the free market (Q_{fm}) and social optimum (Q_{so}) outputs. Everything is also correctly labelled - all axes and lines.

(a) Draw an externalities diagram to show the likely impact of the consumption of higher education.

(4)



This answer also scores 4/4 marks. This time there is additional annotation regarding the under-provision with both axes applied.

Question 3 (a):

Most responses secured high marks with many explaining and illustrating a secure knowledge of tradable pollution permits using a supply and demand diagram. This was undertaken in a concise manner linking the rise in the price of permits to a fall in pollution levels, with students thus going beyond the four marks for this question.

- 3 The EU tradable pollution permits scheme is expected to become more effective by 2020, due to recent reductions in the number of tradable pollution permits.

(Source adapted from: https://ec.europa.eu/clima/policies/ets_en)

(a) Explain **one** likely effect of reducing the number of tradable pollution permits.

(4)

Reducing the number of tradable permits is likely to cause a rise in carbon footprints. It should increase the efficiency of firms as they can increase productivity, whilst being able to benefit from economies of scale to a greater extent.

This answer achieves zero marks. Several effects are provided without a valid explanation.

3 The EU tradable pollution permits scheme is expected to become more effective by 2020, due to recent reductions in the number of tradable pollution permits.

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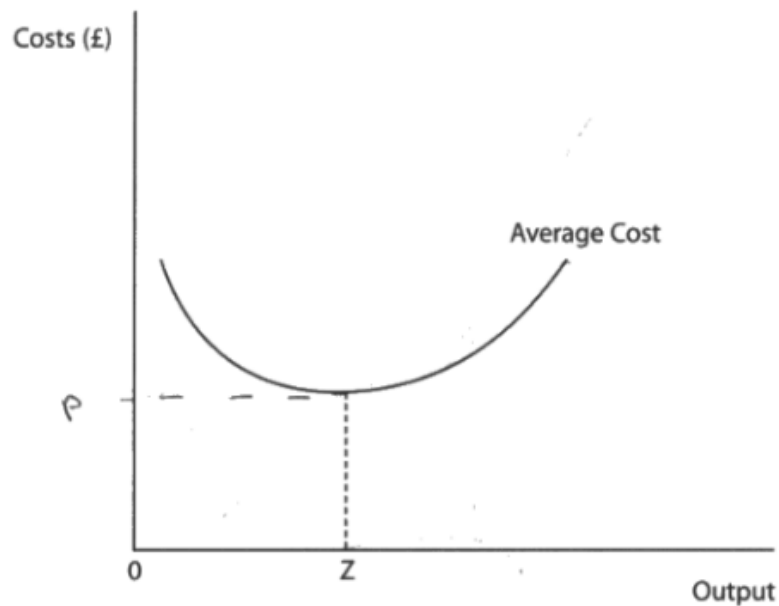
A tradable pollution scheme is a scheme where the government issues a certain amount of permits to each company to allow them to pollute ~~etc~~ and if more are needed / wanted, they can be sold on a market using the price mechanism. A reduction in the no. of tradable pollution permits will lead to a rise in the price of pollution permits. The rise in price increases the opportunity cost of polluting and provides a monetary incentive for firms to cut pollution since they can sell off any to increase their profits. This should in turn, reduce pollution in the long-run as more efficient firms become more profitable and gradually increase their market share.

This answer achieves 4/4 marks. There is an awareness of how limiting the supply of permits will increase their price in the tradable pollution permits market. This is then further developed and applied in the context of reducing pollution in the long run.

Question 4 (a):

A significant number of candidates achieved zero marks or one mark for this question. This was due to them only identifying that total costs were rising. No marks were awarded for simply saying that costs or average costs were rising. There was a mistaken belief that diminishing returns will only occur at output levels greater than Z. There was little evidence of a secure knowledge regarding the relationship between marginal costs and average cost.

4 The following illustrates the daily average cost curve for a doughnut producer:



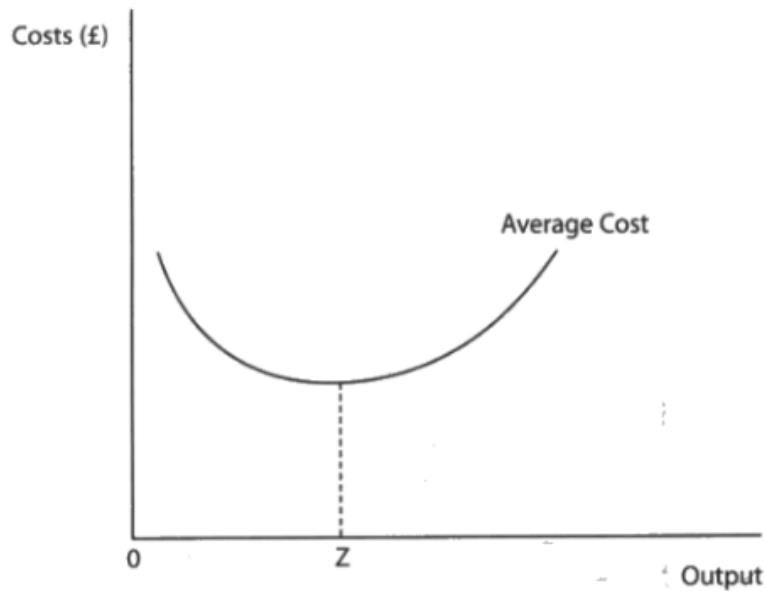
(a) Explain what happens to total cost at output levels greater than Z.

(2)

~~Total cost~~ ^{Total} Cost increases if the output level is greater than Z.

This answer achieves 1/2 marks for correctly identifying that total costs are rising. Unfortunately, they do not go beyond this to secure a second mark.

4 The following illustrates the daily average cost curve for a doughnut producer:



(a) Explain what happens to total cost at output levels greater than Z.

(2)

~~There~~ Due to the effect of diminishing marginal productivity, Total Cost would ~~rise~~ be rising at a higher rate than the rise in output, this is because ~~of~~ the diminishing returns to a fixed factor of production that occur in the short run. The doughnut producer may be adding staff to their limited number of deep fryers causing an overcrowding effect decreasing productivity.

This answer achieves 2/2 marks for correctly identifying that total cost would be rising (1) at a higher rate than output i.e. at a faster rate (1).

Question 4 (c):

Most students were able to accurately calculate the answer here. Those who didn't get full marks generally hadn't read the question properly and so didn't calculate what they had been asked to.

- (c) For a luxury doughnut producer the average selling price is £2. The average variable cost is 40% of the selling price and its fixed cost per day is £300. Calculate total costs per day assuming it produces 400 doughnuts per day.

(2)

$$\text{Cost} = \text{Total fixed} + \text{total variable cost}$$

$$\text{cost} = 300 + 2 \times 0.46$$

$$\text{Cost} = 300 + 0.8$$

$$\text{cost} = 300 + 0.8 \times 400$$

$$\text{cost} = 300 + 320$$

$$\text{Cost} = £320$$

This answer achieves 1/2 marks for correctly calculating the total variable cost. They also would secure one out of two marks for $300 + 320$. Unfortunately they do not provide the final correct calculation required for full marks.

- (c) For a luxury doughnut producer the average selling price is £2. The average variable cost is 40% of the selling price and its fixed cost per day is £300. Calculate total costs per day assuming it produces 400 doughnuts per day.

(2) 320

$$£2 \times 400 = £800 \text{ per day}$$

$$40\% \text{ of } 2 = 80p \times 400 =$$

$$£300 \text{ Fixed cost} + 320 \text{ variable cost} = £620 \text{ a day total cost}$$

This answer achieves 2/2 marks for correctly identifying the answer is £620.

Question 5 (a):

This question was answered well, with most candidates able to concisely provide **one** reason why this business has remained small. Alternative answers came from across the reasons provided in the mark scheme with linked development, and beyond.

- 5** 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

(Source adapted from: <https://www.forbes.com/sites/sarahturner/2018/03/22/the-famed-yorkshire-cafe-that-blends-nostalgia-with-profits-and-conservation/#7eb50cec7a4e>)

- (a) Explain **one** likely reason why this business has remained small.

One reason why the business has remained small is due to the ⁽²⁾ owner's objectives. The owner may only wish to make a certain amount of profits to cover their bills and they may want to live a quiet life with more leisure time with their family.

This is a short but accurate answer that identifies profit satisficing as a linked development of their objective.

- 5 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

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(a) Explain **one** likely reason why this business has remained small.

(2)

The ~~cafe~~ business may have remained small due to the size of the café being the selling point. ^{with 6 cafes} By remaining small they provide consumers with better customer service and better relationship with the café manager compared to if it was a larger firm. This creates a loyal and regular consumer base and so stable ~~income~~ flow of revenue.

This answer also scores 2/2 marks for accurate explanation of why this business has remained small. You will notice that this answer is longer than the previous one - however it will still only get the maximum 2 marks

Question 5 (b):

Some students found this question more challenging indicating that they had perhaps not covered organic growth in their revision. Most candidates secured the two marks for identifying growth was internal using profits re-invested and there was no evidence of external growth through mergers. In some cases, time may have been better spent on the longer responses.

(b) Explain why the previous expansion of this business could be described as 'organic growth'.

(2)

Organic growth is the expansion of a firm by increasing the scale of its operations and through investment within the firm by the firm, ploughing back profits it makes into the company. Its previous expansion, where it opened five further branches in Yorkshire, was done by reinvestment within the firm, rather than requiring another company. It was achieved by building on the knowledge of existing workers and managers.

This answer secures 2/2 marks. It secures this by providing an accurate reason why growth can be described as organic and then how it builds on 'the knowledge of existing workers and managers.' The answer could be more concise.

(b) Explain why the previous expansion of this business could be described as 'organic growth'.
(2)

This is 'organic' growth as there is no evidence
of the firm integrating with
other firms. It has grown itself with
its own profits that are re-invested.

This is a short but accurate answer that identifies there is no evidence of integrating with another firm and explains how by reinvesting its own profits Bettys' is growing organically.

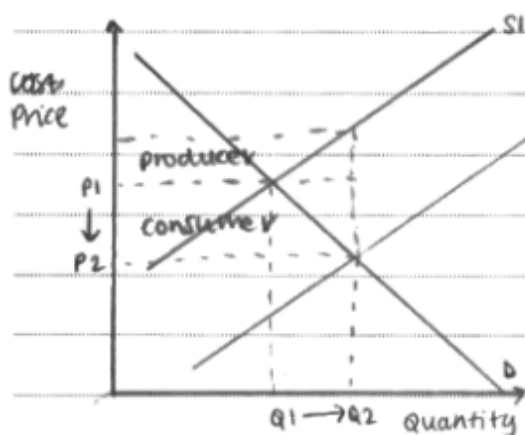
Question 6 (a):

In this question most students were able to access close to full marks. There was, in most cases, an accurately labelled diagram accompanied by a relevant explanation. However, a significant number of responses ignored the requirement to refer to Figure 1.

6 (a) Refer to Figure 1. Explain the likely effect of the change in subsidy levels between 2017 and 2018 on rail fares. ↓

Include a supply and demand diagram in your answer.

(5)



one likely effect of an increase in subsidy levels from '227 million' in 2017 to '287 million' in 2018 is a reduction in price from P_1 to P_2 and an increase in quantity from Q_1 to Q_2 .

This means that the size of the consumer surplus can also increase as it is likely they will have to pay less for their ticket prices.

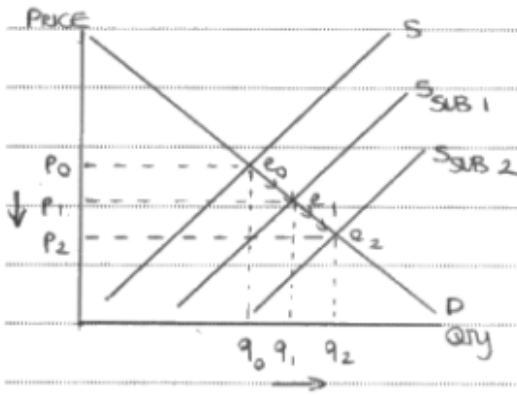
This answer secure 5/5. A correctly labelled diagram annotated to show a shift right in supply is explained with reference to the data in Figure 1. There is also some explanation of the effect being a rise in consumer surplus and in the diagram of the financial gains to the producer and consumers of the subsidy illustrated in the diagram.

6 (a) Refer to Figure 1. Explain the likely effect of the change in subsidy levels between 2017 and 2018 on rail fares.

Include a supply and demand diagram in your answer.

(5)

The increase in subsidy levels should lead to an ^{even} lower price for train tickets.



At q_0 , supply is S and price is P_0 and supply meets demand at e_0 , and there is no subsidy. At q_1 , there is a subsidy and price decreases to P_1 . This mirrors the subsidy in 2017 of £277 bn. In 2018, subsidy levels increase to £287.9 bn, which causes

a shift in supply again to $S_{SUB 2}$. This creates a disequilibrium at q_1 , ^{causing} pressure on prices to decrease to P_2 . This causes a movement along demand and a new equilibrium (e_2) to be formed at q_2 .

This is an excellent answer to this question scoring full marks. An accurate diagram is provided showing a double shift right indicating an increase in subsidy, as allowed in the mark scheme. Accurate reference to the data in Figure 1 is also provided within the careful explanation of the diagram.

Question 6 (b):

With the 'examine' question, the marks are allocated evenly across all four categories – so two marks for each of knowledge, application, analysis, and evaluation. The question specifically asks for 'two possible factors'. Therefore, students need to ensure they have examined two factors in their answer. The other thing that candidates need to remember is that there are two marks for evaluation here – many answers were well-written but without evaluation they are limited to 6/8 marks. On the whole this was a well answered question.

(b) With reference to Figure 2, examine **two** possible factors which may have influenced demand for rail travel since 2008.

(8)

One possible factor is an increase in urbanisation. Low farm profits and high debt in agriculture may cause people to take jobs in the city.

One factor that could have influenced the increase in demand for rail travel is the a higher level of subsidies. These subsidies can be allocated to maintaining, train & cleanings or new carriages. This increases the appeal and

capacity of trains, meaning demand will shift out and quantity supplied will increase. However, the extent to which subsidies can affect demand is dependent on whether the subsidy is used for reinvestment, or is just added as bonuses to the salaries of board members. (Southern Cross paid £450,000) (Exhibit B)

Another factor that could have influenced the higher number of kilometres travelled (2008: ~50bn to 2014: 65bn) is an extension of railroads. More railroads increase the possible destinations of travellers. This increases the likelihood of people using trains to get to their destination rather than driving, therefore increasing the demand

for train travel. However, the extent to which this will occur is dependent on habits of consumers, who may be used to driving and therefore will not look for alternatives.

This is an excellent well-structured answer to this question scoring full marks. Two distinct factors are examined – subsidies and a change in the preference for rail as provision to destinations improves. Both policies are also evaluated effectively, worthy of two evaluative marks in both cases.

(b) With reference to Figure 2, examine **two** possible factors which may have influenced demand for rail travel since 2008.

(8)

Figure 2 shows a clear upward trajectory in the distance passengers have travelled from 2008 and onwards. The increase in demand has gone from £50 billion kilometres travelled in 2008, to a staggering 65 billion just 7 years later. This means 15 billion more kilometres are being travelled by UK citizens.

One possible factor for the increased demand of rail travel is the lack of superior substitutes. In recent times, fuel has become more expensive as well as other costs for a car such as maintenance or even parking a car. Therefore, trains might be preferred by passengers because of the cheaper costs. Furthermore, although buses may appear even cheaper than trains, most commuters are unwilling to switch due to buses being much slower than trains.

An alternative reason as to why rail travel demand increased from 2008 is because of the population increasing. In the last decade, the UK has reached around 70 million citizens. Therefore, more people are using trains as more people have jobs. Furthermore, distances may have increased due to different working conditions.

In previous times, a worker from Leeds would be unlikely to travel far to work and would most likely stay in Leeds. However, due to faster travel through trains such as HS2, people are more likely to accept jobs further out, (such as Manchester, Sheffield etc). This means that due to longer journeys, the amount of kilometres travelled is continually increasing. Therefore, the increased demand of up to 65 million kilometres should be expected.

This answer scores 6/8. The response looks at two factors that influenced the demand for rail travel since 2008 and scores 6 marks for knowledge, analysis and application. Unfortunately, they do not evaluate which 'examine' as a command word requires.

Question 6 (c):

This question focuses on 3.6.1 d) Government intervention to protect suppliers and employees: nationalisation. Students are asked to discuss the impact of full nationalisation on employees. The best answers did exactly that, drawing from the breadth of data available and applying in some cases their knowledge of the labour market. Where some students fell down on this question was in not focusing specifically on employees but discussing the wider implications of nationalisation.

(c) Assess whether complete nationalisation of the rail industry might protect employees. (10)

Complete nationalisation of the rail industry may protect employees as it allows for ^{more power to} unions to be formed who will ensure the workers best interests are kept in mind. ~~to the~~ It will also mean that the rail industry is less of a profit maximising firm and re invests its profits into the business in order to continue to improve and expand. Employees will be more protected this way as it means that they are more likely to receive fair wages and increased job security. Additionally the rail industry would be ~~more likely to~~ better protected by the government and the risk of it going bust would be much lower so employees would have ~~to~~ increased job security.

Additionally nationalisation ~~would~~ could lead to ~~the~~ wage caps on company executives so they're not earning excessively more than the average income of a lower level worker this ~~would~~ could lead to ~~an~~ increased wages for said lower level workers or even some redistribution of money within the company to increase innovation, hence further protecting employees as they would be needed for improvements to the service.

This answer scores 5/10. Economic ideas are applied appropriately but there is a lack of evaluation.

(c) Assess whether complete nationalisation of the rail industry might protect employees. (10)

Nationalisation is when ownership of firms is transferred from the public private sector to the public sector.

One reason why nationalisation may protect employees is because the government may be less likely to exploit their monopsony power in order to lower wages. For example, if you are a train driver your only employer or possible work would be supplied by one single firm ^{eg} in this case "Southern". This means that you would lack bargaining power with this firm, which means the firm could force wages down ~~and~~ since the supply is inelastic would lead to a lack of a response for the

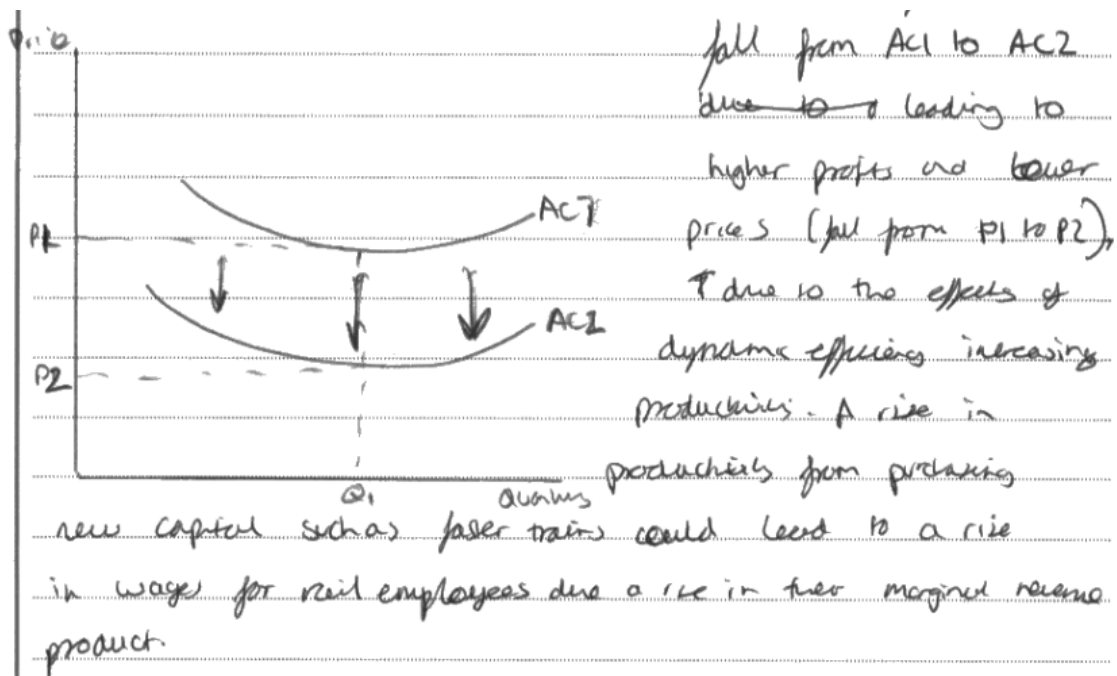
quantity of labour supplied. The government may not exploit this and instead offer a fair wage to its employees with several benefits, which would protect employees.

~~On the other hand, this may not be the case~~

Another reason why nationalisation may protect employees is because the nationalised firm is far less likely to go bankrupt compared to a private firm. This is because the government could easily cover any losses due to the relatively small size of a potential loss to the size of the total economy around £2.7 trillion. For example, in May 2018 the East coast line almost went bankrupt. If it did it would lead to employees losing their jobs and resulting in structural unemployment. A sudden ^{of} loss in could lead to increased

poverty and could lead to psychological problems and stress, which are clearly not benefits for employees.

On the other hand, nationalised firms may be less efficient than private firms because they are not incentivised for profits. For example, the ~~cost~~ costs of a ^{private} nationalised firm may



Furthermore, it could be the case that there would be no effect on employees (since due to rail monopsony power) as trade unions are the ones that bargain for better wages and employee benefits. For example, the ~~union~~ NUT (the ~~other~~ trade union) is more likely to increase real wages and non-wage benefits by threatening the government with strikes, etc. As a result,

it could be the case that the nationalisation of the rail industry
has no effect on employees.

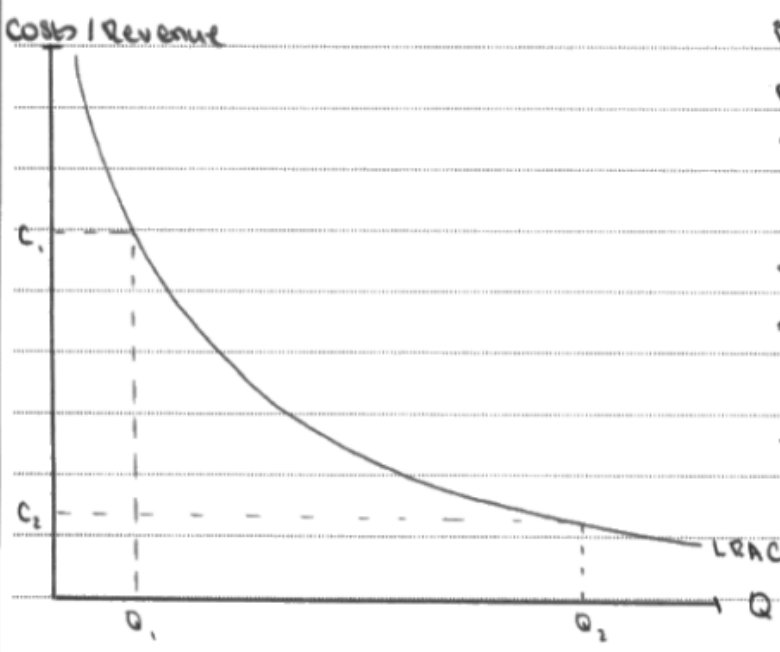
This answer scores 10/10. The response is a high-quality answer with top levels for both KAA and evaluation. The answer starts off straight away with good application to the context and then goes on to explain how complete nationalisation may protect employees. This answer is also evaluated well, fully supported by relevant reasoning gained by a breadth of knowledge.

Question 6 (d):

In this question the key to success was in ensuring you fully grasped whether the rail network can be considered to be a natural monopoly rather than just a 'monopoly'. Good answers began from a starting point of explicitly or implicitly defining a natural monopoly and then relating it to the rail network by using the data provided. A diagram was not required but often provided a solid indicator that an understanding of what is a natural monopoly was evident. Answers that just discussed whether the rail network was a monopoly obviously did not fully address what the question has asked of them.

(EV) (d) With reference to Extract A, paragraph 3, discuss whether the rail network can be considered to be a natural monopoly. (12)

A natural monopoly occurs when only a single firm can fully exploit economies of scale, such as DeBeer's and diamonds. The rail network is a natural monopoly, since the 'fragmentation' of the '2,500 stations and 32,000 km of tracks' into 'three components of track, train operators and rolling stock' did not make the rail industry cheaper to operate. Instead, costs and hence prices have risen, whereas



if the industry were to be operated under one company, economies of scale could be fully exploited (favourable lending terms (financial) and bulk buying (commercial)). The firm would be able to reach MES and productive efficiency on its LRAC curve, as shown in the diagram, whereby an increase in $Q_1 \rightarrow Q_2$ sees a fall in costs ($C_1 \rightarrow C_2$). Therefore, the rail network is a natural monopoly.

However, the benefits of the rail network being a natural monopoly may be limited, and so if the ~~company~~^{network} were to operate under one company, it may still be expensive to operate. The lack of competition in the market could see a further prioritisation of profits, more 'overcrowding and cancelled services' and an increase in 'delays, losses [and] cancellations', and so the rail network would benefit 'from being nationalised' instead of being a natural monopoly. Although natural monopolies are supposed to be regulated (OFR for the rail network), the company may bribe and bully the regulator, limiting their impact.

This answer scores 9/12. The initial explanation as to whether the rail network can be a natural monopoly is solid. Unfortunately, the evaluation, whilst demonstrating considerable knowledge in context, does not fully address the question set.

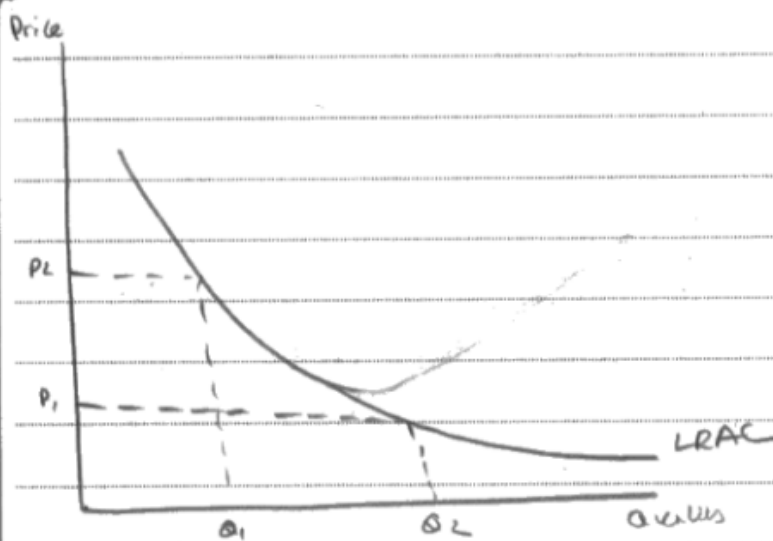
(d) With reference to Extract A, paragraph 3, discuss whether the rail network can be considered to be a natural monopoly.

(12)

A natural monopoly ~~occurs~~ is when the most efficient market is when only a single firm is present.

One reason why the rail network may be considered to be a natural monopoly is due to the huge sunk costs that act as a barrier to entry. For example, the rail network consists of "2500 stations and 32,000km of tracks." These represent a huge sunk cost to any firm entering the market and it would not make sense for a competing firm to build another 2500 stations since it would be considered a huge waste of money. ~~and would~~ In addition, it would be highly unlikely that any firm would be able to raise enough funds to build and compete with pre-existing firms. As a result, the rail network can be considered to be a natural monopoly.

Another reason why the rail network may be considered to be a natural monopoly is due to the existence of huge economies of scale. For example, the rail industry could benefit from technical economies of scale, where specialist capital such as a "ticket machines and ^{an} online payment system can be implemented due to low cost per unit arising from high level output. The effect of economies of scale are shown on or the diagram.



As output rises from Q_1 to Q_2 , cost falls from P_2 to P_1 . Such huge economies of scale prevent the entry of new firms due to the fact that they would be unable

to compete with the preexisting firm due to much lower prices. As a result, the industry remains a natural monopoly.

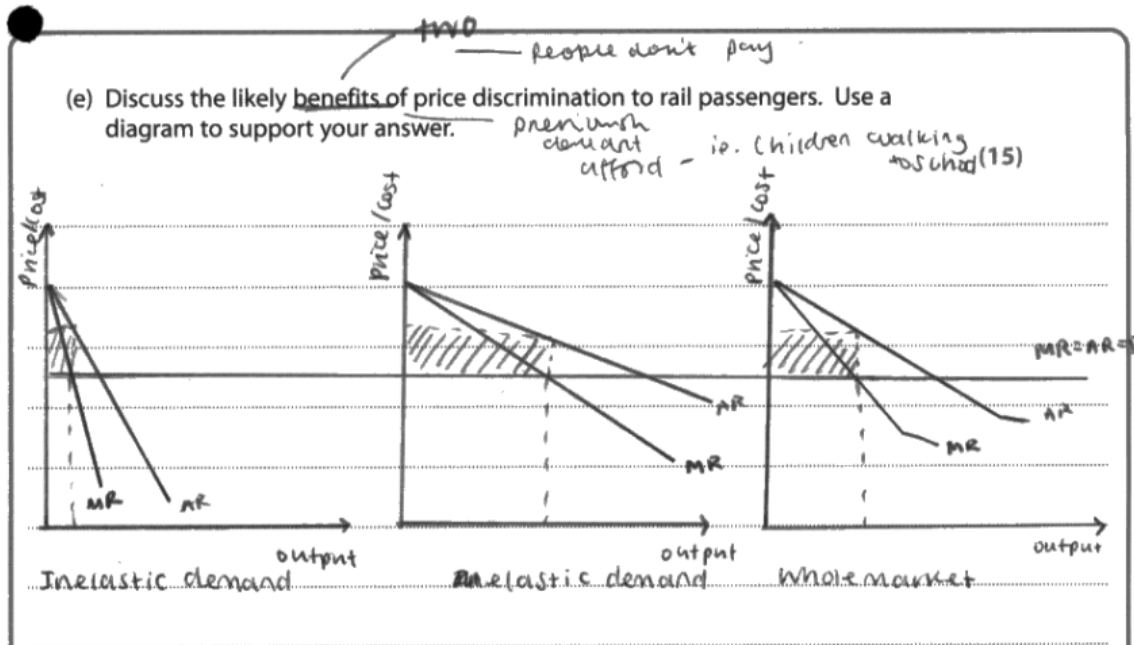
On the other hand, there may not be a natural monopoly due to diseconomies of scale. For this is because of worker alienation could increase and communications begin to break down as the firm becomes larger and larger. For example, a manager may find it difficult to ^{communicate} to a train driver since he has never talked to him before and due to the existence of many high levels of bureaucracy. As a result this ~~could~~ could lead to a breakdown in ^{industry} worker relations leading to strikes, which have been witnessed on several occasions. As a result ~~the industry may not be a natural monopoly~~ this could lead to rising cost and would not make the industry a natural monopoly.

On the other hand, the rail network may not be considered a natural monopoly due to the fact that depending on the type of rail travel, for example, it may be more economically efficient for one firm such as virgin to handle high speed rail travel and another firm to handle short commuter journeys. This is because the markets are quite different since high speed is not and it could mean that each firm benefits from a rise in full costs in their respective markets from a rise in specialisation. For example, specialised high-speed train drivers. As a result the market may not be a natural monopoly.

This answer scores 11/12. This answer demonstrates accurate knowledge with fully integrated examples embedded in solid chains of reasoning. The evaluation is also supported by relevant reasoning.

Question 6 (e):

This question focused on the likely benefits of price discrimination and required a diagram to support an answer. The best answers used correct diagrams as illustrated in the mark scheme or alternative correct diagrams looking only at young and older rail customers. This was accompanied by clear and in-depth explanation of why this was a benefit and then evaluated with use of the diagram. Some answers also included a judgement, but candidates should note that this is not required in this question.



Price discrimination is the practice ^{of} dividing up the market into different groups of consumers and charging different prices to ~~different groups of consumers~~ ^{different groups of consumers}. In the rail market, this could involve separating ticket prices by tickets for adults and tickets for children. In the case of a journey from Edinburgh to Leeds an adult ticket was £105.30 and a childrens ticket was £69.50, highlighting that the adult tickets are the inelastic section of the market whilst the childrens tickets are ~~part~~ of elastic demand. By pricing them differently, a firm can extract maximum possible revenue as those with more inelastic demand are less likely to leave the market and seek out substitutes ~~&~~ whilst those with elastic demand can either now afford or will buy more frequently. This when

added up means that the total revenue made by dividing the market is greater than without doing so.

However, this is only possible if rail networks can consistently ~~prevent~~ ^{prevent} consumers from using the service without pay or not buying the tickets according to age. This can cause a loss in revenue and highlights a failure in managing to ~~keep~~ ^{keep} ~~others~~ ^{others} exclude those who do not pay for the service.

Another possible benefit is that price discrimination allows those who previously could not enter the market to do so. For example, ~~to~~ children who walk to school may now be able to afford taking the train to speed up the process. This allows for firms to make greater profit as demand for railway tickets goes up. This means that railway networks have more ~~people~~ available to invest into research and development. This can then decrease prices in the long run if the money is invested into areas to improve ~~technology~~ ^{efficiency}, for example, making fuel use more efficient.

However, in the short run, ~~many~~ some customers may be priced out of the market. This means that price discrimination can be taken as an example of a regressive form of collecting money. Car owners may also assess and decide that purchasing a car ~~is~~ for example, may be cheaper than rail travel and so these consumers will be very unlikely to be considering rail travel ever again.

Overall, price discrimination carries more benefits for the rail network than negatives as they receive more revenue per passenger but this is at the cost of those who are priced out of the market.

This answer scores 8KAA and 5EV = 13/15. The diagram is not quite spot on, but the response has good supportive chains of reasoning. Focused examples are carefully integrated into knowledge and understanding. Better clarity on profit and revenue indicates one area where it could be better, but responses are not negatively marked.

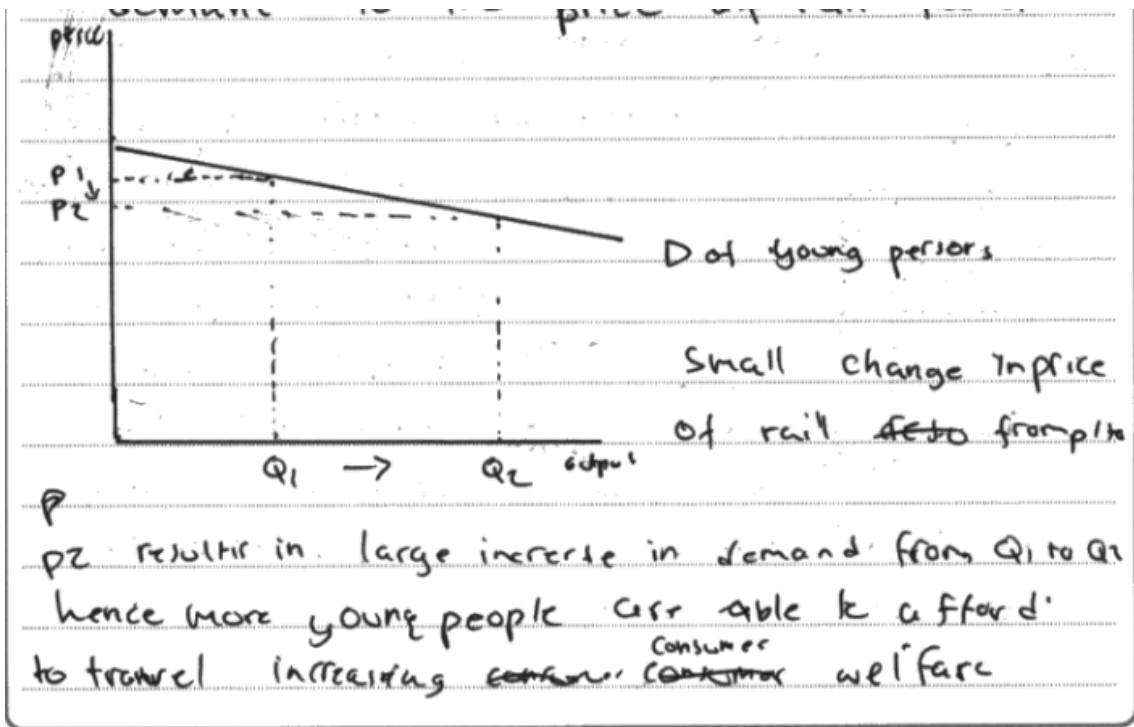
(e) Discuss the likely benefits of price discrimination to rail passengers. Use a diagram to support your answer.

(15)

Price discrimination occurs when a firm charges to different groups of consumers a different price for the same good.

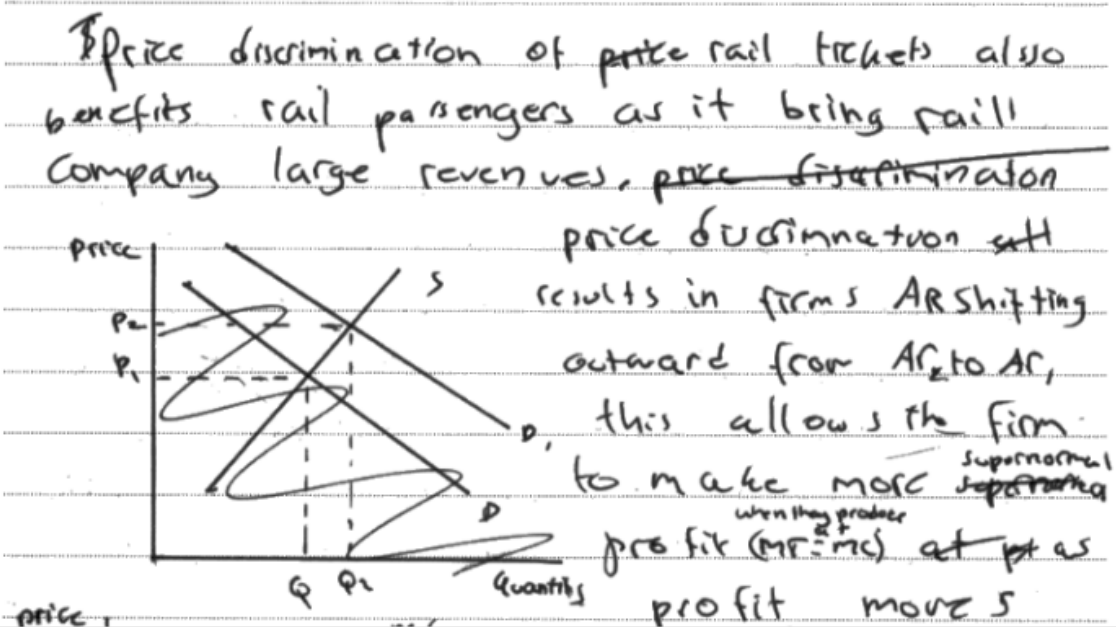
Price discrimination has benefited consumers as it has made the prices cheaper for some consumers young persons are being charged £34.5 less than adults to use national rail at off peak on hours.

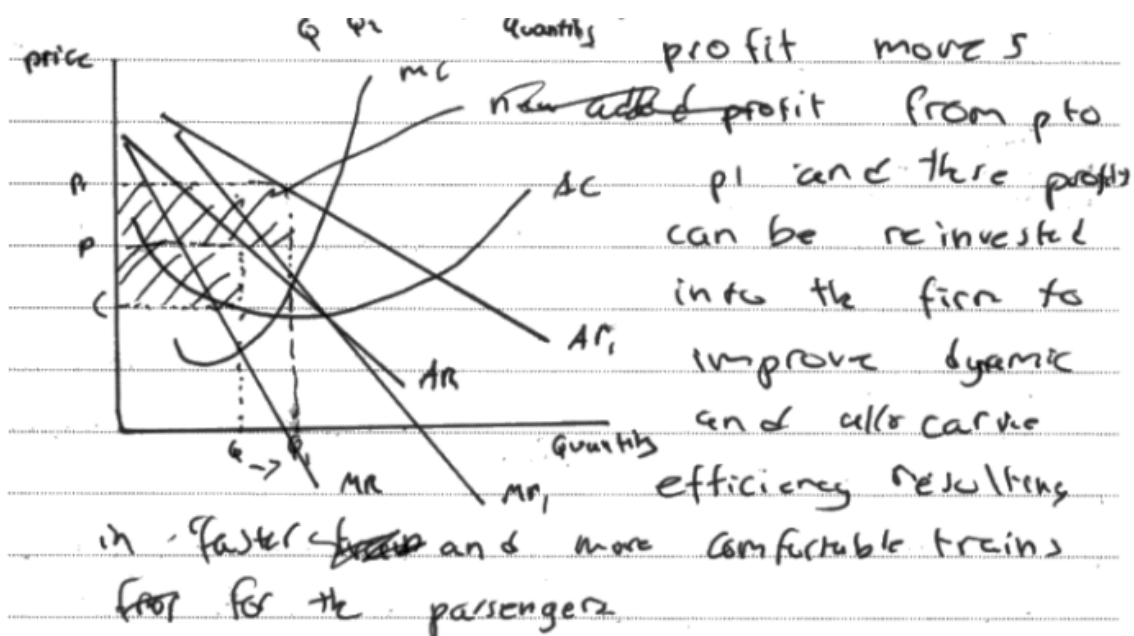
This has benefited them as the young people have little to no income therefore their price elasticity they have a very elastic demand to the price of rail fare.



21

However there are many older people that are unable to afford rail travel and as there is no significant alternative to travel large distance surely they are exploited by rail firms resulting in a loss of consumer welfare





However private owned rail is currently experiencing 'fierce criticism due to overcrowding and cancelled services' this would suggest that currently price discrimination has not lead to increased inefficiency or both allocatively and dynamically therefore price discrimination may not be benefitting rail passengers.

This answer scores 10/15. The response starts by looking at price discrimination between the young and old with a suitable diagram to address the young and valid evaluation = L3 and L2e+. The second point regarding revenue secures L2and L2e. The response though lacks balance and is a narrow response given the demands of the question. 6KAA and 4EV = 10/15.

Question 7:

This question was more popular than question 8 with better responses overall. Given the synoptic nature of essay questions the better responses made excellent use of Theme 1 and Theme 3 making use of externalities diagrams as well as theory of the firm diagrams. Whilst diagrams were not required better responses over made use of them thus illustrating higher order thinking. The context has had substantial media coverage and stronger candidates were able to provide rich responses in context. The Paper Summary of the 2019 Principal Examiner report advised on this: "Spend time studying current developments in economics that are relevant to your specification. This not only enriches your understanding of key concepts but will enable you to refer to an industry or a firm of your choice if asked in an essay." In this case following current developments as covered by broadsheet newspapers may have aided responses.

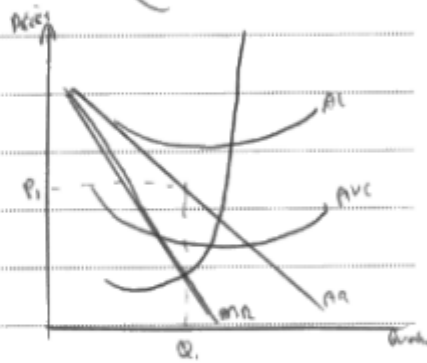
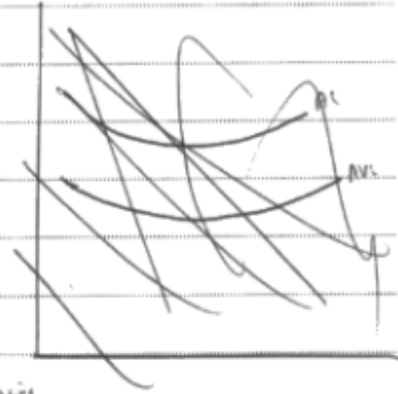
Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: **Question 7** **Question 8**

One consequence of consumers shifting to electric powered vehicles is the fall in demand for oil powered vehicles.

~~From the Demand~~

A fall in demand is going to lead to a fall in the price level due to the rationing function of the price mechanism. This is shown as P_1 on the diagram. At the profit maximizing level of output for ~~oil~~ oil fueled car manufacturers like Ford or Nissan, average revenue will be ~~at~~ below average cost. This ~~mean~~ ~~one~~ ~~mean~~ mean that these firms will cease producing ~~oil~~ ~~fueled~~ cars in the long run due to an increase in demand ~~for~~ for Teslas for example.

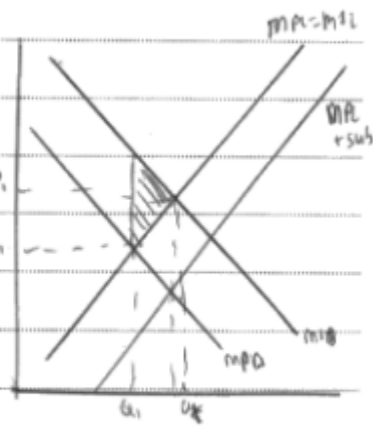


This will lead to a loss of jobs in the industry too.

The extent to which ~~the~~ ~~oil~~ ~~fueled~~ ~~car~~ car manufacturers that produce oil fueled cars will suffer depends on their willingness to cater to the new emerging market. If ~~the~~ Ford ~~switches~~ ~~to~~ creating ~~oil~~ electric cars then they may not suffer from a loss of overall demand.

of consumption. Electric cars don't produce CO_2 emissions unlike oil fuel cars. Currently:

there is a deadweight welfare loss to society as a result of the underconsumption of electric cars. In 2025 this is likely to have shrunk. Also the government provides subsidies of up to £3000 for people that buy electric cars. This will shift supply to the right to up to the socially optimum level of output.



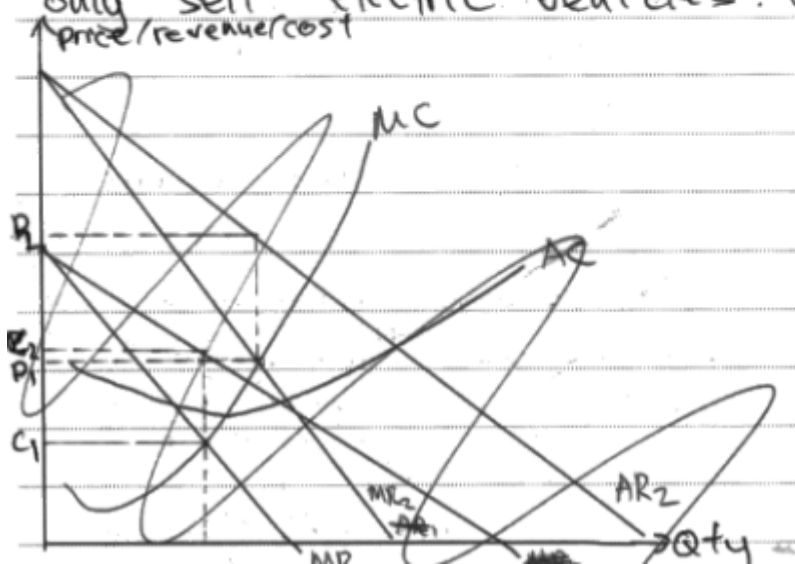
The consequences of consumers shifting to electric cars is positive. There is a positive externality of consumption due to less pressure on the environment. Also if oil powered car firms switch production to electric cars then there will not be a loss in jobs. They may not have the supernormal profits in order to do this however and may go bankrupt.

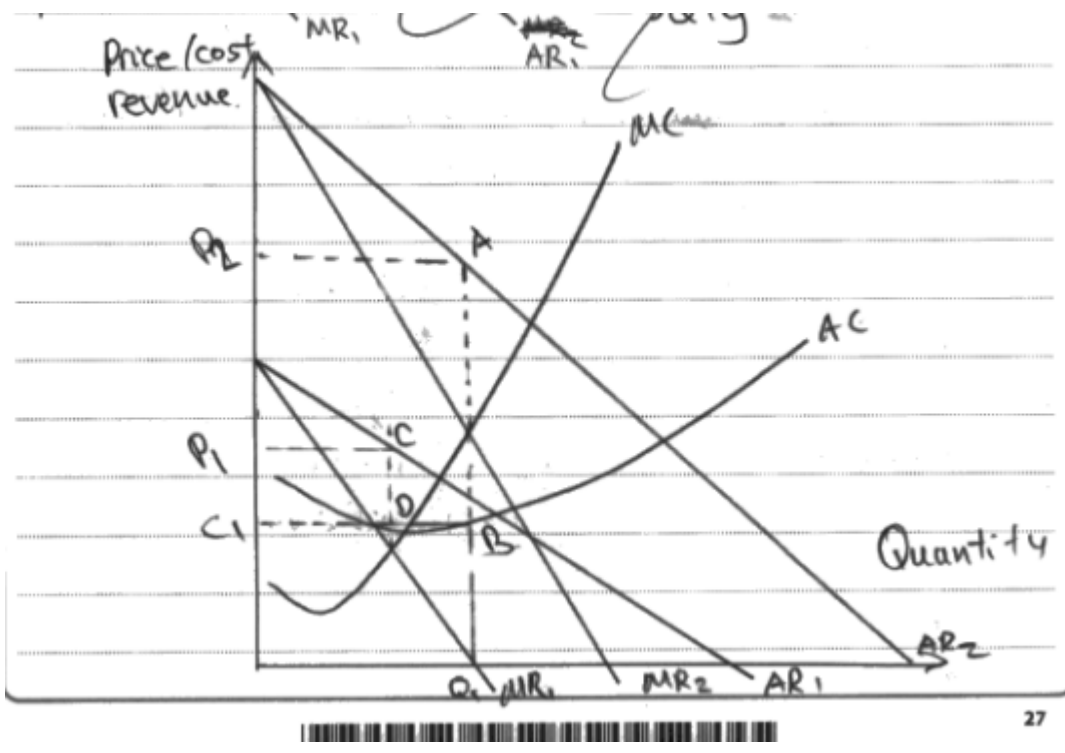
This answer scores 12/25. The response secures the top of Level 2 KAA and there are a couple of cases of Level 2 Evaluation. There is a lack of clarity with the diagrams.

Chosen question number: Question 7 Question 8

- Firms \downarrow jobs Ev innovate
 \downarrow Ford \uparrow Tesla \downarrow Shell
- Consumers Ev
 - quiet
 - s.o.l.
 - better env.
 - cleaner fuel
- pollution to power station

One microeconomic impact of consumers shifting their vehicles from oil to electric-powered vehicles is that there will be an increase in supernormal profits for firms like Tesla who only sell electric vehicles. Will face





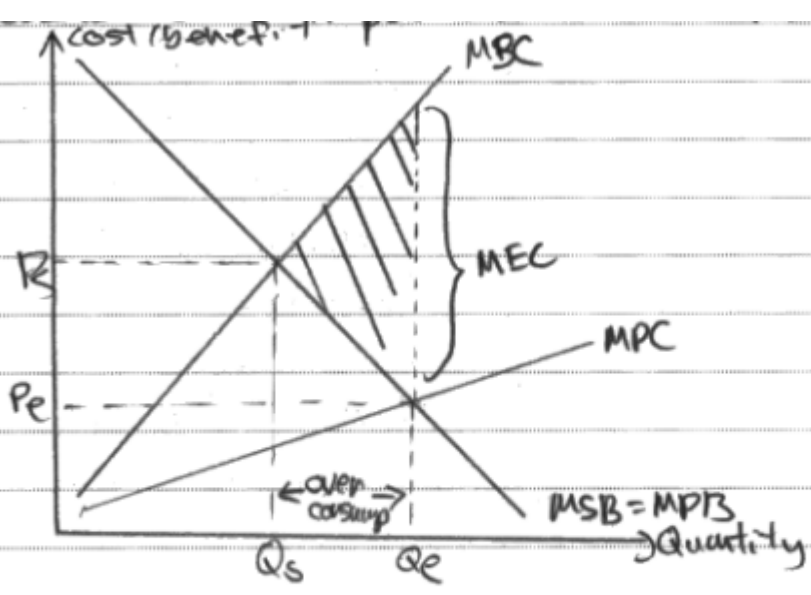
an increase in demand for their cars. The increase in demand will shift their AR & MR curve out as more Tesla Model X units are being sold. The increase in demand is reflected by $AR_1 \rightarrow AR_2$ and $MR_1 \rightarrow MR_2$. This increases the firm's level of supernormal profit from $P_1C_1DC_1 \rightarrow P_2ABC_1$. The increase in level of supernormal profit will allow Tesla to fund more research and development as they plan to increase a battery's capacity. This will drive innovation benefitting consumers ~~and produce~~ in the long run as they ~~become~~ more able to enjoy longer ranges on their electric vehicles. Additionally Tesla will also be able to improve their brand awareness and increase brand loyalty making them less susceptible to ~~the~~ competition.

Furthermore:

However not all firms will be able to benefit from consumers switching from oil-powered

to electric vehicles. Traditional-minded firms like Rolls-Royce are still producing cars powered by oil this means that they will shut-down through creative destruction as there is a lack of innovation from their end. This force decreases profits and potentially loss, shutting the firm down leading to unemployment.

Secondly another microeconomic impact of the use of electric vehicles is that there are less external costs of oil-powered vehicles. Increased



CO₂ emissions, noise pollution are external costs associated with oil-powered



vehicles. These incur a marginal external cost (MEC) in the diagram, as the social cost of using ~~the~~ oil vehicles are much greater. This means that there was an overconsumption of Qe-Qs oil-powered vehicles in the economy. So by making less noise and less pollution in cities consumers are able to benefit from better air quality and less noise which could cause sleep problems due to loud cars driving-by. ~~The~~ The better air quality might reduce incidents of asthma reducing the stress on the NHS as government will no longer need to provide as much for money for medication. This allows governments to increase their subsidies on merit goods such as education with positive external benefits of more income, so increasing

tax revenue for governments in the future. Less CO₂ emissions from cars means less climate change reducing stress on the government

~~However there are also opposite~~
to cut CO₂ emissions.

However not everyone will benefit from increase in the use of electric cars. Blind people or young people who are constantly using their phones rely on their ears and sense of smell to determine traffic. By using electric vehicles this eliminates the engine noise and bad fumes potentially causing more road or pedestrian accidents. This increases strain on the NHS as road accidents are fatal. ~~and~~ Additionally governments will be gaining less tax revenue from the 0.70p specific tax on oil, reducing their tax revenues and potentially forcing them to have to borrow

to fund spending. This is bad as the governments national debt has reached 100% GDP after Covid-19 pandemic. All microeconomic impact

Overall the consumers-switching to electric powered vehicles is good for society. Reducing emissions as they become focused and from the power plant. Meaning these emissions as a whole are less as they are focused and from the power generation stations. Depends on consumers adopting and governments implementing policies such as no phone while walking near a street to protect consumers against the unintended consequence of no noise emitted from electric vehicles. Also job loss but created losses

This answer scores Level 4 KAA and Level 3 Evaluation = $15\text{KAA} + 7\text{Ev} = 22/25$. This is a high-quality answer that fulfils the requirements of the criteria for KAA Level 4 and evaluation Level 3. A breadth of knowledge is deployed and there is a depth of reasoning with a rich use of context. The only downside is that the conclusion is weak.

Question 8:

This question drew on knowledge from 3.4.6 Monopsony, concerning a) Characteristics and conditions for a monopsony to operate and b) Costs and benefits of a monopsony to firms, consumers, employees and suppliers. For evaluation responses may have drawn on 3.6.1 d) Government intervention to protect suppliers and employees: restrictions on monopsony power of firms.

Whilst a monopsony diagram was not required many responses did attempt to apply such a diagram to the context with solid chains of reasoning well applied. Weaker candidates tended to focus on Amazon as a monopoly firm and did not seem to have understood what a monopsony firm is about. There is a possibility that some centres may have not covered monopsony as Question 8 was less popular than Question 7 and on the whole responses were not as strong.

OR

- 8 'Amazon.com, the giant online retailer, has too much power.' It uses its market power to put a squeeze on publishers, in effect driving down the prices it pays for books. If a publisher refuses, Amazon may take action by 'delaying their delivery, raising their prices, and steering customers to other publishers.'

(Source adapted from: <https://www.nytimes.com>)

Evaluate the likely costs of a monopsony operating in a market such as book retailing.

(Total for Question 8 = 25 marks)

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 7 Question 8

A monopsony is a market in which a large firm dominates with high reach or a market share of 70% and higher.

~~Amazon~~, Book retailing is a market in which there are monopolistic market in which there are lots of differentiated products. This makes it difficult for producers to make substantial profit.

A monopsony operating in this market means

that selling price is greatly reduced. Therefore, publishers will receive less revenue and authors will receive even less making writing less financially incentivised. This could mean that authors pursue different careers and the quality and variation in the market is reduced. Therefore consumers suffer from a lack of choice. However this depends on whether other incentives such as happiness and fulfillment drive authors.

A positive of a monopsony operating in a market such as book retailing is that prices are driven down for consumers. This means that there is greater consumer surplus and consumers spend less of their income on entertainment. This means that they will have more disposable income to pay for essentials such as food and electricity and still be able to afford luxuries to ensure they are kept mentally sound. However this depends on whether the negative externalities to the environment on increased delivery of products using vehicles that pollute the environment outweighs the positives.

This answer scores 12/25 marks. There are some elements of knowledge at the start regarding the operating of a monopsony in context, but it does not focus on the broad elements of the question and is thus not wholly convincing. The response is too short, and chains of reasoning run out. The evaluation is better with reference to the context.

- 8 'Amazon.com, the giant online retailer, has too much power.' It uses its market power to put a squeeze on publishers, in effect driving down the prices it pays for books. If a publisher refuses, Amazon may take action by 'delaying their delivery, raising their prices, and steering customers to other publishers'.

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Evaluate the likely costs of a monopsony operating in a market such as book retailing.

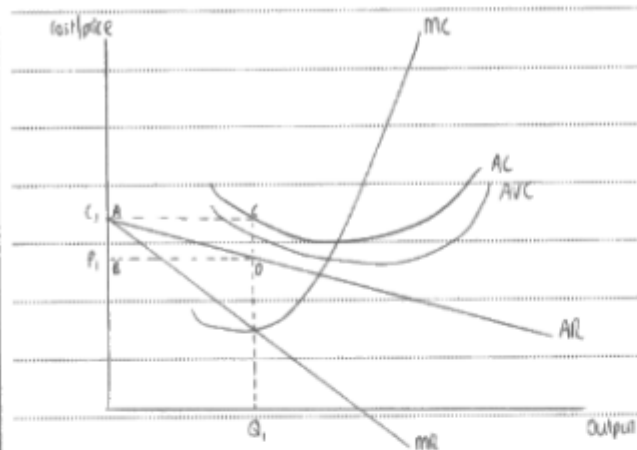
(Total for Question 8 = 25 marks)

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 7 Question 8

A monopsony is a single buyer in a market. In this instance, Amazon is a dominant and the ~~big~~ single buyer of books in the book retailing market.

One cost of a monopsony operating in this market is lower profits for ^{publishers} ~~book retailers~~. Amazon can ~~lower the~~ 'drive down the prices it pays for books' without threat from ~~book retailers~~ publishers as they have no alternative. Lower prices for books sold means profit margins are reduced for publishers and therefore they will have to seek alternative measures to reduce costs in order to maintain profits. This might take the form of job losses, resulting in increased unemployment for publishers. The diagram on the next page illustrates the losers for these



publishers, in the 2012 ABCD, and if average revenue falls below average variable costs (AVC) the publishers risk shutting down and going out of business.

Another cost of monopoly power is lower quality books and less choice. As public Amazon's monopoly power means that it can 'delay their delivery, raising their prices and steering customers to other publishers'.

This means that publishers must keep costs low so that they can keep profit in when their prices are lower. If publishers cut costs by decreasing labour or capital inputs, then the books will be of lower quality. For instance, publishers may only supply books from fewer authors or use fewer machines to print pages, in order to cut costs, many books reduce their number of pages and selling them to Amazon much quicker to avoid delay. Lower quality books will reduce consumer satisfaction and consumer surplus. Additionally, if Amazon steers customers 'to other publishers' it immediately reduces the choices available for consumers, therefore their satisfaction and consumer surplus reduces.

To evaluate this, there is still scope that consumer satisfaction can increase because of the 'driving down of prices' which means more consumers are willing and able to purchase books. In the long term, consumers become more knowledgeable and well-read, thus increasing overall intelligence levels and labour productivity in the economy in the long run. Another evaluative point to make is that Amazon can benefit from this by



obtaining higher profits, lower prices for books and higher consumption means Amazon makes supernormal profits

in the book retailing industry, illustrated by

the shaded area EFGH. Amazon can use these

supernormal profits to reinvest in the industry

in the form of research and development, thus

becoming more dynamically efficient. In the

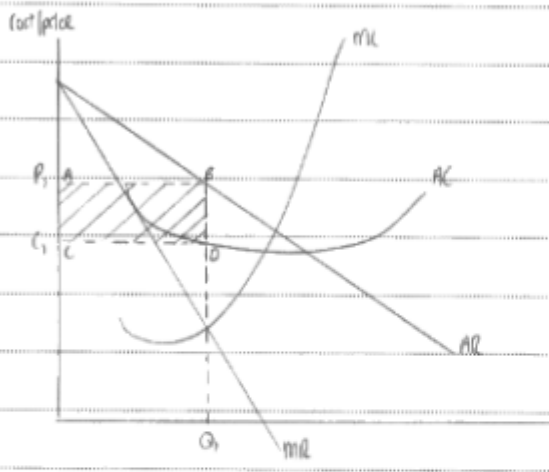
long term, this can make Amazon more profitable

and they can accommodate more publishers in

its catalogue, which benefits the new

publishers as well as consumers who

now have more choice.



output

Another point to evaluate is that the reduction in price may force publishers to become more productive and

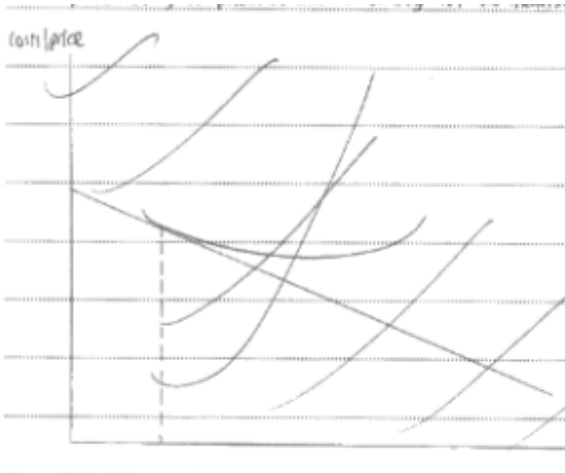
allocatively efficient. It encourages them to minimise their long run average costs, thus producing at the point

where $MC = AC$, in the diagram below and hence becoming more productively efficient. It also encourages

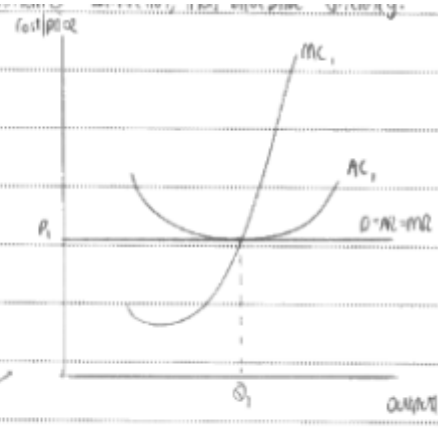
allocative efficiency, where $AC = AR$, because Amazon's monopoly power has made the demand for books from

publishers perfectly elastic (if publishers do not give in to Amazon's demands, they can 'steer' customers to

other publishers) so publishers will do all they can do to maximise consumer satisfaction, thus allocative efficiency.



output



output

In conclusion, the roots of monopsony power depends on how publishers react to Amazon's buying power. If they cooperate and look to be productively and allocatively efficient, it can minimize the costs to publishers and increase the benefits to consumers. If publishers do not cooperate, they risk losing their business and consumers miss out on a wider choice of books. Amazon itself will not experience costs unless the publishing company ~~forms~~ establishes a monopoly in the market to combat Amazon's buying power.

This answer scores Level 4 KAA and Level 3 Evaluation = $14\text{KAA} + 7\text{Ev} = 21/25$. There are lots of angles in this demonstrating precise knowledge and understanding of concepts alongside being critical of the underlying assumptions made. The use of the perfectly elastic demand curve is perhaps not convincing but negative marking does not occur.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Ensure you carefully study and understand the entire specification – understanding of price discrimination and monopsony was weaker than it should have been. Be aware of all definitions in the Specification.
- Be aware of all diagrams as identified in the Specification.
- Bad handwriting was evident at times and needs to be addressed to ensure it does not happen under timed exam conditions to ensure candidates answers are clear and easy to follow.
- When drawing diagrams remember to ensure they are clear and have all appropriate annotations. A third of a page is recommended to aid this. If you run out of space, you can use the additional sheets provided at the end of the essay or should ask for additional paper and clearly indicate which question you are writing about or providing a diagram for.
- Read the question instructions very carefully to make sure your answer remains relevant. Pause and think through your response – evidence of planning is not required but clearly can help. Ensure you answer the precise question you have been set, for example in the essays if you have been asked to refer to 'costs' make sure you do that.
- Spend time studying current developments in economics that are relevant to your specification. This not only enriches your understanding of key concepts but will enable you to refer to an industry or a firm of your choice if asked in an essay.

