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Examiners' Report
June 2025

Int Advanced Level Economics WEC13 01

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Introduction

Candidates continue to heed the advice given in previous examination reports and are increasingly showing good application on the higher tariff questions; this allows candidates to access the highest levels of these questions. There was also a high number of accurately drawn diagrams which supported answers.

In Section A, the multiple choice section, candidates performed well across all of the six questions.

Question 1 required candidates to identify an example of an internal economy of scale: this is where the firm has control over its ability to reduce long-run average costs when output rises.

Question 2 tested the objectives of a monopoly. Sales maximisation occurs when the firm produces as much output as possible whilst still making a profit.

Question 3 required candidates to identify the correct impact of a government policy subsidising construction companies. *Ceteris paribus*, this would reduce the firms average and marginal costs of production, increasing their profit maximising level of output. As labour is a derived demand, this would then increase the demand for labour.

Question 4 tested candidates' ability to manipulate data regarding costs of production for a firm. Total fixed costs can be calculated by observing total costs when output is zero. Total variable costs can be found by subtracting total fixed costs from total costs at each level of output. Once this has been found, then average variable costs can be calculated.

Question 5 required candidates to have an understanding of price discrimination and price elasticity of demand. A firm will always increase its revenue if it is able to set higher prices when demand is price inelastic and lower prices when demand is more price elastic.

Question 6 tested candidates' understanding of the relationship between total revenue and marginal revenue. When total revenue is maximised, marginal revenue (the change in total revenue when one extra unit of output is produced) must be zero.

Section B, the data-response section, was based on the bicycle retailing industry in the UK.

Question 7(a) required students to calculate the percentage change in sales between 2022 and 2023 using the data provided. The majority of candidates understood that sales of bicycles fell in this period which would give a negative percentage change. A minority of candidates did not show all their working; a wrong answer with correct working would be awarded one mark. It is convention to give an answer in this context to two decimal places.

Question 7(b) tested candidates' understanding of contestability. A significant number of candidates confused contestability with competition and therefore did not pick up two knowledge marks. This is a key area of the specification and it seems that some centres need to assess how this topic area is taught. However, the majority of students did manage to gain the two application marks available.

Question 7(c) required candidates to analyse two reasons why many firms remain small in the bicycle retailing industry. Most candidates were able to identify two reasons but a significant number were not able to link their chosen reasons to remaining small. This meant that they were unable to access the two analysis marks on offer.

Question 7(d) asked candidates to examine two reasons why some bicycle retailers were forced to close between 2020 and 2023. In a question such as this, it is always useful to provide context at the start of the answer. There was clear data in the extracts here showing how many bicycle retailers actually closed in this period. The strongest answers made a clear link between their chosen reasons and falling revenue and/or rising costs. Even though it was not a requirement of the question, some candidates provided an accurate cost and revenue diagram showing the negative impact on the profits of the firm of their reason. Candidates were also required to evaluate their chosen reason to be able to access full marks for this question. Even though there were hints in the extracts, many candidates did not attempt to evaluate their reason; this therefore limited the marks that could be scored.

Question 7(e) required candidates to discuss methods that the bicycle retailer Halfords could use to increase its profits. To access Level 3, candidates needed to refer to the methods outlined in the extract as well as drawing an appropriate and accurate cost and revenue diagram to exemplify their method. However, many diagrams were poorly labelled and not sufficiently large enough to clearly show how the chosen method would impact on the cost and revenue curves and therefore affect the profits of Halfords. The question also required candidates to evaluate their chosen methods. It is important that candidates have an overall understanding of the extracts as there is often some hints. However, to access the top level for evaluation, candidates need to fully develop their points with several chains of reasoning. It is recommended that candidates focus on two detailed points of analysis and evaluation, rather than providing lots of short points.

Section C, the essay section, offered candidates the opportunity to choose two essays from three possible questions. All the essay questions required candidates to draw an appropriate diagram. As with question 7(e), many diagrams lacked correct labelling of the axes and the cost and revenue curves. Diagrams should be sufficiently large so that the examiner is able to understand how it links to points being made.

Question 8 asked candidates to evaluate measures a government could use to protect employees and suppliers. Whilst there were many good answers here showing a very good understanding of possible government policies, many answers were generic and could be applied to almost any industry. To access Level 4, candidates needed to apply their policies to a chosen industry and give several chains of reasoning.

Question 9 asked candidates to evaluate the benefits of having a natural monopoly supplying a product. Benefits could be to the firm, consumers or to the workers in the natural monopoly. As with question 8, there were some very good answers; however, a lack of context meant that candidates were unable to access Level 4.

Most candidates chose question 10 which required students to evaluate the benefits of a merger. There does seem to be some confusion by candidates as to the difference between productive efficiency (a movement along the long-run average cost curve as output rises) and X-efficiency (which involves a downwards shift in the long-run average cost curve, which means that the same level of output can be produced at a lower long-run average cost). It is important that centres revisit their teaching of this topic. As with the other essay questions, context was often missing, limiting the marks that candidates could score.

Overall, many candidates failed to provide sufficient chains of reasoning and depth in their answers, choosing to focus instead on several points with very limited development. Candidates who did this rarely scored beyond Level 2. It is recommended that candidates focus on two detailed points of analysis and evaluation, rather than providing lots of short points and focus on quality over quantity.

The performance on individual questions is shown in the next section of this report.

Question 7(a)

This question required students to calculate the percentage change in sales of bicycles between 2022 and 2023 and the majority of students were confident in doing this. Some students failed to identify that sales were falling and omitted the negative sign in their answer; these students were only awarded one mark.

7 (a) With reference to Figure 1, calculate the percentage change in bicycle sales between 2022 and 2023.

You are advised to show your workings.

$$\frac{1.87 - 2.04}{2.04} = -8.33\%$$

ResultsPlus
Examiner Comments

This candidate achieved full marks for the correct answer.

ResultsPlus
Examiner Tip

Always show your working at every stage of the calculation. If an answer is not a whole number, it should be written with two decimal places.

Question 7(b)

This question required students to understand the concept of contestability, referencing Extract B. There were 2 marks available for knowledge and 2 marks available for application. There was confusion among many candidates between contestability and competition. It is therefore important that centres revisit their teaching of this key concept.

Most candidates managed to score the two application marks, even if they did not manage to score the knowledge marks.

(b) With reference to the first two paragraphs of Extract B, explain what is meant by 'a reduction in contestability'.

(4)

"There were 2234 bicycle retailers in the UK in 2023. This was decrease of 2.1% compared with 2022". The reduction in contestability means that the large businesses quickly dominated the online market by investing heavily in advertising and branding, and by offering online discounts. These strategies have resulted in a reduction in contesibility.

ResultsPlus Examiner Comments

This candidate did not provide an understanding of contestability so was only awarded two marks for application.

(b) With reference to the first two paragraphs of Extract B, explain what is meant by 'a reduction in contestability'.

(4)

Contestability means there is freedom for entry and ~~exist~~ leave the market. ~~Re~~ Reducing the contestability means the barriers to entry and exit will rise. In Extract B " This was decrease of 2.1%" "There were 2234 bicycle retailers in the UK in 2023" " the larger businesses quickly dominated the ~~one~~ online market by Investing heavily in advertising and branding, offering online discounts"

ResultsPlus
Examiner Comments

This candidate has a clear understanding of the concept of contestability, referring to barriers to entry and exit. There is clear application through reference to the extract.

ResultsPlus
Examiner Tip

Candidates must learn and understand all the key terms as outlined in the specification.

Question 7(c)

The 6-mark question awards two marks for knowledge, two marks for linked analysis and two marks for application. The question was very clear in asking candidates for two reasons why bicycle retailers remain small. Candidates should therefore not include any more than this. This question proved to be accessible to most candidates who were confidently able to include references to the extracts to exemplify their answer.

(c) With reference to Extract B and your own knowledge, analyse **two** reasons why some bicycle retailers remain small.

(6)

One reason why ~~some~~ some bicycle retailers may remain small is because it may be owners choice, ~~because~~ as the owner of the small bicycle retailer may like to have more control of the business and have flexible working hours so he or she may want to remain small as if they were to increase size then this freedom would be lost.

Furthermore, another reason why some bicycle retailers remain small may be because the bicycle market is too competitive and is controlled by the large retailers such as Evans Cycle, and Chain Reaction Cycles. So it will be a huge cost for small businesses to invest and grow into a large business, and as a small business this capital needed may not be there.

ResultsPlus
Examiner Comments

This candidate achieved 4/6 marks for the correct identification of two reasons for staying small: choices made by the owner of the business; the dominance of larger firms. There is clear linked analysis of these points to remaining small. Unfortunately, there was no relevant application to the extract.

ResultsPlus
Examiner Tip

This candidate has set out their work very well in two distinct paragraphs. This makes it clear to the examiner that there are two clear reasons that are analysed. This is something that candidates should aim to do in a question such as this which requires two distinct points.

(c) With reference to Extract B and your own knowledge, analyse **two** reasons why some bicycle retailers remain small.

(6)

The first reason is these small bicycle retailers is in a niche markee, and can provide unique needs. ~~For example~~ for small range people. For example, according to extract B " These businesses offer unique expertise and specialist services such as bike fitting and selling a niche range of bicycles." The small scale can reduce cost and decrease the risk. also can satisfaction ~~people~~ the niche range of bicyles needs.

The second reason is the small scale ~~ca~~ can more easy to adapting and get profit. According to the extract B " Some of these businesses have also been successful in adapeing quickly to the growing demand for e-bikes." In the uk bicycle market, These small -scale bicycle retailers can according consumer demand to change their products, They have low barriers to change their produces. But if a big company want to change their products, they need spand a lot of money and has a big transfer cost.

ResultsPlus
Examiner Comments

This is an excellent response that scored 6/6. The candidate has a clear structure to their answer: each reason has its own paragraph. The first paragraph analyses how a niche market links to lower costs and reduced risk for the retailer. The candidate uses bike fitting as their context. The second paragraph analyses how flexibility means that they can quickly adapt to changing demand. The candidate uses e-bikes as their context.

ResultsPlus
Examiner Tip

Do not overwrite in this question: there only needs to be a simple chain of argument linking the reason to need to remain small. This will ensure that you have sufficient time for the longer questions in the paper.

Question 7(d)

This question asked candidates to examine two reasons why bicycle retailers were forced to close. The question required candidates to make use of Figure 1 and Extracts A and B.

In this 8-mark question, there are 2 marks available for the identification of two reasons for closing, two marks for linked analysis and two marks for evaluation. Two marks were also awarded for the use of data to provide context in the answer.

This question discriminated well between candidates. The very best candidates were able to select relevant reasons from the extracts and explain how these would either reduce revenue or increase costs for bicycle retailers. These candidates then went on to analyse how this may turn a profit into a loss, therefore forcing the retailer to shut down. Common reasons identified were a fall in demand for bicycles, a rise in inflation and a rise in the dominance of larger retailers who were able to exploit their economies of scale or use their market power to engage in price and/or non-price competition with the smaller firms. Some candidates expertly added a cost and revenue diagram into their answer, even though it was not explicitly asked for.

Many candidates were able to use the data, especially Figure 1 and Extract A, to give them a context for writing their answers.

However, many candidates did not attempt any evaluation in this question, thus limiting their marks. Often, there are hints in the extracts to help candidates here. The most common evaluative point made by candidates was that sales of e-bikes were actually increasing which would offset the fall in demand for bicycles; this may therefore mean that retailers may not be forced to close in the future.

(d) With reference to Figure 1, Extract A and Extract B, examine **two** reasons why some bicycle retailers were forced to close.

(8)

According to the Figure 1, the number of bicycles sold in the UK decreased dramaticly from 2020 to 2023. It means the demand for bicycle decrease continuely these years. then some bicycle retailers have to close. because they could not sell the bicycles. According to the Extract A. the sales ~~then~~ were even at their lowest in over 10 years in 2023. So, a decrease in consumer demand after the boom in bicycle sales during the global health crisis.

Another reason is that the high inflation rates. The high inflation rates cause the price of bicycles increase significantly during these years. Then the higher price might cause consumers not to choose ~~the~~ to buy the bicycles. Then some bicycle retailers were forced to close.

However, the sales of some types of bicycles increased in 2023, just like electric bikes, ~~It~~. This type is becoming a more popular choice.

ResultsPlus
Examiner Comments

This candidate scored 4/8 marks. It was pleasing to see a well-laid out structure to this answer with clear paragraphs which signposted the factors to the examiner. In the first paragraph, there is the correct identification of falling demand for bicycles with some context stating that sales were at their lowest for 10 years. However, the candidate did not clearly link this to rising losses. In the second paragraph, there is the correct identification of rising inflation, but there is again no link to rising losses. There is no data reference in this paragraph. In the final paragraph, there is some evaluation with reference to rising sales of e-bikes, but there is no further development of this point.

ResultsPlus
Examiner Tip

Always ensure that you get at least two data references into every question in Section B.

(d) With reference to Figure 1, Extract A and Extract B, examine **two** reasons why some bicycle retailers were forced to close.

(8)

In 2023, an increasing number of bicycle retailers shut down. The number of bicycles sold had decreased in 2023 to 1.87 million. The demand for bicycles decreased as people started returning to their old routines. As a result, bicycle retailers experienced a reduction in demand for their products. This left retailers with many unsold ~~as~~ bicycles. This will have a negative effect on bicycle retailers as their profits and revenues will be reduced significantly. To sell the excess supply, the large businesses reduced their prices. As a result many small-scale retailers could not compete with these lower prices as they could possibly make losses ~~making~~ forcing them to close. In 2023, sales were at their lowest in over 10 years. In addition, another reason why some bicycle retailers were forced to close is the rise in online shopping. The larger businesses quickly dominated the online market by investing heavily in advertising and branding and by offering online discounts. As a result, small retailers had faced a lot of competition from larger competitors. This forced them out of the market.

However, in 2023 sales of some types of bicycles increased. Electric bikes are becoming a more popular choice. ~~This increas~~ This will benefit small retailers as there was forecasted a 12% increase in bicycle sales in 2024. As a result, small retailers will ~~s~~ start to make profits and not forced to close down.

ResultsPlus
Examiner Comments

This candidate scored 8/8. There are clear references to the data throughout such as stating the fall in the number of bicycles sold and that sales were at their lowest for 10 years. Several points are actually made in this answer; these include a fall in demand, price competition from larger firms and the rise of online shopping, even though it was only necessary to identify two factors. However, these factors were clearly linked to the firms having falling profits or rising losses. Both evaluation marks were scored in the final paragraph with the statement that the sales of e-bikes were increasing with some development.

ResultsPlus
Examiner Tip

Ensure that you understand the demands of the question. In this case, do not write about more reasons than are asked for. It is very helpful to put each reason into a different paragraph. This will help you to structure your answer.

Question 7(e)

This question required candidates to analyse and evaluate methods that Halfords could use to increase its profitability and is the first of the levels-based marking questions.

To achieve a Level 3 for both analysis and evaluation, candidates had to put forward a relevant reason taken from Extract 3, show chains of reasoning linking the reason to higher profits and provide some context. Candidates also had to include a relevant diagram which supported their written analysis.

A large number of candidates provided several short points, none of which were fully developed; this meant these candidates limited themselves to Level 2 at most. The requirements of the question also meant that methods had to come from Extract C; a significant number of candidates analysed methods which were not in the extract. This also had the effect of limiting their mark for this question. In order to score high marks, it is crucial that candidates focus on the demands of the question set. Relevant methods were: focus on the serving business, investing in an online presence, increasing price competitiveness and the expansion of e-bike sales. Candidates should have focused on two of these methods.

Diagrams were often poorly drawn with axes, and both cost and revenue curves not labelled. A significant number of diagrams were drawn in such a way that examiners were unable to work out what was happening to the cost and revenue curves. Diagrams should be sufficiently large.

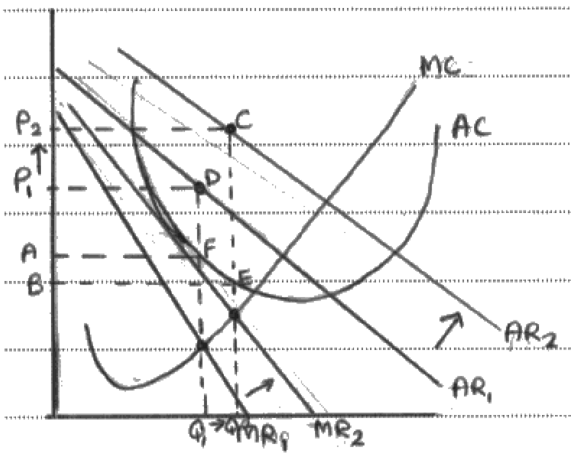
(e) With reference to Extract C, discuss methods that Halfords could use to increase its profitability.

Illustrate your answer with a costs and revenues diagram.

(14)

profit = Total revenue − Total costs

One way Halfords can increase profitability is through the use of advertising, by investing int its online presence to reach more customers, Halfords will increase customer awareness and give them more information to make rational decisions leading to an increases in sales of revenue as more customers are aware of the good leading to an increase in supernormal profits. (P = TR − TC)



price of Halfords bikes increases by $P_1 \to P_2$. Output of Halfords bikes demanded increases by $Q_1 \to Q_2$. AR_1 shifts to AR_2 and MR_1 shifts to MR_2. Supernormal profits increases from P_1 D A F to P_2 C B E. This large increase in supernormal profits can lead to an increase in retained profits which can be used to improve the productivity of the ~~f~~ firm through investment in better technology leading to a decrease in costs of production and an increase in productive efficiency and therefore an increase in price competitiveness in the long run.

On the other hand, an increase in investing in online presence through e.g advertising will be costly, very expensive leading to high costs of production and therefore lower supernormal profits are made reducing the profitability it could achieve.

Another method Halford could use is using research and development to improve and specialise services such as bike services which are less effected by economic downturns, which was partially due to a 10% increase in ~~is one of the reasons which~~ national minimum wage, this leads to an increase in the quality of the service leading to an increase in Halfords non-price competitiveness leading to demand becoming price inelastic as customers are willing to pay higher prices for the good meaning Halford can increase prices leading to an increase in total revenue leading to an increase in supernormal profits, (change in price will not effect demand much for inelastic demand).

On the other hand, research and development to improve and provide good quality bike servicing takes a long time meaning demand will ~~be~~ grow inelastic over a long period of time so Halford will not be able to raise prices immediately as demand is still relatively elastic.

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Examiner Comments

This response was awarded 12/14 and provides an excellent example to centres of a very good structure where each method is evaluated immediately after it has been analysed. Both points made (an online presence and improving bike servicing) came from Extract C and were well analysed showing several chains of reasoning. There is a good use of economic concepts, such as elasticity, throughout the answer. The diagram was sufficiently clear, although the axes were not labelled, and the discussion did link to the diagram. Evaluation was good, showing an understanding of the context of the question.

ResultsPlus
Examiner Tip

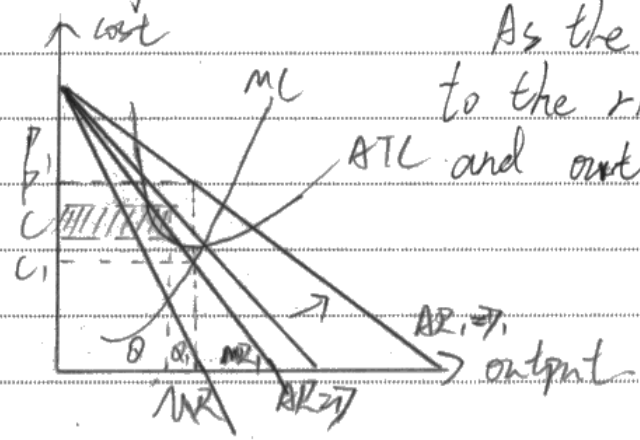
Ensure that all diagrams are well labelled.

(e) With reference to Extract C, discuss methods that Halfords could use to increase its profitability.

Illustrate your answer with a costs and revenues diagram.

(14)

One of the methord is to increase its investment on online presence. Online market is a new area of selling bicycles and has a large number of market share. Also, ~~becau~~ due to Halford is already the bigest bicycle retailer in UK, ~~so~~ ~~it~~ Halford may have relatively good branding, so it is more easy for this firm to dominate online market. As a result, Halford will have higher revenue.



As the MR and AR shifted to the right, the profit increased and output also increased.

However the 10% increased in minimum wage may be a large part of cost of production and the profit may be ~~distrupt~~ distract.

Another methord is that Halford could set out lower price to increase competitiveness. Halford is the largest bicycles retailer that has over 20% of total market share in UK, so Halford may have enough money to set out ~~low~~ price competitions with lower price, that this part of shortage in earning money could be earn by other sectors of production in this firm. Having lower price in the market will ~~s~~ significantly attract more ~~person~~ consumers to purchase that may increase the market share for the firm. Reasult in increase in ~~profitabl~~ profitability

However, ~~t~~ as global health ~~p~~ crisis eased, the demand ~~d~~ for bicycles for people falls to a low point that the total market share for ~~bick~~ bike ~~A~~ industry is small, so Halford may not earn money even they set out lower price

ResultsPlus
Examiner Comments

This candidate achieved 10/14 marks. Full marks were not achieved due to the slightly limited development of analysis and evaluation. There are clear paragraphs seperating the two methods used (an online presence and improving price competitiveness). Context is good showing a wider understanding of the bicycle retailing market. The diagram is a little small and there is a missing label on the y-axis. There are several chains of analysis, but the first point did not refer to a rise in profitability. Evaluation was worthy of Level 2, showing some chains of reasoning and development.

ResultsPlus
Examiner Tip

Chains of analysis should always refer back to the wording of the question to ensure that it has been fully answered.

Question 8(x)

This question demanded an understanding of policies a government could use to protect employees and suppliers in a chosen market. A relevant diagram was needed to reach Level 4. Many candidates analysed and evaluated minimum wages as their policy response to protect employees. Other common policies chosen were employment legislation and higher spending on education. In order to protect suppliers, many candidates analysed and evaluated some kind of regulation of the industry. This included fines for the exploitation of market power and the imposition of a minimum price to local suppliers. Other good answers noted the impact of subsidies to local suppliers using a relevant cost and revenue diagram.

Whilst most candidates could put forward relevant policies, many were unable to go beyond superficial analysis. Indeed, very few were able to place their answer in a context; only these candidates were able to access Level 4. Often diagrams were too small and were insufficiently labelled.

Evaluation needs to be focused on the point made in a candidate's analysis. It is helpful for the evaluation to follow on directly from the analysis point made.

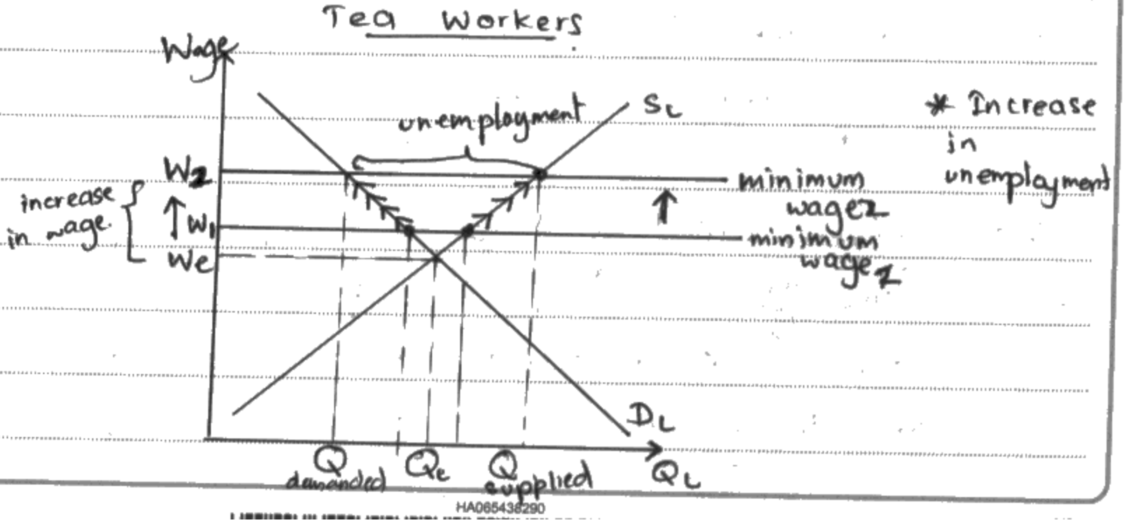
This is an example of an excellent response to the question with a clear structure in place. The candidate analyses minimum wages and regulation as their respective policies. The context of the tea industry in Sri Lanka is integrated into the candidate's answer throughout and this is well linked to the analysis presented. The diagram is clear and well labelled and referred to in their analysis. Evaluation is strong and related to the analysis points made.

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

Government intervention is policies imposed to correct market failure.

Governments in Sri Lanka can ~~re~~ increase the minimum wage for tea leave collectors as they get paid very less despite contributing to the tea production ~~for a~~ that is sold worldwide and ~~is~~ tea is one of the main export income for Sri Lanka. Tea leave ~~pluckers~~ harvestors do not get paid much in return to their hard ~~work~~ labor. ~~Govern~~ The Sri Lankan government can increase the minimum wage for them so that the workers will not get exploited and will be able to ~~live~~ have a better standard of living. This will help protect ~~con~~ employees of tea factories in Sri Lanka.

Tea workers



However ~~the~~ this policy may not work if the government does not have regulators to check if tea factories follow the policy or not. Companies can fake their income statements ~~with~~ that show employees are being paid minimum wage but in reality it is not ~~the case~~ true. Even though the government implements this policy it may harm the employees instead of protecting them as there is a contradiction. When the Sri Lankan government increases the minimom wage, tea ~~factories~~ production company's total costs will rise, so to reduce their costs they may fire some employees, this will result in an increase in unemployment and therefore may even increase poverty in the country as Sri Lanka employs a huge number of tea ~~work~~ harvesters. Hence this policy is a government failure.

The government can ~~contr~~ impose policies to reduce the monopsony power of the main tea manufacturer ~~on~~ ~~of~~ in Sri Lanka so that they won't be able to exploit tea leave ~~pluckers~~ suppliers. The government can promote fair trade for ~~tear~~ leave suppliers ~~and~~ and manufacturers so that tea manufacturers won't be able to bargain for lower prices from tea leave suppliers. The government can do regular checks to see if the policy of fair trade is working without any issues.

The government can also make it mandatory for all tea leave employers to make contracts for their time in the company and all other legal rights that should be fulfilled by the employer to the tea leave workers. Health and safety roles should also be implemented so that the ~~empo~~ tea leave workers will be safe while doing labor. The government should set a standard for the working hours of tea leave harvesters so that they don't overwork and ruin their health. All these statements should be ~~their~~ mentioned in the contract so that ~~&~~ businesses cannot exploit laborers by ~~g~~ making them work more ~~the~~ than the maximum working hours.

However it is not practical for a country like Sri Lanka, whose economy is not doing well to keep doing checks on tea leave ~~to~~ companies as they don't have much funds to keep sending people to travel to each factory or place to analyse if the policy ~~on~~ is effective or not. It is also not realistic to make contracts as there are many tea ~~t~~ workers working for a small income and employers may not have much technology to make contracts for each and every worker. Some tea workers are not able to read nor write, so there is no use of creating contracts for them.

All these factors depend on how significant the policy is and ~~to~~ what the government will do if they do not take action for the rules.

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Examiner Comments

This answer provides an excellent example of how to integrate context into an answer, allowing the candidate to access Level 4.

ResultsPlus
Examiner Tip

Ensure that the evaluation follows the relevant analysis point.

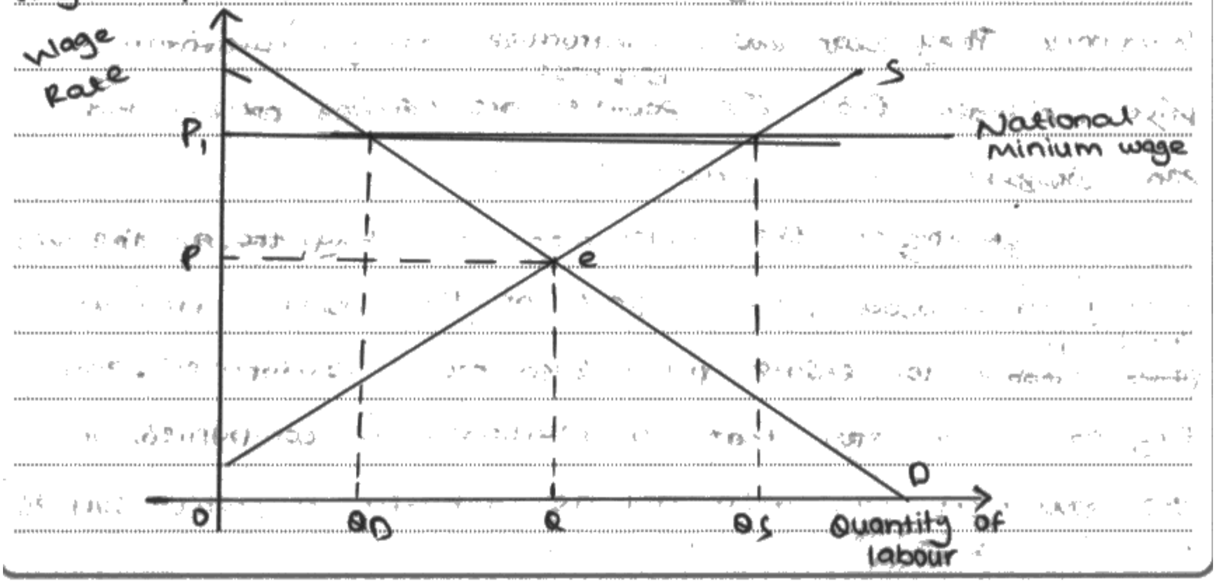
This is another good answer to the question. It has some context and a well labelled diagram as the question requires. However, the candidate attempts to analyse several points for employees and suppliers and therefore sacrifices in-depth analysis for quantity of points. Therefore the lack of development of the points made means that it is harder to access Level 4.

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

The government can protect employees and suppliers in the market of chocolate, as the multinational companies have monopsony power to purchase raw materials at a cheaper rate from the ~~ca.~~ 2·5 million farmers in Ghana and Cote d'Ivoire.

Thus governments in this economies can protect employees and suppliers in the market by: increasing the national minimum wage of cocoa workers, this will ~~increase~~ ensure the government, that employees are not been exploited while working and have the ability to purchase ~~necessity~~ essential items and improving their living standard.

The graph below shows the national minimum wage implication in the market:



Moreover, government can set up health regulations and standards to the Multinational companies to ensures that the employee is in the correct working environment to produce chocolates.

Futhermore, government can strengthen the power of trade unions, to ensure the employees in the chocolate industries are been paid well, they are in ~~wor~~ right working condition, this way government is gauranteed ~~care knows~~ the employees are treated well or not.

To the suppliers, the government can set-up offices to share informations to the 2.5 million farmers ~~that~~ about the current price of cocoa in the market, ~~and~~ (free-flow of information) and make sure the multinational are not taking advantage of them.

Futhermore, government can increase protectionism ~~and~~ to protect the cocoa supplier market, as a result suppliers will be getting fair prices for the cocoa and hardwork. ~~They can also introduce national minimum price, in order that the families business are earning profit and can continue.~~

Moreover, the government can buy ~~the~~ all the supply of cocoa, thats 60% of the world supply at Steady price ~~price above~~ to ensure profit been made to suppliers, and they can later sell that to Multinational companies, or the government can also act as a buffer to protect suppliers

However, a rise in national minimum wage, will lead to an increase ~~in~~ in cost from the 6% of the chocolate, this may affect the profitability of the firms in the chocolate industry as result they may redundant many cocoa workers and look for other alternatives from the rest 40% across the globe. Thus, government cannot do anything to protect employees and suppliers.

Moreover, some multinationals may replace cocoa ~~workers~~ farmers to machinery to harvest cocoa as they find it cheaper ~~and change their system~~ to use capital than pay heavy fines, if they are and also change their working condition ~~etc.~~ found not to obey the law, this would have made ~~Many Some~~ many of the 2.5 million family out of income and there is nothing government could do about it.

Futhermore, increasing protectionism measures can affect the decisions of multinationals to leave the economy, this may lead to a loss in tax revenue to the government from the multinational companies.

In addition, since there is assymetric information in the market, government intervention could lead to a market failure in the chocolate industry.

In conclusion, correct measures with regulators in the chocolate market, the government can protect employees and suppliers from not been exploited, to having better standards of living and working condition.

ResultsPlus
Examiner Comments

There is a clear, well labelled diagram in this answer. However, it is not referred to in the candidate's answer.

ResultsPlus
Examiner Tip

Always aim to develop two points as fully as possible in essay questions.

Question 8(y)

Question 9(x)

This question required candidates to evaluate the benefits of a natural monopoly. As the question was open, benefits may be to firms, workers and/or consumers. Many candidates chose to analyse economies of scale and how these may lead to lower prices for consumers. Another common point made was how higher profits may be used to invest in the business to improve the good or service for the consumer. The question also required a diagram; many candidates chose to draw a firm's average cost curve showing declining long-run average costs.

Evaluative comments included the business abusing its market power if regulation was non-existent or there was some degree of regulatory capture and the firm giving its profits to shareholders, rather than reinvesting them in the business.

Often diagrams were unlabelled and analysis lacked a context. This generic context meant that the analysis could be about any industry thus capping candidates at the top of Level 3. Many candidates chose to offer several points with little development, rather than two in-depth points with several chains of reasoning.

This response focused on one industry as context: the underground railway system in London. There were two analysis points made which were both in-depth and had several chains of reasoning. Evaluation followed the analysis point made. The diagram was clear, well labelled and referred to in the candidate's answer.

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

Natural monopolies are firms that are the sole suppliers of a good or service in a market and ~~the market is m~~ all of the market demand can be met through this one firm due to the high fixed costs nature of the industry. For example, ~~£~~ TFL (Transport For London) is a natural monopoly in the ~~UK~~ London as it is the sole supplier of the London underground services.

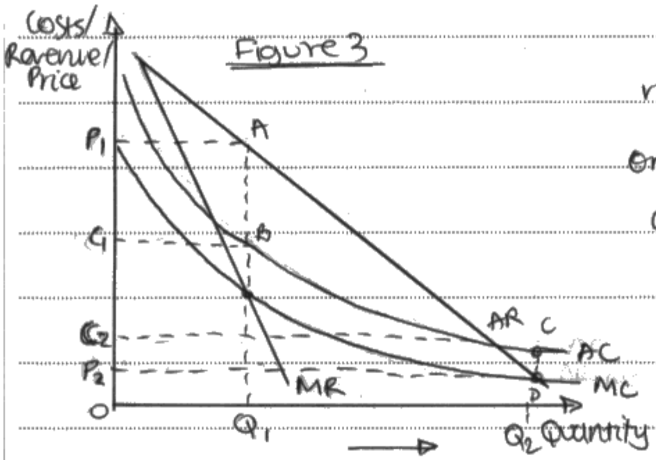


Figure 3 shows the revenue and costs of TFL, or a natural monopoly such as TFL, with high capital requirements and high fixed costs associated with an underground metro system such as constructing tunnels, ~~by~~ buying trains and more, the firm can achieve economies of scale over an extremely large quantity of services sold. This allows the firm to price their goods at the profit maximising price (where MC = MR) at P_1, with subsequent costs at C_1 to give an area of supernormal profits of P_1C_1AB. This area can be used to offset their extremely high fixed costs as well as be used to achieve dynamic efficiency through inverting into innovation, better services and products. This is likely to improve consumer welfare, as well as keep other firms out due to the high fixed costs ~~serving~~ and the large economies of scale serving as a barrier to entry for potential entrants.

However as the underground is quite an essential bit of infastructure for a city like London, a price of P_1 is not only allocatively inefficient, but also too high ~~for~~ for most resident consumers to afford. At the quantity sold, Q_1, TFL is not able to harness the majority of their ~~eco~~ economies of scale, leading to an extremely inefficient market and acting against the interests of consumers and their wellfare.

Hence, natural monopolies often require government intervention to be able to provide the goods or service they are providing to be provided at socially optimum prices and quantity. The ~~socially~~ allocatively efficent price lies at $MC=P$, where the price is P_2 and a much higher quantity, Q_2, ~~of~~ of consumers will be able to afford the underground. ~~At~~ At this ~~price~~ quantity, much greater economies of scale can be utilised by TFL as AC starts to flatten and there is allocative and productive efficiency in the market. ~~Prod~~ Productive efficiency refers to a firm operating at the lowest point of it's average cost curve. This significantly boosts the number of consumers that can access the underground, therefore, the government can place a price cap there, instructing the natural monopoly, to fix prices at P_2.

However, for a profit maximising firm like TFL, the price P_2 causes it to be making subnormal profits of area C_2P_2CD. This may cause unintended consequences such as the firm to cut costs elsewhere to remain in business, possibly harming other parts of it's services and goods, such as compromising safety to offset it's losses, or even possibly shut down, leading to a massive market failure and government failure as the only firm supplying underground metro services cannot afford to operate. Other firms are not able to create new railways due to wasteful duplication of resources and the aforementioned barriers to entry. Therefore, the government must correct this market failure by subsidising TFL with the area of subnormal profits in order to keep it in business as well ~~[illegible]~~ productive efficiency.

In conclusion, natural monopolies that are not regulated by governments and provide essential services may be beneficial to a market due to it's capacity to achieve dynamic ~~[illegible]~~ efficiency through its supernormal profits. However, as they have no competition due to high fixed costs and barriers to entry, they are able to price their services at the profit maximising price that allows for underuse of their goods, no economies of scale and market failure. However, government ~~regulated~~ interventioned natural monopolies or even state-owned natural monopolies that have the public's interest in mind will price their goods at the ~~profit maximising~~ allocatively efficient price, ~~and with~~ achieving economies of scale, allocative and productive efficiency and greater consumer welfare. However, due to producing normal profit as a result of the intervention, the firm will not be able to achieve dynamic efficiency and this acts as a drawback to the natural monopoly's status in the market.

ResultsPlus
Examiner Comments

This answer scored full marks as there were lots of chains of reasoning in both analysis and evaluation, a well labelled and relevant diagram, and context woven in throughout the answer.

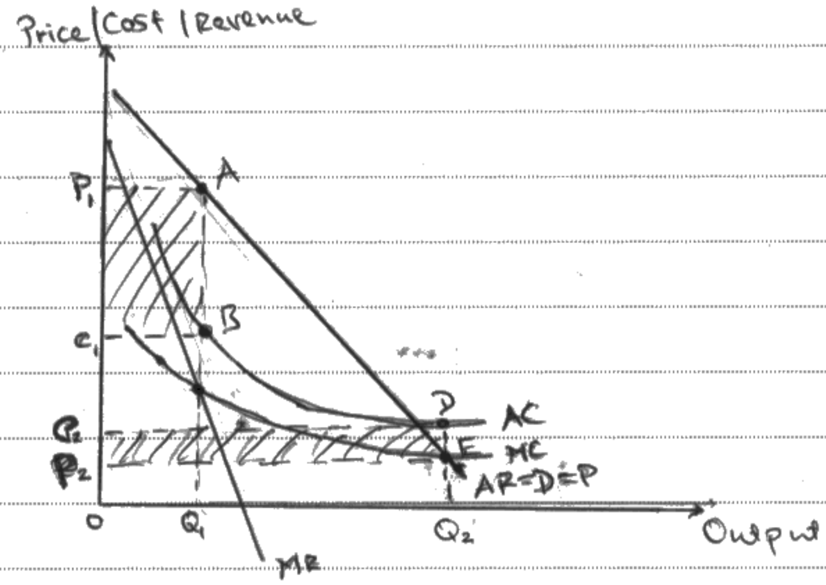
ResultsPlus
Examiner Tip

Always refer to your diagram in your answer.

In this answer, there was an accurate and clear diagram. However, the candidate chose to provide several points of analysis in their answer which meant that the level of development of each of those points was limited. The candidate stated the water industry in Sao Paulo at several points in the essay, but did not go beyond that.

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

A natural monopoly is a market where only one firm exits. There are natural barriers to entry that make it inefficient for more than one firm to exist in the market.



Sabesp is the sole supplier of water in São Paulo, Brazil. It would be inefficient for there to be competition in such a market as it would lead to duplication of resources like Pipes. ~~and~~ This means, overall, consumers benefit from there being one supplier in this market. It is best to have a natural monopoly as resources a firm would use to compete with Sabesp, can be used for consumer benefit elsewhere.

Furthermore, Sabesp being a natural monopoly and a large firm will likely experience economies of scale. This is demonstrated by their ever-falling Average cost curve. These economies of scale, including managerial ~~technical~~ economies (access to the best engineers in the region), purchasing (bulk-buying of resources) and many more will ~~allow~~ enable Sabesp to pass these lower production costs to consumers. This therefore means that water in São Paulo will be cheaper.

Moreover, Sabesp, a natural monopoly, will always seek to maximise profits. ~~This is shown by~~ They will operate where MC=MR and make supernormal profit shown by area, P_1C_1BA. This will enable them ~~to [illegible]~~ to invest in R&D on more innovative technology that will ~~[illegible]~~ help them provide a better service to consumers. Sabesp earning supernormal profits means that they will be dynamic efficient.

4. Additionally, consumers may enjoy prices as low as P_2 if Sabesp is state-owned or if ~~Sabesp is~~ the government puts price controls on Sabesp. At this point, Sabesp would be allocatively efficient as P=MC. Hence consumer welfare will be maximised and water will be supplied efficiently.

However, Sabesp being the only suppier of Water means the firm is likely X-inefficient. This means that they are not cost conscious and therefore, they may end up pushing high costs onto the consumers. This means that consumers will have to pay the high price of P_1 and also receive less output at Q_1.

Furthermore, a lack of competition may cause Sabesp to provide ~~a~~ poor-quality service. Sabesp may fail to ~~lack~~ consistently supply water throughout São Paulo as no competition means consumers have no alternative but to stick with Sabesp. This therefore will negatively affect consumers.

In conclusion, the industry Sabesp operates in favours having one dominant firm as that would be the most efficient. However, one dominant firm may be able to exploit its power over consumers by setting high prices and providing poor quality services.

ResultsPlus
Examiner Comments

See above and below.

ResultsPlus
Examiner Tip

Candidates need to do more than restate the stem of the question to score highly for application. Ensure that you do not write 'goods, service or product' in your answer. Think fully about the industry that you want to discuss in your answer and use appropriate examples.

Question 9(y)

Question 10(x)

This question required candidates to evaluate the benefits of the growth of a business in an industry of the candidate's choice. The open nature of the question meant that the benefits could be to the business, workers and/or the consumers using the business. The requirements of the question also meant that a diagram needed to be drawn to access Level 4.

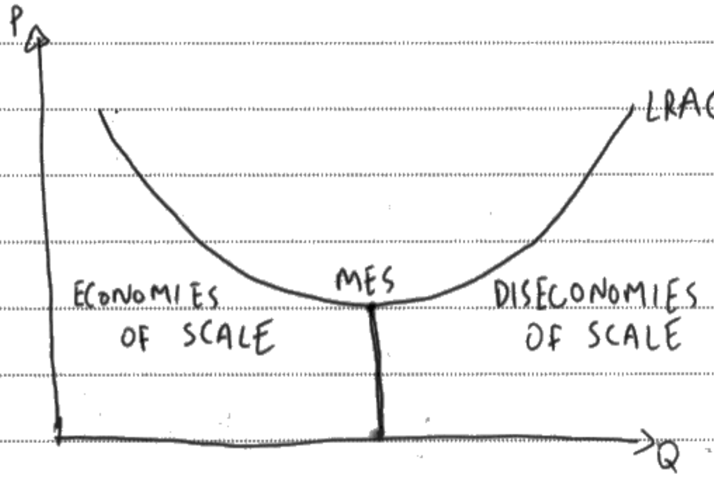
The most common benefits identified by candidates were greater pricing power due to the higher market share, greater productive efficiency with the benefits of economies of scale, and possible gains in X-efficiency due to the cutting of overlapping costs after the merger. The most common diagram drawn by candidates showed declining long-run average costs with rising output. A few strong candidates were able to use a given industry in their answer which allowed them to access Level 4. However, many candidates did just discuss generic points with no application to an industry of their choice. These candidates also tended to provide many undeveloped points rather than two points with many chains of analysis.

Evaluation tended to focus on the costs of merging; it was not always the case where profits would unambiguously rise post-merger. Other common points included diseconomies of scale and culture clashes.

This is a good answer, showing chains of analysis of the two main points made. There is an attempt at providing some context in the answer. Evaluation offers the costs to the business of the growth of the business.

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

A merger is when two firms join together to create one big firm.



The diagram above

~~Above~~ shows a LRAC (Long-Run Average Costs) Curve. From the left, as a business and its output grows, LRAC decreases up until the MES (Minimum Efficient Scale), which is known as economies of scale. As Prembly Group and Peleza have merged, it is internal economies of scale. The MES is the lowest point of the LRAC curve and it is where the internal economies have been fully exploited.

One benefit would be the newly merged firm gaining economies of scale. The merger between Prembly Group and Peleza would allow them to gain ~~techinicaal~~ ~~purchasing~~ technical economies of scale as both are firms in ~~a small~~ the digital security industry, making it horizontal integration, which also means they can combine their technology, ~~fore~~ for example fast-processing computers or AI technology (used to detect and identify people), and get the best from both firms. Furthermore, they can also reduce duplication and cut costs, by getting rid of similar, unnecessary technology and machinery. Therefore, the new firm can save more in the long run and could use that money saved to reinvest back into the ~~p~~ business to further improve and innovate technology, becoming dynamically efficient as well.

Another benefit could be that there is reduced competition. As this would be horizontal integration with both firms in the digital security business - with Peleza specialising to make it slightly different maybe - they would have been inevitable competitors. But with the merger, not only is a competitor gone, the new merged firm will gain market share, combining the two, which would also lead to a reduction in contestability, which may make it dominant throughout the region of Africa in digital security.

However, there is also a risk of diseconomies of scale, which is the LRAC curve after the MES, when LRAC rises. This could be due to a culture clash as they two are based in different countries, Prembly in Nigeria and Peleza in Kenya, where they will have different and perhaps conflicting methods and cultures. This could cause hostility and toxicity among the workforce, which could cause communication issues leading to further diseconomies of scale, and perhaps more losses.

Moreover, the merger will be costly. Although LRAC may decrease, that is over time and in the long run, where in the short run, both firms would undergo expensive processes to successfully merge, which may make ~~the~~ them make a loss or subnormal profit which may hinder further growth for the merged ~~b~~ security business, which may cause the merger to fail and breakdown and unsuccessful.

ResultsPlus
Examiner Comments

This answer is well-structured signposting to the examiner their points in different paragraphs. The diagram is clear, well labelled and referred to in the answer. There is some context in evaluation with some chains of reasoning.

ResultsPlus
Examiner Tip

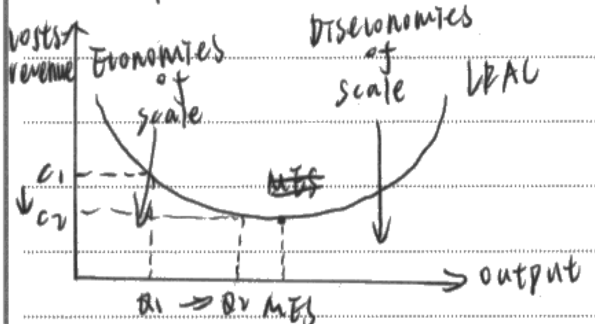
This answer does lack a conclusion. If you do have sufficient time, ensure that your conclusion does not simply restate the points that you have made.

This is an excellent response to the question. The candidate clearly addresses the benefits of the growth of the business using a correct diagram. There are two detailed analysis points set out with several chains of reasoning. There is also the integration of some context into the answer. Evaluation is excellent throughout.

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

Merger refers to a joining together of two or more firms under a common ownership. Prembly Group which is a digital security business merged with Peleza which is a business specialising in making background security checks. This is a vertical integration which means a joining together of two or more firms into one firm which produce in the same industry but different stages. In this essay, I will evaluate the benefits of the growth of a firm by merger.

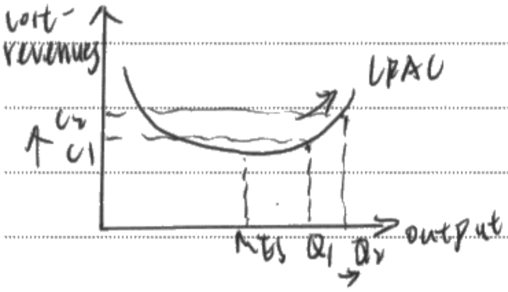
First of all, the merger of Prembly Group and Peleza could achieve the economies of scale. Economies of scale means the fall in long-run average cost of production as output rises. Since the merger of two businesses could



~~reduce the competition~~ enlarge the market shares of the business, as a result, the business could produce with a lower average costs and achieve EOS as shown in the graph, the average cost for the firms decreases as output increases. The economies of scale could enlarge the profit margin for the firms since the output increases, revenues increases and costs decrease. Therefore, the firm has more profits to invest in R&D and innovation such as enhance the quality of the digital components and invite more famous ~~househo~~ people to advertise for the brand and raises the brand awareness and consumer loyalty.

What's more, the merger of two firms could also ~~make~~ increase the work efficiency of the firm, since the new entrants could share the expertise ~~&~~ knowledge and patents to the firm and also bring ~~a~~ large number of high skilled workers joining in the business. For example, the Peleza may share the core experience of the security checking tips to Prembly Group and help the Prembly Group to contribute to the whole supply chain and increase the knowledge for Prembly Group to a not familiar sector. This action may ~~is~~ increase the productivity of the labour force and the firms since workers in Prembly could learn more ~~R&D~~ professional knowledge about making background security checks. In addition, the well operation under the mergering could increase the supernormal profit for the firm and therefore, firm has more profits to invest in the ~~firm~~ growth of themselves. As a result, the firm could close to dynamic efficiency. Also, the profits could also ~~fi~~ reward those staffs with high performances and encourage the willing for the workers to promote. This may ~~there~~ make the staff more active and increase the total productivity and efficiency of the firm.

However, merger also has some downsides.
Firstly, the culture clashes between Premly Group and Pelora could lower the efficiency of the firm and may even lead to a diseconomies of scale. According to the case, the two firms are coming from different countries, therefore the different culture may create some clashes in the firm such as the language and the recognition. What's more, the communication between workers are also time spending which lower the efficiency of the workers. This may lead to a diseconomies of



scale as the output increases the average cost increases as well.

Furthermore, the government may also intervenne in the market to avoid the occurs of merger since it may lead to a monopoly. Monopoly is a market structure where only one firm in the industry produce all output without facing competition because of the high barriers to entry to the market. In a lot of countries, government set legislation to prevent monopoly. As a result, the merger may lead to a loss in firm reputation or even some negative exelutives to the firm.

ResultsPlus
Examiner Comments

The candidate makes it very clear at the start what kind of growth is happening in this question. The candidate has also thought about the context and written about some good examples in their analysis.

Question 10(y)

Paper Summary

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

Section A

- Ensure that all parts of the specification are taught and internally assessed throughout the entirety of the course.

Section B

- Prior to answering the questions, candidates should take some time to read the extracts in their entirety so that a full understanding of the context is gained.
- Ensure that candidates understand the difference between competition and contestability.
- To be able to access all marks, evaluation is required for the 8- and 14-mark questions. Candidates should focus on trying to evaluate the analysis point that they made, rather than writing generically.
- Candidates must be able to draw large, accurate, appropriate, legible and fully labelled diagrams to support their arguments, even if not required. This will always help to add depth to arguments.
- Ensure that application is added to every question. Candidates should refer to the extracts wherever possible and be prepared to manipulate numerical data to exemplify their point.
- In the 14-mark question, candidates should focus on analysing and evaluating 2 points only. Breadth, not depth, is needed to achieve Level 3 responses.
- Candidates should provide context in their answer to achieve Level 4 responses and avoid generic responses at all times; context may come from the stem of the question or from their own knowledge that they have studied throughout their course.
- Diagrams should be large, accurate and fully labelled. They should be referred to in the candidates' answers.
- Evaluative comments should be linked to the analysis point made and have a logical chain of reasoning
- Many candidates provided many short points in their answers which were superficial and lacked any depth. Candidates should focus on analysing and evaluating 2 points only. Breadth, not depth, is needed to achieve top Level responses.
- Candidates are encouraged to have a clear structure to their answers. They must avoid writing essays in bullet points or in long blocks/paragraphs without making a distinction between their analysis and evaluation points.

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

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