



Mark Scheme (Results)

October 2024

Pearson Edexcel International Advanced Level
In Economics (WEC13) Paper 01

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A

Question	Quantitative skills assessed	Answer	Mark
1	<p>QS4: Construct and interpret a range of standard graphical forms</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is B</p> <p>A is incorrect because supernormal profit will be eliminated</p> <p>C is incorrect because the producer will make normal profit and therefore remain in the market</p> <p>D is incorrect because market concentration will fall as new firms enter the market</p>	(1)
2	<p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is C</p> <p>A is incorrect because a marginal cost pricing strategy is where $MC=AR$</p> <p>B is incorrect because a limit pricing strategy is where all consumers would pay the same price</p> <p>D is incorrect because a predatory pricing strategy sets the price below the average variable cost for all consumers</p>	(1)
3	<p>QS4: Construct and interpret a range of standard graphical forms</p> <p>QS6: Calculate cost, revenue and profit (marginal, average, totals)</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is D</p> <p>A is incorrect because the producer surplus will decrease</p> <p>B is incorrect because fixed costs will not change</p> <p>C is incorrect because this is likely to cause a decrease in dynamic efficiency</p>	(1)
4	<p>QS4: Construct and interpret a range of standard graphical forms</p> <p>QS6: Calculate cost, revenue and profit (marginal, average, totals)</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is A</p> <p>B is incorrect because this is average variable cost</p> <p>C is incorrect because this is average fixed cost at an output of 10 000</p> <p>D is incorrect because this is the average total cost at an output of 20 000</p>	(1)
5	<p>QS8: Make calculations of elasticity and interpret the result</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is A</p> <p>B is incorrect because this affects the price elasticity of supply of labour</p> <p>C is incorrect because this affects the price elasticity of supply of labour</p> <p>D is incorrect because this affects the supply of labour</p>	(1)

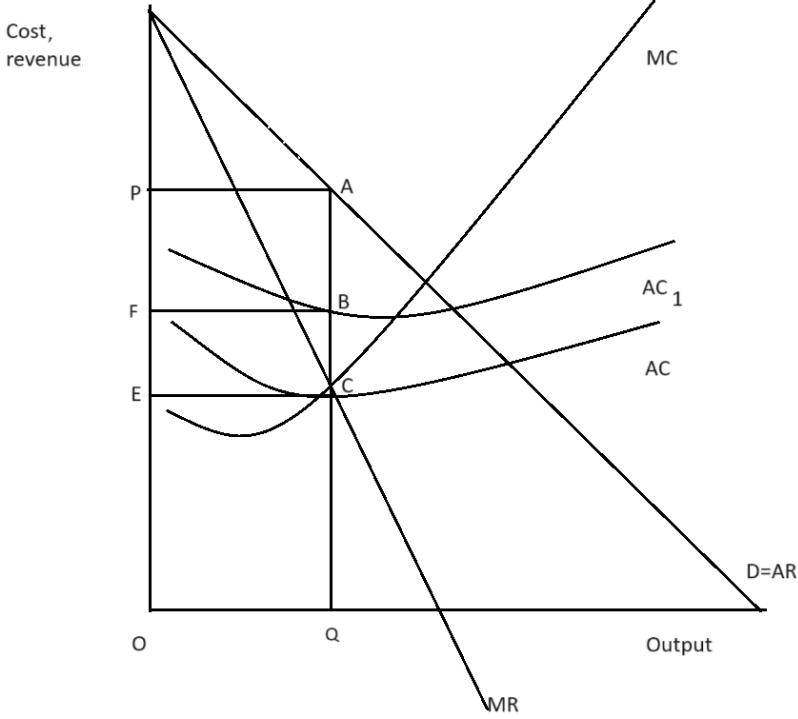
6	QS4: Construct and interpret a range of standard graphical forms QS6: Calculate cost, revenue and profit (marginal, average, totals) QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The only correct answer is D A is incorrect as the demand curve is downward sloping so Apple's average revenue curve will not be perfectly elastic B is incorrect as Apple's total revenue will fall once the average revenue curve becomes price inelastic C is incorrect because this illustrates an AR curve for Apple	(1)
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Section B

Question	<p>With reference to Figure 2, calculate the change in AstraZeneca's total costs between 2021 and 2022. You are advised to show your workings. Answer</p>	Mark
7(a)	<p>Application 2</p> <p>Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>1 mark for calculation of total costs in 2021 or 2022:</p> $\$36\,541\text{m} - \$1\,056\text{m} = \$35\,485\text{m} /$ $\$42\,998\text{m} - \$3\,757\text{m} = \$39\,241\text{m} (1)$ <p>1 mark for calculation of the actual change or percentage change of total costs</p> $\$39\,241\text{m} - \$35\,485\text{m} = \$3\,756\text{m} /$ $\$3\,756\text{m} \div \$35\,485\text{m} \times 100 = 10.58\% (1)$ <p>NB: Award full marks for correct answer (\$3 756m /10.58%) regardless of working Accept reasonable rounding of percentage change (10.58%, 10.6%, 11%) N.B. Award 1 mark for \$3 756 or 3 756 where m is omitted or 10.58 where % sign is omitted</p>	(2)

Question	With reference to Extract B line 14 explain the term 'dynamic efficiency'. Answer	Mark
7(b)	<p>Knowledge 2 Application 2</p> <p>Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge: 1 mark for any of the following related to dynamic efficiency:</p> <ul style="list-style-type: none"> • When firms develop new or better products / Where firms develop/find better/or cheaper methods of producing goods and services / Achieving productive efficiency / Where firms invest/innovate in new technology (1) <p>1 mark for any of the following related to dynamic efficiency:</p> <ul style="list-style-type: none"> • Resulting in improved productivity / Where the long-run average costs/average total costs falls (may be shown diagrammatically)/ Over time/ in the long-run (1) <p>Application: Up to 2 marks for application to Extract B (1+1) e.g.:</p> <ul style="list-style-type: none"> • AstraZeneca has a good reputation for R&D (1) • \$400 million into building a new factory in Dublin (1) • In 2022 AstraZeneca invested \$9.8 billion in R&D (1) • The business developed three new medicines (1) • AstraZeneca continues research on medical advancements (1) • 'investment was necessary' (1) <p>NB do not reward allocative efficiency over time</p>	(4)

Question	With reference to Extract A, analyse two ways that pharmaceutical companies may benefit from external economies of scale. Answer	
7(c)	<p>Knowledge 2 Application 2 Analysis 2</p> <p>Quantitative skills assessed:</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge and analysis</p> <p>Up to 2 knowledge marks for identifying two ways and up to 2 analysis marks for linked explanations:</p> <ul style="list-style-type: none"> • Skilled workforce (1K) with specialised knowledge relevant to that industry/ reducing recruitment/training costs (1AN) • Improved infrastructure/ investment in road and railways (1K) reducing transportation time/ costs/ improves labour mobility (1AN) • Research partnerships (1K) locating close to other firms makes resource sharing easier/ reducing R&D costs (1AN) • Low rate of corporation tax (1K) provides a cost advantage of operating in Ireland/ meaning more profits are kept by pharmaceutical businesses in Ireland (1AN) <p>Application</p> <p>Up to 2 marks for use of the context e.g.</p> <ul style="list-style-type: none"> • Over 85 pharmaceutical companies operate in Ireland (1) • Approximately 30 000 highly skilled workers (1) • Invested heavily/ €35 billion investment into the country's transport system / in improving roads and railways (1) • Businesses and universities share research and development (R&D) costs (1) • Students leave university with the skills required to work in the pharmaceutical industry (1) • Corporation tax rate of 12.5% (1) 	

Question	With reference to the last paragraph of Extract B, examine the impact of the increase in fixed costs on AstraZeneca's profit. Illustrate your answer with an appropriate diagram(s). Answer	Mark
7(d)	<p>Knowledge 2 Application 2 Analysis 2 Evaluation 2</p> <p>Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge</p>  <p>Up to 2 marks for drawing a diagram that shows:</p> <ul style="list-style-type: none"> • Original AR, MR, AC, MC and profit maximisation equilibrium (1) • Area of initial supernormal profit identified (PACE) (1) <p>Analysis</p> <p>Up to 2 marks for showing:</p> <ul style="list-style-type: none"> • Increase in only AC to AC₁ (1) • New area of supernormal profit (PABF) having only shifted AC (1) <p>NB The new area may be shown as a loss</p> <p>NB If AC and MC are both shifted do not award Analysis marks</p> <p>Application</p> <p>Up to 2 marks for reference to Extract B:</p>	

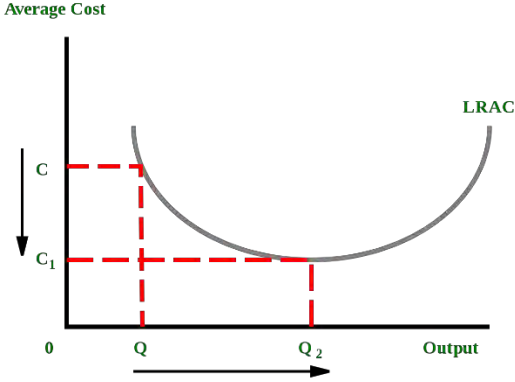
	<ul style="list-style-type: none">• The fixed costs associated with complying with these regulations have increased significantly (1)• The regulatory environment is complex (1)• All pharmaceuticals must undergo clinical trials before medicines can be approved (1) <p>Evaluation</p> <p>Up to 2 marks for evaluative comments (1+1 or 2 + 0), e.g.:</p> <ul style="list-style-type: none">• These costs could be offset (1) by the other cost saving through external economies of scale (1)• If revenues increase through higher sales (1) profits may not decrease (1)• It depends on how much the regulation costs are as a proportion of total costs (1)• Efficiency improvements may decrease costs of production (1)• The fixed costs increase may be short-run but in the long-run the company may adapt to lower these costs (1+1)	(8)
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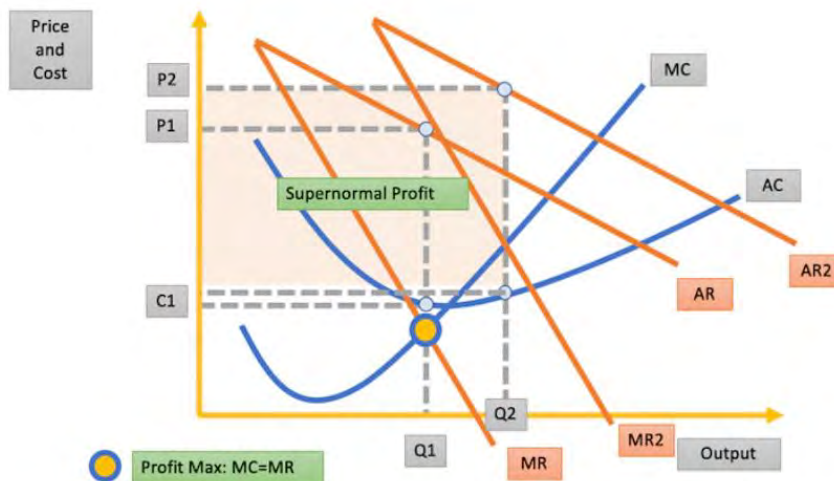
Question	<p>With reference to the information provided and your own knowledge, discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry.</p> <p>Indicative content</p>
7(e)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge, Application, Analysis (8 marks) – indicative content</p> <p>Barriers to entry are factors that make it difficult or expensive for new companies to enter an industry to compete profitably with existing companies.</p> <ul style="list-style-type: none"> • High R&D costs: Developing new medicines involves extensive research and clinical trials, might spend up to 25% of their revenue. In 2022 Johnson & Johnson spent \$14.6 bn, Roche spent \$14.8 bn and AstraZeneca spent \$9.8 bn • Strong competition: a number of very large firms dominating the pharmaceutical industry in Ireland, including Pfizer with global revenue of \$100.3 bn • Regulatory approval processes: The pharmaceutical industry is highly regulated, and the Regulatory Authority will need to approve products, making it more difficult for new firms to enter • Intellectual property protection: Patents provide up to 20 years legal protection in the EU, giving the established firms monopoly power over their products • Economies of scale: Established pharmaceutical companies benefit from economies of scale, allowing them to produce medicines at lower costs per unit. New entrants may struggle to achieve similar efficiency • Distribution networks: Established companies have well-developed channels for distributing and marketing their products, while new entrants may face challenges in establishing such networks • Complexity of medicine development: This involves large amounts of industry knowledge and may deter new entrants that lack experience and expertise • Pricing strategies e.g. limit pricing or predatory pricing may deter new entrants • High number of mergers, acquisitions and collaborations between incumbent firms • High sunk costs, e.g. advertising and promotion, that are irrecoverable when leaving the pharmaceutical industry may discourage new entrants

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4-6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7-8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
		<p>Evaluation (6 marks) – indicative content</p> <ul style="list-style-type: none"> • A new entrant might be able to collaborate with existing pharmaceutical companies • In Ireland over 85 companies exist in the market indicating a high level of contestability • There is limited brand loyalty in the market making it easier for new companies to compete • The significance of barriers to entry change over time • An existing multinational company might diversify into the pharmaceutical industry

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5-6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question	Evaluate the benefits of organic growth to a business such as Lidl. Illustrate your answer with an appropriate diagram(s) Indicative content
8	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms. QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <ul style="list-style-type: none"> Organic growth is the expansion of a business achieved through internal means. It involves increasing sales, market share, and overall business activities using its own resources Organic growth is where a business increases its size without merger or takeover <p>Benefits:</p> <ul style="list-style-type: none"> Retain control and culture: Lidl may operate differently from other supermarkets. This can be crucial for maintaining the identity and brand loyalty of the business. Increasing scale through organic growth enables achievement of economies of scale: By increasing output, long-run average total costs fall, increasing efficiency (LRATC fall as output rises) <p>Average Cost</p>  <ul style="list-style-type: none"> Retain all profits: Growing organically allows a business, such as Lidl, to retain all the additional profits gained from increased sales and revenue (increase in AR1-AR2 and MR1 to MR2 causing an increase in profits). No need to share profits with businesses involved in mergers takeovers



- Stable: For Lidl, this growth could be more stable than growth through acquisitions as the business is building on existing strengths in the supermarket industry
- Cost Efficiency: Organic growth for Lidl allows them to grow their operations without the immediate large financial costs associated with mergers or acquisitions
- Risk Management: Organic growth typically involves a lower level of risk compared to external growth strategies as there are likely to be fewer disagreements between managers
- Innovation and adaptability: to expand organically, a business frequently need to develop new products, services, or processes. This can improve the quality or range of products increasing sales and possibly profits
- Enhanced market competitiveness: Organic growth enables a business to gradually strengthen their position in the market. By focusing on improving efficiency, quality, and customer satisfaction, a business can become more competitive and better positioned to capture a larger market share.
- Increased market share- increased market power- price setting ability- increasing price and profit- allowing further investment
- Less likely to attract attention of competition authorities which would investigate mergers where market share is above certain level
- Employee development- the business growing creates more opportunities for staff to move to management positions

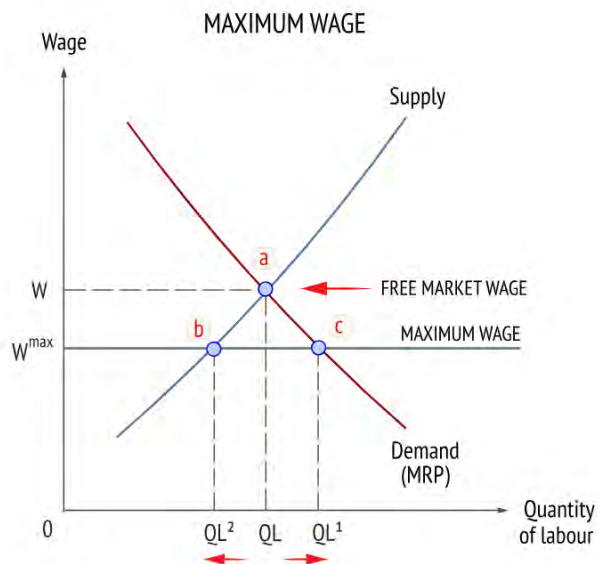
NB: A candidate can achieve a maximum of level 3 if no diagram

NB: A candidate can achieve a maximum of level 3 if no context is provided

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4-6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7-9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10-12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
		<p>Evaluation (8 marks) – indicative content</p> <ul style="list-style-type: none"> • Diseconomies of scale through growing too large- too many new stores creating communication problems/operational complexity - reference to diagram • Limited access to finance if relying on internal funds. A business growing organically may face constraints on growth and capital investment if it relies solely on internal funds. This could limit the speed and scale of expansion or hinder the ability to invest in large-scale projects or initiatives • Slow growth rate: Organic growth tends to be a gradual process. Lidl will take two years to build another 50 stores. A business may experience a slower growth rate compared to one that pursues expansion through mergers or acquisitions • Limited expertise/networks: may stop a business from expanding more quickly as it takes time to build supply chains and conduct market research. The business may not have the expertise to move into a new location/or new market • If the business is struggling it may not be able to access finance or expertise to move into a new market • Organic growth through building new stores may be much more expensive than acquiring stores by merging with an established business

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	<p>Evaluate the economic benefits of government intervention in labour markets.</p> <p>Illustrate your answer with an appropriate diagram(s).</p> <p>Indicative content</p>
9	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Quantitative skills assessed:</p> <p>QS4: Construct and interpret a range of standard graphical forms.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <div data-bbox="295 728 1428 1400" data-label="Figure"> </div> <ul style="list-style-type: none"> • Minimum Wage Controls: Setting a minimum wage above the market equilibrium (NMW to NMW₁) protects workers from exploitation and ensures that they receive a basic standard of living. For example the increase in the NMW in Mexico by 20% to 207.44 pesos in 2023 This wage floor prevents the exploitation of low-skilled or vulnerable workers in Mexico May result on increased productivity/ higher output for business • Regulating working conditions to improve the quality of work, for example the Government of Mexico setting a maximum of 48 hours of work for a full-time employee • Measures to reduce discrimination and exploitation: anti-discrimination laws and labour standards protect workers from unfair treatment and exploitation. These measures promote and establish working conditions that improve employee welfare



- Maximum Wage Controls: Maximum wage controls reduce income inequality and prevent excessive wages earned by higher income groups. By capping the maximum earnings an individual can receive below the market equilibrium (W to W^{\max}), the economy can achieve a fairer distribution of income and reduce the gap between high and low-income earners
- Direct Taxes e.g.: National insurance contributions may fund unemployment benefits and pensions. It may also fund spending on infrastructure, education and healthcare that can enhance the overall quality of the labour market
- Measures to reduce geographical and occupational immobility of Labour: These can include investing in transportation infrastructure, improving education and training programs, and creating policies that facilitate the transfer of workers between industries and regions, ensuring a more efficient and flexible labour market

NB: A candidate can achieve a maximum of level 3 if no relevant diagram

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4-6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.

Level 3	7–9	<p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.</p>
Level 4	10–12	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>
<p>Evaluation (8 marks) – indicative content</p> <ul style="list-style-type: none"> • Minimum wage controls: setting a minimum wage too high could lead to job losses in Mexico, especially for small businesses, as they may struggle to afford increased labour costs • Maximum wage controls: may discourage the most skilled from pursuing the most senior jobs or it may hinder motivation impacting productivity (fall in quantity of labour QL^2 to QL^1). The most skilled may be encouraged to move to another country to work seeking a higher salary • Direct taxes (e.g., National Insurance contributions): High rates may discourage investment and job creation, potentially leading to reduced employment opportunities • Measures to reduce geographical and occupational immobility of labour may be ineffective because of resistance to change, lack of resources for retraining, or failing to match gaps in the market with the skills of the workforce • Measures to reduce discrimination and exploitation: Enforcement of anti-discrimination measures can be challenging for a government (government failure) • Government intervention may impose excessive costs on businesses 		

Level	Mark	Descriptor
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Level 1	1–3	<p>Identification of generic evaluative comments.</p> <p>No supporting evidence/reference to context.</p> <p>No evidence of a logical chain of reasoning.</p>
Level 2	4–6	<p>Evidence of evaluation of alternative approaches.</p> <p>Some supporting evidence/reference to context.</p> <p>Evaluation is supported by a partially-developed chain of reasoning.</p>
Level 3	7–8	<p>Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.</p> <p>Appropriate reference to evidence/context.</p> <p>Evaluation is supported by a logical chain of reasoning.</p>

Question	Evaluate the benefits of collusion in a market of your choice. Illustrate your answer with a simple game theory model. Indicative content													
10	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Quantitative skills assessed:</p> <p>QS4: Construct and interpret a range of standard graphical forms.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <ul style="list-style-type: none"> • Collusion occurs when there is an agreement or cooperation between companies in an industry to restrict competition • Collusion often leads to companies fixing prices <p>Benefits:</p> <ul style="list-style-type: none"> • Pay-off matrix explaining why the companies would benefit from moving away from the low price/low price to the high price/high price outcome <div style="text-align: center; margin: 20px 0;"> <table border="1" style="border-collapse: collapse; margin: auto;"> <thead> <tr> <th colspan="2" rowspan="2"></th> <th colspan="2">FIRM B</th> </tr> <tr> <th>Raise price</th> <th>Lower price</th> </tr> </thead> <tbody> <tr> <th rowspan="2" style="color: red;">FIRM A</th> <th>Raise price</th> <td style="text-align: center;">\$80m \$80m</td> <td style="text-align: center;">\$100m \$30m</td> </tr> <tr> <th>Lower price</th> <td style="text-align: center;">\$30m \$100m</td> <td style="text-align: center;">\$70m \$70m</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> • Increased profits for companies: Colluding companies can set higher prices collectively removing the competition between them. This leads to higher revenue and profits for each company involved. The reduction in the competition between shipping companies ensured their prices remained high, increasing profits • Stability and predictability: companies may agree on production levels and pricing strategies. This stability can benefit both companies and consumers by reducing uncertainty making it easier to budget and plan • Cost savings: Colluding companies may cooperate to save costs such as joint production facilities, shared research or shared distribution networks. This can lead to lower production costs and potentially lower prices for consumers • Innovation incentives: higher profits earned from collusion can provide the companies with the resources to invest in research and development, leading to increased innovation resulting in dynamic efficiency/technical economies of scale • Market entry barriers: Collusion can create barriers to entry for new competitors, as existing companies may work together to maintain their 			FIRM B		Raise price	Lower price	FIRM A	Raise price	\$80m \$80m	\$100m \$30m	Lower price	\$30m \$100m	\$70m \$70m
				FIRM B										
		Raise price	Lower price											
FIRM A	Raise price	\$80m \$80m	\$100m \$30m											
	Lower price	\$30m \$100m	\$70m \$70m											

	<p>market dominance. This benefits the incumbent companies as it protects their market share and profits</p> <p>NB: Award a maximum Level 3 to answers that do not include a game theory model</p> <p>NB: A candidate can achieve a maximum of level 3 if no reference to a market</p>
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Level 2	4–6	<p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>
Level 3	7–9	<p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.</p>
Level 4	10–12	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>
		<p>Evaluation (8 marks) – indicative content</p> <ul style="list-style-type: none"> Regulatory and legal consequences: If the companies are caught engaging in collusive practices, they can face large fines e.g. \$63 million which increase costs and can cause damage to the reputation of the companies Allocative inefficiency: Higher prices for shipping increasing the allocative inefficiency in the market as consumer surplus is reduced leading to a misallocation of resources Less incentive for efficiency: companies may have reduced incentives to cut costs and improve efficiency since they are not facing competitive pressure. This can lead to a reduction in productive efficiency/increase in x-inefficiency Reduced innovation: Colluding companies may have less motivation to invest in research and development or adopt new technologies, as they may feel less pressure to compete with other companies

	<ul style="list-style-type: none"> • Reduced choice: Higher barriers to entry and lack of competition reduces the choice for the consumers • Potential for collusion breakdown: Companies have an incentive to cheat on the collusion agreement and undercut their competitors to gain a larger market share. This can lead to a breakdown in collusion, resulting in price wars and increased uncertainty in the market
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	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

