



**GCE**

**Economics**

**H460/01: Microeconomics**

A Level

**Mark Scheme for June 2023**

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

It is also responsible for developing new specifications to meet national requirements and the needs of students and teachers. OCR is a not-for-profit organisation; any surplus made is invested back into the establishment to help towards the development of qualifications and support, which keep pace with the changing needs of today's society.

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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**PREPARATION FOR MARKING****RM ASSESSOR**

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *RM Assessor, Assessor Online Training, OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>
3. Log-in to RM Assessor and mark the **required number** of practice responses (“scripts”) and the **number of required** standardisation responses.

YOU MUST MARK 10 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

**MARKING**

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the RM Assessor 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or the RM Assessor messaging system, or by email.
5. **Crossed Out Responses**  
Where a candidate has crossed out a response and provided a clear alternative then the crossed-out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed-out response where legible.

**Rubric Error Responses – Optional Questions**

Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. Enter a mark for each question answered into RM assessor, which will select the highest mark from those awarded. *(The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.)*

**Multiple Choice Question Responses**

When a multiple-choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).

*When a question requires candidates to select more than one option/multiple options, then local marking arrangements need to ensure consistency of approach.*

**Contradictory Responses**

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

**Short Answer Questions** (requiring only a list by way of a response, usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

**Short Answer Questions** (requiring a more developed response, worth **two or more marks**)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

**Longer Answer Questions** (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.















6. Always check the additional pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer, there then add a tick to confirm that the work has been seen. The 'link page' check box should be used on RM Assessor to link candidate responses in additional objects to the corresponding question number.
- Where additional objects are present, all pages must contain an annotation, or RM Assessor will not allow you to submit the script. Where no response is given by a candidate on a whole page the 'BP' annotation **must** be applied.
  - Where generic answer booklets are used, all pages must contain an annotation, or RM Assessor will not allow you to submit the script. Where no response is given by a candidate on a whole page the 'BP' annotation **must** be applied.
  - Where structured answer booklets are used, the 'BP' annotation **must** be applied to all pages where no response is given by a candidate.
7. Award No Response (NR) if:
- there is nothing written in the answer space
- Award Zero '0' if:
- anything is written in the answer space and is not worthy of credit (this includes text and symbols).
- Team Leaders must confirm the correct use of the NR button with their markers before live marking commences and should check this when reviewing scripts.
8. The RM Assessor **comments box** is used by your team leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.** If you have any questions or comments for your team leader, use the phone, the RM Assessor messaging system, or e-mail.
9. *Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.*

10. For answers marked by levels of response:

- a. **To determine the level** – start at the highest level and work down until you reach the level that matches the answer
- b. **To determine the mark within the level**, consider the following

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

## 11. Annotations

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet and on each page of an additional object where there is no candidate response.
	Correct – mark awarded
	Incorrect
	Benefit of doubt
	AO1 – Knowledge and understanding
	AO2 – Apply knowledge and understanding
	AO3 - Analyse
	AO4 - Evaluation
	Not answering question
	Noted but no credit given
	Too vague
	Own figure rule
	Confused
	Unclear

## Subject-specific Marking Instructions

### INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please carefully read **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

### Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section B or C.

If a candidate has written two answers for Section B or C, mark both answers and award the highest mark achieved.

### USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark in pencil a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.



H460/01


## Mark Scheme

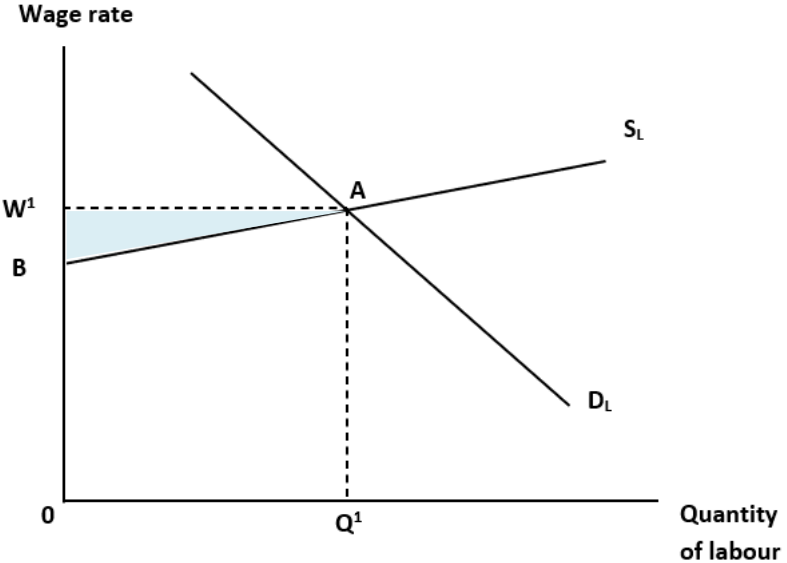

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Levels of response / Level descriptors	Knowledge and understanding/ Application	Analysis	Evaluation
<b>Strong</b>	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides and reaches a supported judgement.
<b>Good</b>		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
<b>Reasonable</b>	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
<b>Limited</b>	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Question			Answer	Marks	Guidance
1	a	(i)	<p>Refer to Fig. 2.</p> <p><b>Describe the relationship between Chief Executive remuneration and stock market performance between 2010 and 2019.</b></p> <ul style="list-style-type: none"> <li>• There is a direct relationship / Chief Executive remuneration and stock market performance have both increased (1)</li> <li>• Stock market performance has increased at a faster rate than Chief Executive performance (1)</li> <li>• Chief Executive performance has increased by around 65% (1)</li> <li>• Stock market performance has increased by around 120% (1)</li> </ul>	<p>2</p> <p>(AO2 x 2)</p>	<p><b>Fig. 2</b> Chief Executive remuneration and stock market performance (USA), 1978–2019</p> <p>Index</p> <p>Year</p> <p>— USA stock market index (LH axis) - - - Chief Executive remuneration, \$m (RH axis)</p> <p>Source: EPI</p> <p>Annotate with </p> <p>Award 1 mark for each description of the data</p>

Question			Answer	Marks	Guidance
1	a	(ii)	<p><b>Explain why this relationship may exist.</b></p> <p>Chief Executive remuneration may be linked to the firm's share price (1) so a strong stock market will lead to higher remuneration (1)</p> <p>A Chief Executive's remuneration may include share options (1) so it is likely to reflect the performance of the stock market (1)</p>	<p>2</p> <p>(AO2 x 2)</p>	<p>Annotate with </p> <p>1 mark for recognising that Chief Executive remuneration is likely to be linked in some way to the company's share price</p> <p>1 mark for explaining this relationship</p>

Question		Answer	Marks	Guidance
1	b	<p><b>A marginal income tax rate is one example of the marginal principle used by economists.</b></p> <p><b>Explain what is meant by the economic concept of ‘the margin’.</b></p> <p>The concept of the margin relates to the impact of one more unit / an extra unit (1).</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• marginal cost – the impact on total costs of an extra unit of production (1)</li> <li>• marginal benefit / utility – the impact on benefit / utility / satisfaction of an extra unit of consumption (1)</li> <li>• marginal income tax rate – the impact on tax paid of an extra £ of income earned (1)</li> </ul>	<p><b>2</b></p> <p>(AO1 x 2)</p>	<p>Annotate with </p> <p>1 mark for reference to extra / additional / one more unit</p> <p>1 mark for reference to tax, cost, utility, revenue product</p>

Question	Answer	Marks	Guidance
1 c	<p>Explain, using an appropriate diagram, the size of economic rent relative to transfer earnings for essential workers such as cleaners.</p> 	<p><b>4</b> (AO1 x 2) (AO2 x 2)</p>	<p>Annotate with </p> <p>Up to 2 marks for a diagram:</p> <ul style="list-style-type: none"> <li>correct labelling of axes (wage rate, quantity of labour or quantity or employment), demand and supply of labour, equilibrium wage rate and equilibrium quantity of labour employed (1)</li> <li>area of economic rent – shaded or labelled (e.g. <math>W^1AB</math>) (1)</li> </ul> <p>Up to 2 marks for explanation:</p> <ul style="list-style-type: none"> <li>economic rent will be small relative to transfer earnings (1) – either stated or shown diagrammatically</li> <li>wage elasticity of supply – supply will be wage elastic because easy to become a cleaner / low qualifications required / little knowledge or training required (1)</li> </ul>

Question	Answer	Marks	Guidance													
1 d	<p><b>A number of policies have been suggested to affect Chief Executive remuneration including ‘Allowing greater use of ‘say on pay’ which allows a firm’s shareholders to vote on Chief Executive remuneration’.</b></p> <p><b>Evaluate, using evidence from the stimulus material, the extent to which greater use of ‘say on pay’ alone may help reduce the remuneration gap between Chief Executives and employees in the US.</b></p> <p><b>Level 2 (5–8 marks)</b></p> <p><b>Good knowledge and understanding</b> of the policy of ‘say on pay’ and the remuneration gap</p> <p><b>Good – Strong analysis</b> of how the greater use of ‘say on pay’ may help reduce the remuneration gap between Chief Executives and employees in the US.</p> <ul style="list-style-type: none"> <li>• <b>Good analysis</b> will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</li> <li>• <b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</li> <li>• <b>Reasonable – Strong evaluation</b> of whether greater use of ‘say on pay’ alone may help reduce the remuneration gap between Chief Executive and employee in the US considering both sides and underpinned by appropriate theoretical analysis.</li> <li>• <b>Good evaluation</b> will weigh up both sides but without reaching a supported judgement.</li> <li>• <b>Strong evaluation</b> should include a supported judgement.</li> </ul>	<p><b>8</b></p> <p>(AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3)</p>	<p><b>Annotation</b></p> <table border="1" data-bbox="1379 252 2058 746"> <tr> <td data-bbox="1379 252 1608 363"><b>Knowledge and Understanding</b></td> <td data-bbox="1608 252 1805 363"><b>KU</b></td> <td data-bbox="1805 252 2058 363">Grouped at end of response</td> </tr> <tr> <td data-bbox="1379 363 1608 528" rowspan="2"><b>Application</b></td> <td data-bbox="1608 363 1805 443"><b>APP</b> ✓</td> <td data-bbox="1805 363 2058 528" rowspan="2">End of response</td> </tr> <tr> <td data-bbox="1608 443 1805 528"><b>APP</b> ✗</td> </tr> <tr> <td data-bbox="1379 528 1608 639"><b>Analysis</b></td> <td data-bbox="1608 528 1805 639"><b>AN</b></td> <td data-bbox="1805 528 2058 639">Grouped beside the body of the analysis</td> </tr> <tr> <td data-bbox="1379 639 1608 746"><b>Evaluation</b></td> <td data-bbox="1608 639 1805 746"><b>Eval</b></td> <td data-bbox="1805 639 2058 746">Grouped beside the body of the evaluation</td> </tr> </table> <p><b>Knowledge and understanding</b></p> <ul style="list-style-type: none"> <li>• Chief Executive remuneration refers to the rewards to CEOs and includes pay, share options and bonuses</li> <li>• the remuneration gap relates to the difference between rewards to CEOs and average employees</li> </ul> <p><b>Context</b></p> <ul style="list-style-type: none"> <li>• the ratio of Chief remuneration to employee remuneration in the USA has increased</li> <li>• Chief Executives of the largest firms in the USA earn 320 times more than a typical employee</li> <li>• Chief Executive remuneration is related to stock market performance</li> <li>• wage growth for average employees in the US has remained relatively low</li> </ul>	<b>Knowledge and Understanding</b>	<b>KU</b>	Grouped at end of response	<b>Application</b>	<b>APP</b> ✓	End of response	<b>APP</b> ✗	<b>Analysis</b>	<b>AN</b>	Grouped beside the body of the analysis	<b>Evaluation</b>	<b>Eval</b>	Grouped beside the body of the evaluation
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<b>Evaluation</b>	<b>Eval</b>	Grouped beside the body of the evaluation														

	<p><b>Level 1 (1–4 marks)</b></p> <p><b>Limited – Reasonable knowledge and understanding</b> of the policy of ‘say on pay’ and the remuneration gap</p> <p><b>Limited – Reasonable analysis</b> of how the greater use of ‘say on pay’ may help reduce the remuneration gap between Chief Executives and employees in the US.</p> <ul style="list-style-type: none"> <li>• <b>Limited analysis</b> will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</li> <li>• <b>Reasonable analysis</b> will have correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</li> </ul> <p><b>Limited evaluation</b> of whether greater use of ‘say on pay’ alone may help reduce the remuneration gap between Chief Executive and employee in the US considering both sides and underpinned by appropriate theoretical analysis.</p> <p><b>0 marks</b> no response or no response worthy of credit.</p>	<p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• it may address market failures which allow Chief Executive remuneration to increase more than pay for the average employee</li> <li>• in large publicly quoted firms, the degree of Chief Executive accountability may be weak</li> <li>• shareholders are a large and diverse group</li> <li>• this leads to the divorce of ownership and control / market failure caused by asymmetric information / principal-agent problem</li> <li>• greater ‘say on pay’ may increase Chief Executive accountability and help limit the growth in Chief Executive remuneration</li> </ul> <p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• greater ‘say on pay’ is an indirect way of reducing the remuneration gap</li> <li>• say on pay may not reduce remuneration gap because of weaker trade union power</li> <li>• shareholders may not limit Chief Executive remuneration if they are satisfied with the growth in profit / share price / dividends</li> <li>• shareholders may be concerned that if they limit Chief Executive pay, they may not be able to retain / recruit the best Chief Executives</li> <li>• greater ‘say on pay’ may be more effective if accompanied by other policies</li> <li>• higher corporation tax for companies that have higher ratios of Chief Executive-to-employee remuneration might be needed to incentivise shareholders to limit Chief Executive pay</li> <li>• other policies, such as higher marginal rates of income tax, would more directly reduce the remuneration gap</li> </ul>
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H460/01

## Mark Scheme

June 2023

					<b>Judgements</b> <ul style="list-style-type: none"> <li>• depends on the size of the business and how involved the owners shareholders are</li> <li>• depends on how many shareholders there are, and the share owned by each shareholder</li> <li>• depends on how Chief Executives are remunerated</li> </ul>
			<b>Descriptor</b>		<b>Award mark</b>
			Consistently meets the criteria for this level		At top of level
			Meets the criteria but with some slight inconsistency		Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level		Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below		At bottom of level

Question	Answer	Marks	Guidance													
1 e *	<p><b>Evaluate, using evidence from the stimulus material, whether weaker trade unions is the main reason for increased wage differentials in the USA.</b></p> <p><b>Level 3 (9–12 marks)</b></p> <p><b>Good knowledge and understanding</b> of reasons for wage differentials, supported by the evidence in the stimulus material and / or the candidate's own knowledge and understanding.</p> <p><b>Good – Strong analysis</b> of how weaker trade unions may increase wage differentials</p> <ul style="list-style-type: none"> <li>• <b>Good analysis</b> will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</li> <li>• <b>Strong analysis</b> will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</li> </ul> <p><b>Good – Strong evaluation</b> of other reasons for increased wage differentials, weighing up points of view/comparing alternatives.</p> <ul style="list-style-type: none"> <li>• <b>Strong evaluation</b> should include a supported judgment.</li> </ul> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p>	<p><b>12</b></p> <p>(AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)</p>	<p><b>Annotation</b></p> <table border="1" data-bbox="1382 252 2056 746"> <tr> <td data-bbox="1382 252 1608 363"><b>Knowledge and Understanding</b></td> <td data-bbox="1608 252 1805 363"><b>KU</b></td> <td data-bbox="1805 252 2056 363">Grouped at end of response</td> </tr> <tr> <td data-bbox="1382 363 1608 528" rowspan="2"><b>Application</b></td> <td data-bbox="1608 363 1805 443"><b>APP</b> ✓</td> <td data-bbox="1805 363 2056 528" rowspan="2">End of response</td> </tr> <tr> <td data-bbox="1608 443 1805 528"><b>APP</b> ✗</td> </tr> <tr> <td data-bbox="1382 528 1608 639"><b>Analysis</b></td> <td data-bbox="1608 528 1805 639"><b>AN</b></td> <td data-bbox="1805 528 2056 639">Grouped beside the body of the analysis</td> </tr> <tr> <td data-bbox="1382 639 1608 746"><b>Evaluation</b></td> <td data-bbox="1608 639 1805 746"><b>EVAL</b></td> <td data-bbox="1805 639 2056 746">Grouped beside the body of the evaluation</td> </tr> </table> <p><b>Knowledge and understanding</b></p> <ul style="list-style-type: none"> <li>• trade unions are organisations which represent the interests of workers who belong to the union</li> <li>• they do this by negotiating with employers on pay and conditions / negotiating on large-scale redundancy / representing their members in disciplinary and grievance meetings</li> <li>• impact of trade unions on wage rates and employment</li> <li>• causes of wages differentials in terms of differences in the demand and / or supply of labour in different labour markets</li> </ul>	<b>Knowledge and Understanding</b>	<b>KU</b>	Grouped at end of response	<b>Application</b>	<b>APP</b> ✓	End of response	<b>APP</b> ✗	<b>Analysis</b>	<b>AN</b>	Grouped beside the body of the analysis	<b>Evaluation</b>	<b>EVAL</b>	Grouped beside the body of the evaluation
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	<p><b>Level 2 (5–8 marks)</b></p> <p><b>Good knowledge and understanding</b> of reasons for wage differentials, supported by the evidence in the stimulus material and / or the candidate's own knowledge and understanding.</p> <p><b>Reasonable analysis</b> of how weaker trade unions may increase wage differentials. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis</p> <p><b>Reasonable evaluation</b> of other reasons for increased wage differentials.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p>	<p><b>Context</b></p> <ul style="list-style-type: none"> <li>• wage growth for average employees in the US has remained relatively low</li> <li>• Marshall Steinbaum suggests that the decline in bargaining power of trade unions is one of the main reasons for growing wage differentials</li> <li>• traditional economics explains wage differentials using the concepts of demand and supply.</li> <li>• lowest paid workers are in occupations which are easy to enter / do not require specialist knowledge or training</li> <li>• 'scalability' issues – an entertainer can provide value to millions of people at the same time, thanks to television or the Internet</li> <li>• difficult to measure marginal physical productivity and so the way pay is set is often based on power</li> </ul> <p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• trade unions negotiate wages above the free market equilibrium</li> <li>• trade unions may reduce the supply of labour</li> <li>• therefore weaker trade unions reduce ability of unions to raise wages for those workers in lower paid occupations</li> <li>• the result may be that weaker trade unions result in increased wage differentials by lowering pay at the bottom of the income distribution</li> <li>• use of a demand and supply diagram to show the impact on wages of union members of the weakening of trade unions and consequently on wage differentials</li> </ul>
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	<p><b>Level 1 (1–4 marks)</b></p> <p><b>Limited – Reasonable knowledge and understanding</b> of reasons for wage differentials, supported by the evidence in the stimulus material and / or the candidate’s own knowledge and understanding.</p> <p><b>Limited analysis</b> of how weaker trade unions may increase wage differentials. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p><b>Limited evaluation</b> of other reasons for increased wage differentials, in the form of unsupported statements or <b>no</b> evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>	<p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• wages differentials may be caused by differences in the demand and supply of labour in different occupations</li> <li>• use of diagram to explain wages differentials caused by higher demand for labour in some occupations and higher supply / more elastic supply of labour in other occupations</li> <li>• due to scalability, the MRP for some occupations will always be higher than others</li> <li>• marginal tax rates for high income earners have been reduced, increasing the net income for highly paid occupations increasing wage differentials</li> <li>• failure to raise the minimum wage in the US will have increased wage differentials</li> </ul> <p><b>Judgement</b></p> <ul style="list-style-type: none"> <li>• consideration of which factor will have the most influence</li> <li>• consideration of how different employees may be affected by each factor affecting wage differentials</li> <li>• many low-paid jobs have low union density so the impact of weaker trade unions may not be a significant explanation of wage increased wage differentials</li> <li>• increased wage differentials have been mainly caused by the growth of wages at the top of the income distribution which is not best explained by weaker trade unions</li> </ul>
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H460/01

## Mark Scheme

June 2023

		Descriptor	Award mark
		Consistently meets the criteria for this level	At top of level
		Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
		Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
		On the borderline of this level and the one below	At bottom of level

Question	Answer	Marks	Guidance													
2 *	<p>In 2020, the Competition and Markets Authority (CMA) found that three pharmaceutical companies had taken part in an illegal agreement resulting in the price of a life-saving medicine supplied to the NHS increasing by up to 1800%. This was one of many examples investigated by the CMA where consumers were being disadvantaged by collusion and the actions of monopolies.</p> <p>Evaluate, using an appropriate diagram(s), whether collusion and monopoly would always disadvantage consumers.</p> <p><b>Level 5 (21–25 marks)</b></p> <p><b>Good – Strong knowledge and understanding</b> of collusion and monopoly and the impact on consumers.</p> <p><b>Strong analysis</b> of the disadvantages to consumers of collusion and monopoly. It will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong evaluation</b> of whether consumers are always disadvantaged by collusion and monopoly.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p>	<p><b>25</b></p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><b>Annotation</b></p> <table border="1" data-bbox="1384 252 2056 746"> <tr> <td data-bbox="1384 252 1608 363"><b>Knowledge and Understanding</b></td> <td data-bbox="1608 252 1805 363"><b>KU</b></td> <td data-bbox="1805 252 2056 363">Grouped at end of response</td> </tr> <tr> <td data-bbox="1384 363 1608 528" rowspan="2"><b>Application</b></td> <td data-bbox="1608 363 1805 443"><b>APP</b> ✓</td> <td data-bbox="1805 363 2056 528" rowspan="2">End of response</td> </tr> <tr> <td data-bbox="1608 443 1805 528"><b>APP</b> ✗</td> </tr> <tr> <td data-bbox="1384 528 1608 639"><b>Analysis</b></td> <td data-bbox="1608 528 1805 639"><b>AN</b></td> <td data-bbox="1805 528 2056 639">Grouped beside the body of the analysis</td> </tr> <tr> <td data-bbox="1384 639 1608 746"><b>Evaluation</b></td> <td data-bbox="1608 639 1805 746"><b>EVAL</b></td> <td data-bbox="1805 639 2056 746">Grouped beside the body of the evaluation</td> </tr> </table> <p><b>Knowledge and understanding</b></p> <ul data-bbox="1384 858 2056 1437" style="list-style-type: none"> <li>• a pure monopoly exists when a firm is the sole seller in a market (market share = 100%)</li> <li>• UK competition policy assumes that monopoly power can arise when a firm has a market share of 25%</li> <li>• a complex monopoly arises when a number of firms with a combined market share of over 25% operate very similar or identical price and non-price policies</li> <li>• collusion occurs when two or more firms agree to work together to reduce open competition in a market, for example by agreeing to set high prices in order to make greater profits.</li> <li>• disadvantages for consumers – higher prices, reduced choice</li> <li>• advantages for consumers – greater product innovation, lower price</li> </ul>	<b>Knowledge and Understanding</b>	<b>KU</b>	Grouped at end of response	<b>Application</b>	<b>APP</b> ✓	End of response	<b>APP</b> ✗	<b>Analysis</b>	<b>AN</b>	Grouped beside the body of the analysis	<b>Evaluation</b>	<b>EVAL</b>	Grouped beside the body of the evaluation
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	<p><b>Level 4 (16–20 marks)</b></p> <p><b>Good knowledge and understanding</b> of collusion and monopoly and the impact on consumers.</p> <p><b>Strong analysis</b> of the disadvantages to consumers of collusion and monopoly. It will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good</b> of whether consumers are always disadvantaged by collusion and monopoly, weighing up both sides/comparing alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b></p> <p><b>Good knowledge and understanding</b> of collusion and monopoly and the impact on consumers.</p> <p><b>Good analysis</b> of the disadvantages to consumers of collusion and monopoly. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p><b>Reasonable evaluation</b> of whether consumers are always disadvantaged by collusion and monopoly, without considering extent.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p>	<p><b>Context(s)</b></p> <ul style="list-style-type: none"> <li>price increases in essential medicines due to collusive agreement between pharmaceutical companies (2020)</li> <li>merger between ticket exchange websites StubHub and Viagogo (2021)</li> <li>unfair pricing of hand sanitiser (2020)</li> </ul> <p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>collusion means that firms agree not to compete on price</li> <li>instead they agree to act as if they were a monopoly and maximise joint profit</li> <li>profit is maximised where <math>MR = MC</math></li> <li>this occurs at output <math>Q_m</math></li> <li>a monopoly faces a downward sloping demand curve representing the demand for the good or service for the whole market</li> <li>to maximise profit, a price of <math>P_m</math> is charged</li> <li>this is higher than the price that would be charged in a competitive market (<math>P_c</math>) which is where <math>P = MC</math></li> <li>consumers pay higher prices as a result of collusion and monopoly which reduces consumer surplus = area <math>P_m a b P_c</math></li> </ul>
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**Level 2 (6–10 marks)**

**Good knowledge and understanding** of collusion and monopoly and the impact on consumers.

**Reasonable analysis** of the disadvantages to consumers of collusion and monopoly. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.

**Reasonable evaluation** of whether consumers are always disadvantaged by collusion and monopoly, without considering extent.

*The information has some relevance but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.*

**Level 1 (1–5 marks)**

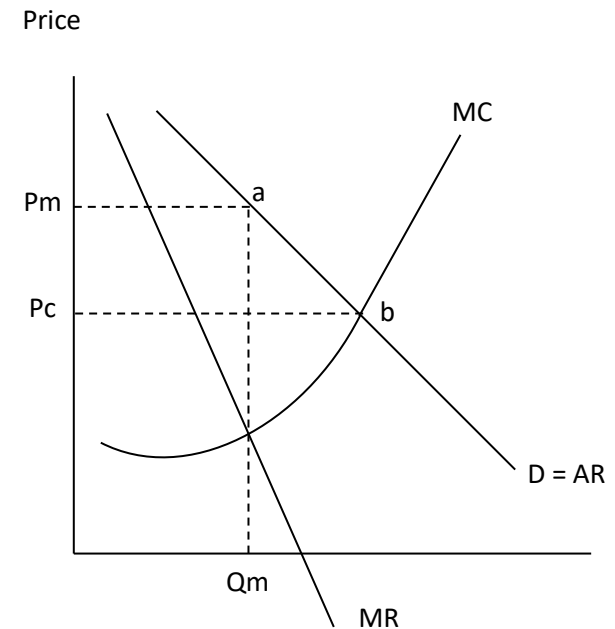
**Reasonable knowledge and understanding** of collusion and monopoly and the impact on consumers.

**Limited or no analysis** of the disadvantages to consumers of collusion and monopoly. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.

**Limited evaluation** of whether consumers are always disadvantaged by collusion and monopoly, in the form of an unsupported statement or **no** evaluation.

*Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.*

**0 marks** no response or no response worthy of credit.

**NB****Strong / Good analysis**

- explicitly references **both** collusion and monopoly **and** the impact on consumers

**Reasonable analysis**

- references **only** collusion or monopoly **and** the impact on consumers

**Limited analysis**

- does **not** focus on the impact on consumers

				<p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• monopoly may not be a disadvantage to consumers</li> <li>• economies of scale of a monopolist will lower AC – if passed on to consumers this may lower prices</li> <li>• economies of scale could be shown diagrammatically as a rightward shift of MC</li> <li>• high profit (could be shown diagrammatically) by a monopolist might be used for research and development – this may result in new / better products for consumers</li> <li>• monopoly in pharmaceuticals arises from patents which may incentivise the research required to develop new medicines</li> </ul> <p><b>Judgement(s)</b></p> <ul style="list-style-type: none"> <li>• collusion is a deliberate attempt to reduce competition in a market whereas the actions of a monopoly may not reduce competition</li> <li>• whilst monopoly could be an advantage for consumers, there are no advantages to consumers of collusion</li> <li>• this is why collusion is illegal but there is no presumption that monopoly is detrimental and is examined on a case by case basis</li> <li>• whether monopoly disadvantages consumers or not depends on whether profits are used for research and development or whether they are distributed to shareholders as dividends</li> <li>• monopoly is more likely to be a benefit in industries where research and development costs are significant</li> </ul>
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H460/01

## Mark Scheme

June 2023

		<b>Descriptor</b>	<b>Award mark</b>
		Consistently meets the criteria for this level	At top of level
		Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
		Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
		On the borderline of this level and the one below	At bottom of level



Question	Answer	Marks	Guidance													
3 *	<p><b>A report for the charity Action on Smoking and Health (ASH) in January 2022 estimated that smoking in England imposed costs on the NHS totalling £2.4 billion and costs on businesses, from lost productivity, of £17.2 billion.</b></p> <p><b>Evaluate, using an appropriate diagram(s), the most effective method of government intervention to reduce the negative externalities from smoking in England.</b></p> <p><b>Level 5 (21–25 marks)</b></p> <p><b>Good – Strong knowledge and understanding</b> of methods of government intervention to reduce the negative externalities from smoking</p> <p><b>Strong analysis</b> of how method of government intervention may reduce the negative externalities from smoking. It will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong evaluation</b> of the most effective method of government intervention to reduce the negative externalities from smoking, comparing alternatives and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p>	<p><b>25</b></p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><b>Annotation</b></p> <table border="1" data-bbox="1384 252 2056 746"> <tr> <td data-bbox="1384 252 1608 363"><b>Knowledge and Understanding</b></td> <td data-bbox="1608 252 1809 363"><b>KU</b></td> <td data-bbox="1809 252 2056 363">Grouped at end of response</td> </tr> <tr> <td data-bbox="1384 363 1608 528" rowspan="2"><b>Application</b></td> <td data-bbox="1608 363 1809 443"><b>APP</b> ✓</td> <td data-bbox="1809 363 2056 528" rowspan="2">End of response</td> </tr> <tr> <td data-bbox="1608 443 1809 528"><b>APP</b> ✗</td> </tr> <tr> <td data-bbox="1384 528 1608 639"><b>Analysis</b></td> <td data-bbox="1608 528 1809 639"><b>AN</b></td> <td data-bbox="1809 528 2056 639">Grouped beside the body of the analysis</td> </tr> <tr> <td data-bbox="1384 639 1608 746"><b>Evaluation</b></td> <td data-bbox="1608 639 1809 746"><b>EVAL</b></td> <td data-bbox="1809 639 2056 746">Grouped beside the body of the evaluation</td> </tr> </table> <p><b>Knowledge and understanding</b></p> <ul style="list-style-type: none"> <li>negative externalities as spill-over effects on third parties</li> <li>negative consumption externalities where MSB &lt; MPB resulting in over-consumption</li> <li>methods of government intervention to reduce negative externalities – taxation, provision of information, promotion of alternatives</li> </ul> <p><b>Context(s)</b></p> <ul style="list-style-type: none"> <li>costs imposed on the NHS arising from treatment of smoking-related diseases</li> <li>impacts on children’s health from smoking during pregnancy and second-hand smoke</li> <li>impact on ability to work – lost productivity, absenteeism, reduced ability to work</li> </ul>	<b>Knowledge and Understanding</b>	<b>KU</b>	Grouped at end of response	<b>Application</b>	<b>APP</b> ✓	End of response	<b>APP</b> ✗	<b>Analysis</b>	<b>AN</b>	Grouped beside the body of the analysis	<b>Evaluation</b>	<b>EVAL</b>	Grouped beside the body of the evaluation
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	<p><b>Level 4 (16–20 marks)</b></p> <p><b>Good knowledge and understanding</b> of methods of government intervention to reduce the negative externalities from smoking</p> <p><b>Strong analysis</b> of how method of government intervention may reduce the negative externalities from smoking. It will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good evaluation</b> of the most effective method of government intervention to reduce the negative externalities from smoking, comparing alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b></p> <p><b>Good knowledge and understanding</b> of methods of government intervention to reduce the negative externalities from smoking</p> <p><b>Good analysis</b> of how method of government intervention may reduce the negative externalities from smoking. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the most effective method of government intervention to reduce the negative externalities from smoking, comparing alternatives</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p>	<p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>○ smoking creates negative externalities = costs imposed on third parties</li> <li>○ explanation of examples of third party costs in the case of smoking</li> <li>○ negative consumption externalities cause <math>MSB &lt; MPB</math> leading to over-consumption of <math>Q^m - Q^*</math> and welfare loss of abc</li> <li>○ government intervention – indirect taxation             <ul style="list-style-type: none"> <li>○ indirect tax on tobacco raises production costs from <math>MPC</math> to <math>MPC + t</math></li> <li>○ higher production costs raises market price of tobacco / cigarettes from <math>P^m</math> to <math>P^t</math></li> <li>○ there is a contraction in demand and a fall in consumption of tobacco / cigarettes from <math>Q^m</math> to <math>Q^*</math></li> <li>○ negative externalities of smoking are reduced                 <ul style="list-style-type: none"> <li>▪ <math>MEC = MPB - MSB</math> falls from bc to da</li> </ul> </li> <li>○ tax revenue of <math>P^t dae</math> is raised</li> </ul> </li> </ul> <p>Price, costs, benefits</p> <p style="text-align: center;"><math>Q^*</math> <math>Q^m</math> Quantity</p>
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	<p><b>Level 2 (6–10 marks)</b></p> <p><b>Good knowledge and understanding</b> of methods of government intervention to reduce the negative externalities from smoking</p> <p><b>Reasonable analysis</b> of how method of government intervention may reduce the negative externalities from smoking. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the most effective method of government intervention to reduce the negative externalities from smoking, comparing alternatives</p> <p><i>The information has some relevance but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p>	<ul style="list-style-type: none"> <li>○ government intervention – provision of information / promotion of alternatives <ul style="list-style-type: none"> <li>○ may take the form of education, health campaigns, plain packaging, nicotine replacement products (subsidised or prescribed), stop smoking medication</li> <li>○ work by reducing the demand for tobacco / cigarettes</li> <li>○ demand falls to <math>D^1</math></li> <li>○ quantity of tobacco / cigarettes consumed falls from <math>Q^m</math> to <math>Q^*</math></li> <li>○ <math>MEC = MPB - MSB</math> falls from <math>bc</math> to <math>da</math></li> </ul> </li> </ul> <p><b>NB:</b></p> <p><b>Strong analysis</b></p> <ul style="list-style-type: none"> <li>• explains <u>two</u> methods of intervention linked to reducing <u>consumption externalities</u></li> </ul> <p><b>Good analysis</b></p> <ul style="list-style-type: none"> <li>• explains <u>two</u> methods of intervention linked to reducing <u>production externalities</u></li> </ul> <p><b>Reasonable analysis</b></p> <ul style="list-style-type: none"> <li>• explains <u>one</u> method of intervention linked to reducing either consumption or production externalities</li> </ul> <p><b>Limited analysis</b></p> <ul style="list-style-type: none"> <li>• explains methods of intervention but <u>not</u> linked to reducing <u>either</u> consumption or production externalities</li> </ul>
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	<p><b>Level 1 (1–5 marks)</b></p> <p><b>Reasonable knowledge and understanding</b> of methods of government intervention to reduce the negative externalities from smoking</p> <p><b>Limited or no analysis</b> of how method of government intervention may reduce the negative externalities from smoking There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited evaluation</b> of the most effective method of government intervention to reduce the negative externalities from smoking, in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p>	<p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>○ advantages and disadvantages of methods</li> <li>○ indirect taxation <ul style="list-style-type: none"> <li>○ raises revenue which could be used to contribute toward cost of treating smoking-related diseases</li> <li>○ reduction in smoking dependent on price elasticity of demand (PED) for tobacco / cigarettes</li> <li>○ may be successful in raising revenue but not in reducing negative externalities if PED is inelastic</li> <li>○ regressive impact</li> </ul> </li> <li>○ information / promotion of alternatives <ul style="list-style-type: none"> <li>○ involves a cost for government / taxpayer on top of the external costs</li> <li>○ effectiveness may depend on degree of information failure</li> <li>○ smokers may already know costs to themselves but choose to ignore them</li> </ul> </li> </ul> <p><b>Judgement(s)</b></p> <ul style="list-style-type: none"> <li>● demand for tobacco / cigarettes likely to be highly price inelastic so taxation is not effective in reducing smoking</li> <li>● indirect taxation may be effective in discouraging people from starting to smoke – especially young people</li> <li>● alternatives to taxation may be more effective to reduce rates of smoking – consumption is habit-forming and addictive, so demand is price inelastic</li> <li>● behavioural economics suggests that smokers are more likely to respond to nudges than price</li> </ul>
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H460/01

## Mark Scheme

June 2023

		<b>Descriptor</b>	<b>Award mark</b>
		Consistently meets the criteria for this level	At top of level
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		On the borderline of this level and the one below	At bottom of level

Question	Answer	Marks	Guidance													
4 *	<p>Flood defences are considered by economists to be public goods. The £67.4 million Ipswich tidal flood barrier is just one of the many flood defence schemes which has been completed during the government's current capital investment programme. The scheme protects 1600 homes and 400 businesses from tidal flooding.</p> <p>Evaluate the case for government provision of goods and services such as the Ipswich flood defence scheme.</p> <p><b>Level 5 (21–25 marks)</b></p> <p><b>Good – Strong knowledge and understanding</b> of the consequences of government failure as a result of government intervention.</p> <p><b>Strong analysis</b> of the consequences of government failure. It will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong evaluation</b> of whether government failure is an acceptable consequence of government intervention, weighing up both sides/comparing alternatives and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p>	<p><b>25</b></p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><b>Annotation</b></p> <table border="1" data-bbox="1379 252 2054 746"> <tbody> <tr> <td data-bbox="1379 252 1608 363"><b>Knowledge and Understanding</b></td> <td data-bbox="1608 252 1805 363"><b>KU</b></td> <td data-bbox="1805 252 2054 363">End of response</td> </tr> <tr> <td data-bbox="1379 363 1608 528" rowspan="2"><b>Application</b></td> <td data-bbox="1608 363 1805 443"><b>APP</b> ✓</td> <td data-bbox="1805 363 2054 528" rowspan="2">End of response</td> </tr> <tr> <td data-bbox="1608 443 1805 528"><b>APP</b> ✗</td> </tr> <tr> <td data-bbox="1379 528 1608 639"><b>Analysis</b></td> <td data-bbox="1608 528 1805 639"><b>AN</b></td> <td data-bbox="1805 528 2054 639">Grouped beside the body of the analysis</td> </tr> <tr> <td data-bbox="1379 639 1608 746"><b>Evaluation</b></td> <td data-bbox="1608 639 1805 746"><b>EVAL</b></td> <td data-bbox="1805 639 2054 746">Grouped beside the body of the evaluation</td> </tr> </tbody> </table> <p><b>Knowledge and understanding</b></p> <ul style="list-style-type: none"> <li>• nature of public goods</li> <li>• characteristics of public goods</li> <li>• free rider problem</li> <li>• provision of public goods</li> </ul> <p><b>Context(s)</b></p> <ul style="list-style-type: none"> <li>• flood defences</li> <li>• street lighting</li> <li>• national defence</li> <li>• roads</li> <li>• parks</li> </ul>	<b>Knowledge and Understanding</b>	<b>KU</b>	End of response	<b>Application</b>	<b>APP</b> ✓	End of response	<b>APP</b> ✗	<b>Analysis</b>	<b>AN</b>	Grouped beside the body of the analysis	<b>Evaluation</b>	<b>EVAL</b>	Grouped beside the body of the evaluation
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	<p><b>Level 4 (16–20 marks)</b></p> <p><b>Good knowledge and understanding</b> of the consequences of government failure as a result of government intervention.</p> <p><b>Strong analysis</b> of the consequences of government failure. It will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good evaluation</b> will weigh up both sides/comparing alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b></p> <p><b>Good knowledge and understanding</b> of the consequences of government failure as a result of government intervention.</p> <p><b>Good analysis</b> of the consequences of government failure. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the consequences of government failure.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p>	<p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>○ public goods have two key characteristics       <ul style="list-style-type: none"> <li>○ non-excludability           <ul style="list-style-type: none"> <li>▪ occurs when it is not possible to provide a good / service to one consumer without it being also available for others to consume</li> <li>▪ if flood defences in an area are provided everyone in the area benefits</li> </ul> </li> <li>○ non-diminishability / non rivalry           <ul style="list-style-type: none"> <li>▪ when consumption by one consumer does not reduce the amount available for other to consume</li> </ul> </li> </ul> </li> <li>○ the private sector would not provide public goods       <ul style="list-style-type: none"> <li>○ free rider problem           <ul style="list-style-type: none"> <li>▪ consumers have no incentive to pay as they can free ride</li> <li>▪ there is no effective demand for public goods</li> </ul> </li> <li>if flood defences in an area are</li> <li>○ marginal cost = zero           <ul style="list-style-type: none"> <li>▪ once supplied, the marginal cost of supplying another individual is zero.</li> <li>▪ allocative efficiency only occurs when <math>P = zero</math></li> </ul> </li> </ul> </li> <li>○ pure public goods need to be provided by the government</li> </ul>
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	<p><b>Level 2 (6–10 marks)</b></p> <p><b>Good knowledge and understanding</b> of the consequences of government failure as a result of government intervention.</p> <p><b>Reasonable analysis</b> of the consequences of government failure. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the consequences of government failure.</p> <p><i>The information has some relevance but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b></p> <p><b>Reasonable knowledge and understanding</b> of the causes/ consequences of government failure.</p> <p><b>Limited or no analysis</b> of government failure. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited evaluation</b> of the consequences of government failure, in the form of an unsupported statement, or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>	<p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>○ it may be that the most appropriate role of the government is to decide the output of public goods and provide the finance</li> <li>○ private sector can still provide the goods and services by bidding to supply – the government then ‘demands’ the good / service</li> <li>○ government contracts out provision to the private sector</li> <li>○ there can be cases where groups of individuals club together to provide public goods – private security in gated communities, communities clubbing together to keep local schools open</li> <li>○ it may be possible for quasi public goods / services to be provided by the private sector – M6 Toll road financed and operated entirely by the private sector</li> </ul> <p><b>Judgement(s)</b></p> <ul style="list-style-type: none"> <li>○ without government provision, pure public goods would not be provided by the market</li> <li>○ behavioural economics suggests that individuals can have motivations other than just private benefit</li> <li>○ enough people may contribute to paying for a public good even if it may be rational to avoid paying – a sense of community may override maximisation of private benefit</li> <li>○ public parks have in the past been provided by philanthropists</li> </ul>
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H460/01

## Mark Scheme

June 2023

		<b>Descriptor</b>	<b>Award mark</b>
		Consistently meets the criteria for this level	At top of level
		Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
		Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
		On the borderline of this level and the one below	At bottom of level

Question	Answer	Marks	Guidance													
5 *	<p><b>Aldi, a discount supermarket, entered the UK market for the first time in 1990. Since then it has expanded its operation and, in 2022, its market share was 9.3% making it the fourth largest supermarket in the UK.</b></p> <p><b>Evaluate the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm.</b></p> <p><b>Level 5 (21–25 marks)</b></p> <p><b>Good – Strong knowledge and understanding</b> of economies of scale.</p> <p><b>Strong analysis</b> of the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm. It will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong evaluation</b> of the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm, weighing up both sides/comparing alternatives and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p>	<p><b>25</b></p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><b>Annotation</b></p> <table border="1" data-bbox="1384 252 2056 746"> <tr> <td data-bbox="1384 252 1608 363"><b>Knowledge and Understanding</b></td> <td data-bbox="1608 252 1805 363"><b>KU</b></td> <td data-bbox="1805 252 2056 363">End of response</td> </tr> <tr> <td data-bbox="1384 363 1608 528" rowspan="2"><b>Application</b></td> <td data-bbox="1608 363 1805 443"><b>APP</b> ✓</td> <td data-bbox="1805 363 2056 528" rowspan="2">End of response</td> </tr> <tr> <td data-bbox="1608 443 1805 528"><b>APP</b> ✗</td> </tr> <tr> <td data-bbox="1384 528 1608 639"><b>Analysis</b></td> <td data-bbox="1608 528 1805 639"><b>AN</b></td> <td data-bbox="1805 528 2056 639">Grouped beside the body of the analysis</td> </tr> <tr> <td data-bbox="1384 639 1608 746"><b>Evaluation</b></td> <td data-bbox="1608 639 1805 746"><b>EVAL</b></td> <td data-bbox="1805 639 2056 746">Grouped beside the body of the evaluation</td> </tr> </table> <p><b>Knowledge and understanding</b></p> <ul style="list-style-type: none"> <li>economies of scale arise when a larger scale of production leads to a fall in long-run average costs</li> <li>types of economies of scale – purchasing, technical, managerial, financial, risk-bearing, marketing, external</li> </ul> <p><b>Context(s)</b></p> <ul style="list-style-type: none"> <li>the application of different economies of scale to retailing / supermarkets</li> <li>the objectives of firms in retailing</li> <li>market structure of retailing</li> </ul>	<b>Knowledge and Understanding</b>	<b>KU</b>	End of response	<b>Application</b>	<b>APP</b> ✓	End of response	<b>APP</b> ✗	<b>Analysis</b>	<b>AN</b>	Grouped beside the body of the analysis	<b>Evaluation</b>	<b>EVAL</b>	Grouped beside the body of the evaluation
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	<p><b>Level 2 (6–10 marks)</b></p> <p><b>Good knowledge and understanding</b> of economies of scale.</p> <p><b>Reasonable analysis</b> of the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm, considering both sides/comparing alternatives.</p> <p><i>The information has some relevance but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b></p> <p><b>Reasonable knowledge and understanding</b> of economies of scale.</p> <p><b>Limited or no analysis</b> of the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm. is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited evaluation</b> of the importance of economies of scale to a large retailer when deciding whether to increase the size of its firm, in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>	<p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• large retailers should also consider diseconomies of scale to ensure that average costs do not rise as size of the firm increases</li> <li>• large retailers may consider other factors when deciding whether to increase the size of the firm</li> <li>• impact of size of the firm on revenue</li> <li>• impact of size of the firm on market share</li> <li>• firm objectives <ul style="list-style-type: none"> <li>○ sales maximisation vs profit maximisation</li> </ul> </li> <li>• how growth is to be achieved <ul style="list-style-type: none"> <li>○ organic growth vs inorganic growth (merger)</li> </ul> </li> <li>• how growth is to be financed</li> <li>• response of competition authorities</li> </ul> <p><b>Judgement(s)</b></p> <ul style="list-style-type: none"> <li>• depends on the nature of the market and the importance of price</li> <li>• where product differentiation is more important, economies of scale may be a less important reasons for growth</li> <li>• in markets where consumers are not price conscious or product differentiation is more important, economies of scale will be less significant in decisions to increase the size of the firm</li> <li>• depends on the objectives of the firm and the extent to which shareholders objectives – profit maximisation – is dominant</li> <li>• depends on the extent of divorce of ownership from control in terms of whether managerial objectives are more important than profit</li> </ul>
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H460/01

## Mark Scheme

June 2023

		<b>Descriptor</b>	<b>Award mark</b>
		Consistently meets the criteria for this level	At top of level
		Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
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H460/01

Mark Scheme

June 2023

## Assessment Objectives Grid

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)(i)		2 (2)			2	(2)
1a(ii)		2 (2)			2	(2)
1(b)	2				2	
1(c)	2 (2)	2 (2)			4	(4)
1(d)	1	1	3	3	8	
1(e)	1	1	5	5	12	
2/3	6 (2)	6 (2)	6 (2)	7 (2)	25	(8)
4/5	6	6	6	7	25	
<b>TOTAL</b>	<b>18 (5)</b>	<b>20 (7)</b>	<b>20 (2)</b>	<b>22 (2)</b>	<b>80</b>	<b>(16)</b>

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