# Examiners' Report
# June 2024

## IAL Economics WEC13 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 www.edexcel.com or www.btec.co.uk.

Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

**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: www.pearson.com/uk.

June 2024

# Introduction

The number of entries for WEC13 this June has increased on previous series. Across all parts of the paper, there was a good number of impressive responses. Candidates have clearly heeded the advice provided in previous series and are effectively using the case study when supporting their answers and are providing more developed chains of analysis.

In **Section A** , the multiple-choice section, the first four questions were answered well. The last two were the most commonly mis answered questions on this section.

Q1 required students to correctly identify the impact of technical economies of scale, this was correctly identified as reducing long-run average costs by most candidates.

Q2 tested marginal costs. Most candidates calculated the correct answer, however there was a large number who incorrectly calculated this. Students are advised to ensure they are comfortable meeting all the QS skills including cost calculations.

Q3 tested students understanding reasons for a demerge, whist also testing their application skills. Students correctly identified the reason for GlaxoSmithKline to demerge was to enable it to focus on its core business.

Q4 asked for students to interpret a diagram showing a perfectly competitive market making super-normal profits. Candidates needed to identify the long-run outcome of this situation. It is evident that candidates are becoming increasingly confident when answering these questions that require analysis of diagrams, and many correctly identified the answer as additional famers would enter the market.

Q5 was commonly mis answered. It provided students with a small stem where a profit maximising firm decided to change its objective to revenue maximisation. It then asked what the change in price and output would be following this decision. A number of candidates selected that both price and profit would change. Candidates are encouraged to use diagrammatic analysis to help then when answering such questions.

For Q6, students needed to choose the most likely impact of a decrease in the geographical mobility of labour. A number of candidates still read this as an increase and regularly selected a distracter as their answer. An increase in the availability of affordable housing was the most regularly chosen wrong answer for this question.

**Section B**, the data response section is based on information provided in the source booklet. The Extracts focused on Uniqlo's growth and competition.

Q7a, asked for the change in total costs for Uniqlo and required a correct answer in billions for 2 marks.

Q7b, required students to explain what is meant by the term 'organic growth'. An accurate, developed definition was required for two knowledge marks. The further two marks required two applications to the context.

Q7c, candidates analyse two reasons why Uniqlo had been successful in establishing itself in international markets. Candidates needed to identify two reasons, link both to the case study and explain why it had been successful. Most candidates were able to do this, many wrote significantly more than required, which may have caused timing issues. Marks were lost for not providing two applications.

Q7d, asked students to examine to examine the likely impact of a reduction in Uniqlo's costs of production on their profits. A correctly drawn diagram showing falling AC and MC would achieve four marks. Two application marks were available for reference to the case study. Most candidates offered correct diagrams, however a large number were static and could only achieve 2 out of 4 marks. This question required evaluation for two marks.

Q7e, asked candidates to discuss the likely barriers to entry for a business wishing to enter the global fashion retail market. A strong understanding of barriers to entry was required for level three and many candidates were able to do this. Some candidates focused too much on competition rather than barrier to entry and these responses often didn't reach level 2 for KAA. Candidates used the case study well, however, sometimes the chains of analysis were limited. It is recommended that candidates focus on two detailed points of analysis and two detailed evaluations rather than providing lots of short points.

**Section C,** the essay section offered students the opportunity to choose between three questions. Students were more likely to attempt Q8 and Q10 then 9. Students tended to perform better on these questions as they were able to utilise a range of diagrams to support their answers. Question 8 required students to evaluate policies a government could use to control monopolies. Q9 questioned the likely effects of collusion on businesses and consumers. Candidates used the stem well in answering these and supported their responses with well-chosen diagrams. Q9 asked candidates to evaluate reasons for wage differences in a industry of their choice. A large number of candidates didn't focus on an industry, and compared wage differences more generally, this limited their response to level 2. The use of diagrams was also lower on this question.

Most students were able to complete the paper in the time available. We did however see several unfinished or very brief essays suggesting that some students had not planned their time well. The performance on individual questions is considered in the next section of the report.

# Question 7 (a)

Students could typically access at all of the marks for this question as they were confident calculating the change in Uniqlo's total costs. Some students were awarded only 1 mark because they omitted billions in their final answer.

**7 (a)** With reference to Figure 1, calculate the change in Uniqlo's total costs between 2021 and 2022. Show your workings.

(2)

TC in 2021 → 20

TC = revenue − profit

TC in 2021 = 2008 − 975 = 1033 billion yen

TC in 2022 = 2301 − 1206 = 1095 billion yen

change in TC = 1095 − 1033 = 62 billion yen

**ResultsPlus Examiner Comments**

This candidate miscalculated their answer and did not achieve any marks.

**7** (a) With reference to Figure 1, calculate the change in Uniqlo's total costs between 2021 and 2022. Show your workings.

(2)

Total cost in 2021 = 2132 − 1073 = 1059

Total cost in 2022 = 2301 − 1206 = 1095

$$\frac{1095 - 1059}{1059} \times 100 = 3.39\%$$

# Question 7 (b)

This 4-mark question asked students to explain the term organic growth, referencing Extract A. Most students could offer a definition, however growth using own finances was not accepted. There were two marks available for correct application which most candidates achieved. This question was very accessible and showed that the majority of candidates were well practiced in the 4-mark question techniques. Centres are advised to encourage their students to learn definitions of key terms on the specification.

(b) With reference to the first paragraph of Extract A, explain what is meant by the term 'organic growth'.

(4)

'Organic growth' means a firm grows by increasing its output and expand by itself. Uniglo sells of casual, affordable clothing Uniglo - expanded through a process of organic growth and sell o ch. other countries.

## ResultsPlus
### Examiner Comments

Learn clear and full definitions for two knowledge marks. This candidate lost marks for a vague definition.

(b) With reference to the first paragraph of Extract A, explain what is meant by the term 'organic growth'.

(4)

Organic growth is when a company grows by ~~investing on~~ their own means such as investing on capital or on research and development to expand their business with their own resources. IT is internal growth which means that it is were businesses have more control over. slow and gradual growth. As for example Uniqlo expanded through a process of organic growth as the company opened stores in large cities within each country. This is organic growth because they decided to invest on expanding themselves by opening new stores and building their brand presence and awareness without merging or taking over a business, Thus establishing themselves by their own means.

## Question 7 (c)

In this question students were asked to analyse two reasons why Uniqlo had been successful in establishing itself in international markets. This question proved to be very accessible to most students and they were able to identify two reasons and included two references to extract A for application marks. Not all students were able to fully develop the reason why it had been successful, this stopped them from achieving the analysis marks available.

A few students didn't separate their knowledge and application marks out and only received one mark for identification and application.

(c) With reference to the second paragraph of Extract A, analyse **two** reasons why Uniqlo has been very successful in establishing itself in international markets.

(6)

The first reason why Uniqlo has been very successful establishing itself in international markets is because it used price competition. The company competes with other clothing brands such as Zara and H&M, but it offers "lower prices" which attracts consumers. Additionally, the company used non-price competition which includes marketing, quality of products, loyalty treatment, etc. Uniqlo offers "innovative products (...) such as ultra-lightweigh and heat-generating fabrics", invests in marketing and was the first in the industry to "use fast-moving digital images" and collaborates with celebrities and designers, such as Alexander Wang. These strategies make Uniqlo's products and service more unique, attracting new customers in international markets.

This question required candidates to use Extract A for their application. The first application point on this response was from a different part of the paper.

(c) With reference to the second paragraph of Extract A, analyse **two** reasons why Uniqlo has been very successful in establishing itself in international markets.

(6)

Uniqlo

One reason why Uniqlo has been very successful in establishing itself in the international Market is because, their offering lower prices for their products. Uniqlo by selling their products at a lower price could attract more Consumers, which will to make the sales of Uniqlo to increase which has been recorded between 2021-2022 at 7.9%. This clearly shows that at Uniqlo at selling their products at a low price has increased their sales revenue.

Another reason why Uniqlo has been very successful in establishing itself in international Market. is because them offering inovative products to meet the Consumer needs. Uniqlo by using non price Competition such as urtra Lighe, weful and heal, generating fabrics as their material of their products has clearly has attracted the Customer base. By attracting the Consumer base Uniqlo has been gaining high profits by heavily advertising the features in their products. This therefore would increase the Consumption of Uniqlo products globally.

## Question 7 (d)

This question required students to examine the impact of falling costs of production on the profits of Uniqlo using a diagram.

Most candidates offered a cost and revenue diagram. Including a correctly drawn diagram showing the initial supernormal profit area and equilibrium achieved knowledge marks. Further marks were achieved by drawing a fall in both marginal cost and average costs with an increase in supernormal profits. This would achieve the analysis marks available. There were no marks for knowledge or analysis without a diagram.

Many candidates were able to include application to the case study, there are two marks available for this and candidates should include two separate references.

The evaluation was strong on this question and candidates effectively used the case study reference to the increase in wages as a counter for costs decreasing. Using the case study for evaluation can be a very effective way to ensure high marks are achieved. Not all students offered evaluation which is required by the command word 'examine'.

This response was well constructed it starts of by offering two correct applications for two marks.

It then offers a clear well labelled diagram to achieve two marks for the correct original equilibrium and supernormal profit area, then two marks for the falling AC and MC and increased supernormal profit area.

The evaluation is awarded two marks by identifying the wage costs as offsetting the falling costs in other parts of the business.

(d) With reference to Extract B, examine the likely impact of a reduction in Uniqlo's costs of production on its total profits.

Illustrate your answer with an appropriate diagram.

(8)

One impact is on cost

Firstly, cost of production is likely to decrease due to lower unit costs. As mentioned, Uniqlo aims to negotiate lower prices from it's suppliers, including cotton and dyes (line 6). ↑ Cotton and dyes are variable costs. When negotiating lower prices from suppliers, they will be able to purchase material costs for cheaper prices. This will lead to ↗ the curves shifting from "mc - mc₂" and "AC - AC₂" making cost of production reducing leading to Uniqlo's profitability increasing from area "Pe AC AC" to "B BD AC₂".
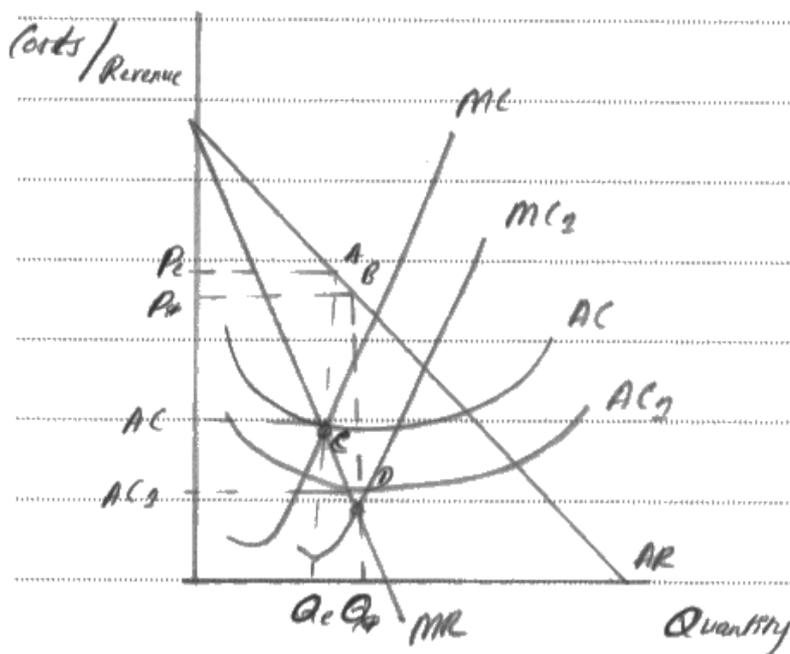
Further, with replacing labour by investing in technology & automation will reduce fixed costs. from "$AC - AC_2$" as it will become more efficient as materials will be less wasted. Therefore, this contribution will lead to overall profitability increasing to "$P^* BD AC_2$".

However, it can be argued that cost of production may not decrease as by March 2023, Uniqlo had to increase wages by 40% for some employees (line 9), indicating that profitability increasing may be insignificant. In addition, raw materials costs have increased globally, indicating that the cost saving gain will only be for the short-run as prices can fluctuate. However, it's mentioned that revenue increased by 70.9% which can offset the increase in wage costs and possible raw materials costs having less impact on profitability gain.

(d) With reference to Extract B, examine the likely impact of a reduction in Uniqlo's costs of production on its total profits.

Illustrate your answer with an appropriate diagram.

(8)

A reduction in Uniqlo's costs of production is likely to lead to an increase in total profits.

One reason for this is negotiation with suppliers for lower prices. If Uniqlo negotiates lower prices for material such as cotton and dyes, it allows for those financial resources to be invested elsewhere which would lead to higher profits.

Another factor that has an effect on profits is Uniqlo's investment in capital, which ~~allows~~ means that ~~most~~ some workers will be replaced by more efficient machinery. Although a cost in itself, the machinery would more than make up for the salaries to workers that would've been paid resulting in a ~~to~~ net fall in costs. This would lead to an increase in profits.
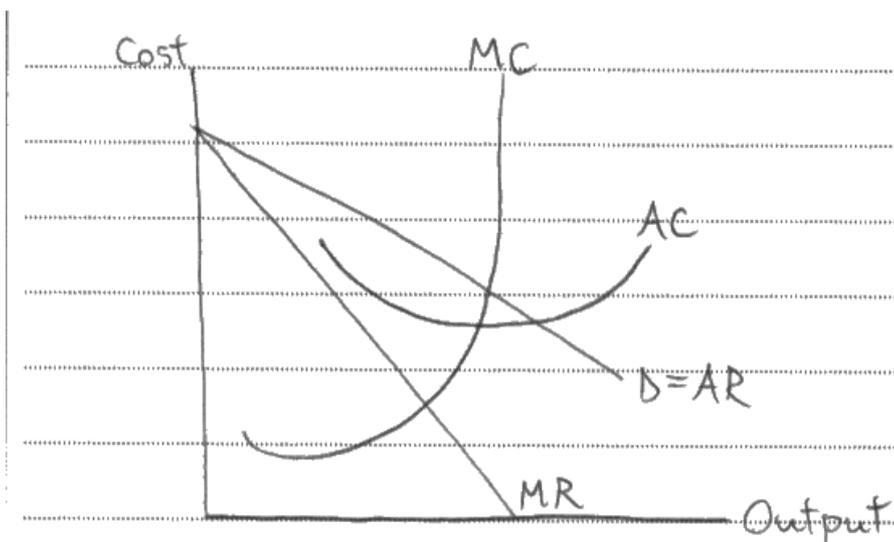
Ceteris paribus, a fall in the cost of production leads to an increase in profits. However, there could be other factors that intervene, impeding profit. For instance, a rise in revenue doesn't always mean a rise in profits (from 2021 to 2022 Uniqlo's revenue grew by 7.9%). A global rise in the prices of raw materials as well as having to raise salaries to attract highly skilled labour can have a negative impact on profit by increasing costs.

This candidate did not include the equilibriums or shifts on their diagram. Therefore they were not awarded any marks for knowledge or analysis.

They were still able to achieve 4/8 for correct application and evaluation.

Always fully label your diagram with equilibrium points.

# 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 likely barriers to entry for a business wishing to enter the global fashion retail market. To achieve level three, responses needed strong application and an understanding of barriers to entry. A number of candidates discussed the level of competition in the market which did not address the question asked.

There were a number of excellent responses to this question and most candidates found the case study easy to apply. The better responses focused on two barriers to entry using both Extract C and figure 2, these included; lower prices, bargaining power over suppliers, large funds for investment, non-price competition and brand loyalty. For level 3, candidates would need to explain how these factors make it more difficult for new firms to enter the market.

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.

Evaluation was often well supported by the case study, with candidates identifying the large number of small firms operating in countries such as China. Candidates also referenced the lack of capital required to compete online. Level three evaluation requires both application and developed chains of reasoning.

This is an excellent response that achieved full marks.

This candidate has clearly understood the question.

The response is well structured and has a sophisticated use of key terms and concepts.

The application is well chosen and embedded into the answer.

The evaluation and analysis is detailed and provides a logical flow.

(e) With reference to Extract C, Figure 2 and your own knowledge, discuss the likely barriers to entry for a business wishing to enter the global fashion retail market.

(14)

Barrier of entry signifies the factors that may impose difficulties for new entrant entering a market and compete with encumbent firms.

A large source of barrier of entry for the clothing market is the significance of sunk cost. For example, large brands such as Zara, H&M and Uniqlo spend a lot of money in advertisement, ~~which~~ this expenditure cannot be refunded if the business closes down. For example Uniqlo invited celebrities such as Alexander wang as endorsement, which could be a large source of expenditure. Small infaunt firms might stop because of the large risk of loss if it fails. Also, advertisement represent a large source of expenditure. small firms might find hardship in obtaining the finance to start up, place advertisement and gain market share. The hardship of obtaining finance might come from the high interest rate for small businesses to borrow from bank, as ^(they are) evaluated as high risk borrowers.

However, today it is easy to gain viewers from the internet. And everyone can gain easy and low cost access to ~~create~~ create an account and start promoting their product online, not necessarily through real life entities or websites. Also, small business

find find it easier to explore small niche markets with ~~that~~ favours of fewer people. Through promoting in small special social groups. It will not impose high cost. Also, in developed country, governments are likely to provide help to infant businesses ~~to~~, by providing them grant or easy access fund, This will likely to reduce the impact of the hardship in obtaining start up finance.

Another large source of barrier of entry comes from large economies of scale, For example Zara and company has over 12000 billion yen market value, Uniqlo and company has more than 8000 billion yen. These statistics represent high volume of production and sales. Therefore these companies will obtain economies of scale through multiple ~~transactions~~ ways such as scale of purchasing (~~smaller~~ lower average price if buy in bulk) and smaller managerial cost, financial cost etc. This will allow these firms to offer low prices, in the competition of H&M, Zara in 'fast fashion' retail markets. This low price might be already above the average variable cost or average total cost of new entrant who hasn't developed high economies of scale, which may deter new entrants as a result.

However ~~the~~ people judge ~~the~~ 'beauty' ~~that~~ and

fashion in different ways. This difference might create niche markets in the fashion industry which itself does not have high economies of scale. For example high end fashion markets and designer dresses and bags. they might loss market if they expand and lowr their cost of production. thus economies of scale can be argued to be small in the market of fast fashion, for some brands which specialise.

Other barriers of entry can come from high cost in investing in R&D, and it takes time to innovate for entrant. There are arguments rebutting the likely barriers in entering the fashion market.

This response attempted to link their application into their point, however this was limited and not fully integrated.

Points were attempted, however not fully explained and the chains of reasoning often had gaps or were not fully explored.

The evaluation was a list with limited context.

(e) With reference to Extract C, Figure 2 and your own knowledge, discuss the likely
barriers to entry for a business wishing to enter the global fashion retail market.

(14)

The barriers means the factors that prevent
fr firms enter the market.
The fashion retail market needs a fast respond to
the latest trends by supplying new affordable fashion
items to the market. And the retailers att
of such as Uniglo, H&M and Zara, all offer
low prices.
The firms t business wishing can may not
offer a low prices because the small firms
dms do not have significant bargaining power
over their suppliers. So it is difficult for the
small firms to to reach a economies of scale.

price/cost revenue



economies of | diseconomies
scale          | of sch scale
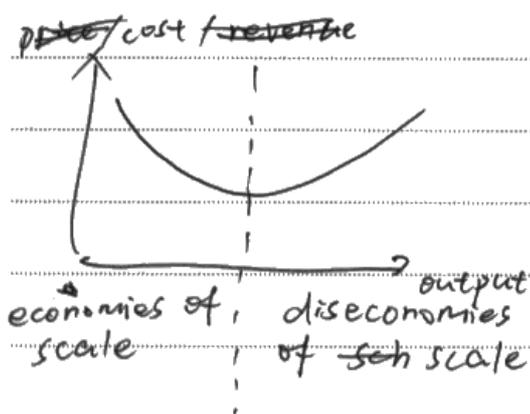
So firms needs a large
budget to expand and set
a low price. And for some
small firms it is difficult
to take a loan because
the te limited credit.

And they may not have enough retained profit
to expand.
What's more, the big firms such as Uniglo, H&M
and Zara are the monop Oligopily in the fashion
retail market. And they take a large market share.
And the big firms also have a large of

brand loyalty. So it is difficult for a business wishing to tak get market share. Uniglo had a 1.4% share of Chinese clothing market, the rest of the market is made up of many small firms. Therefore, the heated competition increases the entry be barries. It's more difficult for small firms enter the market.

However, the impacts depend on many ways. To s The government may provide subsidies for b b small firms to encourage their them. So the cost cost may decrease. The firms can use the subsidies to buy mat materials. and Therefore, firm small firms can earns more profit and have budget to enter the market and earns more pro profits.

Besides, the government may charge higher tax for the to the Oligoply.

**ResultsPlus**
**Examiner Tip**

Aim for detailed coherent chains of reasoning with fully embedded application for level 3.

# Question 8

This question demanded an understanding of policies the government could adopt to control a monopoly. To reach a level a diagram that showed the impact of the policy needed to be included, a monopoly diagram was not sufficient. Most candidates understood what policies a government could use to control a monopoly, however, many candidates were unable to provide detailed analysis how they worked. Analysis was often superficial and not well developed and candidates often provided statements of the impact of the policy, instead of analysing how the impact occurred. In weaker responses, reasons were poorly explained and generic. Stronger responses were able to use the stem to explore the US government's control of Google. Many of these candidates included a correctly drawn maximum price on a monopoly diagram.

The best evaluation provided context and identified government failure as one of the limitations of intervention to control monopolies. There were some excellent examples of candidates explaining the importance of a monopoly for a host economy, therefore the limitations of the restrictions placed upon them. Candidates using the significance, or level of fine/price cap often provided these as generic points and only reached level one. Many candidates' evaluations lacked examples and were only supported by partially-developed chains of reasoning, this could achieved only a Level 2.

This is an example of an excellent essay.

It provides a clear structure when the candidate explains the issues that Google causes, then clearly identifies how the government may intervene to stop the inefficiencies.

Throughout there is excellent context that is well linked into the analysis.

The maximum price diagram is fully labelled and integrated into the candidate's answer.

The second point on legislation is also well developed and looks at both the impacts on costs and reputation.

Evaluation is strong and critical of the analysis raised.

A monopoly in it's true sense is a market structure where there is a single seller. The monopoly is a price maker as it has 100% market share, there are high barriers to entry and no substitutes available for the product a monopoly firm sells.

Google is likely to be a statutory monopoly in the USA online advertisement market, controlling over 25% of the market share. Monopoly firms like Google usually engage in anti-competitive behaviour by exploiting consumers through high prices which in this case would be charging a high price to the advertisers, along with abusing their market to limit competition.

The US government can make use of a maximum price to help control a monopoly like Google. A maximum price is the highest price that can be charged for a product and is set below the equilibrium, when the equilibrium price is considered too high. The government would set the maximum price at the allocatively efficient output, so as to maximise social welfare. This is shown in the following diagram. ~~below~~.
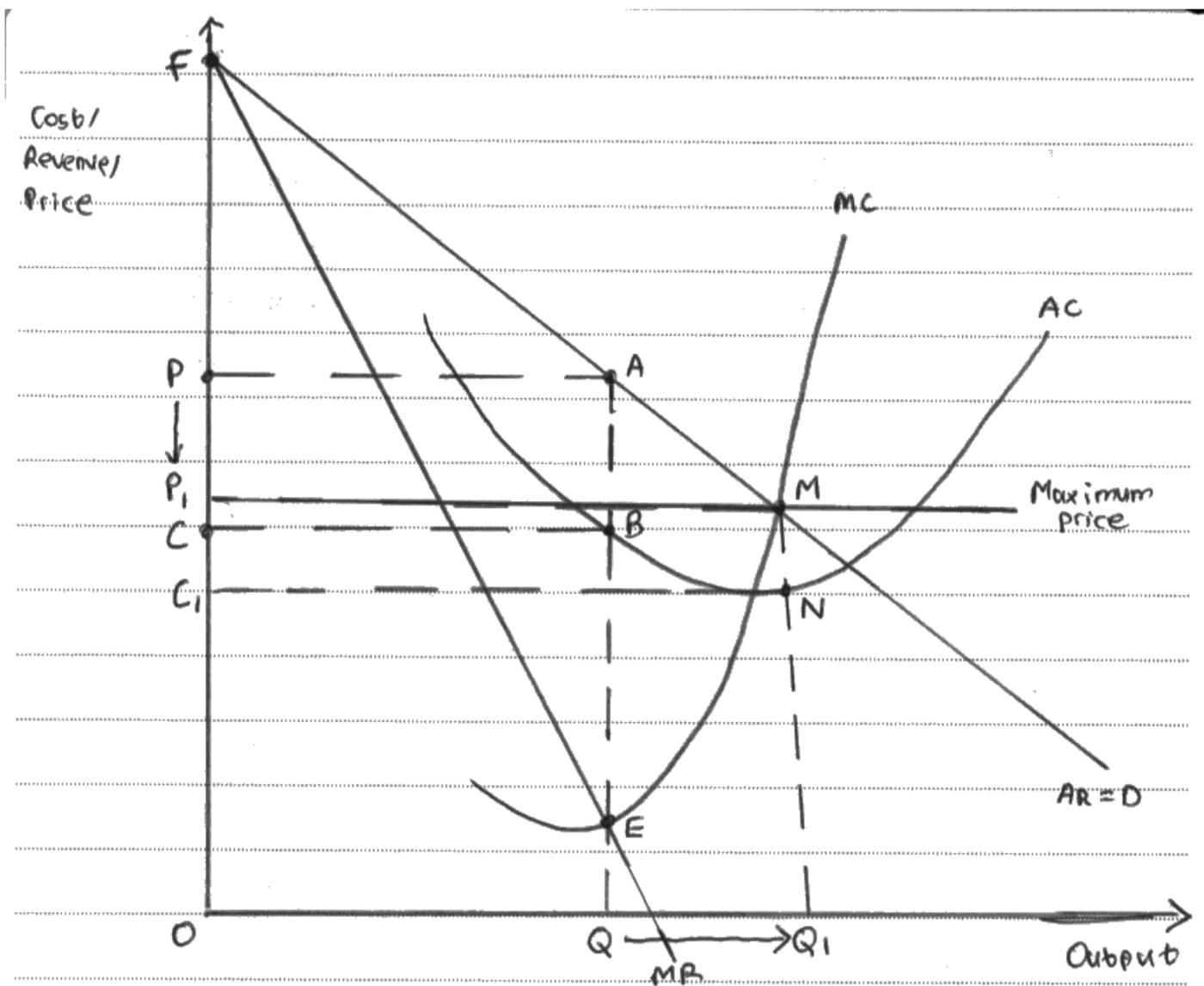
Before the monopoly firm i.e. Google was operating at the profit
maximisation ~~output~~ point E where Marginal Revenue (MR) =
Marginal Cost (MC). It was charging a price OP and producing
an output OQ. The maximum price is set at price $OP_1$,
which is the price at the point where Price = Marginal Cost,
So the allocatively efficient output. The fall in price from
OP to $OP_1$ will result in a rise in consumer surplus from
~~FA~~ area ´FAP before to now area $FMP_1$, an increase by
area $PAMP_1$. The reduced price will be in terms of charging
advertisers a lower amount for advertisement and also an

increase in output will mean more access to advertisement. Advertisers will have to spend less on advertisements or can afford to put out more adverts hence increasing consumer welfare as well. The maximum price is set to ensure that Google is not exploiting advertisers by charging them high prices, for themselves to enjoy high supernormal profits.

Another measure is referral to legal authorities. This means passing legislation or using existing laws to control monopolies. The US competition authorities may have referred Google to the US Department of Justice for abusing its market power, after which an investigation began. If Google is found guilty for this anti-competitive behaviour by using it's market power to limit competition i.e. through predatory pricing, it can be heavily fined which is a large cost to Google and will reduce its profits. Moreover, the fines along with imprisonment of directors will cause negative publicity for the firm, so will experience a fall in demand for it's products reducing revenue, while also having to spend heavily on advertising to help clear it's image. The fall in revenue and rise in costs will cause a fall in profits, discouraging Google from carrying out such anti-competitive behaviour again.

Finally, the ~~gover~~ US government could enforce performance targets for Google. These are set aims that Google should work towards e.g. addressing complaints quicker regarding advertisements or reducing complaints

regarding advertisements. This can be set along with quality targets which are the minimum quality standards google should achieve for adverts. This will encourage google to improve customer service as well as increase quality of methods to potray advertisements which increases consumer welfare and gives them value for money, as if the targets are not met Google can be fined.

However, the maximum price imposed will reduce Google's profit from area PABC to now $P_1MNC_1$. This fall in profits means that Google will not have enough funds to invest in Research and Development so as to achieve dynamic efficiency in the long run. Google will not be able to innovate, improve quality of advertisement potrayal and won't face a continous downward shifting Average Cost (AC) curve as it is dynamically inefficient so higher advert prices and of lower quality, reducing consumer surplus and consumer welfare in the long run.

Moreover, regulatory capture may occur. This is an instance where the regulators become regulated. The regulators who are employed by the government to check whether Google is meeting performance targets or not, may become lenient towards Google or may even be bribed such that the regulator will not report them. This reduces the effectiveness of the measures.

Furthermore, it depends on the magnitude of fines and penalties imposed on Google. If the ~~profits~~ supernormal profits" that Google is gaining from the use of anti-competitive behaviour outweighs the cost of fines and penalties, it will simply pay the fines and penalties and continue to abuse its market power. Thereby a government with the good will and ~~unders~~ good understanding of the market will be needed to set high enough fines and penalties to discourage monopoly firms like Google from exploiting their market power.

In conclusion, government intervention is likely to result in government failure creating a net welfare loss.

This answer lacks the development of how the government intervention impacts the business.

It simply states that the maximum price is set below the equilibrium and increases consumer surplus. This is linked to diagram, which moves this point into level two, however it lacks application or chains of reasoning to move beyond this level.

The next point is also a statement.

Evaluation is given, however not developed or in context. Achieving level one for evaluation.

Monopoly is a market structure of a single supplier in the market. There are almost barriers of entry, and have full control over the market.

They are usually lack to incentives and charge at high price in the market.
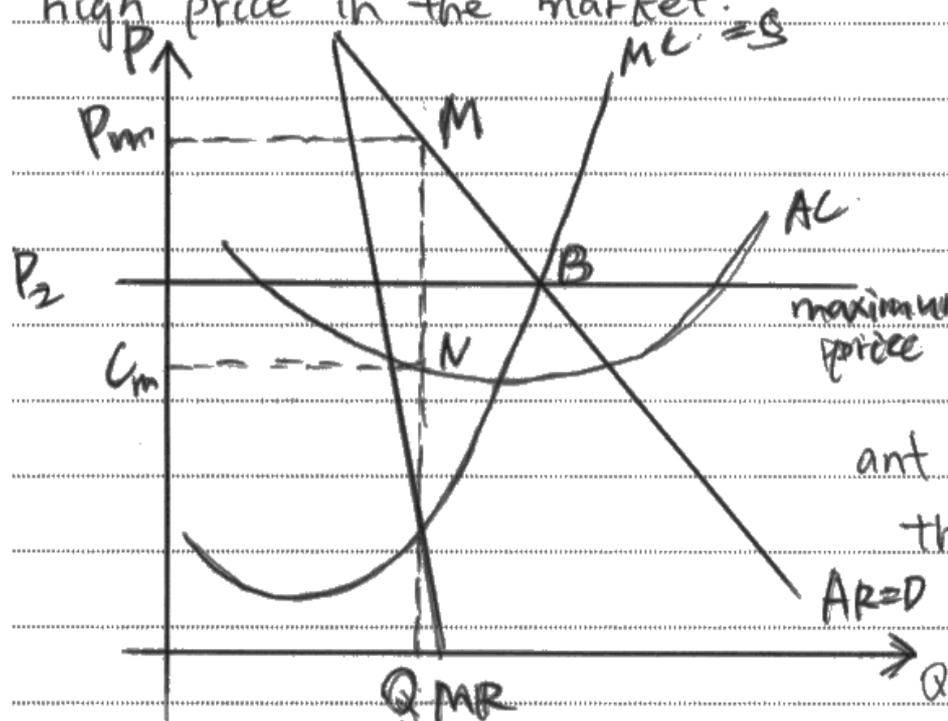


According to the graph. Monopoly like Google have maximum large amount of super normal profit and it is represented by the rectangular area of $P_m M N C_m$.

Government can impose a maximum price on the firm with at the market equilibrium level and helps lower the amount of consumer surplus taken by the monopoly which is represented by the trapezium $P_m M B P_2$.

However, there might be empolyee lost job in Google because there is lower profit for the

firm. However, there might also be regulatory capture that the government many not have the information about where the market equilibrium level is.

Another method is competitive tendering, the government could transfer firms in public sector into private sector to increase competition in the market.

However, this might fail if the ~~private~~ public sector firm become a private sector monopoly as they were used to protected by the government. There is a level of risk of Moral Hazard.

Furthermore, the government can set a quality standard on the firm, such as the percentage on time arrivals for a train company.

According to the Google company case I believe the maximum price will be the most effective instrument.

# Question 9

This question required students to evaluate the possible reasons for wages differentials within an occupation. This was the least popular of the three essays available and scored the lowest mean mark.

To achieve a level 3 for knowledge application and analysis, students needed to include a an appropriate diagram, many did not provide one which limited the score they could achieve. The better candidates included an price elasticity of demand for labour diagram and used this to support their analysis. Many candidates used the stem to explain why lawyers in Switzerland were paid at different levels based on their skill level or productivity. However, many candidates focused too heavily on the reasons why wage differentials exist between occupations. This didn't address the question. Very few candidates achieved level four on this essay.

For evaluation, students needed to give reasons why these differentials may not exist and some were able to explore the significance of the reasons they had provided. The evaluation was very limited on this question and very few candidates were able to reach level two or above. Most candidates listed reasons without development and very few candidates provided any context.

This candidate has successfully focused on one industry using the stem.

They have identified supply of labour, skills and productivity as their reasons for difference in wages.

The first of these would impact the whole industry and not wages within the industry, therefore did not address the question.

The other reasons identified were correct, but had limited analysis.

The candidate would have benefitted on addressing fewer points and focusing on developing these.

The evaluation was a list and not developed achieving the top of level one.

Wages is the paid of a firms to its ~~labour~~ workers as o workers provide their labours to the firms. ~~And~~ In this case, in 2023 the highest-paid lawyers in ~~Swit~~ Switzerland earned, on average, three times more than the lowest paid lawyers. And ~~this~~ the reasons for this wage difference will be evaluated below.

The first reason is that o60 of the labours are more productive or more highly skilled so that firms will demand more of them in order to let themselves be more more ~~costs~~ cost-effective. In this case, the highest-paid lawyers in Switerland earned averagely th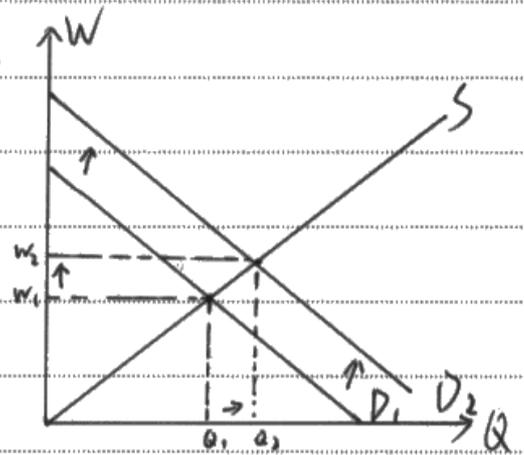ree times more than the ~~lowest~~ ~~too~~ lowest-paid ~~tall~~ lawyers. ~~This~~ This may because they have much more skills in defending their employers or ~~their~~ they ~~have~~ ~~more~~ are more sophisticated in this industry. So that they provide high success rate, ~~to~~ attracting ~~but~~ lawyer companies to ~~emf~~ employ them. Therefore like the Figure 1 show, the ~~dem~~ demand for high-skilled lawyers ~~just~~ will increase from $P_1$ to $D_2$, rising their wages ~~from~~ from $W_1$ to $W_2$, creating the wage differences. The second reason is that, the ~~so~~ ~~too~~ non-wage benefit for lawyers are stunningly bad, ~~especially~~ ~~speci~~ especially ~~for~~ ~~the~~ ~~low~~ ~~skilled~~ ~~lawyers~~. For example, in Switerland there may be ~~to~~ low non-wage benefits provides for workers who serve as lawyers like parking subsidies or insurances. Resulting



Figure 1

into the condition that less and less people tend to become a lawyer in Switzerland so the supply for labour in the lawyer industry will be reduced in Switzerland. As the Figure 2 shown, the supply curve of the labour will shift left ward from $S_1$ to $S_2$. Which increase the wage from $W_3$ to $W_4$. Firms can only use higher wages to attract lawyers. Lastly, it take a long period of time to study and train to become a high skilled lawyer with a high successful rate. This fact serves as a barrier to entry for people who serves their labour to become a high skilled lawyer. Resulting in lowered supply from $S_1$ to $S_2$ and hightened wage from $W_3$ to $W_4$ like figure 2 shown.
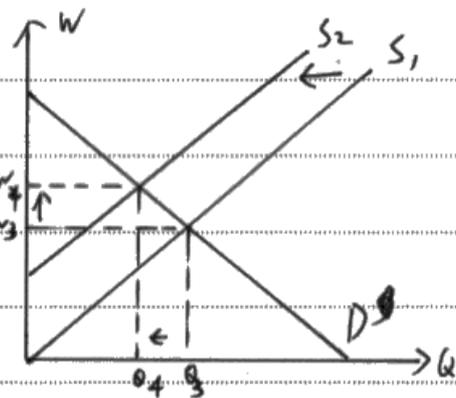
However, these reasons may be insignificant due to the facts below. Firstly, the government can provide training and education to improve the skills of lawyers in Switzerland So in the long run, the wage difference wont exist. Secondly, the welfare benefit of unemployment may be a more significant reason to attract lawyers to stop providing their labour. As the UE welfare in Switzerland may be stunningly high so that the people can even stop working for some periods. Lastly in the long run, all lawyers will be skillful enough and sophisticated.


Figure 2

Carefully read the question; many candidates addressed why wage differentials exist between industries rather than within one.

This candidate did provide an accurate diagram, however, the level of development that linked the diagram to their analysis was limited.

The candidate has provided lots of short reasons for wage differentials. These were not fully explored and lacked the application required for level three.

Wage different is the different in the wage one by different occupacion.

wage of a lower

wage of on eleven work bu wo lower
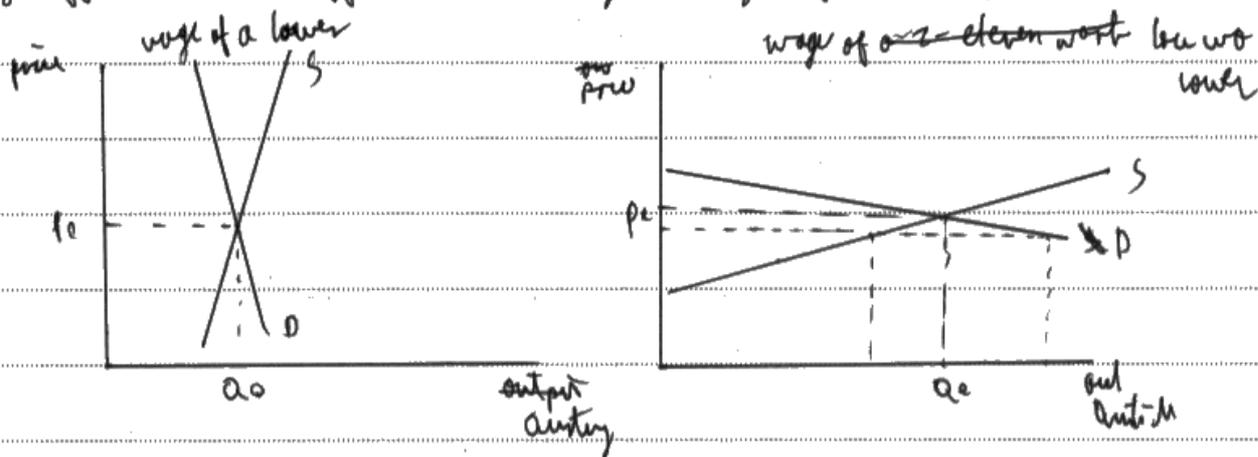
The p wage different can be due to the difficulty the job of the job need and how mobile it is or the lower it, they need alot of Training, and remembering for them to be able to get the job, what for a other work they any one un set a the work, which make the their wage lower but they can sell sit on the lower bu job which make it have a wage different between the 2 jobs.

However this may be goverment interveilion that make the job wage lower like giving extra traning, for workers to be so they'll be able to aim higher in the industry and be able to workst a higher wage of job, minimising the job different.

Another reason *** is the most geographical mobility of the job, as the higher earning labour longer may live for away and harder to motivate him to go come and work, they paid him more possess well which could make him more motivate to work as a result his have higher payment.

However the government could so have subsidies to the high paid lower to come closer to the job place as the lower get paid with the amount of case they participe and with them leving closer, there is a chance for them to earn more leading to them to get paid less

As a result the wage diffent con be due to the educational level they have and the area they leave, but the government intervention con reduce the different.



**ResultsPlus Examiner Comments**

This candidate would have benefited from including examples of the theories identified to improve their analysis.

The question required application to one industry and this was not present in this response, the candidate discusses 'jobs' rather than a specific job within a chosen industry, therefore this answer could not reach level three.



**ResultsPlus Examiner Tip**

Focus on one industry when asked to do so in the question.

# Question 10

This question required candidates to evaluate the likely impact of collusion on businesses and consumers. Candidates were required to include a game theory diagram to support their answer. Most students were able to include a pay-off matrix and use this to identify the higher profits generated from collusion. To achieve a level 4 candidates needed to refer to game theory with a diagram and reference the impacts to both consumers and producers in their answers. The reverse argument could be used for KAA or evaluation.

Most candidates were able to explain how companies such as Leicester City Football Club and JD Sport could benefit from collusion, and a large number of candidates included the stem reference in their answer. Increased profitability and improved quality of products/services were the most commonly explored answers and many candidates were able to access the higher levels by doing so. Candidates who were able to develop their chains of reasoning in context often achieved high level 3 or level 4 for KAA. A number of candidates still provided multiple short analysis points which only achieved level 2. A number of students were drawing inaccurate diagrams and muddled the levels of revenue that need to be identified in each quadrant. Candidates must ensure they are confident when explaining game theory through the use of a diagram.

There were a significant number of candidates providing strong evaluation for this question. Better candidates were able to identify the loss of consumer surplus, lack of choice and possible fines for colluding firms as their points. The majority of students supported their evaluation with the stem and correctly identified that Leicester city had to pay a £880 00 fine.

It was pleasing to see the level of quality provided by many of the candidates, and it is evident they understand the exam requirements well.

A significant number did not put an "x" next to the question they had selected. It is helpful if students remember to put an "x" in the box of the question they select. It is also helpful if they change their mind to change the selected question by putting a line through the incorrect question number and replacing the question attempted. Candidates must also ensure they do not answer two essays on the same page.

This candidate scored 12/20.

The knowledge, application, analysis and evaluation achieved a level two.

The points raised in this response were statements with two-stage chains of reasoning, therefore it lacked the development necessary for level three.

Though the context is provided, it is not fully integrated into the answer.

Collusion takes place when firms agree to fix prices and control the supply.

Effects on business.

Leicester City Football club and JD sports may collude to agree to set higher prices. This will increase revenue and therefore profits will be maximised.

JD sport.

| Leicester city Football club | | High price £1 | low price £.9p |
|---|---|---|---|
| | High Price £1 | 3 million 3million | 4million 0.2million |
| | Low Price £9p | 4 million 0.2 million | 1 million 1million |

When Leicester city Football club and JD sports decide to collude they will both agree to charge the high price of £1 and maximise their supernormal profit at £3million.

Additionally, when the firms collude they deter or reduce competition, this may be a cost advantage to the firm as they don't have to incur extra costs

to attract customers from the competing firm. Hence JD sport or leisester City football Club will not be concerned about how to compete to attract customers.

### Effect on consumers

The consumers may benefit from high quality sports clothing. Since JD sports and leicester colluded, they charge higher prices therefore earn high supernormal profit as a result they may reinvest the profit earned to improve the quality of the clothes inorder to retain their consumers.

Additionally, the demand may be inelastic so consumers are not affected by the increase in price rather they may be more interested in the spotting gear. Therefore collusion may not be an issue to consumers

Moreso, consumers may benefit from non price factors, like after sales service or loyalty schemes since JD sports or leicester city foodball may be more interested to retain their consumers.

### Evaluation: Effect on the business

However, when firms collude there is an incentive to cheat, JD sports or leicester City may charge a lower price inorder to maximise profit. Even more profit will be earned than colluding.

colluding is an illegal method, therefore if caught by the government authority or the ~~tax~~ competition authority heavy fines will be required to be paid. In this case. JD sport and Leicester City Football were fined £880 000 for colluding. This may be a major cost and firms may lose their reputation in the market.

### Effect on consumers

The consumers will have to pay higher prices. This will reduce consumer surplus. Incase if there was no collusion the consumers would benefit from low prices and consumer surplus would not be exploited.

I conclude collusion is an illegal practice hence it is a negative impact on consumer and produer

This is an excellent response and achieved full marks for KAA.

The candidate clearly addresses the positive effects of collusion for both the businesses and consumers of football clothing, using a correct and fully integrated diagram.

To achieve level four candidates should aim to provide two detailed analysis points, in context with developed chains of reasoning.

The candidate uses correct terminology and economic theory throughout this answer and fully addresses the question.

There is a good understanding of the links between supernormal profits and improved efficiencies.

The evaluation is also contextual and offers some application and developed, this achieved a level three evaluation but did not score full marks.

Collusion, refers to when firms in an industry come together to fix price and/or output. Collusion is usually occurs in an oligopoly market and may be overt i.e. open collusion or covert collusion whereby firms tacitly collude, in secret.

In July 2023 Leceister City Football Club was found colluding with JD sports for price fixing and reducing output of Leceister City-branded clothes in the UK. This is tacit collusion as firms act as though they have formed a collusive agreement, without having contact with each other.

The effects of collusion on businesses can be shown with a game theory model. The game theory model shows the different strategies available to a firm and it's assumptions or effects on it's rivals behaviour. This is shown in the following diagram:

## Leceisber City Football Club

|  |  | High price | Low price |
|---|---|---|---|
| **JD Sports** | **High price** | Ⓐ £50 mn / £50 mn | Ⓑ £60 mn / £20 mn |
| | **Low price** | Ⓒ £20 mn / £60 mn | Ⓓ £30 mn / £30 mn |

The first cell i.e. cell D shows the effect of collusion. When both the firms charge a high price and collude, they will make the highest combined profit. of £50mn each and £100mn in total If there was no collusive agreement there would be a price war, where if JD Sports decided to charge a low price to gain higher profits, then Leceisber City would also charge the lower price then so as to not loose market share. This will lead to cell D where there are the lowest combined profits. Thereby this diagram shows that collusion rather than price war in the ~~Leceisb~~ branded clothing market for Leceisber City's merchandise is beneficial, as both firms can enjoy a high profit.

The high profits earned can be re-invested into the business so as to benefit from dynamic efficiency in the future. ~~It can~~ Leceisber City FC can invest more money into research and development such that there is innovation in terms of new merchandise being

inbroduced gaining more revenue for the firms ond can also lead to more efficient production methods being used e.g. by using more productive machinery thereby leading to a continous downward shift of the Average Cost (AC) curve. The new products will allow Leceister City FC to gain more revenue and hence obtain more markeb share, and with lower cost the firm will be able to further increase ib's long berm profits as Profit = Total Cost - Total Revenue.

Moreover, the innovation and dynamic efficiency will benefit consumers as well. More innovation in berms of new merchandise being inbroduced and of higher quality will give the customers i.e. Leceister City fans more choice and variety of foobball jerseys or shirts to choose from so increased consumer welfare while the higher quality merchandise gives consumers value for their money. Falling costs may also be passed onto the consumers in form of lower merchandise prices in future, hence increase in consumer surplus.

Furthermore, high profits earned by these two firms will mean they are less likely to shub down and will also be able to withstand harsh economic conditions e.g. recessions caused by the Global Health Crisis of COVID-19 due to having more rebained profits. This will ensure continued production of the merchandise of Leceister City which will lead to an increase in

consumer welfare as they can keep buying the merchandise. Moreover, collusion will lead to price rigidity as the price will be fixed and so unlikely to be changed hence consumers can better plan their expenditure.

However, consumers will not benefit significantly. The fans of Leceister City are being charged a higher price than they would have if there was a price war. The Moreover, there may not be quality improvements and lower prices in the future as the firms may decide to distribute the increased profits to shareholders. The high price charged to consumers along with no innovation or better quality leads to a fall in consumer surplus and consumer welfare.

Moreover, the collusive agreement may not last for long. As seen in the game theory model, the firm that decides to charge a lower price first will benefit from the first-movers advantage which is the increase in profits to £60 mn. This increases the incentive to cheat hence breaking the collusive agreement. Moreover, the government may encourage whistleblowing where the firm who agreed to collaborate with the UK authorities being treated more leniently. Again, this will lead to a collapse of the collusive agreement hence benefits will only last in the short run.

Furthermore, collusion is viewed as anti-competitive

behaviour. This led to both JD Sports and Leicester City being fined £880,000 by the UK Competition and markets authority. These fines will increase costs for both the firms as well as lead to negative publicity for them where Leicester City supporters will by buy less merchandise, hence reducing revenue. The firms will also have to spend heavily in trying to clear their image hence the increase in costs and a fall in revenue will lead to lower profits, in the long run.

In conclusion, collusion is likely to benefit the business itself more than consumers.

# Paper Summary

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

**Section A:**

Multiple Choice Questions

- Students need to ensure they can calculate marginal costs
- Carefully read the question asked
- Students are encouraged to use diagrams to help them answer questions

**Section B:**

Data Response

- When asked to a draw a diagram all marks can be achieved through the diagram and a limited written explanation. The majority of students supported their response with a very detailed written explanation is is not required.
- 6 mark questions do not require detailed chains of reasoning. They do require two separate applications to the context asked for in the question.
- Longer answer questions require depth more then breadth. Candidates should aim to develop two detailed analysis points and two detailed evaluations to achieve the higher levels.

**Section C:**

Essay

- Diagrams should be drawn where helpful and many students successfully incorporated cost-revenue diagram into their response. Stronger responses utilised their diagram to explain the impacts on a business or different economic agents.
- Students that did best were able to apply to the specific question and use relevant examples that fitted with the context provided. This was used particularly well in question 10 discussing the collusion between Leicester City sportswear and JD Sport.
- Candidates often provided lots of short points, rather than fewer detailed points. This limits the quality of analysis and evaluation.

## 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