

Examiners' Report

June 2025

GCE Economics A 9EC0 01

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at <https://www.edexcel.com> or <https://www.btec.co.uk>.

Alternatively, you can get in touch with us using the details on our [contact us page](#).



Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit <https://www.edexcel.com/resultsplus>. Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: <https://www.pearson.com/uk>.

June 2025

Publications Code 9EC0_01_2506_ER

All the material in this publication is copyright

© Pearson Education Ltd 2025

Introduction

This was the ninth 9EC0_01 examination in the 2015 Specification series and proved to be both accessible and challenging in equal measure. There were many excellent responses seen throughout the marking process, though many candidates missed straightforward marks for a range of reasons that we will explore. The questions covered a wide range of microeconomic issues from Themes 1 and 3, and gave candidates the opportunity to respond to topical data questions as well as the chance to showcase their own knowledge in the longer questions, particularly in Section C.

Section A continues to highlight the requirement to practise quantitative skills. Calculation-type questions in Q1(a) and Q2(b), together with interpreting the numerical value of elasticities in Q2(a) and Q6(c) were straightforward but in many cases poorly answered. Q1(a) asked candidates to calculate the change in supernormal profit with a change in business objectives. There were 4 marks available here, and candidates were expected to go beyond simply indicating the relevant equilibria. They should be stated, using data, then manipulated to give the correct change, to obtain the available marks. For future series, the simple act of practising these kind of questions in conjunction with the mark scheme will embed good practice. Candidates are also reminded to refer to the stem to gain application marks. The question paper does not inform candidates of what the breakdown of marks is, so it is good practice to use the numbers in the stem. Furthermore, though there are no explicit marks for definitions, there are marks for understanding, so a definition or formula is one way of demonstrating this. Q3(b) asked candidates to draw a diagram to identify the welfare gain from the consumption of dental care in the UK. However, many candidates confused the positions of the MSB and MPB curves. Many also annotated the potential welfare gain in the wrong place. Where diagrams are specifically asked for, the requirement is obvious, but candidates can often obtain marks for drawing a relevant diagram even when it is not specifically asked for. It is essential, however, that these diagrams are fully explained. Overall, the responses to Section A were consistent with previous years but could certainly have been better.

Section B contained the usual mix of points-based and levels-based questions. Q6(a) required the explanation of one likely impact of the growth of digital markets on allocative efficiency. A diagram or clear understanding of allocative efficiency were rewarded here. Q6(b) contained both marks for knowledge, application, analysis and evaluation. A clearly structured response here requires a clear statement of the reason and then reference to the extract to gain the relevant application marks. This is best achieved by the use of quotation marks to differentiate the knowledge from the application. Without this clear distinction, examiners may not be able to award the separate knowledge or application marks. Candidates were asked to examine two effects of increased 'automation' on the demand for labour. To access the marks for evaluation, candidates discussing the extent of the effect scored more highly than candidates who simply used an increase in demand as knowledge, and a decrease in demand as evaluation.

The levels-based questions in Section B are best viewed as a balance of breadth and depth. All require the development of knowledge, application and analysis on one side, together with evaluation of the significance, value or extent of the argument or factors considered. Q6(c) asked whether the price elasticity of demand for video games is elastic or inelastic. This required a good understanding of what price elasticity of demand actually is, together with an argument to say that PED is inelastic and another one to say it isn't. Q6(d) asked candidates to assess whether the

market for video game development is contestable. Candidates should be reminded that the number of firms is irrelevant to contestability. A contestable market is one in which the _threat_of competition is the most important factor.

Q6(e) asked candidates to discuss the likely benefits of mergers for firms such as Microsoft. There is no obligation on a question like this to discuss Microsoft. However, candidates should discuss firms and not the impact on consumers. Most candidates produced clear responses here and the best were those that used clearly labelled and well explained diagrams to access the top level of knowledge, application and analysis. Substantial evaluation is vital on 15-mark questions because there are 6 marks available for the skill, compared to only 4 marks on Q6(c) and Q6(d). Candidates are reminded to consider this in their approach to this question.

Section C, as usual, gives candidates a choice of questions. There was a marginal preference for Q8 when compared to Q7, which was an improvement on last summer's paper where the vast majority attempted Q7, which was the question on rising energy bills. The reference to microeconomic effects was not unprecedented, but did require candidates to concentrate on microeconomic rather than macroeconomic effects. The quality and range of responses to both questions were very good. Candidates are again reminded to clearly explain the diagrams they use and to consider the appropriateness of the evaluative comments made. For example, externality, cost and revenue and labour market diagrams were highly appropriate for both Q7 and Q8.

Q8 was a good opportunity for candidates to showcase a wide range of knowledge linking spending on education to a wide range of microeconomic effects. Though the majority of candidates discussed higher productivity and improved employability, the list is by no means exhaustive. What matters is the ability to use the range of economic concepts to effectively explore a key tool of microeconomic policy. There was no specific requirement to discuss an industry of choice, but many candidates gave very thorough assessments of the impact of mathematics education on specific types of firms, such as those in engineering, finance, and scientific research. There are 9 marks available for evaluation, and candidates are reminded to use the conclusion of their answers to develop a justified judgement in order to access full marks.

Overall, the standard of responses was consistent with last summer's paper.

Question 1(a)

In this question, candidates were asked to calculate the **change** in supernormal profit when a restaurant changed its objective from revenue maximisation to profit maximisation. Marks were awarded for identifying the respective maximising positions, then performing the requested calculation. This question was answered correctly by the vast majority of candidates, though there were several common pitfalls. Some candidates were unable to calculate the change correctly. A smaller minority corrected the change correctly, but failed to recognise that it was an increase rather than a decrease in supernormal profit. Other candidates gave the percentage change in supernormal profit rather than the change in **total** supernormal profit.

- (a) Calculate the **change** in total supernormal profit if the restaurant changes its objective from revenue maximisation to profit maximisation. You are advised to show your working.

(4)

$$MR = 0$$

at rev max:

$$(10 \times 130) - (8 \times 130) = £260$$

$$MR = MC$$

profit max:

$$(98 \times 14) - (98 \times 7) = £686$$

$$£260 - £686 = £-426$$



This response appears on first sight to tick all the boxes. The candidate has correctly calculated the supernormal profit at both the revenue maximising output and the profit maximising output. However, they have made the mistake of subtracting the profit maximising profit from the revenue maximising profit. The answer given is -£429. The correct answer is an **increase** of £429, not a decrease.

This response scored 3/4 marks.



It is vital to read the question carefully here and check any calculations made carefully. The question asks for the change in supernormal profit, and the change is a positive one for the firm, not negative.

- (a) Calculate the **change** in total supernormal profit if the restaurant changes its objective from revenue maximisation to profit maximisation. You are advised to show your working.

(4)

$$\text{Revenue max profits} \rightarrow (130 \times 10) - (130 \times 8) = 260$$

$$\text{Profit max profits} \rightarrow (98 \times 14) - (98 \times 7) = 686$$

Profit

$$\downarrow \text{Change} = 686 - 260$$
$$= 426$$



In this second example, we can see that the candidate has clearly identified the maximising outputs and performed the calculations correctly. The direction of change has been understood and the correct answer of 426 has been given, scoring 4 marks.

Question 2(a)

In this question, candidates were asked to explain the likely numerical value of the price elasticity of supply of oil, with reference to the data given. Marks were awarded for identifying that it was inelastic and that the value was between 0 and 1. Further marks were available for a justification and data reference. This question was answered well by the vast majority of candidates, though there were several common mistakes. Some candidates were unable to identify the value correctly, with a 'negative' value being suggested. This indicates some confusion with price elasticity of demand. Others focused on the degree of necessity, which is again, a demand side factor.

- (a) With reference to the data above, explain the likely numerical value of the price elasticity of supply for oil.

(4)

Price elasticity of supply refers to the responsiveness of supply to changes in price. The equation is $(\% \Delta \text{ in quantity supplied}) / (\% \Delta \text{ in price})$. The PES of oil is likely to be price inelastic because of the amount of time it takes to extract new oil. It can take "20 years to begin to extract oil". This means if price increases the supply will increase less than proportionally. This means the PES is highly inelastic so very close to 0, e.g. 0.2



This is a precise response that achieved all 4 marks. The candidate tells us that PES is likely to be inelastic because of the amount of time it takes to extract new oil. There is a supporting data reference. They then go on to tell us that if price increases supply will increase less than proportionally. Finally, a correct numerical value is given.

- (a) With reference to the data above, explain the likely numerical value of the price elasticity of supply for oil.

(4)

Elasticity = $\frac{\Delta Q^S}{\Delta P}$ in the extract it states they "continue producing" even when "prices fall" which indicate that the elasticity is less than 1 but greater than 0 as some firms will stop and may scrap their equipment to by and regain profit some sunk costs as the equipment "has no other use"



This second response scored 2/4.

The candidate uses plenty of application but there is only 1 mark for that skill. They gain the other mark for the numerical value being 'less than 1 but greater than 0'. Unfortunately, the candidate does not say what that value means. There is no theoretical development.



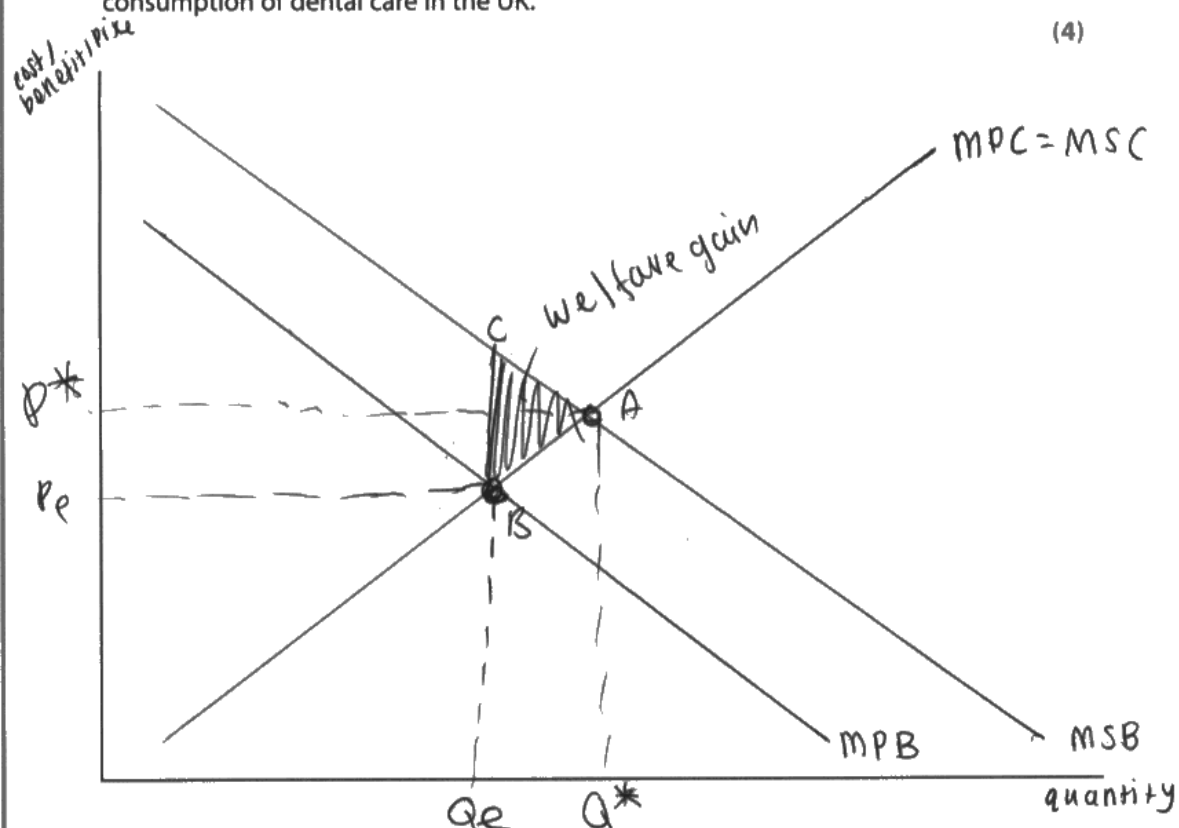
Candidates should always look to develop a point using relevant economic theory. This example is a case in point. We have a correct numerical value but no attempt to explore the concept of inelastic demand beyond that statement.

Question 3(b)

In this question, candidates were asked to draw an externalities diagram to identify the welfare gain from the consumption of dental care in the UK. Marks were awarded for identifying the positive externality in consumption, illustrating the correct position of the relevant curves, the relevant optimum outputs, and finally the correct area of welfare gain. This question was answered correctly by a large majority of candidates, though there were several common pitfalls. Many candidates were able to show MSB above MPB, but then marked the welfare gain in the wrong place. Others still illustrated $MSB = MSC$ on the same curve and multiple confused combinations.

Draw an externalities diagram to identify the welfare gain area from the consumption of dental care in the UK.

(4)



In this response, the candidate has clearly indicated the MSB curve above the MPB curve. The original equilibrium is marked at Q_e and the social optimal equilibrium at Q^* . The area of welfare gain is indicated by the shaded area ABC.

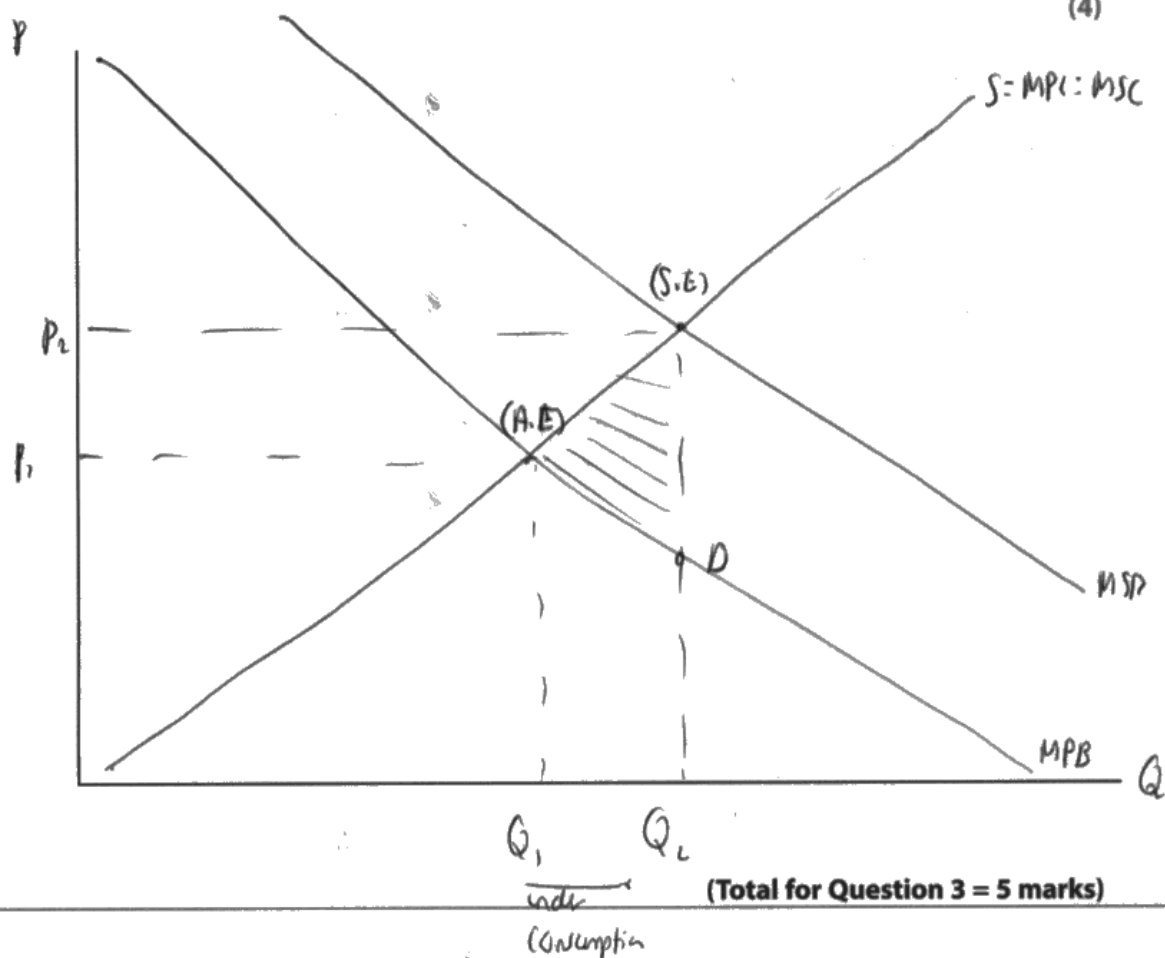
This response achieved all 4 marks.



In this response, the candidate has not specifically differentiated the market equilibrium from the social optimal equilibrium. They have obtained the marks because it is obvious which is which because of the area of welfare gain. However, it would have been more precise to have labelled them as such.

Draw an externalities diagram to identify the welfare gain area from the consumption of dental care in the UK.

(4)



In this second example, we can see the candidate has the MSB and MPB curves in the right places. The market and social optimal equilibria are also clearly annotated. However, the area of welfare gain is drawn in the wrong place.

This response scored 3/4 marks.

Question 4(a)

This question asked candidates to explain how imperfect market information could lead to a misallocation of resources in the used-car market. Marks were available for explaining how asymmetric information led consumers of used-cars to experience lower utility than if they had the correct information, which the seller had an incentive to hide from them. Equally sellers may not attempt to sell a car because they think consumers will not pay what it is worth. This question was answered very well, though candidates lost marks by not linking the situation clearly back to the notion of market failure.

- 4 Nearly 750 000 consumers in Britain face unresolved problems with used car purchases every year. Older vehicles tend to have more faults and increase the risks facing a potential buyer.

(Source: adapted from <https://www.gov.uk/government/news/new-approach-to-give-second-hand-car-buyers-a-better-deal>)

- (a) With reference to the data above, explain how imperfect market information may lead to a misallocation of resources in the used-car market.

(4)

Imperfect market information is a form of asymmetric information where some economic agents know more information than others. The extract shows "nearly 750,000 consumers face unresolved problems with used car purchases every year." This could lead to adverse selection as resources are distributed allocatively inefficiently. ~~This leads to~~ ^{which creates} market failure as there is a misallocation of resources between buyers and sellers.



This first response begins by showing a clear understanding of asymmetric information. It then moves on to quote the stem by referring to 750,000 consumers having unresolved problems. This is followed by a reference to adverse selection as a clear example of market failure.

This response scored 4 marks.



This candidate has clearly showcased subject-specific knowledge here, with the use of the concept of 'adverse selection', which immediately raises the quality of the response.

- 4 Nearly 750 000 consumers in Britain face unresolved problems with used car purchases every year. Older vehicles tend to have more faults and increase the risks facing a potential buyer.

(Source: adapted from <https://www.gov.uk/government/news/new-approach-to-give-second-hand-car-buyers-a-better-deal>)

- (a) With reference to the data above, explain how imperfect market information may lead to a misallocation of resources in the used-car market.

(4)

If a consumer doesn't know all the information or the correct information about the used cars they are buying then there will be a misallocation of resources in the used-car market as consumers will allocate their resources incorrectly as they spend their money on something they are not fully informed about which could result in problems.



This second response has a sense of what imperfect market information is and how consumers may allocate their resources incorrectly in the used-car market. However, there is no data reference and the reference back to market failure is simply too vague when compared to the previous example.

This response scored 2/4 marks.

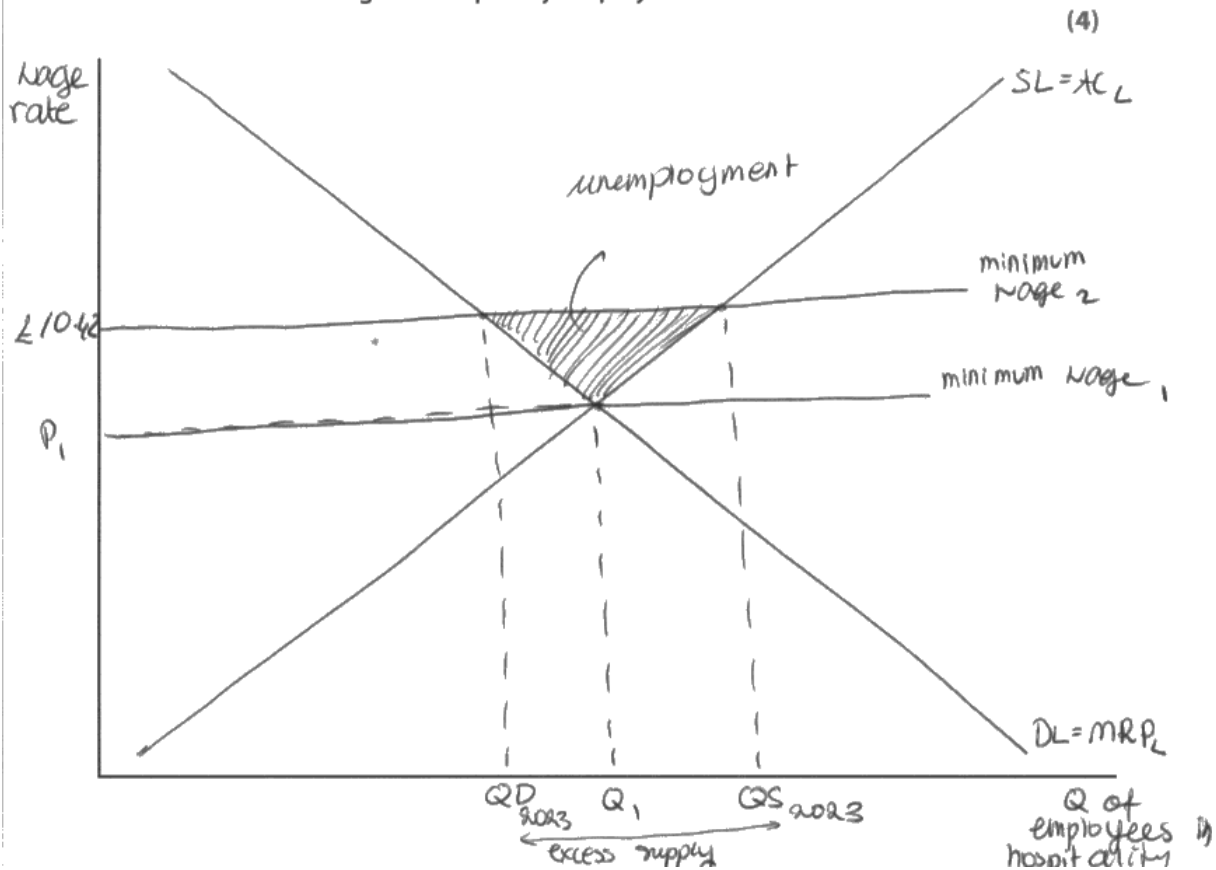
Question 5(a)

This question asked candidates to draw a labour market diagram to show the likely impact of an **increase** in the National Minimum Wage. Marks were awarded for identifying the correct axes and curves, the upward shift in the wage, and the increase in labour surplus. This question was answered generally well, but there were several common areas of confusion. Many candidates drew the original NMW at the free market equilibrium, rather than above it. Others failed to indicate the excess supply of labour. More concerning is that some candidates drew a minimum price diagram with no reference to the labour market at all or drew the minimum wage below the free market equilibrium.

- 5 The National Minimum Wage for people over 23 rose by 9.7% to £10.42 in April 2023. The industry most affected is hospitality.

(Source: adapted from <https://www.gov.uk/government/publications/the-national-minimum-wage-in-2023/the-national-minimum-wage-in-2023>)

- (a) Draw a labour market diagram to show the likely impact of the **increase** in the National Minimum Wage for hospitality employees.

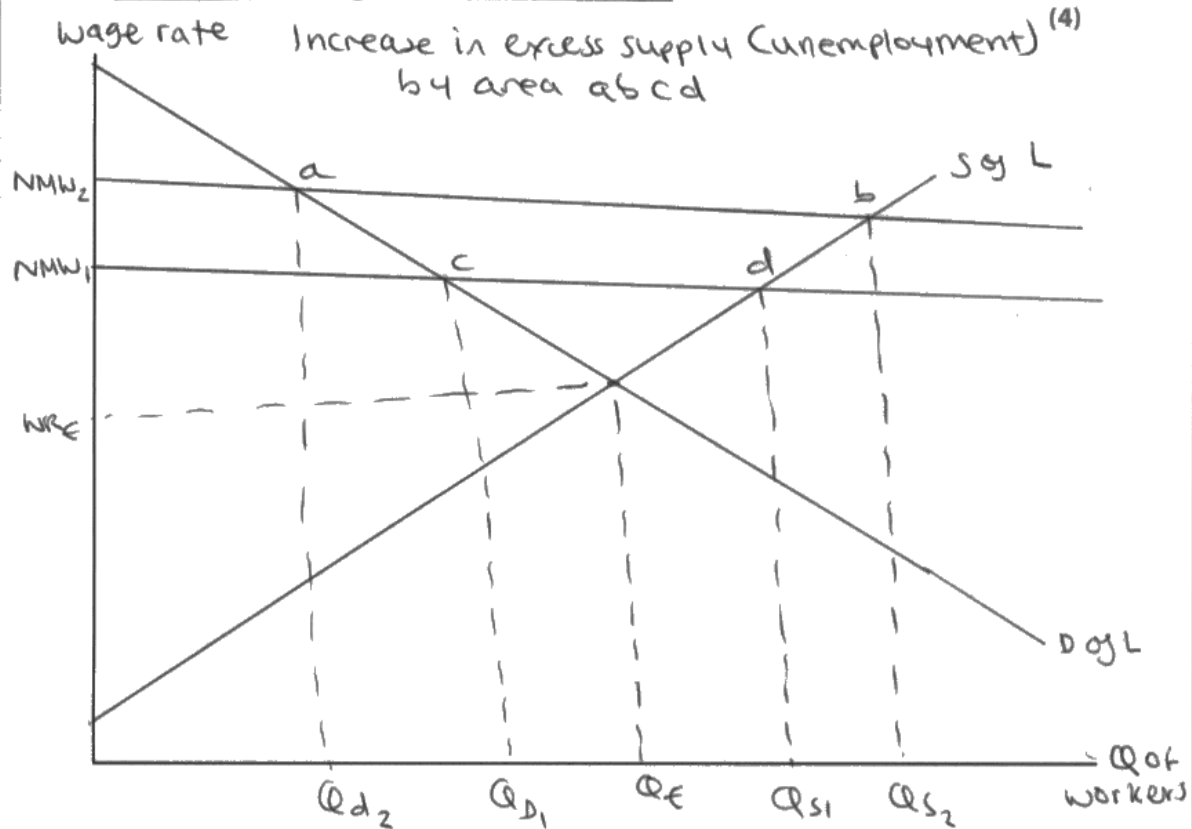


In this first example, the candidate has correctly labelled the curves and axes. They have also drawn the new minimum wage (£10.42) above the free market equilibrium and indicated the excess supply on the x-axis. However, the original wage is at the free market equilibrium (P_1), so this response achieves 3/4 marks.

- 5 The National Minimum Wage for people over 23 rose by 9.7% to £10.42 in April 2023. The industry most affected is hospitality.

(Source: adapted from <https://www.gov.uk/government/publications/the-national-minimum-wage-in-2023/the-national-minimum-wage-in-2023>)

- (a) Draw a labour market diagram to show the likely impact of the increase in the National Minimum Wage for hospitality employees.





In this second response, the candidate has correctly labelled the axes and the curves. They have also drawn the original minimum wage at NMW1 and the new minimum wage at NMW2. The area of excess supply has been clearly annotated at the top of the diagram.

This response scored 4 marks.



Whilst the annotation on the x-axis would have been sufficient to gain the final mark, this candidate has gone above and beyond by clearly annotating the diagram. Whilst not completely necessary there can be no ambiguity here. Often times, there is simply too little annotation to know precisely what the candidate means.

Question 6(a)

This question was the first linked directly to the digital markets material. It asked candidates to explain one likely impact of the growth of digital markets on allocative efficiency. The extract was full of information, and most candidates were able to identify how competition led to an increase in allocative efficiency, supported by relevant date references. This was a very well answered question, though full marks were sometimes missed because of a weak understanding of what allocative efficiency actually is.

- 6 (a) With reference to Extract A, explain **one** likely impact of the growth of digital markets on allocative efficiency.

(5)

One likely impact could be an increase in allocative efficiency due to the increase in competition.

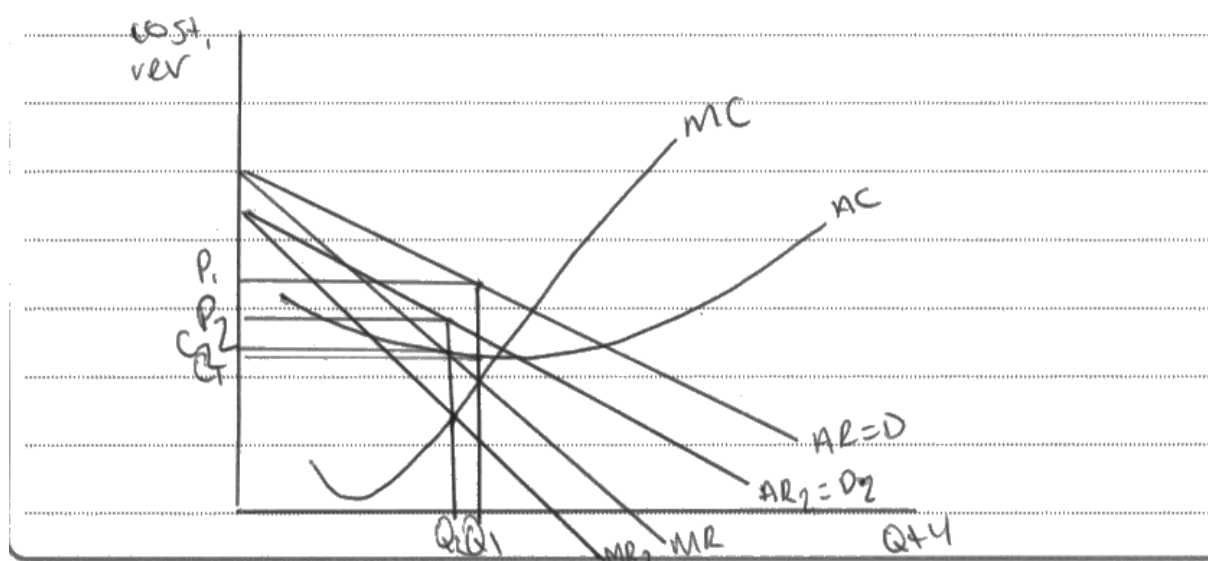


In this response, the candidate has simply not written enough. They have recognised that allocative efficiency will increase and connected this to the increase in competition. However, there is no further development. An explanation of what allocative efficiency is, a reference to the extract using the examples provided, would have been straightforward marks. As a result, this response scored only 2/5.

- 6 (a) With reference to Extract A, explain **one** likely impact of the growth of digital markets on allocative efficiency.

(5)

allocative efficiency is when the ^{cost} price of a good matches the price of which consumers are willing to pay. When $\text{Price} = \text{Marginal cost}$, we can say a firm is allocatively efficient. One likely impact of the growth of digital markets on allocative efficiency is that ~~it~~ it has increased allocative efficiency. "They have also been beneficial for consumers who now have greater choice and access to higher-quality products at lower prices." competition across a wide range of products and services have led to firms decreasing prices in attempts to win market share and increase revenue, the effect of a decreasing price is an increase in allocative efficiency as price falls and becomes closer to ~~the~~ the marginal cost.





This second example is exhaustive in the clarity of its explanation and the use of the extract. We have a clear understanding of what allocative efficiency is and the fact that it occurs where price equals marginal cost. The candidate refers to greater choice, access to higher-quality products and lower prices to maximise the marks for application. They then go on to tell us that this is attributable to the competition present in the market which increases allocative efficiency.

This response scored 5 marks.



When approaching the short-answer questions, a candidate can never be sure precisely how many marks are available for each skill because they are not indicated on the examination paper. It is therefore good practice to ensure that there is sufficient application to gain all potential marks, in addition to the knowledge and analysis which tend to be marked together on the SAQs.

Question 6(b)

In this question, candidates were asked to examine **two** effects of increased 'automation' on the demand for labour. Marks were awarded for identifying each effect, explaining it, and supporting it with a relevant data reference. Evaluation marks were available for this question. This question was answered very well by a large majority of candidates, though many candidates dropped marks by evaluating a positive effect with a negative effect. A more effective way to maximise the marks gained here was to discuss the magnitude or time-scale of the effect.

(b) With reference to Extract C, examine **two** effects of increased 'automation' on the demand for labour.

(8)

Demand for labour is the amount of workers needed in an industry to work. ~~at the~~ increased Automation means that jobs that were carried out by people will now be replaced and made redundant. This will increase unemployment. In the financial industry Extract C predicts by ~~20~~ mid-2030s 30% of jobs could be automated, this is a significant increase in people made redundant and have to find jobs elsewhere. This will decrease the demand for labour significantly.

On the other hand, extract C also says that automation and replacement of ~~per~~ workers will ~~be~~ ^{be} an economic benefit as it will create a \$12 trillion increase in global GDP, this extra income will create ~~new~~ ^{demand} for many new jobs. This could mean that the demand for labour with these new jobs may stay the same or increase, giving those workers a chance to still work.



In this example, the candidate clearly analyses two effects. The first one is concerned with the jobs lost as machines replace people. The extract is clearly used to support the point and the explanation is developed. The second effect concerns the creation of new jobs as the economy grows, which is again well explained. However, there is no evaluation of the magnitude or time scale of the effects. The second effect is a counter-point to the first.

This response scored 6/8.



The 8-mark question is always a tricky one for candidates, who often lose one or more marks for evaluation. In this situation the counter-point is evaluative, but the candidate can gain three marks for the knowledge, application and analysis marks available for the second effect. There are only two marks for evaluation. Much better to consider the time scale or extent of the effect. A really good evaluative point can gain both available marks.

(b) With reference to Extract C, examine **two** effects of increased 'automation' on the demand for labour.

(8)

One effect of increased automation is decreased demand for labour. Automation is the use of technology in tasks previously carried out by humans. One reason why demand for labour will decrease is due to ^{automation creating} lower costs. This is due to automated processes not needing to be paid a wage. Firms will also not have to provide benefits so costs will go down. It also means that consumers can pay less as producers / Firms can produce ~~more~~ ^{goods} cheaper. Meaning it can bring "economic benefits to both consumers and firms." However, this will suffer from time lags and high set up costs initially. Firms will have to invest large sums to purchase machinery and it will take a long time to get set up and be automated. Some firms may not be in a position where this is financially viable so initially demand for labour will not decrease.

Another effect would be increased demand for labour. The use of automation developing and increasing will require

"Highly skilled workers such as trainers and engineers". Because of this it will "create demand for many new jobs". This means more people will be employed to train and repair automated processes meaning demand for labour will increase. However existing services ^{traditionally completed by humans} have already been taken over, so demand for labour may stay the same. Online banking has "led to the closure of many high street bank branches" meaning automated processes have already decreased demand.



In this response, the candidate clearly examines two effects. The first one is a decrease in the demand for labour as automation progressively replace people as costs fall over time. The application is slightly vague but is in context, so gains a mark. The impact of this effect is then evaluated with the recognition that it will take time for the benefits to be felt. The second effect is the increasing demand for labour caused by the demand for 'highly skilled workers such as trainers and engineers'. This is effectively analysed. There is a further recognition that many of the benefits have already been felt in terms of online banking so demand may stay the same. If the application was slightly loose in the discussion of the first effect, we now have two more examples to confirm the marks awarded.

This response scored 8 marks.

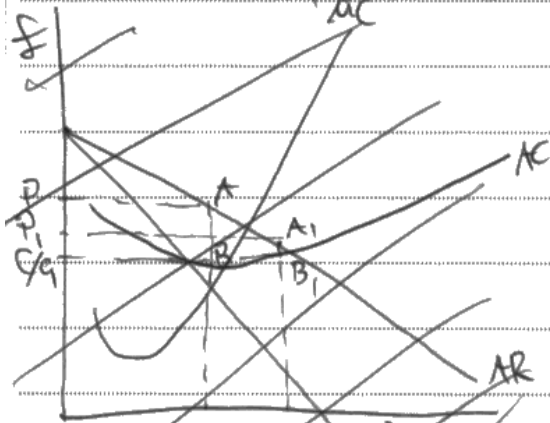
Question 6(c)

This question asked candidates to discuss whether the price elasticity of demand for video games is elastic or inelastic. This was the first of the level-based questions, and candidates were expected to develop an argument to say that PED was elastic and then counter it with an argument that PED was inelastic. Equally, candidates could switch and say that PED was inelastic and then counter it with an argument that PED was elastic. Again, the majority of candidates used the data effectively and wrote strong answers to support their points. One really well developed point on either side could achieve top marks here, but most candidates developed more than one. There are only four marks for evaluation, so one really well developed point can achieve all four marks.

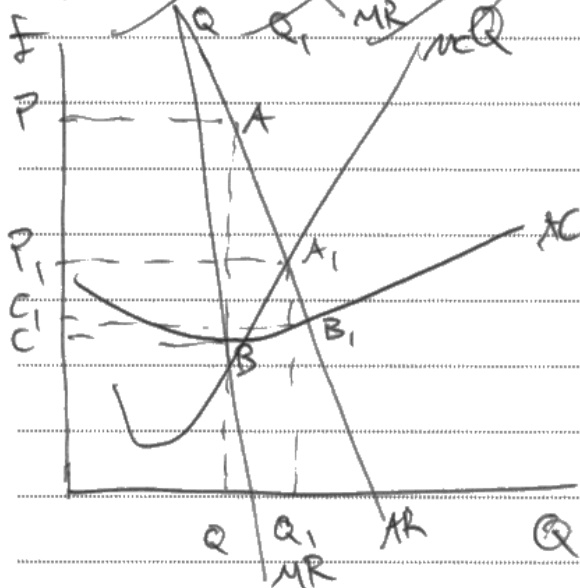
(c) With reference to the information provided, discuss whether the price elasticity of demand for video games is elastic or inelastic.

(12)

The PED for video games is likely to be an inelastic. The value of PED is between 0 and 0.8. This is because many consumers make ~~habitual~~ purchases due to the 'addictive nature' of the game.



This inelastic demand (AR & MR) means that with large changes in price such as P to P_1 ,



the quantity demanded by consumers ~~only~~ changes proportionately less as Q to Q_1 .

This is ~~necessary~~ highlighted as the most popular game of all time FIFA 23 had a retail price of \$59.99 and sold

2 530 510 units compare to other cheaper games like Minecraft selling far less quantities. This shows that

consumers are highly inresponsive to price and instead focus far more on quality of the game.

However this depends on the current tastes and fashions, as 'higher prices do not seem to deter new ^{buyers} ~~players~~ in 'sports and multi player action games' if the tastes and fashions changed to real life board games due to negative externalities of too much screen time, demand for video games will become more elastic.

On the other hand, demand is inelastic due to the habitual nature of subscription fees, as to play online consumers of games like FIFA 23 and COD: MWII must have a subscription to Microsoft online services, at £13.99 a month.

Consumers are highly inresponsive to this as it is a necessity to play video games. This is likely to mean that the games themselves become a justification of this habitual behaviour as to ~~make~~ ~~the~~ maximise the utility of the subscription.

fee, consumers must buy games like Gran Turismo 7, despite the £69.99 price tag. This shows irrational consumer behaviour due to the habitual nature and probability of a lack of computational skills, being unaware that the costs of subscription over a year along with a game may be nearly £238 showing high inelasticity.

However, this depends on the availability of substitutes, as the improvements of technology reduce barriers to entry in the market, new game developers may arise and offer far cheaper substitutes at similar quality. This will make demand for video games more elastic as consumers have far more choice.



The first response we consider is clearly a strong example. The candidate has written two in depth arguments to say that the demand for video games is price inelastic. The first centres around the notion of the addictive nature of the game and explores the impact of the high prices. Gamers are prepared to pay £59.99 and sales still exceeded those of Minecraft, which was much cheaper. The sense that gamers are prepared to pay for the experience is clearly developed and the analysis is strengthened with a well explained cost and revenue diagram. This achieved the top Level 3 for KAA. The point is evaluated with the recognition that tastes may change and the impact of 'too much screen time' may cause demand to become more elastic over time. This was awarded Level 2 for evaluation. The second KAA point explores the habitual nature of subscription fees and makes the point that it is not possible to play the game without them. Though expensive, gamers pay them anyway. This is because they are a necessity, further strengthening the point. The candidate weaves together economic theory and the extract very effectively, again achieving the top of Level 3. Finally, the point is further evaluated by considering the threat of technological development reducing barriers to entry in the industry and how substitutes can increase the PED over time. Only four marks are available for evaluation, and this response secures all of them.

Overall, this response achieved full marks.



The 12-mark question is a step up from the 10-mark 'assess' question mainly in terms of the breadth of argument to support the KAA. The number of marks for evaluation is the same, so it is important for candidates to develop the KAA. In the case of this example, it is achieved by developing two distinct points.

(c) With reference to the information provided, discuss whether the price elasticity of demand for video games is elastic or inelastic.

(12)

Price elasticity of demand = $\frac{\text{Percentage change in quantity demanded}}{\text{percentage change in price}}$

~~Price~~ Video games could be seen as price inelastic as they are a habit forming good. Many players spend up to 10-16 hours a day playing games and continue to do so even with incredibly high prices of games with added on subscription fees and in game purchases, this means that even if ~~there~~ there is an increase in price, they will still choose to play.

However, many young players are still in education and do not have jobs ~~there~~ therefore if prices increase they have no income and ~~therefore~~ can't afford to pay for the videogames anymore so at a certain price, ~~at a~~ demand would become elastic as they are too expensive for young players.

Another reason why the price elasticity of demand may be ~~a~~ inelastic is due to reduced competition and therefore there aren't any alternatives. Microsoft is a dominant firm in the videogame market and it's merger with Activision which owns one of the most popular videogames in the world may ~~be~~ mean that they create a legal or dominant monopoly ~~in a way~~ and can have some or lots of price making control ~~on~~ which leaves consumers with little to no alternative not affect demand for them.

However, some simple videogames can cost as little as £23,000 and take less time to develop meaning that these games would be much cheaper and therefore consumers could switch to playing these games for ^{less} money meaning ~~price~~ demand may be elastic.



In this second example, the candidate still has the four paragraph structure, but the quality of the KAA is clearly less sophisticated when compared to the previous example. The evaluation is good, though again not in the same league as the previous example, though it is less pronounced than the quality of the KAA. The first KAA point covers the amount of time spent by gamers playing and refers to the high cost of the games and the subscriptions. However, the responses doesn't use the data as much as it could and the points are not explained as fully as the previous example. This paragraph achieved Level 2 for KAA. The second KAA paragraph explores the impact of the Microsoft merger on the availability of alternative games. Though it is significant, it is unlikely to reduce the power of Sony and Nintendo in the short-term, so though valid the point has less gravity. This achieved Level 2 for KAA. The two evaluative points are sufficient for the bottom of Level 2. This response achieved 4 for KAA and 3 for evaluation.

Question 6(d)

In this question, candidates were asked to assess whether the market for video game development is contestable. The 10-mark 'assess' questions require only one strongly developed point on either side of the argument. The extracts were full of useful information and candidates were able to develop good responses in the vast majority of cases. However, the confusion between competition and contestability seen in last summer's essay question on contestability in the fragrance industry still remains. There were simply too many responses talking about competition within the industry rather than the impact of the **threat** of competition from outside it.

(d) With reference to the information provided, assess whether the market for video game development is contestable.

(10)

one reason why the video game development is ^{not} contestable is the high barriers to enter. This is because "video games can take up to five years and cost over £150 million". It would be very difficult to gain that kind of capital for a new firm entering the market. This means that with no means to enter the market means that it is not contestable. However some simple video games and apps cost as little as £23,000 to develop and take around six months. This means a new firm may be able to enter the market due to the low cost and time making it more contestable.

Another reason is that as we can assume this market is an oligopoly it means that it will be very hard for a new firm to enter the market due to things such as brand loyalty where consumers won't leave the brands they support meaning that it will

be hard for new firms in the market to be able to find new customers making it non contestable



In this first response, the candidate has shown some understanding of the role of barriers to entry in impacting the extent of contestability in the market. The first paragraph contains both KAA and evaluation. The KAA is rudimentary but scores Level 2. The evaluation is reasonably well substantiated and in context, so edged into Level 2. The second paragraph discusses the market structure, which is not relevant, but does link it back to the senses of brand loyalty, which will impact the extent of contestability. This analysis does achieve Level 2. There is no further evaluation. This response scored Level 2 for KAA and Level 2 for evaluation.

This response scored 7/10.

- (d) With reference to the information provided, assess whether the market for video game development is contestable.

(10)

Contestability refers to how open a market is to entry and exit. The videogame development industry could be described as uncontestable due to the high barriers to entry, such as brand loyalty. It is likely that consumers in the videogame industry will be very loyal to their favourite videogame such as FIFA 23 and Call of Duty 11 as they dominate the market. This means that if a firm wants to enter an industry, they may need to spend huge amounts of money on advertising to get their product out into the consumer market and appeal to them and as advertising is a sunk cost meaning it is irrecoverable should a firm decide to exit the industry, this may deter many firms from entering the videogame market, due to the huge sunk cost of advertising involved as a result of high levels of brand loyalty, which makes the market uncontestable, as the advertising may not even work.

Furthermore, the market may be described as uncontestable as there are significant start up costs, with many games taking up to 5 years to produce and costing over £150 million to develop this can be seen in the fact that starting salaries for software

Engineers can be £100000, which may lead to it being hard for many firms to enter the market due to the high cost of wages and start up costs, which act as a barrier to entry, making the market uncontrollable.

However to evaluate, some simple videogames and apps cost as little as £23000 to develop and take about 6 months to develop meaning that ~~into~~ the market of videogames could be described as contestable as it may not cost that much to enter. Meaning the market may be more contestable lower costs ~~are~~ ^{but} not higher up.



This second example is a very strong one, which scores full marks. The quality of the KAA is particularly noticeable, with the candidate discussing brand loyalty in the first paragraph and the start up capital required in the second. This has clearly been done very well and synthesises the information provided in the extract with impressive use of economic theory. The evaluation, although not particularly extensive, was deemed sufficient to score full marks. For a 10-mark question, the evaluation only allows for four marks. The recognition of the market being more contestable 'lower down rather than higher up', in other words where cheaper games can enter the market, was considered to be a sophisticated observation.



It is important in questions such as this to either implicitly or ideally explicitly, convey a clear understanding of what contestability means. It is not the extent of competition that matters but the ability for **potential** competition to become actualised.

Question 6(e)

This question asked candidates to discuss the likely benefits of mergers for firms such as Microsoft. This was the second 'discuss' type question, and in this one there are fifteen marks available rather than twelve. Knowledge, application and analysis can be awarded up to eight marks, whilst there are six marks for evaluation. The question asks for 'benefits', so candidates are expected to discuss more than one. Most candidates performed well on this question, though a common error was to discuss the impact on consumers. This is not what the question is asking about. However, candidates could gain marks using this line of argument if they were able to link back the benefit to the firm. Each point also had to be effectively evaluated to access the top marks here.

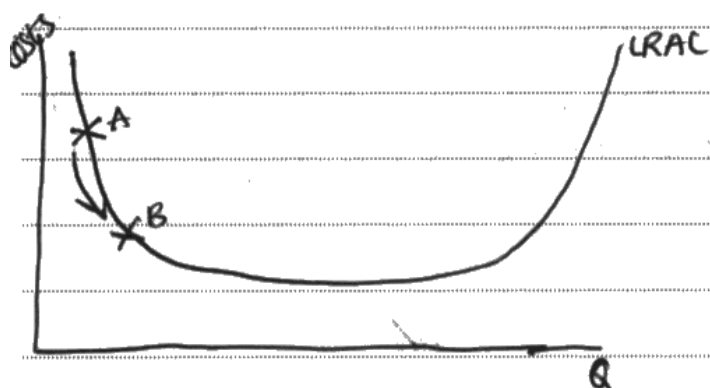
(e) Discuss the likely benefits of mergers for firms such as Microsoft.



(15)

A merger is where two firms join together under common ownership. One likely benefit of a merger for firms like Microsoft is that it will reduce their competition. This is because Microsoft owns Minecraft but merging with game designer Activision will significantly reduce their competition as Activision owns the second best selling video game in the UK in 2022 - COD: MWII. The game made 1678323 sales in 2022 which is over 6 times as many as Minecraft. This will increase Microsoft's market share as the merger will mean that their combined market share will give them a more dominant market position. Increased market share will give them more market power so they have more ability to control prices and maximise their profits. This may be particularly significant in the video game market as demand is inelastic due to their addictive nature making many young people willing to pay high prices. They can therefore use their high market power to increase their prices, they won't see a fall in demand and so total revenue should rise therefore profits should rise if costs are constant. However, due to the large market share that Microsoft-Activision will now have, they may attract attention from the competition authorities. Sony has raised concerns about how the merger may reduce competition in the market. If investigated, the Microsoft-Activision's market power could

be restricted if authorities feel it would lead to costs for consumers as they would be able to exploit their power and charge low prices and high quality - particularly if they gained 25% of the market to become a legal monopoly. If their prices or profits were restricted, this may lead to worse outcomes for the firms than before the merger as they can only make limited profits.



Another benefit could be that Microsoft can now benefit from economies of scale. This is where long run average costs fall as output rises. This is because they may now benefit from risk bearing economies of scale as they can diversify their revenue streams by operating two video games, Minecraft and COD: MWII, that are both in the top 5 best selling games in 2022. This means that if demand for one game falls, the firms are protected by the other game's revenue and will have higher cash and asset reserves for security. It also means that they can spread their high capital costs of technology and high labour costs of software developers with salaries up to £100,000 over a higher output so their costs per unit fall and they move from point A to B on their LRAC closer to the minimum efficient scale where costs are at their lowest per unit so they increase their profits.

as costs fall.

However, this may not be the case as the merger has a very high cost of £65 billion. This is a massive ^{fixed} cost to the firms which will significantly reduce their supernormal profit and maybe make them less dynamically efficient as they are then able to invest less. This may reduce their efficiency as they may invest less in specialist software development meaning productivity falls and average and marginal costs actually rise whilst they cover the cost of the merger.



In this first response, the candidate develops a very strong first paragraph in which they explore the impact of the merger on competition within the gaming industry. This increase in market power will bring significant benefits to Microsoft, and enable them to take advantage of the low PED by raising prices to maximise revenue. This paragraph achieves the top of Level 3 for KAA. The point is then evaluated with reference to the interest attracted from the CMA, something which did happen, and which led to the merger initially being blocked. This achieves E3. The candidate then moves on to explore a second benefit, which is access to economies of scale. They focus on the risk-bearing economies available and link them to the movement along the company's LRAC curve towards the Minimum Efficient Scale. This is further explored diagrammatically. This paragraph also achieves Level 3+ for KAA. The candidate then offers further evaluation by exploring the impact of the acquisition on the Microsoft's profitability and potential for dynamic efficiency gains, which may well diminish. This also achieves E3.

Overall, this response scored 15/15 marks.

(e) Discuss the likely benefits of mergers for firms such as Microsoft.

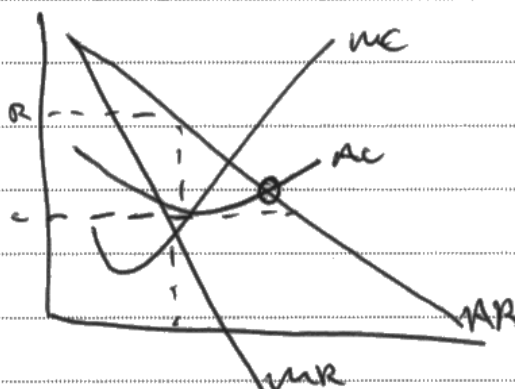
(15)

Mergers

A merger is the fusion/acquisition between one company and another. An example can be the £68 billion merger between Microsoft and Activision where the tech company Microsoft, bought out game company Activision. This is a form of inorganic business growth where Microsoft forward, vertically integrated themselves - from tech to games. This benefits Microsoft as it allows it to take advantage of its economies of ~~scale~~ scale. One example can be risk bearing where if Microsoft are faced with a term of unproductivity they can rely on profits from Activision's games to maintain supernormal profits. This means Microsoft ~~can~~ doesn't have to worry about future instabilities in the market as much and can continue investing into itself, being dynamically efficient. This inorganic merger growth and dynamic

Investment growth could allow Microsoft to become big enough to take advantage of its borrowing economy of scale, taking larger loans for increased investments.

All of this benefits Microsoft



However the merger does have its drawbacks. Other competitors such as Sony may see this as unfair as Microsoft now has a considerably large market share. The govt may take notice of this and start placing regulations on Microsoft. This would force Microsoft to



This second response lacks much of the sophistication of the first. There are only two paragraphs to the response, which limits its scope. The candidate talks about the benefits of economies of scale, specifically risk-bearing economies. These will generate profits which can then be re-invested, leading to dynamic efficiency. There is some merit in these points but the chains of reasoning are not strongly developed. At the end of the paragraph the candidate then introduces, but doesn't develop, financial economies that could be available. Overall, this paragraph achieved Level 2 for KAA. The candidate then offers some evaluation, raising the question of market power and its abuse, which may attract the attention of the CMA. Again, this is not developed, and it is apparent that the candidate stops mid-sentence. This paragraph edges into the bottom of Level 2 for evaluation.

Overall, this scored 5 for knowledge, application, and analysis, and 3 for evaluation.



Candidates should endeavour to develop the requested benefits in separate paragraphs to create a more detailed analysis. Evaluation also needs to be substantial to access the top level. One short paragraph is clearly insufficient.

Question 7

This question is the first example from Section C and provided the opportunity for candidates to showcase a wide range of subject knowledge to support their arguments. Q7 asked candidates to evaluate the likely microeconomic effects of building major infrastructure projects. The clue here was in the question, and candidates were expected to write about the impact on firms, external costs and benefits, the labour market etc. Reassuringly, most candidates did precisely this, though a small minority failed to differentiate sufficiently between microeconomic and macroeconomic effects. For example, reference to the effect on employment is a microeconomic effect but the effect on unemployment is macroeconomic. Having said this, the quality of responses was strong and the majority of candidates were able to develop and evaluate two clearly structured points and offer an informed judgement as the mark scheme requires.

Plan:

P1 - HS2 cost alot time alot ethical issues.

P2 -

Answer 1

~~HS2~~ One micro economic effect of building HS2 is that it is a massive risk/investment. HS2 cost 100 billion pound a major cost for the UK government to which they would have to pay off somehow with either increase the tax of people or tax business more. However they do it. It will create alot of problems and questions from the UK countries people. which can lead to people disliking the current government. and voting them out in the next vote. This would be

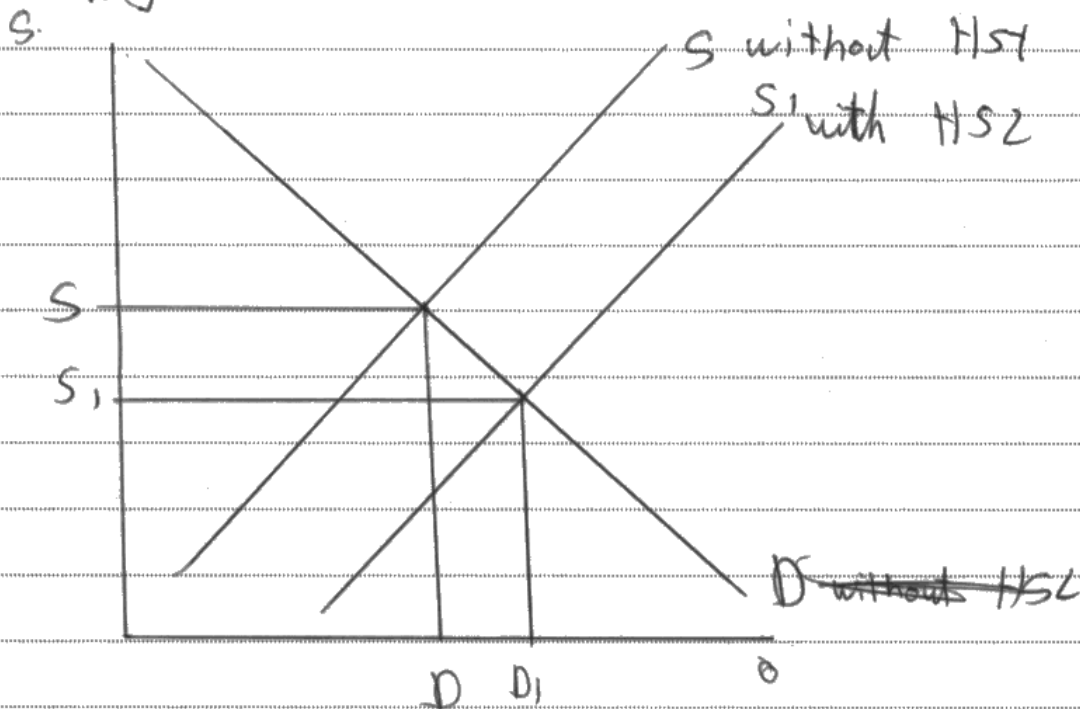
extremely bad due to HS2 being such a massive project and it will most likely take 20-30 years to complete ~~no~~ meaning. If the current government eg Conservatives go out of power and the Labour ~~part~~ party comes into ~~power~~ power and cancel the project as they think it's rubbish there has been a massive loss and failed to allocate resources which can raise concern from the UK people as they were paying all that increase in tax for no reason just for it to go to waste.

Another microeconomic effect of the HS2 project is ~~very~~ its ethnically word. As stated in question 7 "900 homes, 1000 businesses 60 ancient woodlands would be destroyed" which will add to the cost of the HS2 project. So Government will have to compensate the businesses and ~~for~~ homes destroyed.

Also the government destroying the woodland can arise several environmentalist groups and which cause alot of headache and increase time and money spent on the project as they will have to either go around the forest or make some sort of deal with the protest group. If they don't it can lead to people disliking the current government and them losing power at the next vote.

However HS2 once completed will bring massive amounts of economical advantage. In England there is a massive North and South Split meaning majority of the wealth is in the South near London Birmingham and the bay areas. HS2 would connect the North and South which can ~~be~~ greatly impact everyone. It will create job opportunities as it only takes 1 hour 54 minutes to get from Manchester to Birmingham it allows

people to be able to commute from the different cities greatly increasing the Supply of labour.



If there are more routes available and ~~the~~ they get jobs they can increase tax revenue for the government and more consumption will take place leading to economic growth.

It also ^{improves} ~~allows~~ the transport ^{of goods/raw material} of goods across the country. ~~As~~ ~~the~~ ~~is~~ ~~can~~ travel along the H₂ cutting business cost ~~all~~ allowing them to save more money increasing

profit.

In Conclusion the HS2 project will have many microeconomic effects and it will be worth the money spent to develop it however developing HS2 will be challenging as the UK people like to see immediate change and won't be patient if it comes to something like HS2 which would cost them a lot of money.



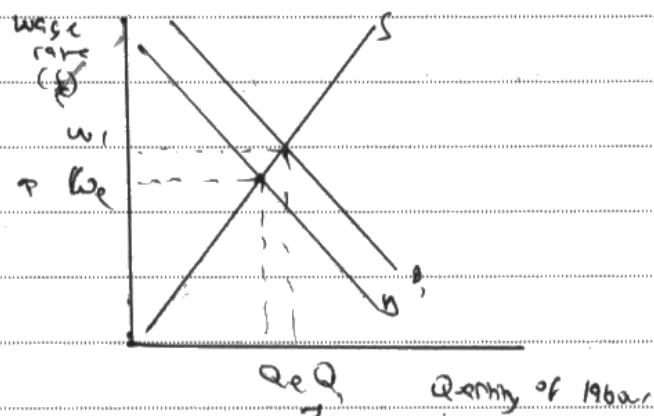
This first response begins by attempting to analyse two negative effects of the construction of HS2. The first effect is the overall risk to the government and the taxpayer, leading potentially to an electoral defeat. The tone of the paragraph is very political and quite macro in tone. This paragraph was awarded Level 2 for knowledge, application, and analysis. The second effect centres around the negative 'ethical' impact and discusses a range of negative externalities stated in the question stem. Popular protest could develop as a consequence. Again, this is valid but would benefit from more economic theory to clarify and support the point. The overall sense of the response is very political in places. This paragraph was also awarded Level 2 for KAA. We then have the presentation of a positive effect, which can be awarded as evaluation. Jobs will be created as a result of greater geographical mobility, though the candidate doesn't use that term. We also have a basic supply and demand diagram to develop the point. There is some drift into macroeconomic concepts such as economic growth and government tax revenue towards the end of the paragraph. This was judged to have just edged into Level 2 for evaluation, overall. The candidate then develops this further with a point on the benefits of stronger transport links. This is not developed, so remains at E1. There is then a conclusion which was awarded at the bottom of Level 2. The conclusion does attempt a judgement but is again very political.

Overall, this response scored 6 marks for KAA and 4 for evaluation.



Candidates should be encouraged to support their points with relevant economic theory as much as possible. The essay questions are a significant opportunity to showcase subject specific terminology and concepts to build and sustain an argument. An essay on economic policy is not an essay on political theory, and candidates could use concepts such as 'normative' and 'positive' to support their analysis and evaluation of economic concepts.

One likely ~~macro~~ microeconomic effects of building major infrastructure projects it could be a creation of jobs in the construction ~~industry~~ industry. This is because the government's aim to expand existing network through HS2 would mean that more rail tracks may need to be built between ~~large~~ London and ~~and~~ Manchester to ~~decrease~~ ^{decrease} the journey time ~~to~~ to just 1 hour and 11 minutes. As a result, the government may ^{hire} ~~hire~~ construction ~~industry~~ industry to ensure that the ~~new~~ railway track built is efficient ~~and~~ and does not have faults that could slow down the train journey.



As shown in the ~~the~~ diagram above, an increase in demand for the building of infrastructure such as railway

franch leads to an increase in demand for labour in the construction industries who are needed to build the infrastructure. This is because the demand for labour is derived demand, that is, it depends on the demand for the goods or service that the labour produces. Higher demand may lead to an increase in wages from w_0 to w_1 due to excess demand in the ~~economy~~ ^{construction industry}. This may reduce unemployment in the construction industry as building of infrastructure tends to be low skilled, manual ~~work~~ work that requires little skills this ~~may~~ leading to a rise in disposable income for those working in the construction industry. For example, people who may have immigrated to the UK from Central or Eastern Europe may not have been living in poverty prior to the creation of jobs in the construction industry since they may lack the qualification to join other industries such as IT which requires more skill. Therefore, the demand for labour is ~~not~~ wage elastic, that is, it is highly responsive to a change in wages. Higher income may lead to microeconomic benefits in other industries such as ^{increase in demand for} restaurants as the workers with higher income may be able to spend on ~~a restaurant~~ buying food that is not home cooked. Therefore, building major infrastructure may have microeconomic benefits.

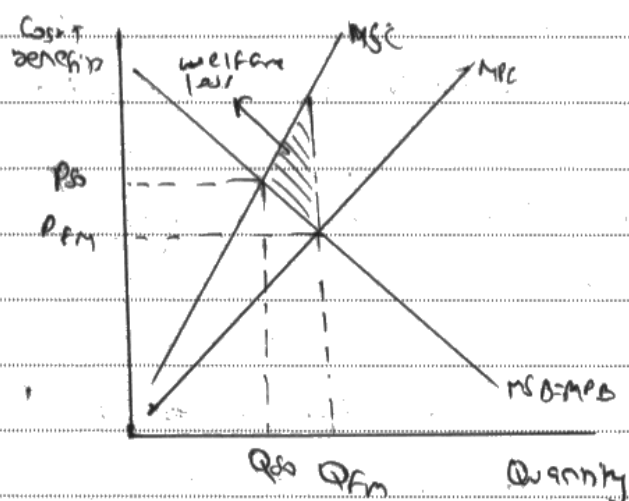
of increased demand for labour in the construction industry.

However, the creation in jobs may not be entirely possible, if the major infrastructure project of building the A166 fails. This may be an example of government failure if the UK government may fail to do a correct cost-benefit analysis when deciding to go ahead with the A166. For example, they may have underestimated the costs of producing the building rail tracks for such a large distance between Manchester and London.

If the costs of the project rise above the benefits of faster travel, it may lead to a failure of the project thus closing down the building of the A166 and resulting in a loss of jobs for those employed by the construction industry. This may leave many low skilled workers occupationally immobile since they may not have the right skills to work in computer industries or other industries.

Nevertheless, the occupational immobility may be short term as the workers may learn new skills possibly through government subsidies of education and training to learn how to use computers or in customer service as this increases occupational mobility in the long run.

Another microeconomic effect may be an increase in the negative externalities such as the side destruction of homes or possibly pollution. A negative externality is a cost of an economic activity not fully reflected in its price and a spillover effect on third parties not involved in the economic activity.



As indicated in the shaded diagram, production & building of major infrastructure projects may lead to negative externalities of destruction of homes. The government may be producing at the free market equilibrium of P_m , Q_m , only taking into account the private costs of production. They may be ignoring the external costs of over 900 old homes, 1000 businesses and ancient woodlands being destroyed. This may lead to homelessness and poverty and may prevent workers from being able

run, the long term benefits may outweigh the effect. The link between ~~manche~~ London and Manchester may improve the geographical mobility of labour in all industries especially the financial sector ~~which is the hub of it~~ ~~where the work is done~~ ~~and~~ London is the hub for financial services. This may lead to lower unemployment in the financial service sector as workers may ^{commute} ~~travel~~ to and from Manchester and London just for work. This may also lead to greater productivity and motivation not just in the financial sector, but in other industries such as teachers (education) since workers spend less time travelling to ~~and from~~ work so their time is less tired. Therefore, it could be argued that ~~there may~~ there may be positive effects from the different industries, especially service sector in the long run as due to ease of travel. Road pollution may also be reduced as people use ~~rather~~ rail travel ~~than~~ instead of car.

In final conclusion, the ~~great~~ most significant ~~effect~~ to macroeconomic effects would be creation ~~of~~ of jobs in the construction industry due to demand for ~~the~~ labour being caused demand leading to long term benefits.

TOTAL FOR SECTION C = 25 MARKS



The second example we consider here is significantly more developed and marshalls a significant amount of information to create an excellent response. The first effect discussed is the impact on the construction industry. Many jobs would be created in such an endeavour. The candidate points out that the impact would be more significant at the bottom end of the labour market, with low paid jobs benefitting the most. This achieved the top of Level 4 for KAA. The evaluation regarding the possibility of government failure is very strong and achieved E3. The second paragraph considering the extent of negative externalities is again, very sophisticated and achieved the top of Level 4. Again, helped by the integrated use of a well drawn diagram. The evaluation then moves on to consider the benefits to workers who are able to access more highly paid jobs in London, and which would offset the negative externalities created during the process of construction. This paragraph was awarded at the top of Level 3 for evaluation. The conclusion, though brief, identifies the most significant impact in the long-term and is sufficient to achieve full marks in light of the quality of the evaluation throughout.



The key takeaway here is that an essay doesn't have to be perfect to achieve full marks. The candidate is quite possibly writing this essay in thirty minutes and to produce something of this quality in that time is a significant challenge. Such attempts will be awarded using the full range of marks available.

Question 8

This final question asked candidates to evaluate the likely microeconomic effects of increased spending on education. Again, there was plenty of scope for candidates to develop points around the private and social benefits of education. There were many excellent responses considering the impact on firms, on the labour market, and the wider society. Again, there was sometimes a tendency to develop macroeconomic analysis on the government's fiscal position but this was rare and most candidates were careful to answer the question asked.

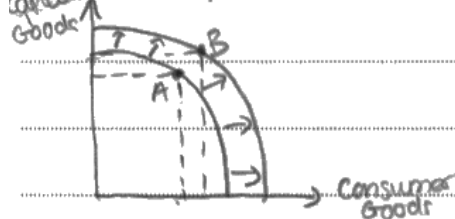
One effect of increased education spending is that there is long-run increase in ^{labour supply} ~~output~~ as the increase in skills will cause more efficiency and productivity as the workers will feel more confident in their work. The source says "data is everywhere and statistics are vital in every job... more analytical skills than before". The source implies that due to rise in AI, there is a need for more diverse skillsets to ensure ~~maintain~~ the availability of jobs. This therefore will increase workforce supply as there are more workers available and willing with the right skillsets for complex jobs such as data engineers especially in world full of AI. Therefore education spending leads to lower unemployment as employment rates increase especially for high value job roles.

However, there is a significant time lag as students choose to carry on further studies after 19yrs old meaning that in the short run, there is still lack of workers which increases unemployment. Therefore, to solve this the govt could increase spending on the workforce sector training instead to not only equip workers with better skills but to overall increase dynamic and productive efficiency in the long-run.

Another effect of increased education spending is ~~to~~ that it helps to increase innovation skills in 16-19 year olds who then

Use these analytical skills to further boost UK economy perhaps even indirectly. Through this the level of innovation increasing causes dynamic efficiency where the labour market has high levels of R&D used to help boost UK's economic output by becoming more efficient and causing more output increases.

The impact of this can be seen on PPF below.



As shown on the PPF, the increase in ^{dynamic} ~~allocative~~ efficiency causes an increase in output thus shifting PPF outwards to increase economic growth. The move from point A to point B means that output has increased and become more efficient.

However, the consequence is that education spending causes a trade off with other spending such as infrastructure spending.

Infrastructure spending would've helped to boost UK's competitiveness in the global market due to increase in investment but sadly not possible due to education spending. The effect is this causes a negative trickle down effect on infrastructure projects such as HS2 which are then stopped, restricting UK's economic efficiency.

In conclusion, the microeconomic effects on education spending are both positive and negative as on one side it helps to increase efficiency in jobs whilst also causing a loss to other sectors spending e.g. infrastructure. Therefore, the government should

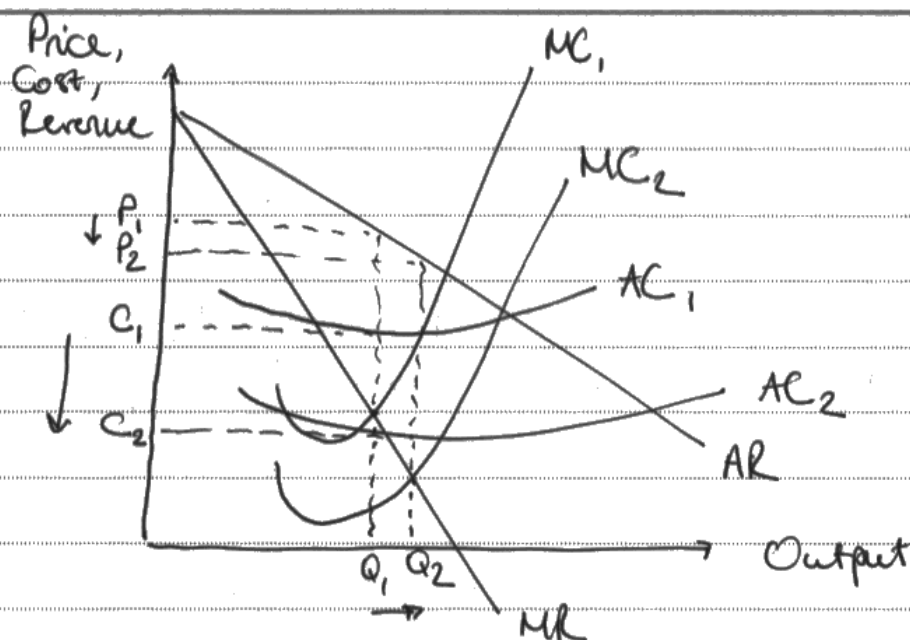
increase spending on education of those already in labour market
as way to encourage employment and to encourage firms to
accept more workers due to their high skillset.



In this first response, we see a basic response which clearly addresses the question, but which is limited in several respects. The structure is sound. There are two KAA paragraphs, which explore similar areas. The first considers an increase in labour supply as workers develop more relevant skills for the modern workplace. This then leads to increased employability, reducing unemployment. The chains of reasoning are straightforward, though somewhat simplistic. The use of the macroeconomic concept of unemployment rather than employment softens the impact of the argument. Overall, this first paragraph just edges into the bottom of Level 3. There is then some reasonable evaluation, which considers the time scale and the possibility for the government to invest into other areas of workplace training. This is Level 2 for evaluation. The second paragraph then considers the impact on dynamic efficiency, which then feeds through into higher rates of economic growth. Though coherent and logical, the analysis is again simplistic and again strays into the macro realm. This is bottom Level 3 for KAA. We then have some further evaluation which explores the opportunity cost of the investment in education and considers the impact on HS2 and the loss of its benefits. We then have an overall judgement which attempts to weigh-up the overall benefits of the investment in education. Overall, this response just achieves Level 3 for knowledge, application, and analysis, and Level 2 for evaluation.

The response scores 14/25.

One microeconomic effect of increased spending on education is an increase in supernormal profits for the firms that can take advantage of the more skilled labour. By learning maths until the age of 18, employees would develop a greater skill set that would allow them to bolster future innovation in the firms they work at. Improved competencies in maths may mean that future employees can model better and make more accurate prognoses about the general economic climate. Similarly, they may find ways to use maths to increase automation in manufacturing processes increasing productive efficiency by lowering production costs and ~~moving toward~~ dynamic efficiency may improve as innovation means the long-run average cost curve shifts downwards. As an increase in ~~production costs~~ productivity means unit production costs decrease, we would expect to see a downwards shift in MC as illustrated:

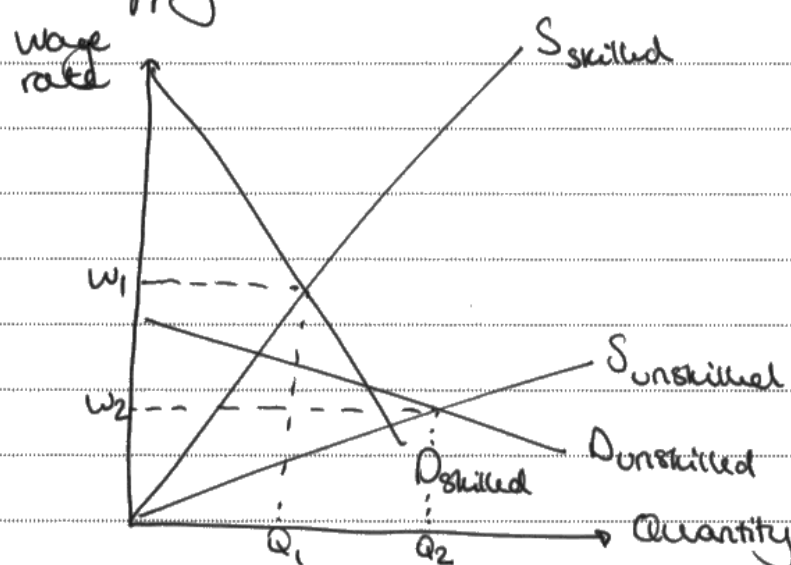


The above diagram shows that SNPs for firms that can benefit from workers with superior mathematical skills increase from $Q_1(P_1, C_1)$ to $Q_2(P_2, C_2)$.

This is particularly significant as with a better skill set, we expect to see dynamic efficiency through product innovation also, meaning better quality goods and services for consumers. As the quality of these improves, tastes and preferences change so we may expect to see an outwards shift in the AR curve as more consumers are willing and able to buy what the firm depicted above supplies. A decrease

in MC and AC accompanied by a shift out of AC would result in SNPs greater than those displayed on the figure opposite.

One other microeconomic impact is that costs could rise for businesses that require the skilled labour. To obtain qualifications takes considerable time and effort and so the supply of skilled labour is noticeably more inelastic than that of unskilled labour. Those with rare skill sets are also essential to the operation of businesses and so firms will attempt to keep them employed for as long as possible, without hiring and firing as they would do with unskilled labour that is non-essential, can be replaced by capital goods and is in abundant supply.



The diagram prior shows how the inelastic curves result in a considerably higher wage rate for skilled employees. As more employees would obtain these high-level analytical skills required for today's job market, the labour supply and demand would become more inelastic, meaning employees have greater bargaining power over their wages to push them up. Alongside this, we should consider that skilled labour is far more often part of a union, meaning there is an additional pressure on the firm to respond to demands for wage increases to prevent disruption to their essential operation. The cost of the higher wages would ultimately be passed on to consumers as the MC and AC curves would shift upwards and businesses that act rationally to profit-maximise would switch output to the new $MC = MR$ position and charge a higher price to maintain SNPS. With this, we would see a reduction in consumer surplus as the retail price approaches the maximum price people would be willing and able to pay. It is possible also that with the availability of close substitutes and

an elastic XED, the firm affected by higher wage/labour costs may see an inward shift in AR as consumers switch to competitors' goods and services.

However, increased spending on education would mean that ~~more than half~~ the proportion of labour that possesses these skills increases ~~to~~ from the current approximation of half of 16-19-year-olds. This means that the scarcity of skilled labour decreases and so they may not have the additional bargaining power over wages to push them up and the variable costs of the employers' firms too. At the present moment, the UK is looking to invest in the development of artificial intelligence and so it is likely that in the future, there will be substitutes for skilled labour that means spare capacity is kept high and inflationary pressures from the wage bargaining of skilled labour ~~is~~ reduced.

Given that rational firms seek to profit-maximise, the overall conclusion is that we would see an increase in dynamic efficiency

through product and process innovation, meaning consumer welfare increases through lower prices, more choice and better quality. Increased education spending means the scarcity of skilled labour will decrease and so there will still be ample competition in the labour market preventing wages that cause cost-push inflation and higher prices for consumers.



In this second response we can see a much more sophisticated approach than the previous example. The quality of the KAA is very strong throughout. The response is interesting in its scope and chains of analysis. The first paragraph explores the impact on firms and considers factors such as better economic modelling and improvements to production processes. The analysis is deepened throughout by a developed use of a diagram, and the candidate fully interacts with it. The candidate moves on to explore how the costs of more highly-skilled labour could impact positively on the bargaining power of employees but negatively on the cost base of firms. This is good evaluation and achieves Level 3. The next paragraph then explains how this may not be an issue for firms as artificial intelligence can mitigate the negative impact on business costs. The final paragraph offers a judgement and further marks for evaluation. This response score 16 marks for KAA and 7 for evaluation, primarily because the focus of the evaluation could have been wider.

23/25 marks overall.



The essay we have just considered achieved high marks in a rather original way. It is good practice to clearly signpost responses to make marking as straightforward as possible. For essays, we recommend a structure of KAA and evaluation, followed by a second KAA and a second evaluation. The conclusion should make a substantiated judgement rather than simply summarise the arguments. Though by no means exhaustive, and other structures may work as well, it is important to aim for both breadth and depth in the arguments presented.

Paper Summary

Based on the responses to this paper, candidates are offered the following advice:

- Practise key diagrams such as cost and revenue, externalities and subsidies. Carefully label these and clearly show the direction of any changes on the diagram. Shading should be clear. Clear diagrams enable knowledge, application and analysis marks, and can be referred to in evaluation to really explore the importance an argument.
- For application, try to picture yourself as an economist advising a particular firm or sector on the impact of a change or policy. Context is crucial because what may work in one industry may not apply to another.
- Your responses will score highly if they show clear evidence of development. Examiners are looking for a 'chain of reasoning'. Make one point per paragraph, apply it to the context of the question, and then explain it carefully, step-by-step. Aim for quality over quantity. Your task is to choose a strong argument then carefully explain to the examiner in terms of how and why it is important. When you evaluate the argument, you can then question why the argument may not apply in this situation. Evaluation is about the scale or significance of the point you make.
- When the question asks for 'factors' or 'concerns' note that it is asking for more than one factor or concern. If you ignore this you will lose marks.
- Clear 'signposting' throughout your response makes it easy to follow. For example, 'the first effect is ... this leads to....'
- Be sure to answer the specific question set. A good tip is to link your point back to the question at the end of each paragraph you write.
- Make sure you use subject specific terms and concepts. These are all in the specification, and examiners write questions based on the specification. It tells you what you need to know. You won't be asked about concepts or diagrams that aren't on the specification.
- Equally, writing about theories or using diagrams that aren't on the specification doesn't necessarily add to the quality of your answer. The mark scheme that is used by the examiners is based on the specification. Try to stick to what is on the specification. You should be aiming to make the marking of your paper as straightforward as possible.
- Furthermore, make sure your writing is clear. If examiners cannot easily read what you have written, they may lose the thread of your argument. In some cases, they cannot read it at all.
- Crucially, practise writing against the clock. This makes it easier to write your responses neatly, and in time.

Grade boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:
<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

