



Examiners' Report

June 2023

International Advanced Level Economics WEC13 01

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June 2023

Publications Code WEC13_01_2306_ER

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Introduction

There was a high number of impressive responses to all parts of the paper. This was from candidates achieving the highest marks who had taken the advice on board from previous examiner's reports, showing evidence of including more application and chains of reasoning in their answers. There was also a high number of accurately drawn and well analysed diagrams in the essay section.

In Section A, the multiple-choice section, candidates performed well across all questions. Apart from the question requiring candidates to calculate the marginal cost of employing an additional worker.

Section B, the data response section, was based on the food delivery industry. On the whole, candidates found the case study accessible and confidently used the information provided in their answers. This was particularly true of Questions 7(a)-(c).

Question 7(a) was answered well for most candidates, a number of candidates were not confident on the calculation of percentage change.

In Question 7(b), candidates needed to identify the market as an oligopoly and provide two applications to the context. The inclusion of a concentration ratio calculation secured these. Many only achieved one application mark. Most candidates could identify the market as an oligopoly and provide one characteristic.

Question 7(c) required the analysis of two reasons why the demand for food delivery had increased in the UK. Most candidates were able to identify reasons and support these with context. A number did not provide sufficient analysis to explain why their point increased demand. A number of candidates wrote significantly too much for this question and this caused timing issues for them later on in the paper.

Question 7(d) required candidates to explore reasons why Deliveroo was making a loss. Candidates used the case study well to support their answer and were able to identify a number of reasons why costs were rising. Those candidates who did not include a correct diagram, as asked by the question, could not achieve the four available marks for knowledge and analysis. Centres should ensure candidates always fully address everything the question requires of them.

In Question 7(e), candidates were asked to include a reference to game theory, though a diagram was not necessary. A number of candidates did not do this, or the knowledge was lacking on this topic. These candidates could not reach a Level 3 for knowledge application and analysis. Only the strongest candidates provided sufficient context to fully answer this question. Many responses were generic. Responses not achieving the higher levels often included limited chains of reasoning, a high number of these listed impacts with limited development.

Section C, the essay section, offered candidates the opportunity to choose between three questions. The section was more demanding and this is reflected in the mean scores on all questions. Most candidates opted for Question 10. However, they misread the question and answered providing reasons why some firms prefer to remain small, rather than explaining the reasons why objectives differ between large and small firms. The mean score on this question was very low compared to the others. Many candidates only achieved a Level 1 as most of the information provided was not relevant.

Candidates showed a good understanding of maximum wages and nationalisation often including well drawn and analysed diagrams. The context in Question 8 was particularly strong in this series. Still, many candidates did not offer fully developed chains of reasoning and instead provided multiple short generic points. Evaluative comments often lacked the application or development for Level 3.

The performance on individual questions is considered in the next section of the report. The feedback on questions shows how questions were well answered and also on how to improve further.

Section A

Question 1:

The question asked for the identification of the Sony Picture Networks and Zee Entertainment Enterprises Ltd. The majority of candidates were able to correctly identify it as Horizontal integration. Those that did not accurately answer this question often opted for Forward vertical integration.

Question 2:

For this question, candidates needed to identify the outcome of an increasing LRATC between points Q1 and Q2 Y on a diagram. Candidates could correctly identify diseconomies of scale as the answer.

Question 3:

Candidates were asked to calculate the marginal cost of employing an additional worker. This was the least accurately answered question on this section and many selected A, the increase in the wage rate for the original 50 workers.

Question 4:

Candidates tended to perform well on this question which required an understanding of short-run perfect competition. It was evident that candidates were secure in their knowledge of market exit when a loss is made under the conditions of perfect competition. However, a number of candidates misconstrued the diagram to show a firm making a profit, therefore increasing market entry.

Question 5:

This question tested the knowledge of revenue maximisation. Most candidates accurately opted for the correct answer where marginal revenue is equal to zero.

Question 6:

This question was one of the most accessible on the paper demonstrating candidates' confident knowledge of sunk costs as a barrier to entry.

Question 7 (a)

This question required candidates to calculate the percentage change in Deliveroo's total revenue.

This is a standard question and centres are advised to ensure candidates know the formula for a percentage change calculation.

It is recommended that candidates show their workings.

- 7 (a) With reference to Figure 1, calculate the percentage change in Deliveroo's total revenue between 2017 and 2021. You are advised to show your working.

$$1824 - 277 = 1547 \text{ million} \quad (1547 \div 277) \times 100\% = \frac{558.48}{558.48} \text{ (2)}$$
$$\frac{1547}{277} = 5.58$$
$$5.58 \times 100\% =$$



This candidate achieved 1/2 marks for a correct calculation.



Always show your working.

- 7 (a) With reference to Figure 1, calculate the percentage change in Deliveroo's total revenue between 2017 and 2021. You are advised to show your working.

$$\frac{\text{new} - \text{old}}{\text{old}} \times 100 = \frac{1824 - 277}{277} \times 100 = 558.48\% \text{ (2)}$$



This candidate achieved full marks for a correct answer.

Question 7 (b)

The 4-mark questions always award two marks for knowledge and two marks for application.

This question required candidates to identify that the market was an oligopoly for one mark, then provide a characteristic of an oligopoly. This achieved two knowledge marks and most candidates achieved this.

Many candidates provided a concentration ration and achieved two analysis marks.

Centres should encourage their candidates to find separate application points, rather than listing all the market shares. These were only awarded one application mark.

A large number of candidates significantly wrote too much for four marks.

(b) With reference to Figure 2, explain the market structure of the UK food delivery market in 2021.

(4)

Oligopoly market meaning there are a few dominant firms in the market. There is strategic interdependence.

2 firm concentration ratio in 2021 = 67%

3 firm concentration ratio in 2021 = 94%



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Examiner Comments

This candidate achieved 4/4 for this response.

They have clearly identified the market as an oligopoly and further developed this by stating 'few firms dominate' and 'interdependence'. The candidate only needed one development.

2 marks would have been awarded for the concentration ratios. The candidate did not need both for the application marks.



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Examiner Tip

Writing concisely in 4-mark questions will save time to be used later in the exam.

(b) With reference to Figure 2, explain the market structure of the UK food delivery market in 2021.

(4)

it is an oligopolistic market which is when a few large firms with high market share and are ~~inter~~ interdependent ~~with~~ with each other dominate the market. The UK food delivery market are dominated by 4 ~~large~~ large firms including just eat, deliveroo, uber eats, ~~and~~ and dominos



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Examiner Comments

This response achieved 2 marks for the correct identification of an oligopoly as the market structure, and the development of a characteristic.

The statement of a few large firms would have been sufficient for a further knowledge mark. Interdependence would also have achieved a knowledge mark.

Nothing was awarded for application as the candidate needed to include a data reference.



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Examiner Tip

Always include two separate data references in a 4-mark question.

Question 7 (c)

The 6-mark questions award two knowledge, two application and two analysis marks.

It is very common that these questions only require two points. Candidates should refrain from including more than this.

There are no evaluation marks available for a 6-mark question.

This question required candidates to analyse two factors that influenced the demand for online food delivery, referring to Extract B.

Most candidates performed very well on this question and were able to confidently use the data in the case study to provide reasons for the increase in demand.

The increase in the population in cities, access to technology and increased advertising were the most commonly cited reasons.

Some candidates had not learned to provide analysis for their reasons, therefore only achieving four out of the available six marks. Likewise, some candidates did not include application.

(c) With reference to Extract B, analyse **two** factors that influence the demand for online food delivery.

(6)

Firstly, ~~is~~ it's an increasing in the ~~num~~ number of people living in cities. As people's number increase, consumption may also increase in this city as they living there. The demand for online food may increase.

~~Seco~~ Secondly, increasing advertising by food delivery business.

~~As advertising inc~~ Advertising attract people to consume. And to purchase. The demand of ^{online} food delivery may increase.



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Examiner Comments

This candidate was awarded 4/6 marks.

They have correctly identified two reasons and analysed both of these.

To achieve the full 6 marks available, they needed to reference the data. For example, 7.6% increase in the population living in cities.



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Examiner Tip

Always reference the data in 6-mark questions for application marks.

(c) With reference to Extract B, analyse **two** factors that influence the demand for online food delivery.

(6)

First, inflation rate influences the demand for food delivery. According to Extract B, growth in wages was 4.5%, but inflation was 9.6%. This shows that people experienced a fall in their ~~an~~ purchasing power. It ~~causes~~ causes a contraction in demand for luxury goods, including online food delivery, because of its elastic demand.

Second, population affects the demand. From Extract B, an increase of 7.6% in the population in cities in the UK is expected from 2015 to 2025. An increase in population in cities increases demand and causes ~~and~~ an outward shift of the demand curve for the online food delivery market.



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Examiner Comments

This candidate achieved 6/6 for this response.

They have clearly identified the inflation rate and population as causes of changes in demand.

These points have both been supported with data references for application marks.

There is a clear explanation for both points: how the inflation rate or population changes influences the level of demand for analysis marks.

This is an excellent structure. The candidate has been careful to use different wording for their knowledge and analysis, and carefully selected the data from Extract B to support their points.

Question 7 (d)

Question 7(d) asked candidates to examine two reasons why Deliveroo is making a loss. This question required a costs and revenue diagram.

It is very important that candidates carefully read the question and ensure they include everything that is required of them. 4/8 available marks were awarded for a correct diagram; a number of responses did not include one.

For this question, two knowledge marks were awarded for a correct imperfectly competitive market diagram. Two analysis marks were awarded for an average cost curve positioned above the average revenue curve showing a loss, and the final mark for the area of loss identified.

It is important that candidates consider the market structure identified in the case study. Those candidates providing perfect competition diagrams did not achieve the knowledge marks available.

Application marks were awarded for correct references to Figure 1 or Extract B and a pleasing number of candidates achieved these.

There were two evaluation marks available and a large number of candidates achieved these. Many candidates had identified that revenue was rising and argued that, in the long-run, this would offset the rising costs of production.

This candidate achieved 8/8 marks.

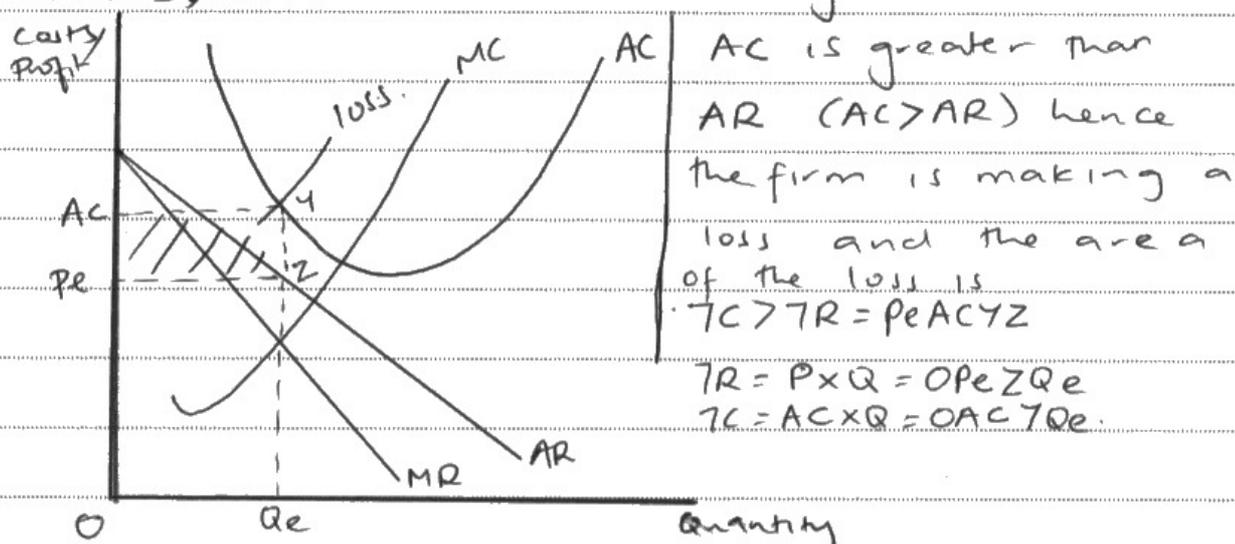
(d) With reference to Figure 1 and the first paragraph of Extract B, examine **two** reasons why Deliveroo is making a loss.

Illustrate your answer with an appropriate diagram(s).

(8)

A loss refers to the negative difference between Total revenue and total costs.

According to the extract deliveroo is making a loss of £298 million due to the high costs of marketing and fixed costs which increased from £358.5 million in 2020 to £629.7 million in 2021 and are expected to continue to rise in the short run because of the increase in price of fuel and the high rates of inflation, Deliveroo is making a loss because ~~in 2020 their total revenue was £1163~~ because their revenue is increasing at a slower rate than the increase in its costs of production hence the revenue would not be able to cover their costs and this could lead to deliveroo making a loss, as shown in the diagram below



Due to the increase in the cost of production, ^{Price of fuel and inflation} Deliveroo, may lead to transferring these costs to consumers in the form of high prices. Hence, this will reduce demand, leading to a fall in sales and a decrease in revenue. Hence, leading to a loss.

However, in the long run, maybe revenue may increase and inflation and the increase in fuel may reduce, due to the increase in demand in 2023 and 2030 and the firm could be able to recover the loss.



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Examiner Comments

The candidate achieved 4/4 marks for knowledge and analysis for their diagram. They have drawn the correct diagram for an oligopolist market, showing downward sloping AR and MR curves, and the profit maximisation setting the price and quantity. The AC curve is above the AR curve at the profit maximisation equilibrium and the area of loss identified.

The candidate clearly uses Figure 1 to identify the £298 million loss for one application mark, a further application mark was awarded for the reference to Extract B and £358.5 million increase in fixed costs. This candidate could have achieved more application marks for additional references to the case study, only two were available.

2 evaluation marks were awarded for identifying that revenue was increasing in 2023 and inflation and the cost of fuel may decrease, reducing the loss.



Always include a diagram when required.

Supporting evaluation comments with references to the extracts will help you to achieve higher marks.

(d) With reference to Figure 1 and the first paragraph of Extract B, examine **two** reasons why Deliveroo is making a loss.

Illustrate your answer with an appropriate diagram(s).

(8)

A loss is made when a firm's total costs are more than their total revenues.

According to Figure 1, Deliveroo has been making losses over the years. In 2017 they had a loss of ± 199 million and in 2021 they incurred a loss of ± 298 million.

The likely reasons of Deliveroo making such costs can be due to the following reasons;

Firstly, the fixed costs and marketing costs for Deliveroo increased from ± 358.5 million to ± 628.7 million in 2021. An increase in their costs could lead a loss as it would be very difficult for Deliveroo to cover these costs from their total revenue, considering they have other competitors therefore cannot charge higher prices on their food and delivery services.

Secondly, the rate of increase in Deliveroo's revenues is slower than the increase in its costs of production. As expected their costs are continuing to rise in the short run due to inflation across Europe. Therefore their costs will be much higher than their revenues despite their revenue increasing.

However,

Deliveroo making a loss may be difficult to be contributed by only two factors such as the revenue and inflation. There could be other factors that could be contributing to the loss that is made annually by Deliveroo.

In addition, Deliveroo can reduce its losses by simply cutting on their costs. This may not stop them from making a loss in the short run but it will in the long run. For instance Deliveroo is spending a lot of its resources on marketing - this contributes to a large percentage of their short-run costs. However in the long run ~~the~~ Deliveroo might have a larger market share with loyal customers therefore they won't need to spend so much on their promotion and advertising. This will cut their costs and allow them to have higher profitability.

In the same way the expense of high marketing now will be covered by the many customers they have ~~seen~~ in the long run. This will allow them to increase their revenues and cover their costs in order to eliminate their losses in the long run.



This candidate achieved full marks for application for identifying the loss of £298 million and the increase in fixed costs of £358.5 million.

Both evaluation marks were awarded for the paragraph identifying how short-run costs could be reduced in the long-run and that demand was expected to increase in future.

Unfortunately, this candidate did not include a diagram, therefore they did not achieve any knowledge or analysis marks.



Include a diagram when required.

Question 7 (e)

This question is the first of the levels-based marking questions and requires candidates to include chains of reasoning in both their analysis and evaluation.

This question required candidates to discuss the strategies used by food delivery businesses to increase their market shares. It needed a reference to game theory as part of the answer, though this did not require a diagram. To achieve Level 3, responses needed strong application and an understanding of game theory. This proved to be a challenging question and only stronger candidates were able to provide contextual analysis. There was a large number of responses that provided generic information; the highest of these responses could achieve was mid-Level 2.

A large number of candidates included several short points. This scatter-gun approach lacks the development needed for the higher levels and candidates are encouraged to focus on fewer, developed points of analysis.

Almost all candidates provided answers covering both price and non-price competition. Increased advertising, differentiation and price wars were the most commonly cited. The candidates who supported their analysis with the case study by identifying Deliveroo's aim to increase market share by starting a price war to push other firms out of the market often achieved Level 3. The best context was provided by candidates explaining the non-price competition methods used such as increased services, the introduction of an app and delivering groceries.

Evaluation was often well supported by the case study, with candidates identifying the losses made by increased advertising or a price war. There were some excellent examples of candidates discussing the impact of game theory on business motives and why increasing advertising or lowering prices might be detrimental to the food delivery market.

This response was awarded 12/14.

The diagram was strong and confidently explored in the write up, though this could have been improved with a link to market share.

The analysis throughout was strong, with clear application and chains of reasoning, reaching Level 3 KAA.

The evaluation was not as strong and did not have the context needed to move to Level 3.

(e) With reference to the information provided, discuss the strategies used by food delivery businesses to increase their market shares.

Refer to game theory analysis in your answer.

(14)

		A	
		B	A
		£1 (low)	£2 (high)
		£1 (low)	£2 (high)
£1 (low)	£1	£1	£0.5
£2 (high)	£3	£0.5	£2.5

Due to the game theory we can see that the best outcome for two firms will be to set high prices for both of them. However if one firm will set high prices the second firm will set low prices in order to get best revenue. This results in both firms setting the same low prices. The most beneficial for producers will be to collude ~~and~~. This means they will agree on some high price which is ~~best for the~~. This results in exploitation of customers allowing firms to increase revenue and as a result increase profits. However, this is anti-competitive behaviour and government will start investigation. As a result firms will be fined. So using collusion is risky.

Firms in the UK's online delivery market ~~compete~~ & behave competitively. We can see this as there is price war. Price war occurs when firms lowering their prices in order to increase their ~~competition~~ market share and get rid of competition within market. ~~Due to~~

Game theory when one firm have low prices and other have high compared to the price of the first one it's revenue increases while revenue of other ~~big~~ second company decreases. So in order to keep their revenue second company decreases its prices as well. This results in ~~lower~~ lower revenue for everyone in market. Big firms can afford to operate in loss in short time. We can see this as Deliveroo which is a firm that currently involved in price wars operating in loss of 298 million pounds. This happens to force competitors out of market increasing share of a firm. However if firm will ~~go~~ be successful and get rid of competitors it will gain ~~more~~ more monopoly power. This will create incentive for government to intervene and regulate market in order to make it more competitive and contestable



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Examiner Comments

On data response questions, always include context in both the analysis and evaluation to reach Level 2/3.

Remember to explain diagrams when included.

This candidate achieved 4/14 marks.

The responses achieved a low Level 2 for KAA.

Most of the points were statements and lacked context, only worthy of Level 1.

The slight development of reducing prices to force other firms to shut-down was given a low Level 2. A full development of this pricing strategy and context would have been required to move in into Level 3.

There was no evidence of evaluation in this response, therefore no evaluation marks were given.

(e) With reference to the information provided, discuss the strategies used by food delivery businesses to increase their market shares.

Refer to game theory analysis in your answer.

(14)

The food delivery market in the UK is highly concentrated. This leads to competitors within the market to be very interdependent. Interdependent competition means that the actions and decisions of one competitor influences the actions and decisions of other competitors.

Firms within that market can deploy various strategies to increase market share.

One strategy would be to offer lower prices than other firms (price war) in order to increase market share and loyal customers in the long run.

This would mean that firms that cannot effectively achieve economies of scale have to shut down due to the cost being too high.

Another strategy would be to deploy game theory.

Firms will try to predict market strategies of competition and adjust accordingly with a better strategy.

Another strategy is non-price competition, providing better customer service, more advertisement and strategic marketing.



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Examiner Comments

For any 14-mark question, 6 marks are available for evaluative comments.

These questions also require application to the case study.



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Examiner Tip

Always refer to the case study and include application.

Question 8

This question required candidates to evaluate the impact of the Egyptian Government introducing a maximum wage. A pleasing number of candidates used the stem well to offer application in this answer, making it the most confidently applied of all the essays. Strong candidates identified the opportunity cost to the banking sector, productivity and brain drain from this decision, many reaching a Level 4. Correctly drawn diagrams were provided by most candidates; the best responses were able to explain these diagrams using context to move into Level 3.

A high number of candidates included discussions on the impact being a rise in unemployment, rather than identifying this policy causing shortages in the supply of labour, these points were not credited.

In addition, a number of candidates discussed rising minimum wage or rising wages in the banking sector for lower paid employees, which was not relevant always relevant to this question.

There were many candidates who were unable to fully explain their points in depth by adding multi-stage chains of reasoning. Most of these answers only carried a two-stage chain of reasoning, and hence, they were not able to access Level 3 KAA.

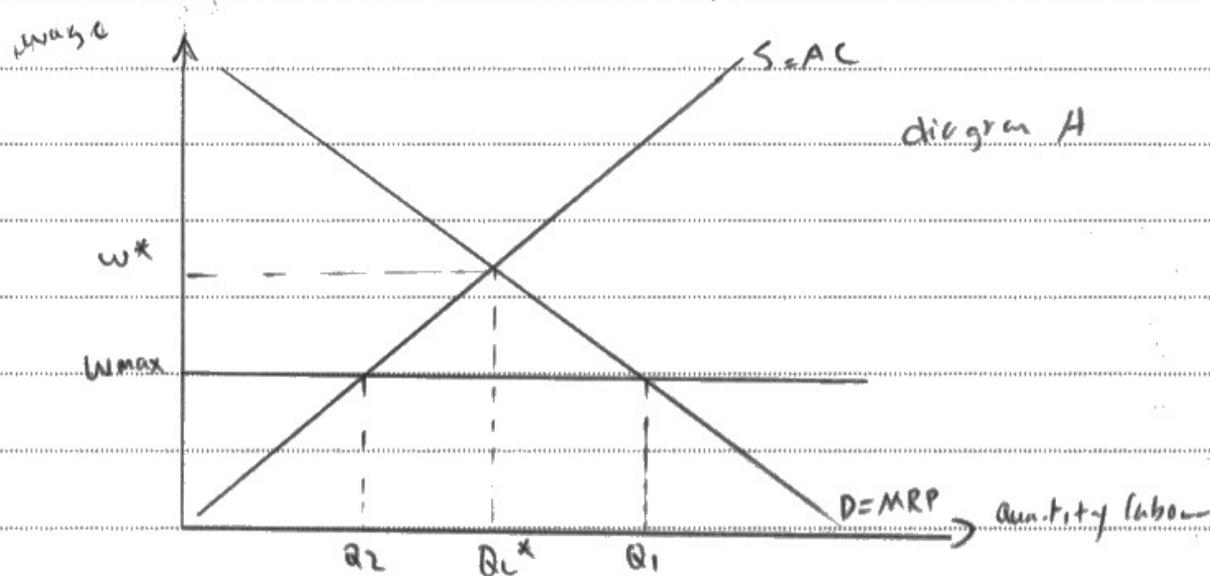
Strong evaluation focused on the reverse argument; the strongest discussing the cost savings to the banking sector and how these may be passed onto the consumer. Offering the reverse argument can be an effective approach to evaluation, and many of the candidates using it were able to achieve high Level 2 or 3.

This candidate achieved high Level 3 for KAA. The diagram is accurate and fully developed on the second page for strong analysis. The first point was also strong allowing the candidate to achieve a high Level 3.

The evaluation was well developed and was critical of the negative impact identified.

This evaluation on the impact of the maximum wage on lower paid labour, and how the reduction in inequality may increase the productivity of the workforce was particularly strong and provided good context. The depth of analysis allowed this essay to achieve a Level 3 EV.

Maximum wage is ~~the wage~~ when the government sets a maximum amount of wage that individual can earn per hour. Firms can't offer the labour any ~~the~~ wage higher than that.



The first impact of this ~~the~~ maximum wage will be a decrease in the labour productivity and increase the firm's cost. This intuition is valid, 'In 2015 Egypt's government introduced a maximum wage of \$5800 per month.' ~~This was~~ The labour will ~~be~~ disincentive from ~~the~~ working as they will feel even they work hard and get promoted, the wage will ~~be~~ be at maximum ~~at~~ \$5800 but won't further increase, so that they will ~~become lazy~~ ~~and~~ stop seeking for promotion and become less focusing at work. This will result at a reduction in

the unit ~~output~~ output per unit of labour. Therefore the labour productivity will be reduced. ~~That~~ This will cause a negative effect on the producers as ~~From figure 4.4 shown~~. This will increase the cost of production for the producers as the unit labour produce less ^{output}, so average cost will increase. Less profit causes less incentive for firms to invest. Therefore ~~that reduce~~ ~~the cost~~ reduce the aggregate demand. ~~and~~ reduce the demand for labour as the demand for labour depends on their ~~MRP~~ marginal revenue product.

However, the ~~reduce~~ imposing maximum wage might ~~not~~ ^{not} influence ~~one group of labour who used to have a higher wage than~~ all of the labour and reduce ~~for~~ their productivity. ~~Most of~~ ^{low skilled} the labour in Egypt won't have a ~~high~~ ^{low} wage of \$5800 per month. ~~Therefore~~ They might feel ~~more~~ ^{less} ~~at~~ the society become more equal in income and gets more incentive to work and earn a higher wages. Therefore their productivity for low skilled labour might even increase instead it decrease.

The second impact will be a ^{under} ~~low~~ supply of labour in the labour market. From the diagram A shown, the reduce of wage from w^* to w_{max} caused a ~~not~~ reduced in the supply of labour from Q^* to Q_2 . ~~Labour~~ some labour is not willing to work at this wage. But the quantity demand for labour is ~~at~~ increased ~~and~~ from Q^* to Q_1 , due to labour resources become cheaper. ~~That~~ From external

'200 executives in the banking sector ~~resigned~~ due to their original wages ~~was~~ ^{much more} higher than the ~~at~~ maximum wages. Therefore, there will be a lot of job vacancy in the high wage positions such as bank. The ~~org~~ organizations might ~~un~~ be able to functionally ~~manage~~ for

as there is not enough labour ~~to~~ go to work and facing a huge reducing in the output. The business might struggling to increase their output and increase profit. These unemployed worker will stay unemployed as they have no incentive to seek for a job and ~~there~~ ^{shows here} is a ~~total~~ underutilized capacity in the economy. ~~The~~ The living standard of these people also ~~is~~ increases as they don't ~~to~~ have income

However, this depends on the industry. ~~The~~ In the industry where the original wage is lower than the minimum-maximum wages the maximum wages won't affect the supply of labour in this ~~part~~ particular market. ~~The~~ ~~labour~~ who is not willing. The over supply will not occur ~~the~~

In conclusion, the maximum wage may cause a disincentive to workers ~~and~~ ~~not~~ ~~the~~ ~~supply~~ ~~of~~ ~~labour~~ ~~due~~ ~~to~~ ~~the~~ ~~reasons~~ ~~that~~ ~~they~~ ~~may~~ ~~lose~~ ~~hope~~ ~~if~~ ~~get~~ ~~rich~~ ~~after~~ ~~promotion~~, but this depends on the type of labour. The poor, low skilled labour might feel ~~for~~ more equality treated by the society and decided to ^{being} work harder. ~~there is also~~

There also might be a ~~under~~ ^{under} supply of ~~labour~~ ^{labour} in some ~~industry~~ ^{industry} high income

Such ~~as~~ as banking, ~~but~~ both low income industry ~~it~~ won't be
affected as managers is high ~~but~~ supply of labour
therefore equilibrium use in the market.



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Examiner Comments

This structure is very strong. The candidate has included two well developed points, both evaluated and with a conclusion. This offers the breadth and depth needed to move into the higher Levels for KAA and EV.



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Examiner Tip

Always refer to your diagram in your answer.

Include fewer points in more depth for strong KAA.

This candidate achieved 6 for KAA and 4 for evaluation.

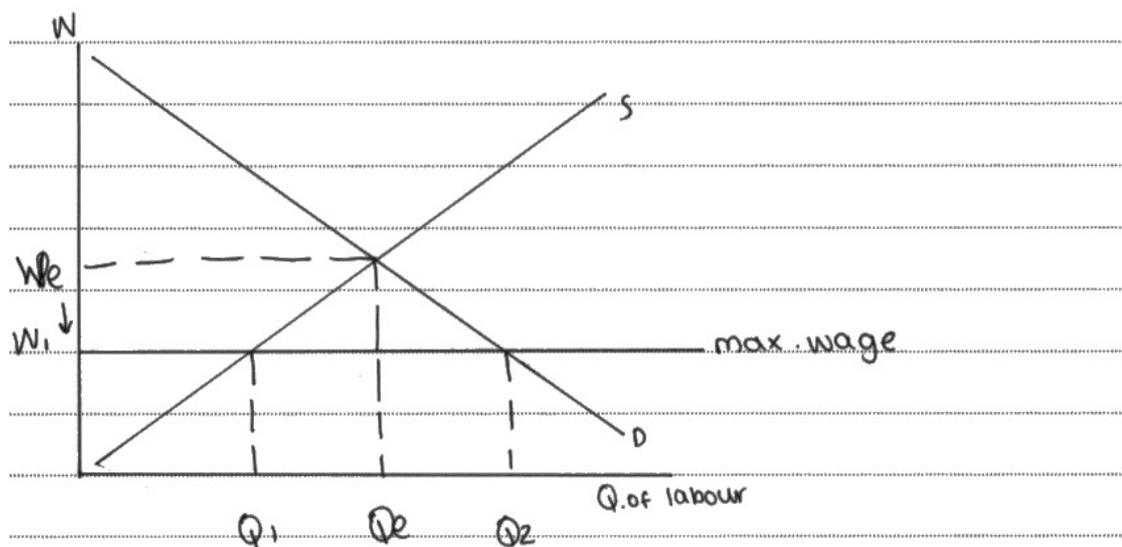
The candidate provided a clear diagram for Level 2 KAA. This was supported with a good discussion on workers resigning, for a high Level 2 point. To move to Level 3, this point would need further chains of analysis.

The point discussing unemployment is not accurate; there is a shortage of supply of labour, not an excess – a commonly made mistake.

Evaluation moved to Level 2 as the candidate included context and some development.

Chosen question number: **Question 8** **Question 9** **Question 10**

A maximum wage is the floor wage allowed to workers which is placed under the equilibrium price. In the case of Egypt imposing a maximum wage of \$5000 per month, the wage received by these workers fall



from W_e to W_1 as illustrated in the figure above. Via this fall in the wages which represents workers being paid under their allowed marginal revenue product, many under-paid workers will resign. In this case, 200 executives in the banking sector. Consequently, unemployment levels in Egypt will be significantly higher with the quantity of labour in

the market falling from Q_e to Q_1 . This will therefore lead to greater inequality levels within the population of Egypt and huge unemployment benefits given out by the government that could result to market failure.

However, the impact of maximum wage highly depends on the proximity to the equilibrium wage. If the imposition of £5000 per month is not much lower than the equilibrium wage received before the imposition, then the effect on workers will not be significant and thereby unemployment may not be derived from a maximum wage. Nevertheless, if the maximum wage set is placed far from the equilibrium wage, then the labour market of Egypt will experience excessive struggles in daily functioning.

Another impact of the imposition of a maximum wage is that workers like chief executives are bound to earn far more than the maximum wage imposed by the government of Egypt in 2014. This will lead to some workers losing their incentive to be productive which means that it'll take more time to produce a product as well as quality distortions which significantly increases costs. Through the imposition of a max wage,

the Egypt population will receive underprovision of goods and services as many workers will be unincentivised to work on such poor incomes.

However, the impact of a maximum wage depends on the workers' cooperation of trade unions. If for example, workers are involved in a campaign to increase the maximum wage in order to decrease such gaps between chief executives' and executives' pay, then the imposition will fail significantly. Therefore, via the power of a trade union of executives, the workers might be provided with a much fairer wage scheme that will allow them better living standards.

Nevertheless, a maximum wage significantly lowers the workers' well-being as it decreases their disposable income available, resulting to widening inequality levels between the workforce of Egypt. This therefore suggests that such impositions must be carefully placed to meet the economy's conditions.



Always remember to provide context in your answers, for example, using the stem material.

Question 9

This question asked the candidates to evaluate the impact of a profit maximising monopolist being nationalised. Candidates were confident in the understanding of the problems caused by monopolies, and often used this understanding as an effective introduction to explain the problem before analysing the solution. A high number of candidates clearly understood the benefits of nationalisation. However to reach Level 4 KAA, the candidate needed to explain how the government intervention would change the conduct of the monopoly then analyse the outcome.

A pleasing number of candidates used the stem materials and identified the lower price of electricity as one of the key benefits of the nationalisation.

Many candidates just explored the outcomes. Most answers demonstrated some chains of reasoning, but they were not always fully developed or had some stages omitted. These candidates were not able to access more than Level 3 KAA.

Evaluative comments were not as confident as the analysis. Government failure and the opportunity cost of money used to nationalise were the most commonly cited. Many of these comments lacked the chains of reasoning, or application needed to reach high Level 2 or 3 for evaluation.

This candidate achieved 12/20 marks.

The diagram and write up demonstrated a sound understanding of the theory and some context, reflective of a Level 3 standard of KAA.

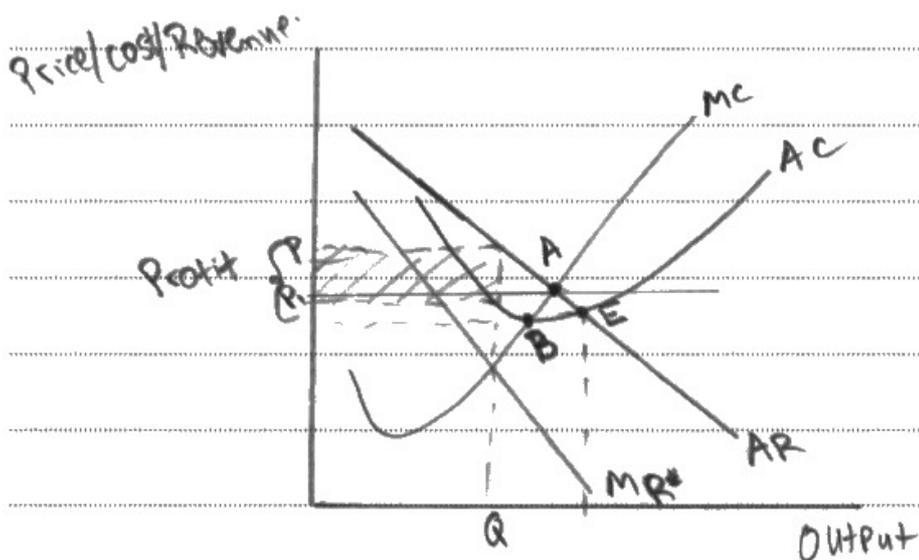
However, the next point discussing lower prices, lacked any context and offered limited analysis, therefore only Level 2 KAA.

Therefore, overall, the analysis was sustained enough in Level 3 to reach the top of the Level.

The evaluation offered some development, and some of the points covered included context, moving the evaluation out of Level 1 and into Level 2.

To improve, the candidate needed to focus on developing strong chains of reasoning to fully explain the links between cause and consequence, and include fewer, more developed evaluation points.

Nationalisation is when the state ^{takes} ~~purchases~~ over private sector businesses and makes them public sector businesses.



When a profit maximising firm is nationalised, it can bring prices down from P_0 to P_1 , at which $P=MC$, meaning it will be able to be allocative efficient, this will make sure resources are at equilibrium between demand and supply and provide at the optimum quantity.

The business EDF Energy has a 90% market share, showing that it had monopoly power and was restricting market share and possibly exploiting suppliers and employees, By the french government intervenes and nationalising it, it can now make sure that market failure is now ~~resolved~~ corrected.

Consumers will be able to pay low prices for the ~~the~~ services, this will increase consumer surplus and allow the firm to produce closer to point E which is the point ~~MC=AC=AR~~ and will be the sales volume maximisation ~~quantity~~ ^{point}, rather than the profit maximising quantity at $MC=MR$, quantity Q.

Stability of prices, and a reduction in price fluctuations will benefit both employees and consumers, as employees jobs are now ~~secured~~ stable and ~~do not face an~~ ~~at~~ now have job security, while consumers have to spend less time checking the constant changes in price.

However economists argue that ~~the~~ nationalised firms are less efficient as compared to public sector firms, as they have no competitive pressures and therefore are dynamic inefficient.

The french government plan to pay nearly €10bn to nationalise EDF Energy, This could lead to government failure as it could've provided a subsidy to lower prices and caused stability, therefore causing an opportunity cost.

Employees working in EDF Energy will now not have any other job opportunities in their area of specialisation, therefore causing a occupational mobility of labour in France.

As demand for energy supply is relatively inelastic, the price change will not make a significant difference to the quantity demanded.

In conclusion, if EDF Energy was a natural monopoly, it would be better to have only one producer as there may be high levels of fixed costs, therefore nationalising EDF Energy and increasing market share to 100% would benefit all parties involved.



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Examiner Comments

Remember to focus on fewer points in more detail to offer depth in answers.

This answer attains 8/20 marks – Level 2 for KAA (4) and EV (4).

There is some knowledge evident throughout the answer, and the candidate has identified possible outcomes of nationalisation, but has not explained why these occur and only offers two stage chains of reasoning.

The points on supernormal profits, expansion and staff leaving were not convincing.

To attain higher levels, the candidate needs to add more chains of reasoning with context, in both the analysis and evaluation.

Profit maximisation is when the marginal costs equals to marginal revenue.

~~Monopt~~ Monoplist is when only one firm dominate the market without any competitors.

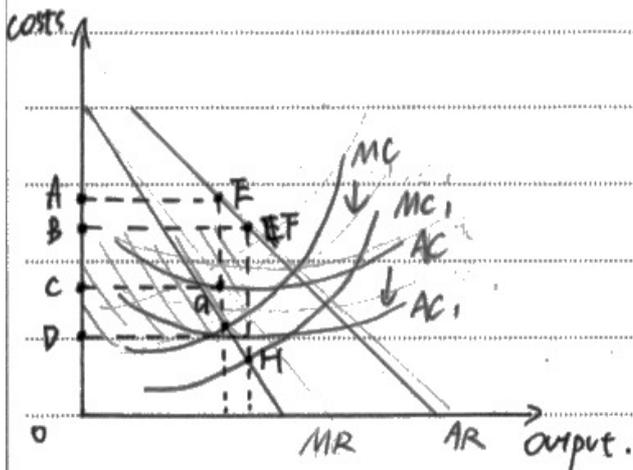
Once a profit ~~or~~ maximising monopolist being nationalised, there may be a change of objectives of the firm.

The profit gained may be ~~to~~ used partly on the government expenditure on education, healthcare or the infrastructure to improve the living standard of local residents.

Also, the price of products may decrease if the products are mainly electricity and water, which are basic needs to people. If the ~~to~~ these resources has controlled by monopoly power, they may exploit consumers by increase price level. \leftarrow \uparrow (increase in consumer surplus)

The ~~pass~~ costs of firm may decreased as there would be no fines or taxes charged to the company.

which led to a raise in supernormal profit from AEHC to BFHD.



However, the core employees may leave the firm if there is a decrease in wage salary to save costs. Some of its core technology ~~can~~ and information may also gone.

Alternatively, the quality of products may vary as ~~that~~ there would be less incentives after a profit maximising monopolist being nationalised. ~~the quality~~ The investment on R&D (research and development) or after-sales services may also ~~been~~ been reduced. The experience of consumers may fall.

Furthermore, the firm being nationalized may not aim to expand its market abroad to increase the economies of scale.

To conclude, the benefit to firms would decrease as there may be a change of ~~best~~ business objectives, ~~which~~. But there would be more benefits to those of its consumers as the ~~not~~ state-owned organisations would ~~lowing~~ its price to increase ~~for~~ consumer surplus.



ResultsPlus
Examiner Comments

Always ensure you fully explain the links between cause and consequence to offer developed chains of reasoning in your analysis.

Question 10

This question required candidates to evaluate the possible difference in objectives between small firms and large firms. This was the most popular of the three essays available.

To achieve a Level 3 for knowledge application and analysis, candidates needed to include an appropriate diagram; many included were able to include profit maximisation diagram. The better candidates also included revenue and sales volume maximisation in their answers. Many candidates were able to offer application and used the stem to give evidence to explain why small and medium-sized enterprises in Malaysia were reluctant to invest in the technology. The strongest candidates were able to differentiate between the objectives of large monopolies and oligopolies and how these differed from firms in monopolistic and perfect competition. Very few candidates achieved Level 4 on this essay.

Sadly, the vast majority of candidates misinterpreted this question and provided reasons why firms remain small. These answers provided significant amounts of irrelevant and pre-learned material that could only achieve a Level 1. This caused the mean score on this essay to be very low compared to the other essays and compared to previous exam series.

For evaluation, candidates needed to compare reasons why objectives may not differ between the small and large. Again, the majority of candidates were not able to do this. The most effective were able to discuss reasons such as changes in the economic environment causing all firms to focus on survival, or the need for all firms to make a profit. The majority of candidates did not provide any evaluation, or the information provided was irrelevant or not sufficiently developed. Only a few candidates were able to offer critical evaluation which led to an informed judgement.

To attain higher levels, the candidate needs to add more chains of reasoning with context, in both the analysis and evaluation.

Very few responses actually identified reasons why business objectives may differ between SMEs and large businesses.

This response attempts to provide reasons why they may differ then evaluates effectively why they may be the same. The evaluation comments on the survival of the businesses and how objectives change over time were very effective.

This response included a number of accurate diagrams, that were extended in the write up to reach Level 3 analysis. The candidate effectively used the stem material to analyse why SMEs in Malaysia would need to be sales maximising rather than achieving profit maximisation, reaching a high Level 3 for KAA.

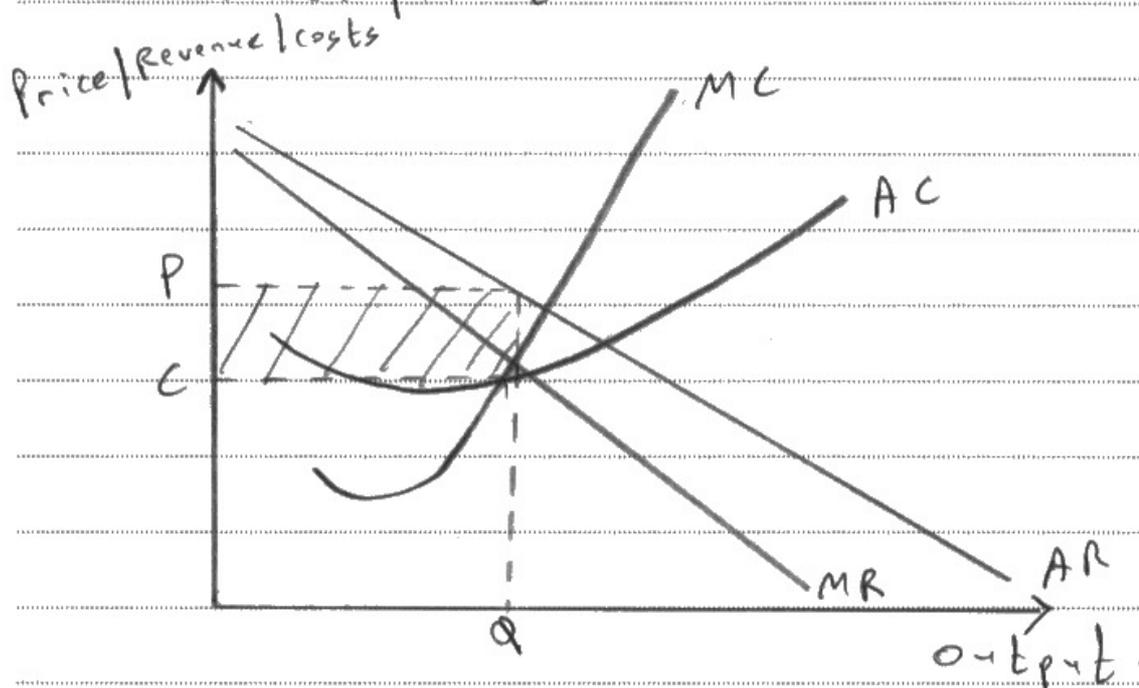
The evaluation reached a high Level 2.

More precise economic theory and links between cause and consequence were needed to develop the chains of reasoning to move into the highest levels.

The candidate could have considered barriers to entry or the market structure to further develop their points.

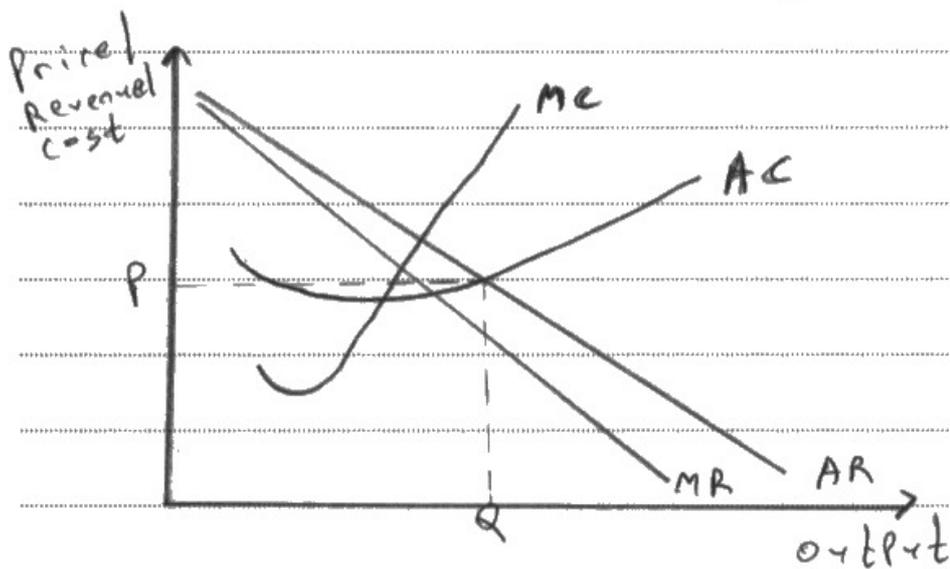
Business objectives are short term and long term goals that a firm would like to achieve.

Small and medium sized firms would have objectives like survival, profit satisficing and sales maximisation, while large enterprises might have objectives such as profit maximisation, Revenue maximisation and investment in Research and development.

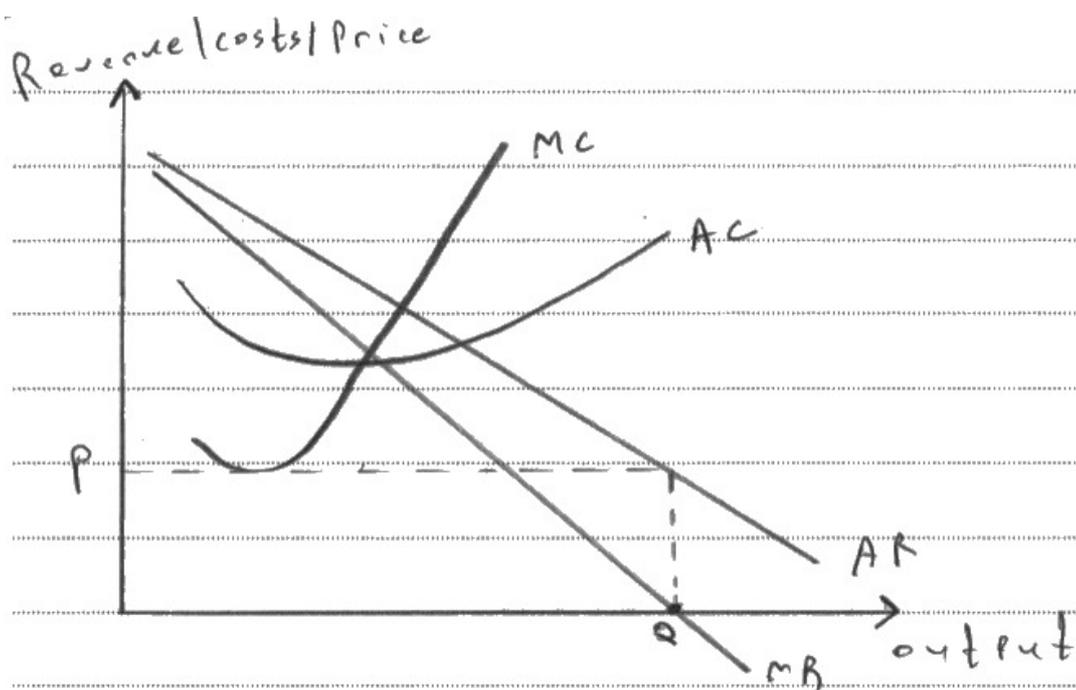


Large enterprises would operate at a point $MR = MC$ which would enable them

to earn a high amount of supernormal profits to achieve dynamic efficiency and invest in technology whereas small firms and medium sized firms in Malaysia wouldn't have very high supernormal profits for them to invest in technology and remain small.



Small and medium sized firms in Malaysia would operate at a point where $AR = AC$ to achieve sales volume maximisation as small and medium sized businesses accounted for 98.5% of the businesses in Malaysia there each and every firm would want to achieve greater amounts of sales to remain in the market and be competitive unlike for survival unlike the large enterprises which consider survival as a minimal objective.



Most small and medium sized businesses would operate at the point $MR = 0$ to maximise revenue and gain a higher market share in the Malaysian market while large enterprises would be monopolists already have a large customer base in the market which they would consider profit maximisation the best objective. Moreover, small and medium sized firms would be providing exclusive services in a niche market which could not be provided by large enterprises and consider to remain small or medium sized as owners of the businesses would be satisfied with the amount of profits being made.

However, business objectives of SME's

and large enterprises could be similar as both want to earn supernormal profits and gain a higher competitive edge over the competitors. Moreover, SME's would also be able to invest in technology and expand as they would be earning high supernormal profits.

The long-run goals of both SME's and large enterprises would be similar as in the short-run the SME's would consider survival as the key objective due to the amount of firms in the Malaysian market. However, in the long run SME's could move to a point where $MR=MC$ to earn higher supernormal profits due to change in ownership or consumer demand changes. Moreover, the government would implement forces to expand the SME's in Malaysia to increase competition and investing in technology to improve economic growth in Malaysia.

To conclude, the objectives of small and medium sized firms would always differ from large enterprises as they both have a different size of market share, employees and different owners.



It is important to have both depth and breadth to answers. There only needs to be two well-developed analysis and evaluation points, with an informed judgement for the essay questions.

This candidate achieved 4/20.

Many candidates received a low score for Question 10 because of their misunderstanding of what the question was asking from them.

Though this candidate accurately identifies survival as an initial objective for SMEs, the reasons why only offers a two stage chain of analysis. The following discussions on finance and legal barriers do not answer the question.

There is a limited amount of comparison between small and large businesses that limits this answer from achieving beyond Level 1 KAA and EV.

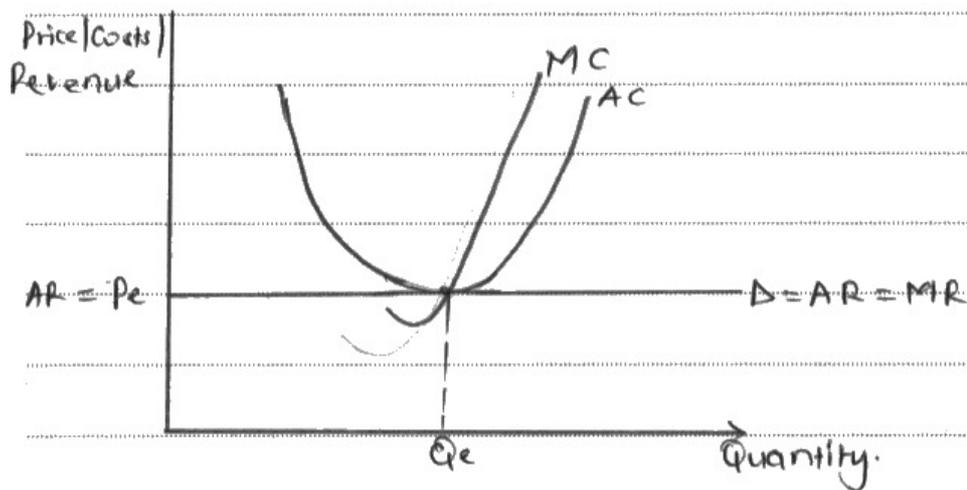
Small and ~~medium~~ medium-sized businesses ~~the~~ tend to have a smaller workforce, producing smaller levels of output.

Whereas large businesses produce larger output with a greater market share.

According to the information above, ~~98~~ small and medium-sized businesses accounted for 98.5% of businesses in ~~the~~ Malaysia.

The objectives of small and medium-sized businesses may differ greatly from those of large businesses due to;

To start with, small and medium-sized businesses tend to have an objective of survival. After entering a market in Malaysia, the small and medium sized businesses aim at surviving the competition by trying to make normal profits initially and then aiming at abnormal profits. The normal profits occur when $TR=TC$ in this perfectly competitive market with very many small firms. ie 98.5%. This is shown below;



Whereas large firms will tend to thrive at increasing their abnormal profits. ($AR > AC$).

Secondly, small and medium-sized firms may remain small due to lack of financial muscle. 98.5% of businesses in Malaysia may face ~~prod prod~~ problems in accessing finances from banks due to its size and financial capabilities. However, large businesses tend to have more finances from banks or retained profits. Hence, large businesses aim to grow ^{quickly} and small and medium sized businesses aim at growing at a slower pace.

Moreover, small and medium-sized businesses may ~~refer~~ be reluctant to grow due to the legal barriers in Malaysia. Growing in size may ^{be} attracting undue attention from regulators. This could force small and medium-sized firms to remain small.

Furthermore, small firms tend to have an objective of achieving higher sales volume at a given price. Sales maximisation for small firms may translate to growing market share.

However, small firms should grow to exploit economies of scale such as purchasing economies with large scale production.

Secondly, by investing in technology.



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Examiner Comments

Carefully read the question and consider what it is asking.

Paper Summary

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

Section A

- Ensure that they have studied all parts of the specification. Further revision on quantitative skills and interpreting data would benefit the candidates in this section, especially with cost calculations.

Section B

- These questions have their basis in the data, so use of the context is important: in the points-based questions (2-, 4-, 6- and 8-mark questions), there are 2 marks for application. In the 14-mark question (which used levels-based marking), application is captured in the 8 marks available for KAA.
- 4-mark questions require two application points
- Evaluation is only required for the 8-mark and 14-mark questions. Candidates should not include evaluation for 6 marks.
- A 6-mark question does not require chains of analysis. Candidates should also carefully read and identify how many points need to be identified. This is normally two points.
- Candidates should read the question carefully and include diagrams if required.
- Candidates should learn when to apply a firm-level diagram and a market diagram.

Section C:

- Candidates must be aware of the need of application in their essays. Candidates must prepare this. Stronger candidates often use the stem in their answer to ensure their response is not generic.
- Candidates must carefully read the question and avoid using pre-learned material.
- When appropriate, diagrams should be included and integrated into candidates' answers.
- All essays need to include evaluation for which up to 8 marks may be awarded. To achieve Level 3 for evaluation in Section C, it is necessary to support points with a logical chain of reasoning, to make reference to the context and to include an informed judgement.

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>

