



Mark Scheme (Results)

October 2020

Pearson Edexcel GCE A Level

In Economics A (9EC0)

Paper 1: Markets and Business Behaviour

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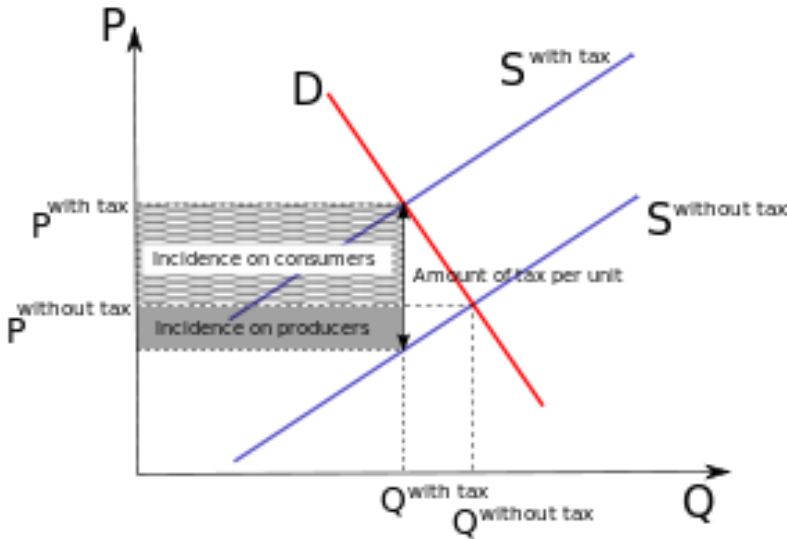
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General Marking Guidance

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

Question Number	Answer	Mark
1(a)	Knowledge 2, Application 2 Knowledge - Correct drawing of a demand and supply diagram annotated to show a parallel left (1) shift in the supply curve (1) Application - consumer tax incidence shown (1) - producer tax incidence shown (1)  NB: Award application mark for correctly identifying on diagram amount of tax per litre is set at 58 pence per litre. PED does not have to be price inelastic.	(4)

Question Number	Answer	Mark
1(b)	Analysis 1 The only correct answer is A <i>B is not correct because both consumer surplus and producer surplus decrease</i> <i>C is not correct because producer surplus decreases</i> <i>D is not correct because consumer surplus decreases</i>	(1)

Question Number	Answer	Mark
2(a)	Knowledge 2, Application 2 1 mark for the original market equilibrium where $MPB = MSC$ (=MPC) 1 mark for correct shift from MPB to MSB 1 mark for showing the external benefit V to T 1 mark for welfare gain identified VRT 1 mark for the new equilibrium identified where MSB equals MSC (R) or (S) or Q2 Social Optimum. Diagram required e.g. ME SO	(4)

Question Number	Answer	Mark
2 (b)	Analysis 1 The only correct answer is C <i>A is not correct because an external benefit to a third party is not identified</i> <i>B is not correct because an external cost to a third party is not identified</i> <i>D is not correct because a private cost plus external cost to a third party is not identified</i>	(1)

Question Number	Answer	Mark
3 (a)	Knowledge 2, Application 1, Analysis 1 Knowledge and Application 1 mark for understanding of pollution permits (1) 1 mark for appropriate linkage to industry/market/firms (1) 1 mark for how reducing permits reduce pollution (1) Award use of diagrams, for example: shifts the supply of permits inwards (1) which will push up the price per permit (1) OR Negative externality reduced Analysis: 1 mark for linked development of market incentives/government revenue e.g. Reducing pollution/Increase in price of permits (1).	(4)

Question Number	Answer	Mark
3 (b)	Analysis 1 The only correct answer is B <i>A is not correct because regulation may cause the distortion of price signals as a problem</i> <i>C is not correct because regulation may result in the problem of information gaps</i> <i>D is not correct as regulation may result in the problem of excessive administrative costs</i>	(1)

Question Number	Answer	Mark
4 (a)	Knowledge 1, Analysis 1 Knowledge / understanding and Analysis e.g : • Total cost rises (1) at an increasing rate (1) • Total costs continue to rise (1) but more steeply (1) • $MC > AC$, therefore AC rises (1) • $MC > AC$ (1) therefore TC increases at a faster rate (1) candidates may draw the TC curve to show it rising more rapidly NB : responses may be shown on the diagram beyond point Z.	(2)

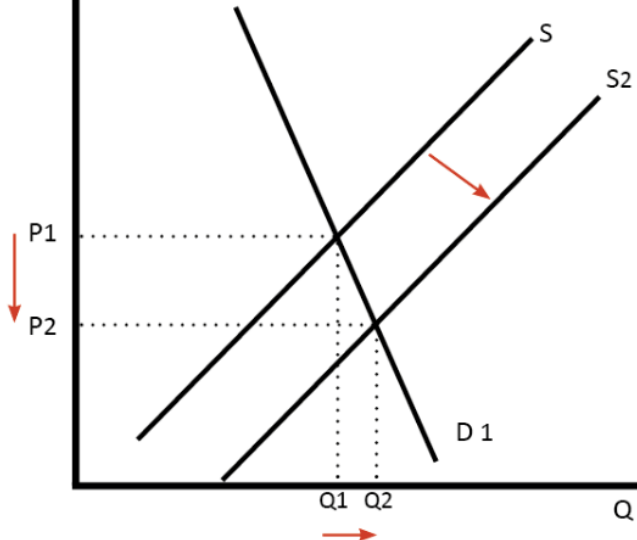
Question Number	Answer	Mark
4 (b)	Application 1 The only correct answer is B <i>A is not correct because AVC does not fall</i> <i>C is not correct because AFC falls as fixed costs are spread out over a larger output</i> <i>D is not correct because AFC falls as fixed costs are spread out over a larger output</i>	(1)

Question Number	Answer	Mark
4 (c)	Application 2 Application: (up to 2 marks) Calculate total cost: Average variable cost = $2 \times 0.4 = 0.8$ (1) Total variable cost = $0.8 \times 400 = \text{£}320$ (1) $\text{£}320 + \text{£}300$ (1) Award 2 marks for correct answer = £620 (accept 620) Award maximum 1 mark for partially correct answer	(2)

Question Number	Answer	Mark
5 (a)	Knowledge 1, Analysis 1 Knowledge and Analysis : 1 mark for likely reason for staying small e.g. • Owners wish to maintain control (1) • Avoiding diseconomies of scale (1) • Bettys offers a more personal service (1) • Bettys act as a regional monopoly in Yorkshire (1) • Lack of finance for expansion (1) 1 mark for linked development e.g. • 2 million customers allows them to profit satisfice (1) • Managerial diseconomies may settle in with many tea rooms (1) • As a regional monopoly they can charge higher prices (1) • Cost of opening an additional café (1)	(2)

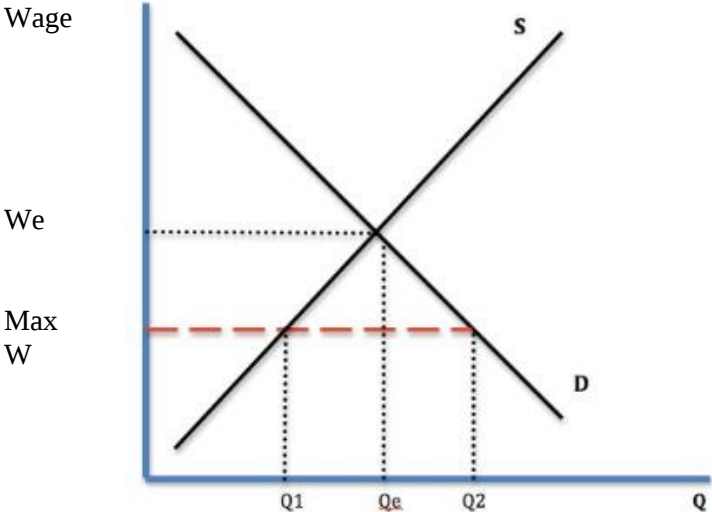
Question Number	Answer	Mark
5 (b)	Knowledge 2 Knowledge: (1+1) marks for likely reason growth can be described as organic e.g. • Growth is internal (1) opening new tea rooms (1) • There is no evidence that growth is external (1) through integration, merger or takeover (1) • Reinvesting profits from 2 million customers (1) to open new café (1) • Borrowing from banks (1) rather than finance from a takeover (1) • The business has grown naturally (1) without the need to takeover or merge (1)	(2)

Question Number	Answer	Mark
5 (c)	Application 1 The only correct answer is B <i>A is not correct because external economies occur outside a firm but within an industry</i> <i>C is not correct because this is associated with a conglomerate merger whereas this is a vertical backwards merger</i> <i>D is not correct because it could result in greater monopoly power</i>	(1)

Question Number	Answer	Mark
6(a)	Knowledge 1, Application 1, Analysis 3 Knowledge and Analysis: (up to 4 marks) Correctly labelled diagram annotated to show a shift right in the supply curve (2) e.g. rise in subsidy  NB: also accept a double shift right indicating an increase in subsidy. NB: also accept a rise in price, given prices annually linked to RPI, but less than it would have been. NB: 2 KAA marks are reserved for an accurate diagram Explanation that subsidy increase is a rise in financial assistance OR cut in cost of production OR additional cash grant (2) Explanation that decreasing costs borne by producers is passed on to consumers as a fall in rail fares OR excess supply results in fall in rail fares (2) Application: 1 for reference to Figure 1 e.g. subsidy rises around £11 million (1) subsidy rises from £277 million to £287.9 million (1) subsidy increased by 3.9% (1)	(5)

Question Number	Answer	Mark
6(b)	Knowledge 2, Analysis 2, Application 2, Evaluation 2 Knowledge/understanding: 2 marks for identification of two non price determinants (1+1) e.g. • Change in taste and preference/quality of service • Changes in income • Price of substitute has risen/substitute less attractive • Price of complement has fallen/complement more attractive • Increased population/migration • Lower price in real terms • Lower prices – special offers/off-peak/forward booking. Analysis: 1 mark for linked explanation of each identified determinant to demand increasing/shifting right (this may be shown on a diagram) (1+1) Increase in population moved to commuter areas/improvement in rail stock e.g. wifi access. Income elasticity of demand Close substitute e.g. car travel, XED >+1 Close complement e.g. on-board meal, XED >-1 Application: 2 marks for reference to Figure 2 (1+1) or other data (1), e.g. • Approximately 50 billion rail passenger kilometres per year (1) to 65 billion (1) or increased by 15 billion rail passenger kilometres per year (2) or Increased by 30% (2)	

	• Economic recovery post 2008 crisis (1) • Cost of car travel/road congestion (1) • Quality of train meals/on board Wi-Fi access (1) Evaluation: 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one evaluative comment, evaluating significance of factors or another reason as a counter-argument e.g. • Delays and cancellations (1) • Recession 2008- 2010 (1) • Car travel still cheaper/train delays and cancellations (1) • Rail meals expensive/congested trains so can't work on board (1) • Increased home working • Rail fares have risen (1)	(8)
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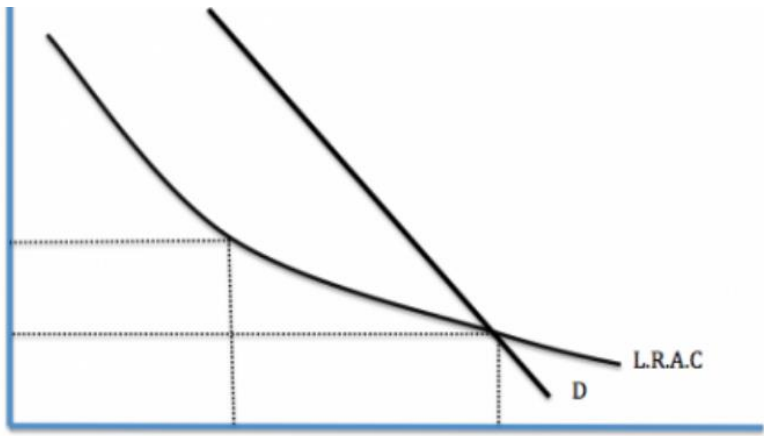
Question Number	Indicative content	Mark
6(c)	Knowledge 2, Application 2, Analysis 2 Positive effect on protection of employees: • Safety of employees maybe better protected • Trade unions will succeed in securing higher wages in negotiations with government rather than private firms. Rail employees become subject to public sector wage setting. Extension in supply of labour. • Greater job security • Improved integration between state owned rail network and rail operators resulting in rail expansion. • Reduced inequality in pay between employees. • Private sector firms may cut less profitable route whereas government will continue these routes protecting employees Negative effect on protection of employees: • 'Maximum wage on executive managers pay' may be implemented – causing shortages with specialist managers • Nationalisation may not 'provide a wider choice'/quality resulting in lower levels of employment • Lack of funds for investment from the government may reduce the long-term attractiveness of railways causing service to be cut in future NB: Allow relevant diagram e.g. 	

	NB: Negative effects can be seen as KAA and positive effects as evaluation or vice versa. NB: for a Level 3 response there must be reference to the context of nationalisation of the rail industry. NB: for a Level 3 response there must be reference to the effect on employees.	(6)
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Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3-4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5-6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(c) continued	Evaluation 4 • Limited effect since many train operators such as East Coast now in the public sector • Rail usage which increased under privatisation may decline causing suppliers profits and employees wages to decline • Public or private sector ownership may make no difference to executive managers pay • Wages may not increase faster under state ownership compared to private sector. • Level of personnel could be cut substantially under nationalisation if the government has to make spending cuts. • Wages may not increase faster under state ownership compared to private sector. NB: Negative effects can be seen as KAA and positive effects as evaluation or vice versa. NB: for a Level 2 response there must be reference to employees in context.	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(d)	Knowledge 2, Application 2, Analysis 4 Case for rail network being a natural monopoly • Define natural monopoly • Application – rail network was renationalised in 2001 after privatisation in 1993 promised competition. Need for integrated national rail network of 32 000km for 2 500 stations, requires enormous investment. • Large infrastructure cost means adding one more passenger or one more train means AC continues to fall. • Little additional costs associated with an additional customer or train running. • Operating one rail track minimises average costs, rail network's LRAC continues to fall as high fixed costs associated with laying track and building new stations. • Allocative efficiency is met at close to large share of market demand. Minimum efficiency scale will require large subsidies to fund off peak services and cover losses. • Average cost would be very high for having two or more rail companies with wasteful duplication of multiple tracks – resulting in higher rail fares. • Allow relevant diagram e.g. AC  Output	

	Only one rail network company can fully exploit large internal economies of scale – technical, commercial, managerial. NB: Case for can be seen as KAA and positive case against as evaluation or vice versa.	(8)
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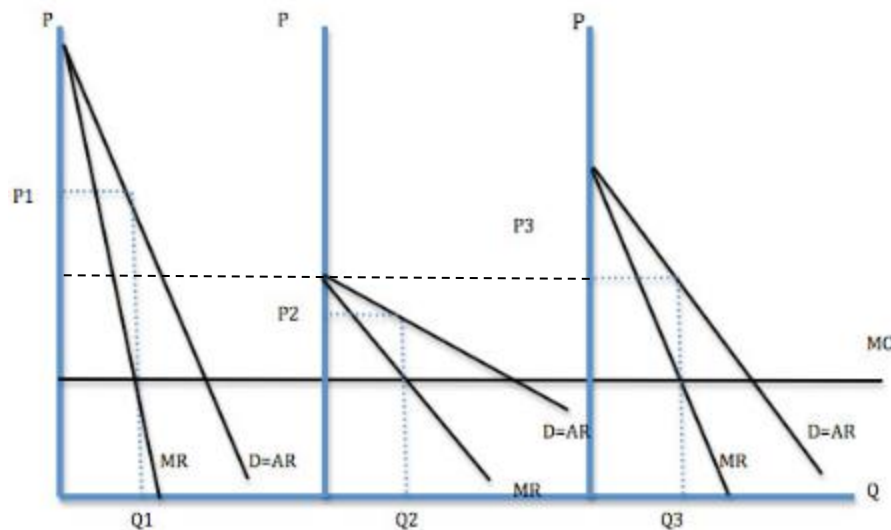
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3-5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6-8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(d) continued	Evaluation 4 Case for rail network not being a natural monopoly • Government support for competition: “companies can bid to build new rail lines to upgrade the railway.” • Train operating companies already compete to run trains on lines • Rail lines and stations could be leased out to competing firms • Potential diseconomies of scale in rail infrastructure – managerial slack, closure of rail lines. • Technological advances may result in competing rail lines. NB: Case for can be seen as KAA and positive case against as evaluation or vice versa.	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Price discrimination – charging different prices to different groups of consumers for the same service e.g. 16-25 railcard users vs adult fare users. Allow peak and off-peak as service from A to B is the same, price discrimination just provides an incentive to travel slightly later. • Lower rail fares for 16-25 year olds Young persons' may increase their consumer surplus as a result – prices may move towards being more allocatively efficient $P=MC$. May find bargain fares - £35.80 cheaper as in Figure 3. Allows lower income groups to consume service – seek employment. • More choice for rail travellers: Price discrimination enables TOCs to make more revenue so they can cross subsidise and provide discount fares for seats that would not have been taken. In some cases without price discrimination rail operators may go out of business – preventing rail travel. • Avoids overcrowding Rail operators can use price discrimination to manage demand, preventing overcrowded train in peak travel times and encouraging rail travel by 16-25 year olds in less popular times off peak. • Improved customer service Rail travellers receive a better-quality travelling experience thanks to additional revenue raised through price discrimination. Investment in new trains, station services, online ticketing, customer information, Improved food and drink service, Wi-Fi access, seating and storage space.	

- **Price discrimination diagram** showing, for example:
Market profit maximising price and output P3 and Q3. At which no service would be provided for 16-25 year old customers. Price discrimination enables a lower price of P2 (£69.50) for young persons' – so consumer surplus increases for consumers with relatively more price elastic demand



NB: Other correct diagrams accepted.

NB: For Level 3 a valid diagram such as above is required. Analysis must link to benefits to consumers. Allow other types of rail fare price discrimination e.g advance booking, Senior Railcard, 16-17 year olds half price travel.

(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4-6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7-9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 • Rail operators are price regulated so not pure price makers • Cuts in number of guards may mean adults travel illegally. • Higher rail fares for adults £105.30 in Figure 3 (£35.80 more than 16-25 year olds) resulting in fall in consumer surplus and less allocatively efficient pricing. Overall consumer surplus may be lower. • Despite price discrimination consumers are suffering train cancellations and government is having to rescue rail operators making large losses. • Overcrowding happens on off peak trains – so government/rail operators have no incentive to continue offering young persons' discount. • Deteriorating customer service despite price discrimination. Rail operators using additional revenue to pay out dividends or executive pay rises. • Are rail operators/government aware of PEDs for different groups of consumers.	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5-6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
7	Knowledge 4, Application 4, Analysis 8, Evaluation 9 • Definition of microeconomic consequences • Identification of positive XED Positive consequences • Consequences for microeconomic agents of increased demand for electricity – consumers, electric vehicle manufacturers, electric vehicle dealers, battery manufacturers, freight companies, retailers, government, employees. • Use of cost and revenue diagram for to show the effect on profit of falling cost of electric powered vehicles/rising revenue. • Welfare effects on consumer and producer surplus of consumers switching to electric powered vehicles. • Efficiency – allocative, productive, dynamic • Positive external benefits • Reduced negative external costs ($MSC > MPC$) closer to social optimum Negative consequences • Use of cost and revenue diagram to show the effect on profit of rising cost of petrol or diesel/declining revenue ($D = AR$). • Welfare effects on consumer and producer surplus of consumers switching away from diesel or petrol. • Efficiency – x-inefficiency • Loss of government revenue as a large proportion of petrol or diesel price is tax • Negative external costs associated with e car manufacturing NB: Negative consequences can be seen as KAA and positive consequences against as evaluation or vice versa.	

	Evaluation • Predictions may be wrong – dynamic market forces between substitutes may result in cheaper sources of oil, electric power becoming more expensive. Lack of electric infrastructure. Distant substitutes, $XED < +1$. • Counterarguments made to the point raised e.g. Supernormal profits made may raise barriers to entry, firms may pursue sales maximisation rather than profit maximisation, congestion. • Information gaps • Different geographic markets – regulations and taxes on oil powered vehicles • Impact on the oil market will depend on how electricity is generated • Negative external costs partly offset by increased demand for electricity NB: Negative consequences can be seen as KAA and positive consequences against as evaluation or vice versa.	(25)
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	0	A completely inaccurate response.
Level 1	1-4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5-8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9-12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13-16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4-6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7-9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
8	Knowledge 4, Application 4, Analysis 8, Evaluation 9 • Definition of monopsony – single dominant buyer or bargaining power in their market • Identification of monopsony abuse • Explain the reason why suppliers will receive a lower price and/or lower sales • Cost to supplier – lower price, less revenue, less abnormal profit, reaching shut down point, less producer surplus, less finance for investment, 'delaying their delivery, raising their prices, and steering customers to other publishers' in the case of book publishers facing Amazon. • Cost to consumers – less choice, monopsony power may result in monopoly power so consumers do not benefit from lower prices passed on. • Cost to employees at supplier firms - wage cuts, job losses. NB: for a Level 4 response, candidates must refer to a specific MARKET in their answer. Evaluation • Difficult to assess the strength of monopsony power – buyers may make strategic partnerships with suppliers/other dominant buyers may exist or emerge/suppliers may work to establish their own monopoly power/bi-lateral negotiations. • Counterarguments made to the points raised • Lower prices for consumers, increased consumer surplus and choice. Monopsony acts as a counter-weight to the selling power of a monopolist. • Suppliers have a major buyer improving revenue, long term investment decisions, profit. • Monopsony firm benefits • Supplier and monopsony firm employees benefit • Government intervention to protect suppliers and employees	

	• Government intervention to promote competition and contestability • Monopsony might be buying books from large publishers so creates a bilateral monopoly.	(25)
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