



GCE A LEVEL MARKING SCHEME

SUMMER 2024

**A LEVEL
ECONOMICS - COMPONENT 2
A520U20-1**

About this marking scheme

The purpose of this marking scheme is to provide teachers, learners, and other interested parties, with an understanding of the assessment criteria used to assess this specific assessment.

This marking scheme reflects the criteria by which this assessment was marked in a live series and was finalised following detailed discussion at an examiners' conference. A team of qualified examiners were trained specifically in the application of this marking scheme. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners. It may not be possible, or appropriate, to capture every variation that a candidate may present in their responses within this marking scheme. However, during the training conference, examiners were guided in using their professional judgement to credit alternative valid responses as instructed by the document, and through reviewing exemplar responses.

Without the benefit of participation in the examiners' conference, teachers, learners and other users, may have different views on certain matters of detail or interpretation. Therefore, it is strongly recommended that this marking scheme is used alongside other guidance, such as published exemplar materials or Guidance for Teaching. This marking scheme is final and will not be changed, unless in the event that a clear error is identified, as it reflects the criteria used to assess candidate responses during the live series.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of economic concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level-based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

GCE A LEVEL ECONOMICS – COMPONENT 2

SUMMER 2024 MARK SCHEME

Question 1

1	1	Using the data, explain why productivity might be lower in some parts of the UK than in others. [5]		
Band		AO1	AO2	AO3
2			2 marks Good application Strong use of figures 6, 7 and/or the text to show how the one influences the other.	2 marks Good analysis Developed chain of reasoning explaining why productivity levels vary in the UK.
1		1 mark Knowledge Clear knowledge of productivity is demonstrated.	1 mark Limited application Use of the data is limited with few direct references.	1 mark Limited analysis Chain of reasoning is unconvincing or lacking in clarity.
0		0 mark No knowledge or understanding shown.	0 mark No valid application.	0 mark No valid analysis.

Indicative content

AO1

Productivity is measured as output/input, most often as output per worker (per hour worked).

AO2

Clear correlation between figures 6 and 7 – London, Scotland and the Southeast are top of both charts, although the pattern at the bottom is more mixed.

Biggest differences seem to be in government spending on research and innovation more than higher education, although there are differences there too.

Low infrastructure spending away from London.

High levels of inequality may impact on social cohesion and motivation.

Variations in life expectancy may also give an indication of underlying health issues which will also affect productivity.

AO3

Greater spending on research and innovation in a region may directly increase productivity or may attract highly productive businesses and workers to those regions.

More spending by higher education institutions may again directly increase productivity by turning out better skilled graduates having had access to better facilities or attract high-skills firms to an area to take advantage of the available workforce (Silicon glen, Silicon fen etc).

Low infrastructure spending will make successful businesses and high-skilled workers more reluctant to move away from their current locations in which they are succeeding. Likewise new businesses will be more likely to locate where existing ones are, perpetuating the productivity gap.

High levels of inequality may create an underclass which is disengaged from economic activity, reducing productivity overall.

Variations in life expectancy may also give an indication of underlying health issues which will also affect productivity.

Once the productivity gap exists, it may continue because higher productivity implies higher pay, attracting higher skilled workers away from low productivity areas. This, in turn, deters businesses from locating there.

Nature of business activity – London has financial and tech sectors which naturally add more value than more traditional sectors.

Allow any other valid points.

1	2	Using the data, explain why the UK government might want to reduce regional income inequality in the UK.		[5]
Band		AO2	AO3	
			3 marks Excellent analysis Well-developed chain of reasoning that looks at factors linked to regional income inequality.	
2		2 marks Good application Strong use of charts and/or text to support the points made.	2 marks Good analysis Well-developed chain of reasoning explaining why income inequality is undesirable.	
1		1 mark Limited application Use of the data is limited with few direct references.	1 mark Limited analysis A chain of reasoning exists, but points are under-developed.	
0		0 mark No valid application.	0 mark No valid analysis.	

Indicative content

AO2

UK has much higher regional inequality than many other countries, suggesting that the problems associated with inequality will be higher in the UK (Figure 3).

Figure 4 shows that income inequality is correlated with health inequality with differences of as much as 4 years on average between areas. Case suggests that even larger differences will exist in particular localities (“incomes in some northern cities such as Manchester and York average 50% more than poorer ones such as Scarborough and Blackpool.”)

Figure 5 shows that workers in some areas will have much higher spending power than in others due to higher GVA/capita.

AO3

Inequalities mean that some parts of society will have much lower life expectancy and educational attainment than might have been the case if inequality was lower. This is undesirable from a growth perspective as well as the impact on individual life chances.

Inequalities mean that living standards will be lower than they might otherwise have been – in low-income areas quality of life will be lower as a result of an inability to afford as good healthcare, leisure activities, diet and housing.

Inequality is heavily associated with negative social outcomes. Research suggests that higher levels of inequality are strongly correlated with addiction, lower life expectancy, higher child mortality and social unrest thus governments intervene because this increases government spending on benefits, the health service, social services and the criminal justice system.

A failure to reduce regional inequalities means that there are different life chances for people born in different parts of the UK, creating areas of high dependency. At a pragmatic level, this inequality harms the UK's overall economic performance, as a result of ill health etc in poorer areas.

Regional inequality may lead to a brain drain from less areas with lower income per person to those with higher ones. This can both perpetuate the problem as well as creating pressure on resources/infrastructure in high income areas (housing in London etc).

Allow any other valid points.

1	3	How effective is the UK's 'plan for growth' (Figure 8) likely to be in dealing with the regional inequalities in the UK presented in the data? [10]		
Band	AO2		AO3	AO4
	3 marks		3 marks	4 marks
3	3 marks Excellent application		3 marks Excellent analysis	3-4 marks Excellent evaluation
	The data is well used on both sides of the argument, linking figure 8 to regional outcomes.		Well-developed chains of reasoning explaining clearly why regional inequalities will be reduced.	Well-developed chains of reasoning exist explaining clearly why the policies will be ineffective at reducing inequalities between regions. Answers at the top of the band will have a well-reasoned overall judgement as to effectiveness.
	2 marks Good application		2 marks Good analysis	2 marks Good evaluation
	The data is well used on one side of the argument.		Developed chains of reasoning showing how the policies will benefit poorer areas.	Developed chains of reasoning explaining why the policies may be ineffective.
1	1 mark Limited application		1 mark Limited analysis	1 mark Limited evaluation
	Use of the data is less effective. Relevant data has been used but not well developed.		Chains of reasoning exist but are under-developed.	Counter-arguments are present but are under-developed.
0	0 marks No valid application.		0 marks No valid analysis.	0 marks No valid evaluation.

Indicative content

Investing in broadband, roads, rail and cities, as part of capital spending plans worth £100 billion in 2021 and £600 billion overall. This should increase employment directly as part of infrastructure projects as well as attracting businesses into the area. Better infrastructure should increase productivity allowing for higher wages, therefore reducing regional inequalities in output per worker and employment rates.

However, such projects come with inevitable time lags (HS2...) and better infrastructure may actually worsen the issues by increasing regional labour mobility. Differences in regional health and employment rates may, in any case, have nothing to do with infrastructure.

UK Infrastructure Bank which will help businesses to raise finance, particularly for infrastructure projects should in theory allow new business start-ups and again improve infrastructure.

But, as the case notes, this type of project is at least as likely to benefit firms in high income areas, therefore possibly worsening the issue.

Investing into skills and apprenticeships could improve the life opportunities of those without the relevant skills. If it is the case that such people are concentrated in low-income regions, then these policies may help to reduce regional inequalities.

But the policy is a national one and may therefore have little or no impact on regional inequalities even if it tackles income inequality generally.

Support for new and innovative businesses may well make a difference. It seems likely to be the case that access to specialist finance will be easier the closer the proximity to major financial centres such as London.

But many of the worst issues are to do with intra rather than inter-regional issues – policies such as these are most likely to benefit people and citizens in successful cities regardless of their location, therefore having little impact on the intra-regional issues discussed in the case, nor does there seem to be much in the plans to tackle rural-urban inequalities.

Immigration reform will help to allow businesses to attract the skills that are currently in short supply in the UK, hence allowing those businesses to succeed and grow. In low-income regions, these skills can be in particularly short supply.

But there is no guarantee that inward migrants will wish to locate in low-skills areas, often preferring major metropolitan areas.

The UK's commitment to free trade and liberalisation may work against the levelling up initiatives contained in figure 8.

Allow any other valid points – this list is far from comprehensive.

1	4	Using the data, discuss the extent to which membership of the CPTPP might be beneficial for the UK economy. [10]		
Band	AO2		AO3	AO4
	3 marks		3 marks	4 marks
3	3 marks Excellent application The data is used well on both sides of the argument.		3 marks Excellent analysis Well-developed and wider-ranging chains of reasoning explaining how membership of the CPTPP will be beneficial to the UK economy.	3-4 marks Excellent evaluation Well-developed and wider-ranging chains of reasoning explaining why membership of the CPTPP might not be beneficial to the UK economy. Answers at the top of the band will have a well-reasoned overall judgement as to the extent to which it will be beneficial.
2	2 marks Good application The data is well used on one side of the argument.		2 marks Good analysis Developed chains of reasoning explaining how membership of the CPTPP will be beneficial to the UK economy. Range of issues may be narrow.	2 marks Good evaluation Developed chains of reasoning explaining why membership of the CPTPP might not be beneficial to the UK economy. Range of issues may be narrow.
1	1 mark Limited application Use of the data is less effective. Relevant data has been used but not well developed.		1 mark Limited analysis Chains of reasoning exist but are under-developed.	1 mark Limited evaluation Counter-arguments are present but are under-developed.
0	0 marks No valid application.		0 marks No valid analysis.	0 marks No valid evaluation.

Indicative content

AO2

Helps to open up markets in the face of rising global protectionism (Figure 2).

Pound is currently very weak, helping to support exports and restrict imports and has been for some time (although no guarantee that it will remain so). Figure 1 shows that it has been much higher in the past. Also, the exchange rate index is a weighted average, so may not be directly relevant to the CPTPP.

Big opportunity for exports – 13% of global GDP and 15% of trade. Population of 500 million people located in the growing and increasingly rich Asia-Pacific region.

Deregulation agenda with limits on support for state businesses – has both upsides and downsides.

Comparison with increased unemployment in industrial areas in the US as a result of rising competition from China. Question as to whether the CPTPP is similar to this or not; current members of CPTPP not particularly low wage.

Focus on areas such as services, the digital economy and IP which may link well with the UK's areas of comparative advantage (but may do little for low-skill, low-income regions away from the south-east).

AO3

Entry into the CPTPP will create competitive pressure for UK firms, forcing them to be more innovative and efficient. This should help to drive potential growth and put downward pressure on inflation.

Greater competition should lead to greater choice and lower prices for consumers.

The CPTPP will help to develop export markets for UK goods, which may help to counter the reduced access to EU markets that some UK firms have experienced since Brexit.

At a theoretical level, free trade can lead to greater opportunity for the economy to specialise in areas of comparative advantage.

AO4

But there is a risk that low-income regions will be disadvantaged further as increased competition from low-cost producers abroad has a negative impact on low-productivity businesses.

The CPTPP is predicated on a low-regulation environment which may be damaging to low-skilled workers who are more dependent on legal protection for their rights than higher-skilled employees.

Free trade is a two-way street, meaning that some UK businesses may be outcompeted and fail, leading to rising unemployment (although it can be argued that this is the natural state of competition and that resources will be redeployed to where they are most needed/useful in the longer term, although this in turn depends on regional and occupational mobility).

Standard disadvantages of free trade – loss of tariff revenue, damage to infant industries, strategic industries and so on.

1	5	Using the data, discuss whether the weak sterling exchange rate will be more likely to improve or worsen living standards in low-income areas of the UK. [10]		
Band	AO2		AO3	AO4
	3 marks		3 marks	4 marks
3	3 marks Excellent application The data is used well on both sides of the argument.		3 marks Excellent analysis Well-developed chains of reasoning explaining why the weak £ will improve living standards in low-income areas.	3-4 marks Excellent evaluation Well-developed chains of reasoning explaining why the weak £ will worsen/not raise living standards in low-income areas. Answers at the top of the band will have a well-reasoned overall judgement.
	2 marks Good application The data is well used on one side of the argument.		2 marks Good analysis Developed chains of reasoning explaining why the weak £ will benefit the UK.	2 marks Good evaluation Developed chains of reasoning explaining why the weak £ will not benefit the UK.
1	1 mark Limited application Use of the data is less effective. Relevant data has been used but not well developed.		1 mark Limited analysis Chains of reasoning exist but there is a lack of focus on low-income areas.	1 mark Limited evaluation Counter-arguments are present but are under-developed.
	0 marks No valid application.		0 marks No valid analysis.	0 marks No valid evaluation.

Indicative content

AO2

£ is significantly weaker than pre-Brexit and pre-early noughties (10 and 20% respectively).

Low levels of employment may be tackled by if the low exchange rate allows export businesses to thrive in low-income areas.

If the low exchange rate allows growth, then GVA/capita may rise, which may have a longer-term impact on health and life expectancy.

Weak infrastructure and R&D spending may mean that it is the already-successful parts of the UK that will benefit most from export opportunities.

Currently there are skills and funding shortages which will prevent businesses from taking advantage of export opportunities.

Rising import prices will have a greater impact on the low-income areas due to their regressive effects.

Impact likely to be greater if CPTPP entry and levelling up policies are successful.

AO3

In principle the weak £ will make exports more competitive and reduce the competitiveness of imports, therefore creating jobs and growth as a result of rising AD. This should raise employment and incomes in low-income areas of the UK.

Weak £ may trigger inward investment which may well head to low income/low wage areas, especially if infrastructure is being improved.

Local firms competing with imports may also find that they have higher demand as import prices are pushed up.

AO4

Much will depend on whether the £ stays weak and which currencies it is weak against.

Businesses dependent on imports in low-income areas will suffer.

Low-income groups may suffer as a result of rising import prices.

Much will depend on the extent to which a region is more import or export heavy.

Living standards and income aren't the same thing – fewer opportunities to travel abroad.

Risks of cost-push inflation creating a stagflation environment, which may be particularly damaging in lower income areas/those with low value-added sectors.

Question 2

2	1	Using the information provided on hairdressing and restaurants outline the characteristics of monopolistic competition. [5]	
Band		AO1	AO2
3			3 marks Excellent application Good use of both markets to illustrate the features of monopolistic competition.
2		2 marks Good knowledge Comprehensive understanding of the characteristics of monopolistic competition.	2 marks Good application Good use of one of the two markets to illustrate the features of monopolistic competition.
1		1 mark Limited knowledge Understanding of monopolistic competition is superficial, incomplete or contains some inaccuracies.	1 mark Limited application Data references and links to monopolistic competition are superficial.
0		0 marks No relevant knowledge shown.	0 marks No valid application.

Indicative content.

AO1/AO2

Large number of small firms. (Hairdressing 2/3 employ fewer than 5 people, 94% fewer than 10, 43,000 hair and beauty firms, many small {Chinese and Indian} restaurants).

Differentiated products (apply to hairdressers and restaurants – eg use of Deliveroo to differentiate the product)

Some control over price

Use of non-price competition such as local advertising, Deliveroo

Imperfect information

No/low entry barriers (1000 new firms in a year, massive growth in the industry)

Normal profits in the long run (Low turnover – over half of hair/beauty businesses have turnover under £99 000 2p.a.)

2	2	<p>Using figure 2, calculate the MR and MC for each of the output levels (haircuts/day) from 0 to 80. Record the answers in your <u>pink</u> answer booklet.</p> <p>Using your answers explain at what level of output Bob's Barbers will, in theory, maximise profits. [7]</p>		
Band	AO1	AO2	AO3	
3		<p>3 marks Excellent application</p> <p>Use of the data is comprehensive displaying all MC and MR data.</p>	<p>3 marks Excellent analysis</p> <p>Well-developed chain of reasoning explaining the output at which profits are maximised.</p>	
2		<p>2 marks Good application</p> <p>Strong use of data with either MC or MR calculated accurately. Or answers in this band may look at MC and MR per 10 units rather than per unit.</p>	<p>2 marks Good analysis</p> <p>Developed chain of reasoning showing how the profit maximising level of output is determined. Some parts of the explanation are incomplete or unclear.</p>	
1	<p>1 mark Knowledge</p> <p>Knowledge of the conditions for profit maximisation is shown.</p>	<p>1 mark Limited application</p> <p>Use of the data is limited with significant inaccuracies in the calculation of MC and MR.</p>	<p>1 mark Limited evaluation</p> <p>Chain of reasoning is unconvincing or lacking in clarity.</p>	
0	<p>0 mark</p> <p>No knowledge or understanding shown.</p>	<p>0 mark</p> <p>No valid application.</p>	<p>0 mark</p> <p>No valid analysis.</p>	

Indicative content

AO1

Profits are maximised at the output at which $MC=MR$

AO2

Price	Haircuts/day	Total Revenue	Marginal Revenue	Total Cost	Marginal Cost
£24	0	£0	-	£250	-
£22	10	£220	£22*	£340	£9†
£20	20	£400	£18	£400	£6
£18	30	£540	£14	£480	£8
£16	40	£640	£10	£580	£10
£14	50	£700	£6	£700	£12
£12	60	£720	£2	£840	£14
£10	70	£700	£-2	£1020	£18
£8	80	£640	£-6	£1280	£26

*£220/10 etc

†£90/10 etc

For MR and MC correctly calculated in units of 10: AO2: 2

For one of MR and MC correctly calculated in units of 10: AO2: 1

For one of MR and MC completely right and one completely wrong: AO2: 1

AO3

Firm maximises profit at 40 units where $MR=MC$ (But allow OFR)

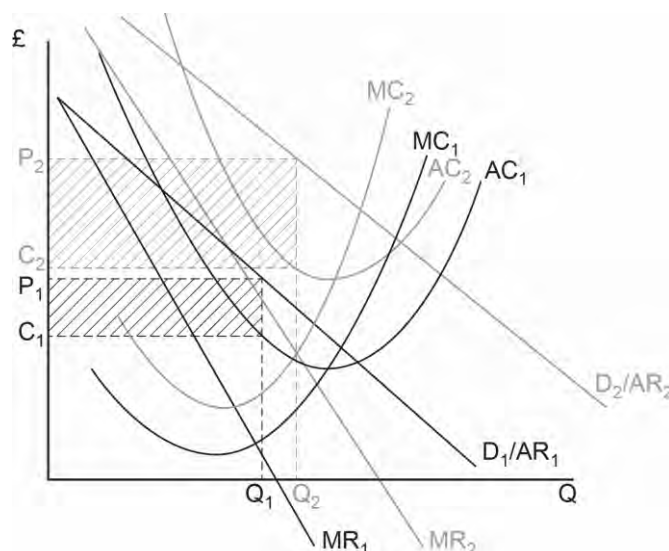
- Profits are maximised at this level of output because all the units for which MR is greater than MC have been produced, which therefore add to profit.
- Furthermore, none of the units for which MC is greater than MR have been produced (which would reduce profit).
- Therefore, profits are maximised at an output of 40 units (profits are the same level at output 30, so allow this).

The question asks candidates to 'use their answers'. If they correctly identify the profit maximising output as 30/40 by showing that total profit is the highest here but make no reference to MC or MR then this is AO3 limited (1 mark).

2	3	Using a costs and revenue diagram, evaluate the effects on a restaurant's abnormal profits as a result of using Deliveroo to increase its sales. [10]		
Band	AO1	AO2	AO3	AO4
3	3 marks Excellent knowledge An accurate costs and revenue diagram is drawn showing the effects of rising demand (AR MR) and rising costs (MC AC).			3 marks Excellent evaluation Impact on profits is fully discussed with a judgement as to whether or not profits are likely to increase or decrease.
2	2 marks Good knowledge An accurate costs and revenue diagram is drawn correctly showing the effects of rising demand (AR MR) or rising costs (MC AC). Or both are done but with some errors.	2 marks Good application The case is used to indicate how the rise in demand and rise in costs arise.	2 marks Good analysis Good chain of reasoning explaining that profits will have risen because/provided that demand/revenue has risen faster than costs. Or That profits fall because costs have risen more than revenue.	2 marks Good evaluation The answer has developed counter-arguments or evaluative points explaining why profits might not have risen. Or Developed counter-arguments or evaluative points explaining why profits might not have fallen.
1	1 mark Limited knowledge A costs and revenue diagram is drawn showing the effects of rising demand (AR MR) or rising costs (MC AC) but significant errors are present.	1 mark Limited application The case is used to indicate how the rise in demand or rise in costs arise.	1 mark Limited analysis Chain of reasoning is less well-developed with the link to profits less clear, perhaps focusing on only one of cost or revenue.	1 mark Limited evaluation Counter-arguments are present but lack development.
0	0 mark No knowledge shown. Either there is no diagram or the diagram contains too many errors to be credit-worthy.	0 mark No valid application.	0 mark No valid analysis.	0 mark No valid evaluation.

Indicative content

AO1



MC and AC increase (1)

MR and AR increase (1)

New profit is successfully identified at $MC=MR$ (OFR) (1)

AO2

+ According to Deliveroo, restaurants that use its service can see revenues increase by up to 30%.

+ Revenue and profit should rise because of the convenience of having food delivered to your home.

+ Use of firms such as Deliveroo will widen customer base.

- Deliveroo charges restaurants about 30% on each order made.

- Deliveroo taking half of profit before fixed costs (70% margin).

- Deliveroo taking virtually half the profit on each order

AO3 (One side of the argument – profits rise or fall)

By using Deliveroo small restaurants will gain increased sales revenue shifting the demand curve (AR) and MR to the right.

Charging the restaurant for their service will raise variable cost thus affecting the MC and AC curves.

Profits should rise because the extra sales revenue generated will be greater than the extra costs imposed by Deliveroo.

Or

Profits would fall if the extra sales revenue generated is less than the extra costs imposed by Deliveroo.

AO4

Deliveroo is not the only firm in the market – others may have different charging models.

Sales will only rise by **up to** 30% - could increase by less.

Risk of cannibalisation – that customers who would already have ordered now use Deliveroo, meaning that the firm makes less profit on the order. Hence the costs of using Deliveroo might rise more than revenue.

Deliveroo increases competition between restaurants meaning that cross elasticity of demand may increase, reducing the firm's ability to increase prices.

In monopolistic competition, profits won't rise in the long run because of low/no barriers to entry, allowing new firms to enter – Deliveroo will make this easier.

Limited AO4 for observing the reverse of what was argued in AO3 without any further development/impact depends on which rises more, revenue or cost.

2	4	Evaluate the view that a monopolistically competitive firm will always leave an industry if it fails to make at least normal profit. [7]	
Band	AO1	AO3	AO4
			3 marks Excellent evaluation Strong evaluation which judges whether or not a firm is likely to close down if it is unable to make normal profits.
2	2 marks Good knowledge Clear understanding of normal profit is shown.	2 marks Good analysis There is a clear chain of reasoning with strong analysis as to why a business might leave the market if not making normal profit.	2 marks Good evaluation The answer has developed counter-arguments or evaluative points explaining why a firm might not shut down if it is unable to make normal profits.
1	1 mark Limited knowledge Partial understanding of normal profit is shown.	1 mark Limited analysis The chain of reasoning lacks clarity or detail and is unconvincing.	1 mark Limited evaluation Counter-arguments are present but lack development.
0	0 marks No valid understanding.	0 marks No valid analysis.	0 marks No valid evaluation.

Indicative content

AO1

Normal profit shows the minimum profit needed to keep factors of production in their current use/to stop an entrepreneur from leaving the industry.

It will occur at the output at which $AR=AC/TR=TC$

AO3

In the long run a firm in monopolistic competition will leave the market if $AC>AR/TC>TR$ as they are not making normal profits because the firm is unable to match the opportunity cost of the entrepreneur's time. Thus, the firm's resources should be employed in a different activity. Normal profits represent the opportunity cost of resources.

If $TC>TR$ the firm will run out of cash, meaning that it will be forced to close down in the long run.

The firm might shut down in the **short run** if AR is below AVC because it would make a lower loss by doing so and then paying just its fixed costs.

AO4

In the short run a firm can stay in the market if $AC>AR/TC>TR$ as long as $P(AR)>AVC$ (or $TR>TVC$). As fixed costs are not paid regularly then a firm can survive if it is covering its VC.

If $P>AVC$ then there is some contribution being made to fixed costs, because it would lose more by closing than staying open (if, for example the firm has a lease which has to be paid) When $P < AVC$ this means that the firm will shut down in the short run, because losses will be lower if it was to close down at once, even if there are fixed costs which still have to be met.

Fixed costs are only paid quarterly or annually, so as long as variable costs are covered, then the firm can continue to operate in the SR.

Firms may wait, hoping that other firms will leave, therefore allowing normal profits to be earned in the longer term.

Much may depend on the reason that $AC>AR$. If the firm is a recent entrant into the market, then short run losses may well be acceptable. Likewise, in a recession or some other reason that profits are temporarily sub-normal, firms may be prepared to ride it out

Not all firms are profit driven – family firms may be kept alive by contributions from other family members.

2	5	With reference to the data, discuss the extent to which monopolistic competition leads to a reduction of economic welfare.			[11]
Band	AO1	AO2	AO3	AO4	
3			3 marks Excellent analysis Well-developed explanation as to how monopolistic competition may result in a decline in economic welfare. A well-developed chain of reasoning is present linking clearly to welfare loss.	3-4 marks Excellent evaluation Very well-developed counterarguments and evaluative points that are clearly well linked to the concept of 'welfare', good use of economic theory and concepts. Answers at the top of the band will have a well-reasoned overall judgment.	
2	2 marks Good knowledge A clear knowledge of the meaning of economic welfare is demonstrated.	2 marks Good application The answer is well contextualised, making use of the case on both sides of the argument.	2 marks Good analysis Developed explanation as to how monopolistic competition is likely to reduce welfare but aspects of the argument are unclear or are weaker in their use of economic theory.	2 marks Good evaluation The answer has developed counterarguments or evaluative points explaining that monopolistic competition will not result in a decline in economic welfare.	
1	1 mark Limited knowledge Some knowledge of economic welfare is shown.	1 mark Limited application Some references to the context, but these are not well developed or embedded in the answer.	1 mark Limited analysis Candidate offers a limited or only partially correct analysis of why monopolistic competition may result in a decline in economic welfare.	1 mark Limited evaluation Counterargument(s) are present, but none of them are well developed.	
0	0 marks No knowledge shown.	0 marks No valid application.	0 marks No valid analysis.	0 marks No valid evaluation.	

Indicative content

AO1

At a micro level, economic welfare refers to the difference between social benefit and social cost arising from an economic activity.

Micro might be taken to mean allocative efficiency

At a macro level economic welfare may refer more broadly to living standards

AO2

CMA investigations into funeral services and estate agents suggest that consumers are being exploited.

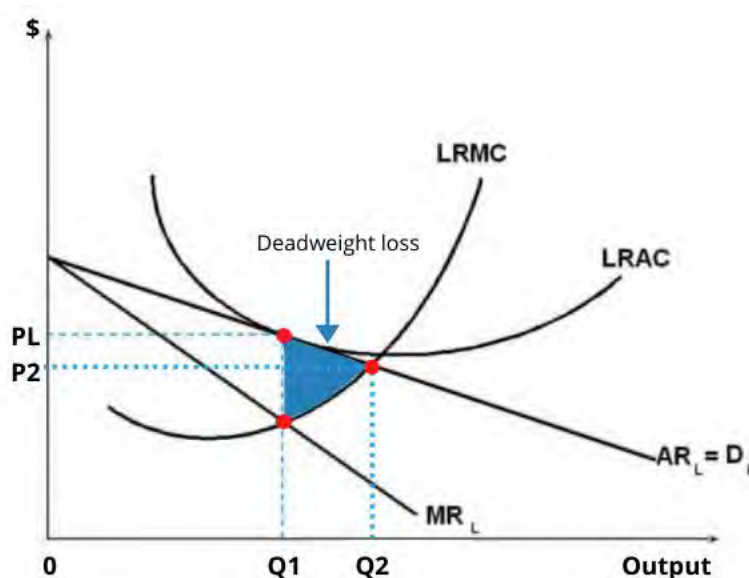
Economic welfare at a macro level may be boosted by the success of the sector – 43 000 businesses, £7.5bn revenue, 45% expansion of the sector suggesting that the markets are responding to consumer tastes.

Small businesses with low turnover suggests that wages may be low, damaging welfare in terms of living standards.

Innovation via the use of online ordering firms, creating greater convenience for consumers

AO3

Monopolistic competition will arguably lead to a decline in economic welfare because it is allocatively inefficient ($P > MC$) – firms do not need to respond completely to the needs of consumers as a result of imperfect information and price setting power/ There is thus a deadweight welfare loss.



Firms also waste resources because of productive inefficiency (it doesn't minimise AC because there is excess capacity – too many firms/lack of pure price competition means that costs don't have to be minimised).

The large numbers of firms in this market can lead to consumer irrationality (bounded rationality).

There is also extensive advertising which could be seen as wasteful and misleading to consumers.

AO4

Entry barriers are very low providing a competitive environment. New entrants provide a positive product variety externality for consumers/easy for new firms to enter offering new and different products.

Economic welfare can be taken at a wider level, with macroeconomic benefits for the economy via jobs and tax revenue.

Product differentiation means that consumer needs may be better met than in perfect competition, increasing welfare.

High levels of competition are likely to lead to strong consumer focus, with businesses looking to gain market share via non-price competition, increasing consumer welfare.

Firms in monopolistic competition only make normal profit in the long run thus consumers are not victims of profiteering.

Likewise, in the case of the businesses illustrated in the case, they might not all be profit maximisers, instead pursuing social or community objectives

Excess capacity is not necessarily a welfare issue.

Trying to regulate monopolistic competition is administratively complex and impractical especially over pricing, although in principle regulation can occur at the sectoral level, as suggested by the case.

AO Grid

	AO1	AO2	AO3	AO4	Total	Num
1a	1	2	2		5	2
1b		2	3		5	2
1c		3	3	4	10	2
1d		3	3	4	10	2
1e		3	3	4	10	2
2a	2	3			5	
2b	1	3	3		7	4
2c	3	2	2	3	10	3
2d	2		2	3	7	
2e	2	2	3	4	11	
	11 (11-16)	23 (22-26)	24 (19-24)	22 (19-24)	80	17