Pearson
Edexcel

Examiners' Report
June 2018

GCE Economics A 9EC0 01

ResultsPlus

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk.

Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

ResultsPlus

Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit www.edexcel.com/resultsplus.
Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk.

June 2018
Publications Code 9EC0_01_1806_ER

All the material in this publication is copyright
© Pearson Education Ltd 2018

Introduction

This was an accessible paper, broad ranging and specification based, with a high degree of differentiation.

The exam paper followed all the command words and structure as set out in the Sample Assessment Materials (SAM) and 2017 paper, and the questions covered a broad range of micro issues. The exam appeared to be fully accessible, well received, and an effective discriminator. Many candidates had been prepared for Paper 9EC0_01 by making effective use of the SAM Paper and 2017 paper, with many candidates meeting the demands of the command words in the questions – especially when it came to the need to evaluate.

Section A highlights the need for candidates to be confident in their use of quantitative skills. On question 1 many candidates didn't seem to be able to calculate both opportunity costs, sometimes correctly identifying one but not the other. Little numerical use was used in 1(c) or 2(b) and whilst there are always other ways to obtain marks – the use of quantitative skills would have provided a quick and effective method. There were also computational errors in 2(a), 3(a), 4(a) and 5(c).

Section B responses seemed to be displaying more evidence of the need to go beyond a simple response, although candidates may need to pause to ensure their chain of reasoning is going to be along the right lines. It is important that candidates read the question carefully and ensure they are answering the precise question set. The risk of rote learning was apparent in the data questions 6(b), 6(c), 6(d) and 6(e). Candidates need to pause and carefully use theory and analysis to the real world question facing them in the exam; this should drive their responses rather than an attempt to just convey what has been learned.

Many candidates were able to provide substantial theoretical depth in the essays to access Level 3 responses and provided substantial balance for evaluation to secure at least Level 2 evaluation. A few candidates may have had time issues when it came to incomplete essays and rushed responses where bad handwriting made it difficult for examiners to find evidence of a clear chain of reasoning. A common issue was the need to provide more context; especially with regards to the more popular question 8. In levels-based questions, examiners are looking for context to enhance the answer and move it into the higher KAA levels.

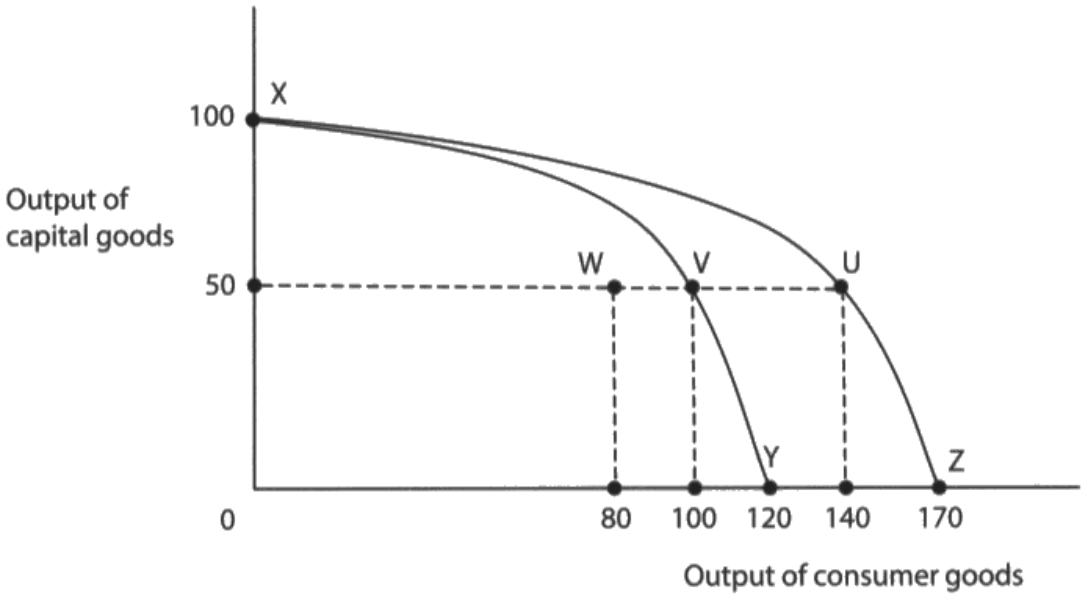
Overall, the diagrams provided by candidates within this paper demonstrated that they were much better prepared; there was use of data when providing answers and increased evaluation was apparent.

Question 1 (a)

In this question the focus is on having the ability to apply the concept of opportunity cost to the PPF curves as shown. There are 2 marks for application. The main issue that candidates faced here was failing to correctly read the information as presented; with some candidates identifying the original opportunity cost as 70 or not displaying a clear understanding of opportunity cost and therefore the ability to apply. This often meant that candidates were unable to achieve full marks, since it often led on to incorrect application.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The diagram refers to production possibility frontiers for a country that produces capital goods and consumer goods.



Originally, the economy has a production possibility frontier shown by the line **XY**, operating at point **V**. The production possibility frontier then moves to **XZ**, operating at point **U**.

(a) Calculate the **original** and the **new** opportunity cost of producing 50 capital goods. You are advised to show your working.

(2)

Original opportunity cost is 20 consumer goods

The new opportunity cost is 30 consumer goods.

ResultsPlus
Examiner Comments

This answer scores the full 2 marks. The candidate has identified correctly the original and new opportunity cost.

ResultsPlus
Examiner Tip

Be clear and concise in these short questions.

(a) Calculate the **original** and the **new** opportunity cost of producing 50 capital goods. You are advised to show your working.

(2)

Original = 120 - 100 = 20 (old opportunity cost

New = 170 - 140 = 70 (new opportunity cost)

ResultsPlus
Examiner Comments

This candidate correctly identifies 20 as the original opportunity cost to obtain one mark and provides their working as per the mark scheme. They then correctly identify that the calculation of new opportunity cost of 50 capital goods along XZ is 170-140 but then make the computational error of saying this is equal to 70 rather than 30 consumer goods. As an incorrect answer they receive 0 marks for the new opportunity cost despite having the correct working. Overall they achieve 1+0 = 1 mark.

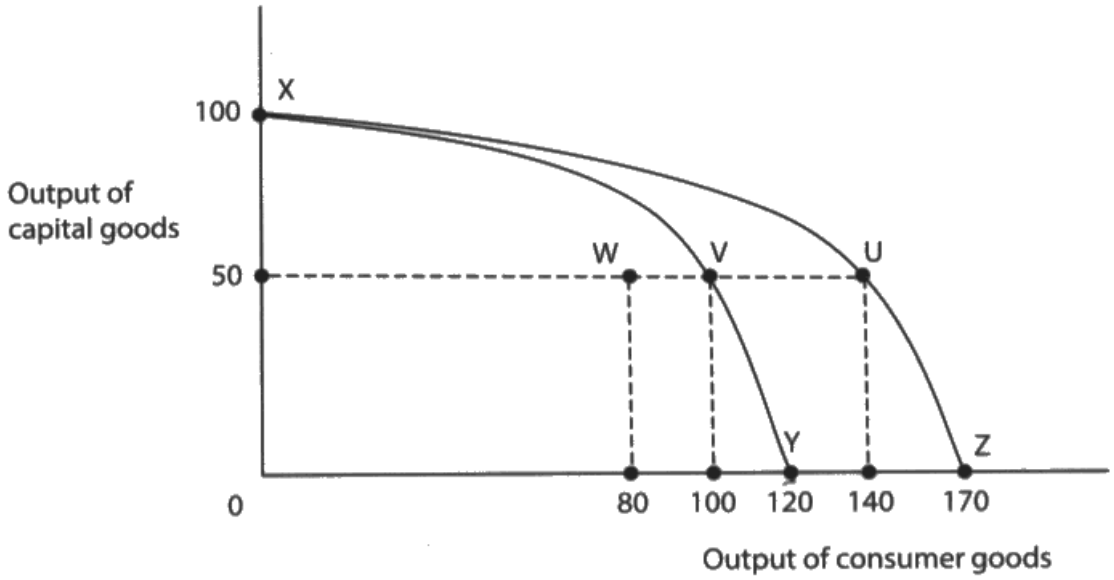
ResultsPlus
Examiner Tip

Always try to ensure you re-read your work – especially if you allow time for this at the end of the exam.

Question 1 (c)

Many candidates clearly identified the unemployment of resources and most gained analysis marks operating inside PPF. Marks were lost where candidates stated unemployed resources and allocative efficiency showing dual knowledge but then no analysis so they could only be awarded a single mark.

1 The diagram refers to production possibility frontiers for a country that produces capital goods and consumer goods.



(c) Explain **one** characteristic of the economy at position **W**.

(2)

At position W it is inefficient, as it is not using all available resources.

ResultsPlus
Examiner Comments

This answer achieves a mark of 1/2.

The response does not move beyond showing an understanding of an inefficient allocation of resources.

ResultsPlus
Examiner Tip

For a 2 mark explain answer it is always advisable to provide some linked development or an example. In this case the diagram provided the opportunity to use quantitative skills by identifying that the economy could produce at either 100 or 140 consumer goods but is currently producing 80.

(c) Explain **one** characteristic of the economy at position **W**.

(2)

Resources are under employed. Output can be increased for both consumer and capital goods with no opportunity cost. This is because W operates within the PPF.

ResultsPlus
Examiner Comments

This answer achieves a mark of 2/2.

Full marks for correctly explaining position W and analysing with use of the diagram whereby it is possible to increase output of both consumer and capital goods. The candidate displays a concise grasp of the economic concepts covered.

ResultsPlus
Examiner Tip

Ensure you have a clear understanding of all the economic concepts in the specification.

Question 2 (a)

This was a straightforward question with most candidates completing the calculation accurately however a few omitted the "million". There are 2 marks available for application, with 2 marks awarded for the correct answer or 1 mark for the correct calculation without stating the correct answer. If candidates failed to score full marks on this question it was generally either because they had misread the data or they made a computational error.

2 The number of individual weekly ticket sales from UK National Lottery games operated by Camelot was 73 million in the financial year 2015–2016.

The sale price of each lottery ticket was £2. This figure included 24 pence of tax revenue on each ticket sold.

(a) Calculate the weekly revenue received by Camelot after paying the tax to the government. You are advised to show your working.

(2)

Total revenue = Q x P

= 73m x 2

= £146 million

Tax revenue = Q x T

= 73m x 0.24

= £17.52 million

∴ Net revenue = Total - tax

= 146 - 17.52

= £128.48 million

ResultsPlus
Examiner Comments

This answer achieves a mark of 2/2. This candidate achieves full marks for providing the correct answer, being £128.48 million. They have carefully shown their working – so in the absence of the correct answer due to a computational error they would have secured 1 mark for £146million or £17.52 million.

ResultsPlus
Examiner Tip

Always ensure you state the correct unit of measurement.

2 The number of individual weekly ticket sales from UK National Lottery games operated by Camelot was 73 million in the financial year 2015–2016.

The sale price of each lottery ticket was £2. This figure included 24 pence of tax revenue on each ticket sold.

(a) Calculate the weekly revenue received by Camelot after paying the tax to the government. You are advised to show your working.

(2)

£2 - 24p = £1.76

£1.76 x 73m = £11.68 million

ResultsPlus
Examiner Comments

This answer achieved 1 out of 2 marks for £1.76 x 73m as per the mark scheme.

ResultsPlus
Examiner Tip

It is advisable to show your working – as you may obtain a mark for working towards the correct answer.

Question 2 (b)

In this question the marks were split as 1 mark for knowledge of cross elasticity of demand and 1 mark for explaining what 1.28 meant. Many candidates achieved the full 2 marks here. The main problem that let candidates down was not providing clear analysis about 1.28 indicating they were close substitutes or analysing that this meant an increase by 128%.

Research conducted for HMRC estimated the cross elasticity of demand for using gaming machines to be 1.28 in response to changes in the price of national lottery tickets.

(Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322845/report313.pdf)

In October 2013 Camelot increased the price of a national lottery ticket from £1 to £2.

(b) Explain the likely impact of the price increase of national lottery tickets on the demand for using gaming machines.

(2)

One likely impact of the price increase from £1 to £2 per week on the demand for using gaming machines is: an increase in demand. Due to the rise in price of Lottery tickets more people spent their money at gaming machines, there was an increase in demand. This is down to the 100% rise in price for the lottery tickets. It resulted in a 128% rise in demand for gaming machines.

ResultsPlus
Examiner Comments

This answer scores the full 2 marks for stating that: 'It resulted in a 128% rise in demand for gaming machines'.

They have carefully explained their reasoning for this up to the final sentence but would have saved time by stating alone the final sentence.

ResultsPlus
Examiner Tip

Ensure you know key formulas like cross elasticity of demand to enable you to provide concise answers.

Research conducted for HMRC estimated the cross elasticity of demand for using gaming machines to be 1.28 in response to changes in the price of national lottery tickets.

(Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322845/report313.pdf)

In October 2013 Camelot increased the price of a national lottery ticket from £1 to £2.

(b) Explain the likely impact of the price increase of national lottery tickets on the demand for using gaming machines.

(2)

~~The good~~ They have a positive cross elasticity so therefore as the price of national lottery tickets rise the demand for gaming machines will also rise.

ResultsPlus
Examiner Comments

This answer scores 1/2 marks as unfortunately they do not move beyond their basic knowledge of cross elasticity of demand to analyse the implications of an XED of 1.28.

Question 3 (a)

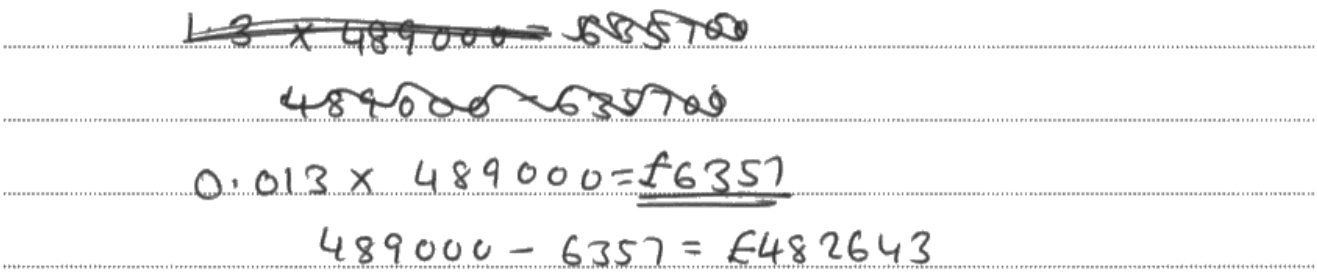
Most candidates found this to be a straightforward question, gaining 2 marks for giving the correct answer of £6357 or rounded up to £6360. There are 2 marks available for application, 2 marks for the correct answer or 1 mark for providing the correct working but not the correct answer.

3 The average fee charged by high-street estate agents to homeowners for selling property is 1.3% of the final sale price.

(Source: http://www.which.co.uk/money/mortgages-and-property/home-movers/guides/selling-a-house/estate-agent-fees-and-contracts)

(a) Assume the selling fee is 1.3%. Calculate the payment received by an estate agent on a property sold for £489 000. You are advised to show your working.

(2)



ResultsPlus
Examiner Comments

This answer scores the full 2 marks. The candidate makes clear their final answer by double underlining £6357. In the absence of this correct answer they would have obtained 1 mark for 0.013 x 489 000.

ResultsPlus
Examiner Tip

Ensure you make clear your final answer on quantitative skill questions.

3 The average fee charged by high-street estate agents to homeowners for selling property is 1.3% of the final sale price.

(Source: http://www.which.co.uk/money/mortgages-and-property/home-movers/guides/selling-a-house/estate-agent-fees-and-contracts)

(a) Assume the selling fee is 1.3%. Calculate the payment received by an estate agent on a property sold for £489 000. You are advised to show your working.

(2)

1.3% of 489000

Payment received = 489000 × 0.0013

= £635.70

ResultsPlus
Examiner Comments

This answer scores zero as unfortunately the candidate doesn't have the correct percentages – in this case what 1.3% means numerically.

ResultsPlus
Examiner Tip

Candidates need to develop their competence in the quantitative skills as listed in the specification.

Question 3 (c)

Most candidates found this to be a straightforward question. There are 2 marks available – 1 mark for the reason and 1 mark for an explanation of that reason. If candidates failed to score full marks on this question it was generally either because they failed to provide an economic reason or they failed to explain their reason for the second mark.

(c) Explain **one** likely reason for the difference in average house prices between London and the North East of England.

(2)

Demand for houses.

Demand is higher in london, meaning prices are much higher.

ResultsPlus
Examiner Comments

This answer scores 1/2 marks. The candidate identifies a difference in demand although this would have been better in relation to supply or identifying a clear reason. There is no linked development.

ResultsPlus
Examiner Tip

For a 2 mark explain response it is essential to provide some linked development, ideally in context.

(c) Explain **one** likely reason for the difference in average house prices between London and the North East of England.

(2)

The demand for London housing is much greater for demand in the north, therefore to reach equilibrium price and avoid excess demand, prices rise. The demand for housing in London is so great because its the economic hub and the capital of the UK, it has the greatest amount of jobs located here.

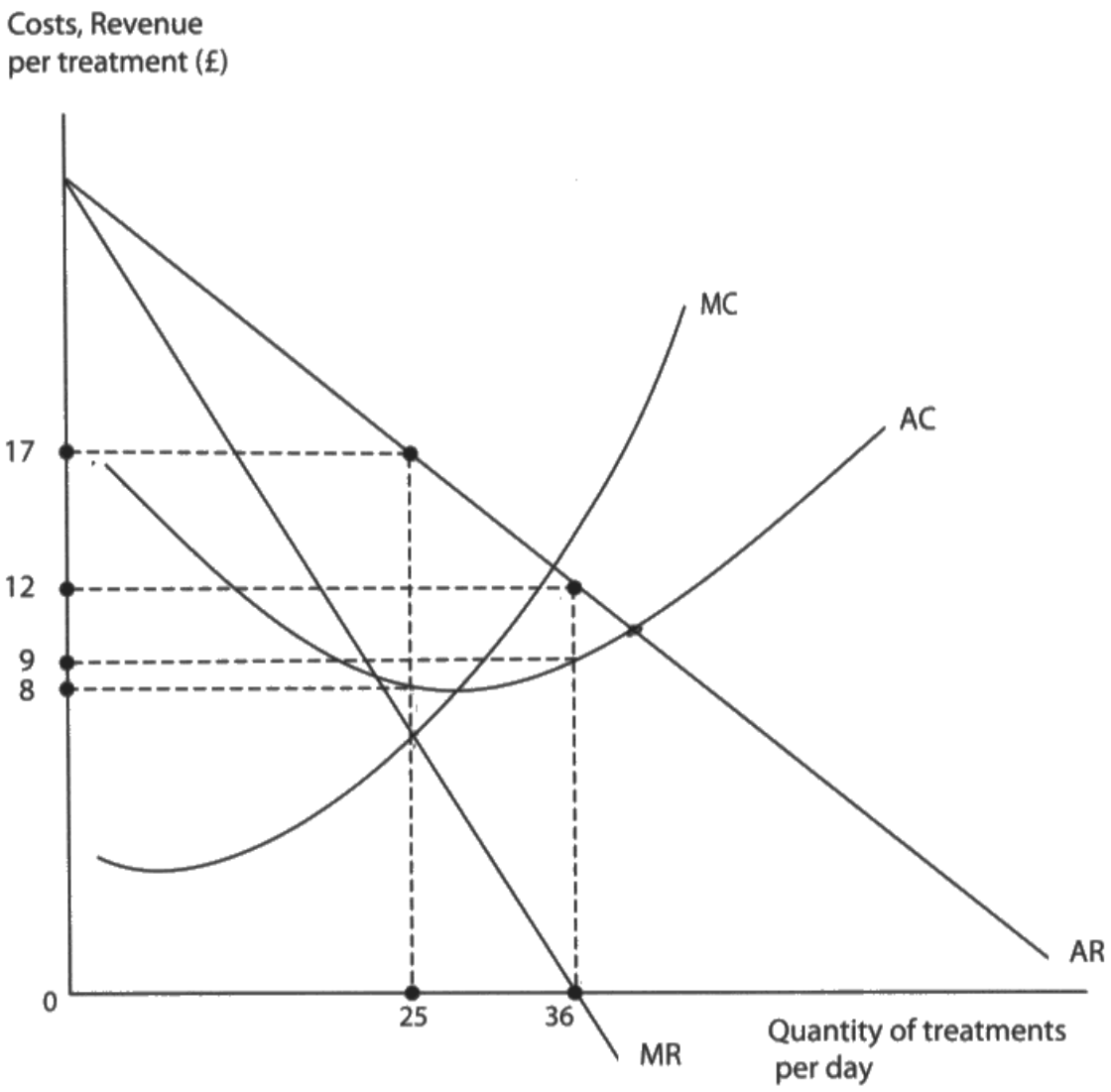
ResultsPlus
Examiner Comments

This answer scores the full 2 marks by providing clear linked development.

Question 4 (a)

In this question, candidates needed to make sure they could identify supernormal profit at a profit maximisation and revenue maximisation level of output. They then need to calculate accurately the supernormal profits and subtract to achieve a change of £117. The majority of candidates did identify the profit maximisation and revenue maximisation level of output but some had difficulties with knowing how to calculate the supernormal profits – especially at the revenue maximisation output. Full marks could be achieved for simply stating £117 or -£117.

4 Emily owns and operates a nail ink salon. The diagram shows the cost and revenue curves for treatments at her nail ink salon. Initially, Emily sets her price to maximise profits.



(a) Calculate the **change in total supernormal profit** if Emily changes her objective from profit maximisation to revenue maximisation. You are advised to show your working.

(4)

Profit Max is where MR = MC

Revenue Max is where MR = 0

Profit Max: = (AR - AC) x Q

= (17 - 8) x 25

= £225

Revenue Max: (AR - AC) x Q

= (12 - 9) x 36

= £108

Supernormal profit falls from £25 to £108.

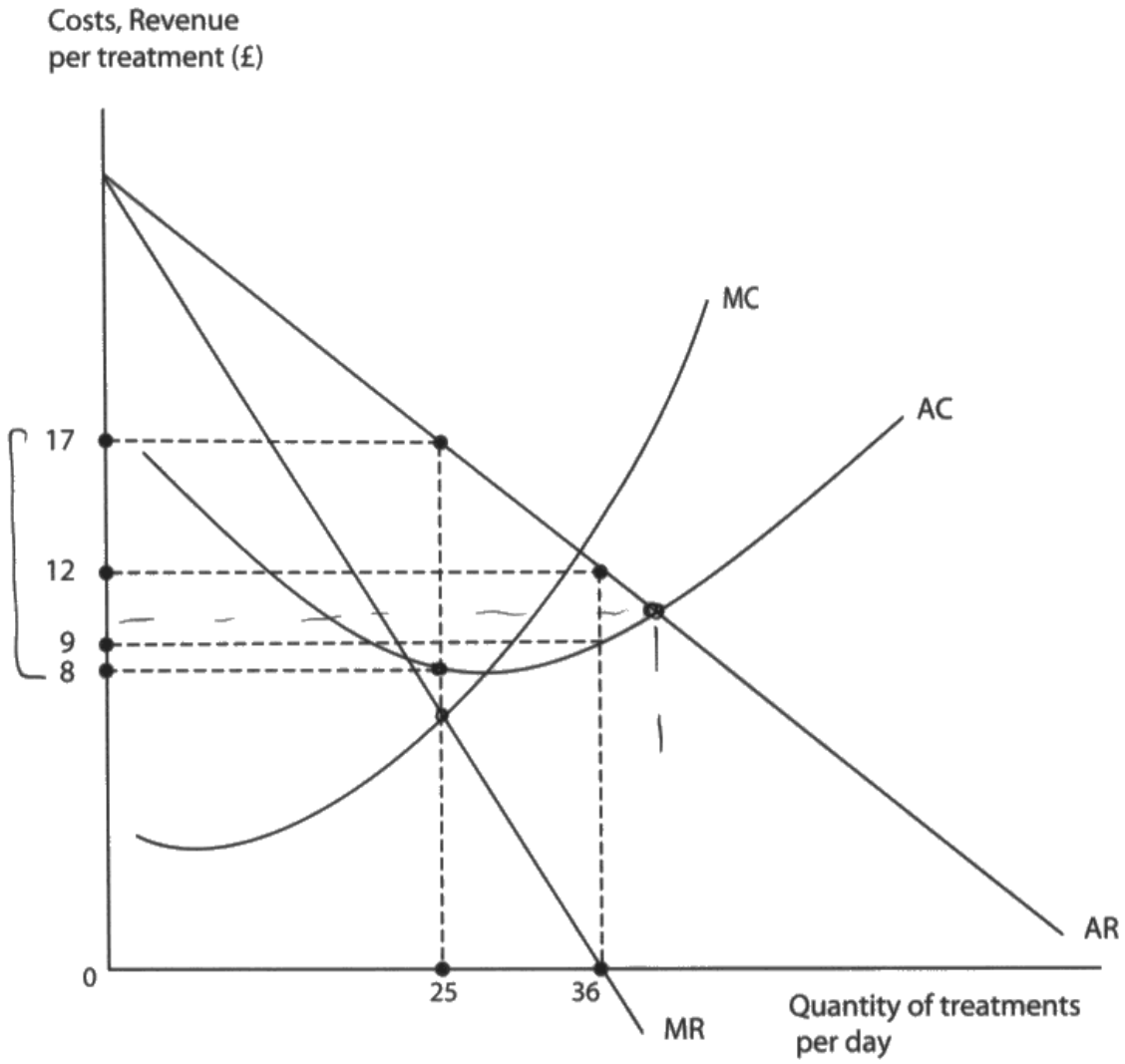
ResultsPlus
Examiner Comments

This answer achieves a mark of 3/4. They provide a model approach when showing their working and do identify accurately the change but do not calculate the change of £117 in total supernormal profit as stated in bold in the question.

ResultsPlus
Examiner Tip

Ensure you provide the final answer to the question set.

4 Emily owns and operates a nail ink salon. The diagram shows the cost and revenue curves for treatments at her nail ink salon. Initially, Emily sets her price to maximise profits.



(a) Calculate the **change in total supernormal profit** if Emily changes her objective from profit maximisation to revenue maximisation. You are advised to show your working.

(4)

Profit maximisation = MR = MC → (17 − 8) × 25 = £225

Revenue maximisation = MR = 0 → (12 − 9) × 36 = £108

new − old / old × 100

225 − 108 / 108 × 100 = 108.3 225 − 108 = £117

Change = − £117

ResultsPlus
Examiner Comments

For stating change = -£117 the candidate obtains full marks.

Question 5 (b)

This was a familiar topic for many candidates and the majority scored 2 marks for a clear explanation of decreasing PC sales. Most candidates achieved full marks but a small number of candidates lost a mark as their answers lacked linked development.

(b) Explain **one** likely reason for the decrease in sales of PCs.

(2)

~~The~~ Technological advance in the ~~smartphone~~ laptop market, which allows them to perform all of the tasks a PC would. Growth in demand for laptops, which perform the same functions as PCs and are trendy.

ResultsPlus
Examiner Comments

This answer achieves a mark of 1/2. This response is missing economic knowledge for the likely reason in the decrease in sales of PCs.

ResultsPlus
Examiner Tip

Ensure you always try to draw on your economic knowledge – especially for contexts candidates can easily relate to.

Question 5 (c)

This was a high scoring question with the vast majority of candidates gaining 2 marks, although a few only scored 1 mark as they had only calculated the total market share of the companies but had not expressed the answer as a percentage.

The following table shows global sales of PCs by company in 2015.

Company	Sales of PCs (million)
Lenovo	57 182
HP	53 534
Dell	39 049
Apple	20 794
Acer Group	19 680
Others	86 461
Total	**276 700**

(Source: IDC, reported in *The Times*, 14th January 2016)

(c) Calculate the five-firm concentration ratio. You are advised to show your working.

(2)

5 firms sales = 190,239 m

$\frac{190,239}{276,700} = 68.75\% \ (\times 100)$

= 68.75% = five-firm concentration ratio

ResultsPlus
Examiner Comments

This answer achieves a mark of 2/2. Full marks for correctly identifying 68.75% for five firm concentration ratios. Without the correct answers being provided only one mark would have been awarded for the formula provided as per the mark scheme.

ResultsPlus
Examiner Tip

Ensure you clearly state your final answer.

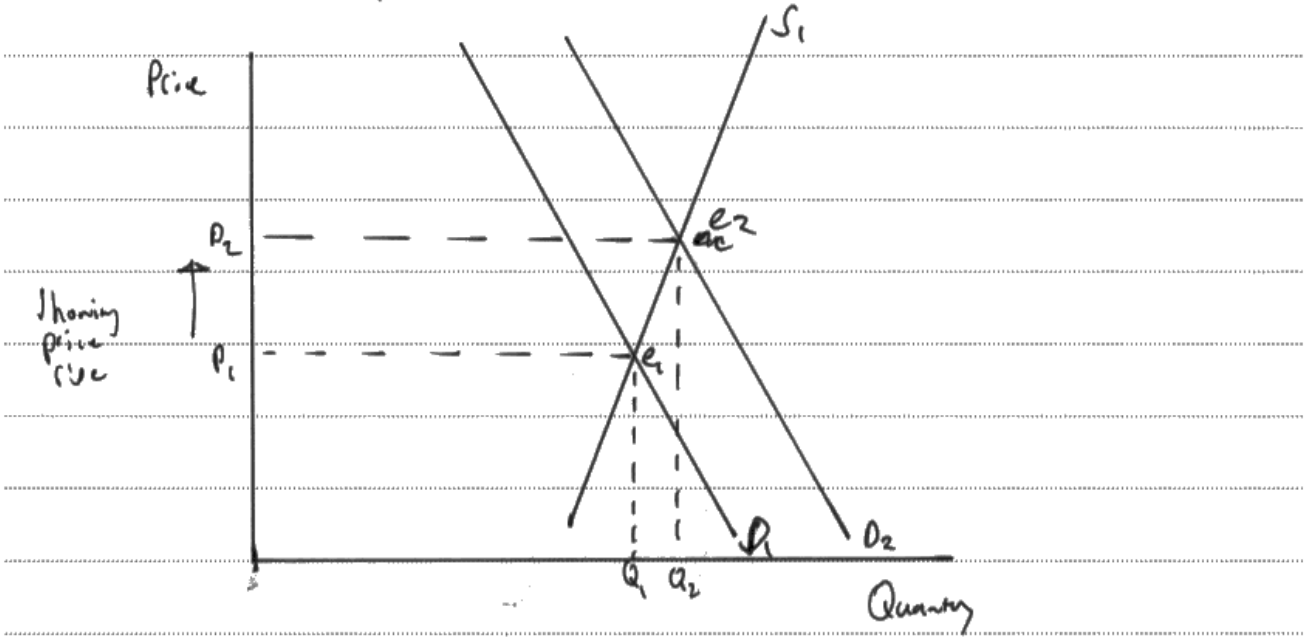
Question 6 (a)

The question required candidates to explain 'one likely reason for the overall trend in the real price of gas and electricity.' Responses tended to draw on Theme 1 supply and demand knowledge with some candidates drawing diagrams – although this was not required. Theme 1 type responses needed to ensure they provided extended analysis of market forces to achieve full marks. Theme 3 type responses tended to be more concise and higher scoring.

(a) With reference to Figure 1, explain **one** likely reason for the overall trend in the real price of gas and electricity.

(5)

Figure 1 shows that real prices of gas and electricity have increased recently, gas has increased nearly 20% from 2010 to 2012. One likely reason is an increase in demand due to a growing UK economy meaning there's a shift in demand, from D_1 to D_2 as shown diagramatically. This causes an extention in supply, results



in a new market equilibrium of e_2 where price has increased from P_1 to P_2

ResultsPlus
Examiner Comments

5 out of 5 marks awarded.

The answer began by providing clear analysis that prices have increased (1 AN) and applied this by saying by nearly 20% (1 APP). The knowledge mark is achieved for identifying an increase in demand (1 K) with further analysis that this is due to the growing economy (1 AN) causing an extension in supply (1 AN) to achieve the new equilibrium price.

ResultsPlus
Examiner Tip

For a 5 mark response the marks for linked development requires candidates to ensure they provide extended analysis as well as application.

Question 6 (b)

For many candidates the interpretation of the question led to lower than expected scores with many offering correct economic theory but failing to apply themselves fully to the demands of the question. The majority of candidates showed a good understanding of the measures and used the data effectively to examine the measures and how effective they would be in increasing competition. Recognition of market structure was widely evident and evaluation shown in the structure used.

Top scoring candidates identified that they needed to discuss the measures in Extract A but others ignored the measures and focused on the impact of increased competition. Candidates who identified the 'database' and/or 'smart meters' were usually able to develop a Level 2 or Level 3 point, most often linking either of these to information asymmetry. The issue of habitual behaviour/inertia was then a widely used evaluation point.

Those who chose to use 'price cap' as a point rarely achieved beyond Level 1 on this, as they did not link the cap to 'open up & increase competition', but instead gave a generic description of a price cap. Second evaluation points tended to be fairly generic with little relevant reasoning appropriate to the context. Nearly all candidates were aware of the need to evaluate.

(b) With reference to Extract A, discuss the likely effectiveness of 'measures to open up and increase competition' in the UK energy market.

(12)

Measures to open up and increase competition in the energy market might have an effect of increasing competition so firms would therefore have to lower prices which would benefit consumers. The CMA has implemented policies such as the creation of database to help customers switch energy suppliers, the effect of this is to hopefully correct the information gap (asymmetrical information) as currently producers / firms of the energy sector may have more information to be able to see how to reduce costs, this may therefore increase competition as if more consumers are aware of what they are paying for they'll switch to ~~or~~ lower energy firms prices will will fore the overall average price to fall as other firms want to still remain 'in no game' as and a result lower prices which might reduce barriers to entry for firms. ~~or~~

However, this may ~~not~~ necessarily increase competition as ~~some~~ although consumers are assumed to be rational and to maximise

utility they may also be incompetent and may not understand what prices will benefit them most which therefore may mean that they do not switch to cheaper firms which may reduce the incentive for the larger firms to cut prices. Another thing that might prevent this is habitual behaviour if a customer / consumer has been with the same firm for many years they may be reluctant to switch as it may be a long process.

Another likely effect will may be effective and therefore increase competition is to have stricter rules to protect vulnerable customers by ~~in~~ using temporary price caps until smart meters have been installed. The use of a temporary price cap ~~will~~ may be effective as consumers cannot be exploited by the energy firms as they will be more aware of the costs this will therefore make it more of an 'even playing field' which may increase competition ~~and~~ as it means under transparency it may also limit the energy market as there are few large

dominant firms this might be an oligopoly which are price setters by introducing a price cap temporarily it may reduce prices and barriers to entry to make the market more competitive to therefore decrease prices.

However, these price caps are temporary and the assumption that it will increase competition may not necessarily work ~~as consumers~~ and these new rules implemented might effect the firms as the CMA investigation found no evidence of anti-competitiveness by firms it might therefore make it worse for the producers ~~as they~~ and ~~not~~ by reducing profits might lead in inefficiencies.

In conclusion, the new rules will most likely protect the consumers as there are more resources for them to be able to make rational decisions, however it may not necessarily reduce it as consumers may not switch to other firms giving the overpriced energy dominant firms incentive to cut prices

ResultsPlus
Examiner Comments

This answer achieves a mark of 11/12.

It achieves Level 3 (7/8) and Level 2 EV (4e/4e).

All reasons are relevant, explained and applied to the context rather than generic. They achieve Level 3+ on KAA in the first paragraph by displaying a clear understanding of how the creation of a database helps consumers to switch and reduces barriers to entry as a result. They then go on to evaluate this measure with relevant reasoning and appropriate references to the context for a Level of 2e+. Price caps is covered here as a temporary measure until smart meters are installed – it links sufficiently towards opening up the market for a low Level 3 – by discussing the market structure. The evaluation of the price caps is worthy of L2e as it recognises different viewpoints and is critical of the evidence. This evaluation is further supported by the conclusion.

ResultsPlus
Examiner Tip

Make sure you answer the question set with well-developed use of economic theory and precise use of data. Similarly, well-balanced evaluation should also be well explained and in context as in this example. The response here also benefits from a clear structure that enables the candidate to access top Level marks.

(b) With reference to Extract A, discuss the likely effectiveness of 'measures to open up and increase competition' in the UK energy market.

(12)

These measures are examples of regulation which are policies introduced by the government and usually imposed on ~~a~~ firms within a market. In this case the purpose is to increase competition in the UK energy market, which is an example of an oligopoly as there are only a few firms with high market share, one way in which ~~the~~ the government could regulate is by giving customers more information about the existence of other energy firms that could be cheaper than their current one. This is achieved by the creation of a database. The benefit is that smaller firms will not have to spend as much money on promotion or advertising in order to get their names out there, since this provision substitutes this. One disadvantage is that economies of scale which the firms in the energy ~~sec~~ sector benefit from may be reduced, this could have an impact on consumers as prices may be higher since costs will not fall as [redacted] much when output rises.

ResultsPlus
Examiner Comments

How a database benefits competition achieves Level 3 but the evaluation is not relevant to competition. The response is awarded 4+0e.

Question 6 (c)

Most candidates went down the expected route: KAA as positives for consumers (lower prices and increased consumer surplus) and negatives for firms (less profit). These were often scoring Level 3 or Level 2. The main evaluation was linked to how consumers may suffer via less dynamic efficiency and then a generic evaluation. There were many basic analysis errors in this question; many candidates confused price and profit caps, many suggested ways which firms could increase profits after they had been capped (i.e. by increasing prices), many others lost marks through only relating their answer to a single group, usually consumers.

A general point here, but which also applies to all other questions requiring evaluation (especially Level 3 evaluation), is that a large number of candidates follow a structure where they make a KAA point in a paragraph, develop it and then finish the paragraph with a sentence beginning "However, …" where they make an evaluative point. This single sentence rarely scores more than Level 1 and candidates should be encouraged to develop their evaluative points in a separate paragraph.

(c) With reference to Extract B, assess how the regulation of energy suppliers' profits is likely to affect consumers **and** suppliers in the energy market.

(10)

The regulation of energy markets is a form of government intervention, and this can have both positive and negative effects.

consumers could potentially lose out from ~~a~~ regulation, as although in the short term they would benifit from the 1.25% cap on total revenue through cheaper prices, in the long term it could prevent the uk energy suppliers innovating and making the firm more efficent as there would be a ~~re~~ reduction of ~~the~~ investment within the firm. This could cause the firms to become x-inefficent as they would no longer be operating x-efficently and thus could pass on poor quality service to consumers.

Suppliers within the energy market could also lose out from the regulation on their 'average profit of 7% of total revenue'. It would undermine their long-term energy provision and ~~as~~ furthermore the lack of investment that would occur from the 1.25% cap could prevent the firm to become

dynamically efficient. However overall, the suppliers in the energy market would be the greater victims of the regulation on profits as it would prevent them from long-term improvement of their firm.

ResultsPlus
Examiner Comments

This answer scores 6/10 marks. The candidate has addressed the poor quality service to consumers (Level 3) though cheaper prices (L1e). Supplier's dynamic efficiency being prevented achieves Level 2 and requires further development linking to a decline in investment in power stations for example. The final paragraph is awarded Level 1 evaluation. Overall the candidate achieves L3- (5KAA) and L1 evaluation (1e).

ResultsPlus
Examiner Tip

To achieve top level KAA fully integrated responses are required and thin evaluation will not escape being awarded Level 1 evaluation.

(c) With reference to Extract B, assess how the regulation of energy suppliers' profits is likely to affect consumers **and** suppliers in the energy market.

(10)

One of the ways the CMA has stated it wanted to regulate, was by the use of "1.25x" ~~price caps~~ profit caps on total revenue".

This is likely to ~~lead~~ have negative consequences on suppliers in the energy market, as was said in Extract B, it would "reduce investment". This is because ~~Comp~~ firms will have less of an incentive to fund larger scale ~~investment~~ investment schemes, knowing that their rates of returns will be limited. However, ~~instead~~ of ~~the~~ what it is true that firms are likely to benefit from this, ~~they may also~~ such regulation may not hamper total profits so hardly, as it may be an incentive for them to reduce costs of production.

Consumers are likely to benefit from such regulation, as this profit cap is likely to incentivise firms to reduce costs of production, in order to make ~~decrease~~ higher profits, which is calculated as Total Revenue minus total costs. These lower costs of production are likely to lead to lower prices for consumers, as ~~so~~ firms are able to ~~start~~ make

their demand profits, at her prices. However, this assumes that the to firms will pass the her ass of profits in the fu of lower prices, and so consumers may not experience such price decrease.

ResultsPlus
Examiner Comments

The candidate addresses the negative impact on suppliers to a low Level 2 standard but the evaluation is unclear. The effect on consumers is a confused response regarding higher profits but there is reference to lower prices to access Level 1. The final evaluation is awarded a low Level 1 evaluation. This answer achieves a mark of 4/10 (3KAA + 1ev).

Question 6 (d)

Two possible reasons for the change in price elasticity of demand in context with either two evaluative comments per reason, or one evaluation point well developed was required here. Weaker responses tended to not spot that the PED became less price inelastic in the long run and explained that it became more price inelastic with inevitably wrong reasons scoring at most 2 marks for identifying that demand was price inelastic (1) and for evaluation remains inelastic (1). Candidates seemed to have acted on the advice from last year and did usually provide two separate reasons as covered in the mark scheme; although energy prices becoming a larger proportion of income in light of falling real incomes and rising prices as illustrated in figure 1 was also a common reason. Unfortunately, with the latter there was some confusion with some candidates incorrectly stating that demand becomes less price inelastic as electricity bills take up a smaller proportion of income. Few candidates considered switching from electricity to gas and given the nature of Extract A and the majority of responses: taking time to switch demand, leave a contract or switch to substitutes such as solar panel implicitly meaning going off grid – was allowed as valid KAA.

The price elasticity of demand for electricity in the UK is estimated to be –0.35 in the short run and –0.85 in the long run.

(d) With reference to Extract A and your own knowledge, examine **two** possible reasons for the change in price elasticity of demand for electricity over time.

(8)

Price elasticity of the demand is the responsiveness to a ~~ch~~ change in demand over a change in price. Price elasticity of demand for electricity overtime shows that the change in quantity demanded for electricity increased more than the change in price, thus being inelastic as price does not influence it as such. This is because electricity is an essential in every household, 70% of the customers could have saved around £300 a year by simply switching, but they didn't feel the need to. ~~Electricity is one of the main costs of a household~~ Also, the increased usage of electrical appliances due to the innovation of technology has caused the households to possibly use more energy than needed. Appliances such as PCs, phones, tablets, game

and game consoles, this to homeware appliances such as necessities contributed to the added usage of gas electricity. Therefore, PED of electricity changing over time.

ResultsPlus
Examiner Comments

There was no mark for providing a definition but this does normally enable candidates to move their thinking and correctly respond to the question set. In this case they incorrectly defined price inelastic but by identifying electricity as price inelastic they secure one application mark and a further application mark for 70% not switching as per Extract A. Using more appliances does not answer the question indicating that they may not have been aware of what the numerical change in PED meant and its associated determinants.

ResultsPlus
Examiner Tip

Ensure you carefully study and understand the entire specification – understanding of the numerical value of price elasticity of demand and its determinants was weaker than it should have been.

Question 6 (e)

This question clearly differentiated candidates between those explaining and evaluating business and government policies to improve mobility in the energy sector and those providing more generic policies that were often one-sided in looking at government policies alone. Most candidates got some balance to their KAA, with education/training the top choice, and recruiting overseas workers or improving the image of the industry being widely used. Many candidates scored Level 2 or Level 3 if they developed these ideas. The evaluation was generally weak as, although solid points were raised (time, opportunity cost etc.), there was often not enough development to warrant a L2e, let alone L3e.

(e) With reference to Extract C and your own knowledge, discuss policies businesses **and** government might implement to reduce labour immobility to benefit the energy sector.

(15)

Labour immobility refers to the barries people face when finding a job. The government can implement a number of policies to benefit the energy the sector, reduce factor immobility. For example, governments can ~~increase~~ subsidise training schemes in the energy sector to encourage school leaves and people to join the industry. This can be seen as there has been an increase in spending and the amount of spending on apprenticeship and training programmes by the goverment, in particular of encouraging more people to join the energy sector and gain skills, that are currenty in shortage as well as gaining an income. However, this ~~may~~ in a policy has a significant time lag associated with it, as the effects of training and full apprenticeships may take years to have an effect.

As well as this, governments may also provide ~~an~~ increased provision of information about jobs and opportunities available in the energy sector, such as opening job centres to teach people about opportunities ~~and~~ which will overall aid to reduce labour ~~mobi~~ immobility of labour. However, this is very costly and may lead to government failure if the scheme is in

~~unsuccessful~~ unsuccessful, in the form of excessive administrative costs, if not many people join the energy sector to supply their labour.

Businesses can ~~increase the~~ create apprenticship or school leaver programmes of their own to aid to reduce labour mobility, whereby young people are able to gain the exact skills needed to increase efficiencies in the energy sector. This would also further combat the ~~aging~~ current problem of an aging workforce that the energy suppliers face. However, again, these schemes ~~are~~ have a large time lag and may take years to see a positive effect from them or for individuals to gain the necessary skills needed.

Businesses can also engage in educating schools and young children to adress the negative image of work involved in the energy sector and a lack of women. Predominently, they can appoint staff to go to all ~~girls~~ ~~girls~~ girls schools and educate the girls about the energy sector and the benefits of working in it. However, again this a long term strategy the business may adopt and will have years to see as a result and change the industry image of the energy sector.

ResultsPlus
Examiner Comments

This answer achieves a mark of 12/15.

This candidate achieves Level 3 +L2e for the government subsidising training in the energy sector – they would have obtained L3e with perhaps a little more development in context, for example energy sector jobs being highly skilled. The next two paragraphs also cover government policies to a Level 3+2e standard but at this point the answer remains unbalanced and not able to access a Level 3 response. Thankfully they then move on to looking at business measures of improving image to a Level 3+L2e standard. Overall the candidate achieves 8+4e.

ResultsPlus
Examiner Tip

As in 6(c) a large number of candidates follow a structure where they make a KAA point in a paragraph, develop it and then finish the paragraph with a sentence beginning "However,..." where they make an evaluative point. This single sentence rarely scores more than L1e and candidates should be encouraged to develop their evaluative points in a separate paragraph.

Centres are encouraged to carefully look at the Level 3 Evaluation descriptor.

(e) With reference to Extract C and your own knowledge, discuss policies businesses **and** government might implement to reduce labour immobility to benefit the energy sector.

(15)

Labour mobility is the ability of labour to move from one area to another / sector to another

A policy that the government and businesses may implement are the increased investment in training programmes. Workers in the energy sector require specialist skills and knowledge and the increased investment in training programmes means that more people have accessibility to the teaching and encourages people enter the sector. The skills shortage is mainly to blame for the shortage of workers in the energy sector and the huge 29% unfilled jobs vacancies so giving people training on the skills needed will increase the occupational mobility of workers as they have a greater skillset.

To evaluate, this depends on the magnitude of the investment. A small investment will only have a minute change in supply of labour as lots of education required. Furthermore, there is a time lag because it may take years before these workers are even ready or have the sufficient skillset to enter the market. The benefits or increases in labour may not be very significant in the short run.

Another policy that could be implemented by the government and firms is the increased recruitment of skilled labour from abroad. The government may be able to reduce barriers to immigrants and allow a more free flow of workers. The firms may help workers settle in, provide them with language lessons or provide financial support for settling in and finding housing. As a result, the quantity of labour increases so this may mean the 29% unfilled job vacancies are filled.

To evaluate, the geographical immobility of labour may not be solved because the people would have to move away from their home country, where they have emotional ties and family. Therefore, even given an incentive by wages to work abroad, people may choose voluntarily to not move because they value other emotional assets over the possible prospects of wages, etc.

To conclude, immobility of labour may be occupational or geographical and it is more effective in long run because skills are required and workers need time to settle in and adjust.

ResultsPlus
Examiner Comments

This answer achieves a mark of 14/15.

Use this as a model for your writing, along with other high scoring responses. The evaluation is better balanced here although it was felt that the first evaluative paragraph was worthy of two separate L2e rather than one L3e. The second evaluative paragraph was awarded L3e.

ResultsPlus
Examiner Tip

Ensure your evaluation is well-balanced against what you have previously written.

Question 7

This was the less popular of the two essay questions, although it was still completed by several thousand candidates. Diagrammatic analysis was required and when done well was accurate, well labelled and well explained with a solid chain of reasoning to access a Level 4 response. Poor diagrammatic analysis was evident with some careless labelling errors, most often mixing MSC and MPC. High scoring responses were well-structured and at times provided clear evidence of planning. Weaker responses ignored private costs entirely or seemed confused as to exactly what they were. In addition, candidates did not always move on to the third party effects associated with the external cost. As with 6(c) and 6(e), evaluative comments were often tagged on to the end of a paragraph. Top level evaluation often referred to difficulties in measuring the monetary value to private costs and external costs as well as linked evaluation of external benefits offsetting the external costs. Effective sustained judgement balanced the size of the external costs against the private costs and whether these could be offset by benefits to make a judgement call.

① Pollution / noise
② Construction £18bn
③

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

① No pollution
② Makes profit
③ No costs to UK

EITHER

7 In September 2016 the government approved the building of an £18 billion nuclear power station, Hinkley Point C, which will supply 7% of UK electricity for up to 60 years. The power station is funded by Chinese and French investment.

Evaluate the likely private costs and external costs involved in such major power station construction projects. Use an appropriate externalities diagram in your answer.

(Total for Question 7 = 25 marks)

① Dynamic ③
② EoS

OR

8 In July 2016 Apple's share of the UK market for smartphones was 38%.

Evaluate whether such a high market share for one company is in the consumer interest. Use appropriate diagrammatic analysis in your answer.

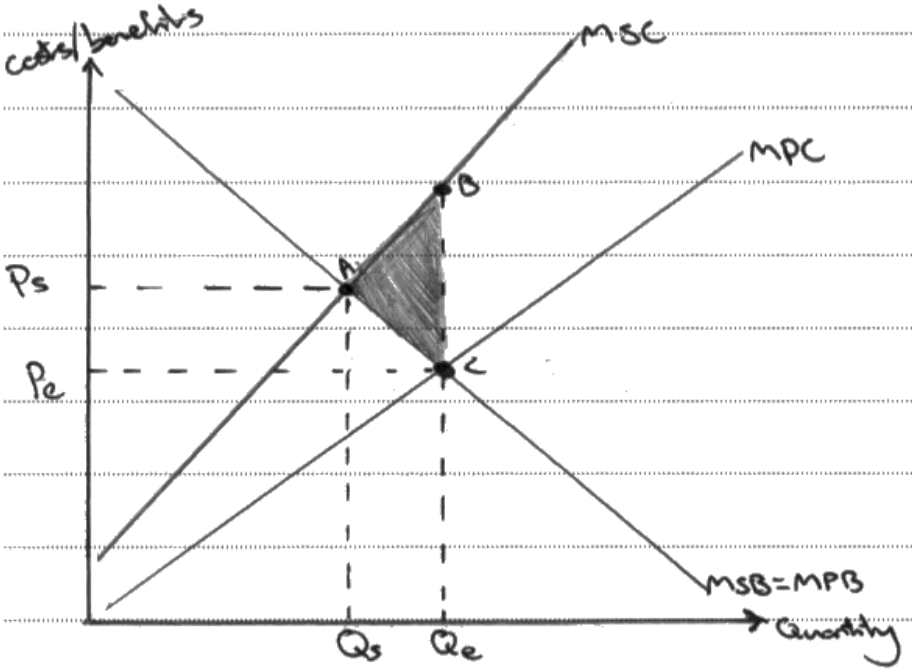
(Total for Question 8 = 25 marks)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☒ **Question 8** ☐

Write your answer here:

The construction of a major power station is likely to cause external costs during construction. The pollution caused by the construction represents an external cost, where marginal social costs are higher than marginal private costs.



The construction of power stations will take place at Qe, and the price set by by the price mechanism will be set at Pe. The price mechanism will only take private benefits and costs into account. The socially optimal equilibrium is at Qs and price Ps, where the social costs are taken into consideration. Power stations will be overprided by the price mechanism and the price set too low. The result will be a net welfare loss, shown by the triangle ABC.

For example, the external costs of the production of Hinkley Point C could be noise pollution and damage to the environment.

The private costs involved in the construction of a power station is simply the cost of the materials, land, & labour, simply the costs of production. The private costs of Hinkley Point C are estimated to cost £18 billion, and will be paid for by French and Chinese investment.

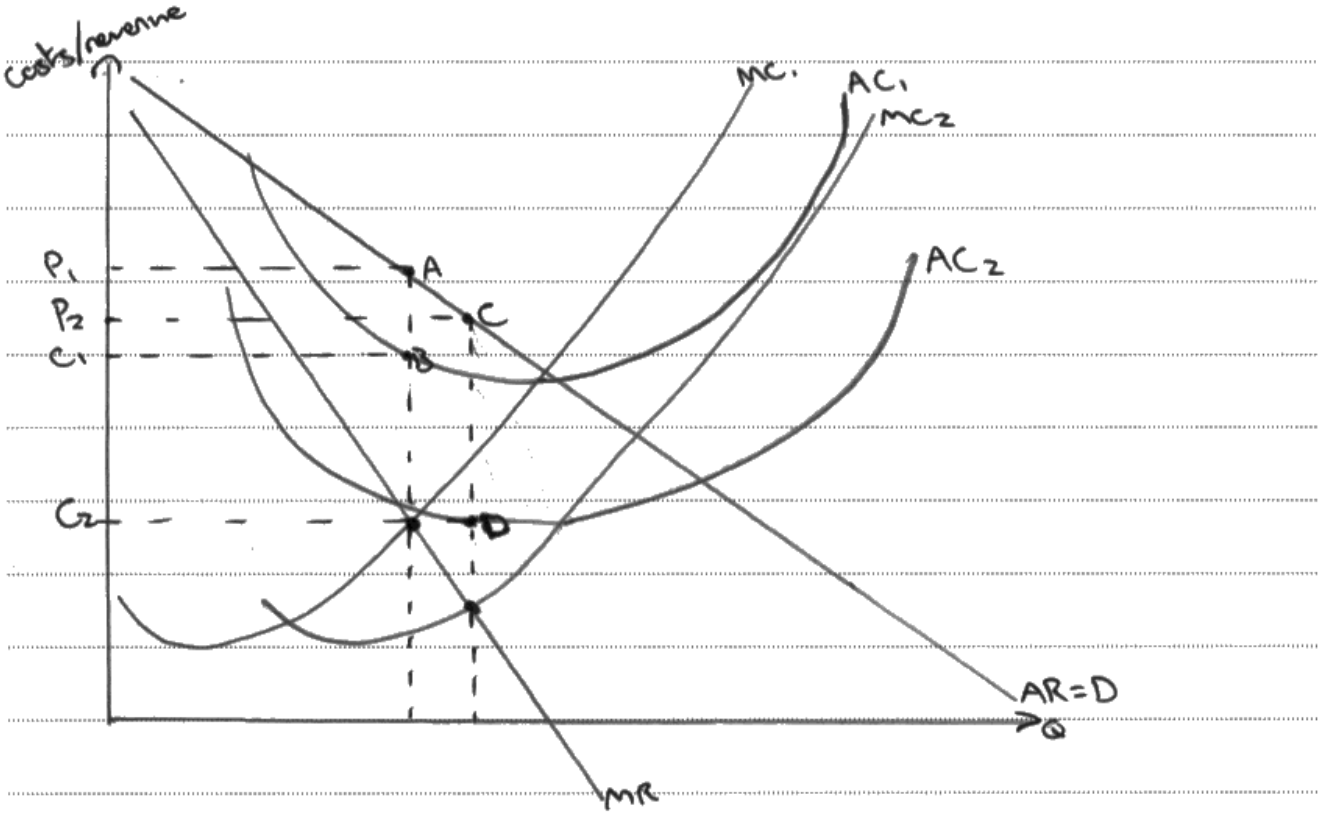
Another private cost of constructing a power station may be the planning and research that must be conducted before construction. However, the external costs from the production of the power station may be worthwhile. A nuclear power station

There will be high sunk costs to entering the market for power stations, such as the research which must first be conducted. Sunk costs are costs of entering the market which are irrecoverable if the firm decides to leave the market.

However, the external costs from the construction & the power station may be worthwhile in the long run. Nuclear power stations do not produce pollution, where as other power stations eg. coal, will. This means that the total external

cost of the power station in the long term may be comparatively low.

There could also be external benefits to a new large power station. An increase in the supply of energy will reduce the price of energy for firms. Energy is an important (variable) cost of production for many firms so a fall in the price of oil may increase the profits of some firms.



This firm has seen an increase in profits from box P_1ABC_1 to box P_2CDC_2, following a fall in the price of energy.

Additionally, the Hinkley Point C project is funded by French and Chinese investment. Therefore some or all of the private costs will be paid for by this investment, so the private cost to the UK will be minimised.

ResultsPlus
Examiner Comments

18 out of 25 marks awarded.

The candidate started by unpacking the demands of the question and then provided an accurate diagram to a Level 3+ standard, as it was accurately labelled and included the social optimum and welfare loss diagram, which was then integrated into their written explanation. This was a valid approach laying the foundations for what could have been a well-structured response. The likely external cost was awarded Level 3+ but would have achieved Level 4 if the candidate had developed further by looking at specific third party effect(s). The paragraph on private costs was well-structured, demonstrating a logical and coherent chain of reasoning in context to a Level 4 standard.

Evaluation was focussed on long run external costs in comparison to coal, which was awarded L2e. Likewise the external benefits as evaluation was awarded L2e+ however, whilst being substantial it needed to be linked more tightly to the question in offsetting the external costs or reducing the welfare loss to be awarded L3e. The final bit of evaluation attempted to address private costs but lacked clarity thus achieving L1e. Overall the response lacked judgement and was awarded Level 3+ (12) + L2e+ (6e).

ResultsPlus
Examiner Tip

Plan to evaluate as you work through your response to better ensure relevant reasoning in context. Higher awarded responses tended to offer a paragraph evaluating private costs having just covered private costs, then likewise for external costs. This was then followed by a substantial conclusion offering judgement or informed judgements were made explicitly throughout.

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

7 In September 2016 the government approved the building of an £18 billion nuclear power station, Hinkley Point C, which will supply 7% of UK electricity for up to 60 years. The power station is funded by Chinese and French investment.

Evaluate the likely private costs and external costs involved in such major power station construction projects. Use an appropriate externalities diagram in your answer.

(Total for Question 7 = 25 marks)

OR

8 In July 2016 Apple's share of the UK market for smartphones was 38%.

Evaluate whether such a high market share for one company is in the consumer interest. Use appropriate diagrammatic analysis in your answer.

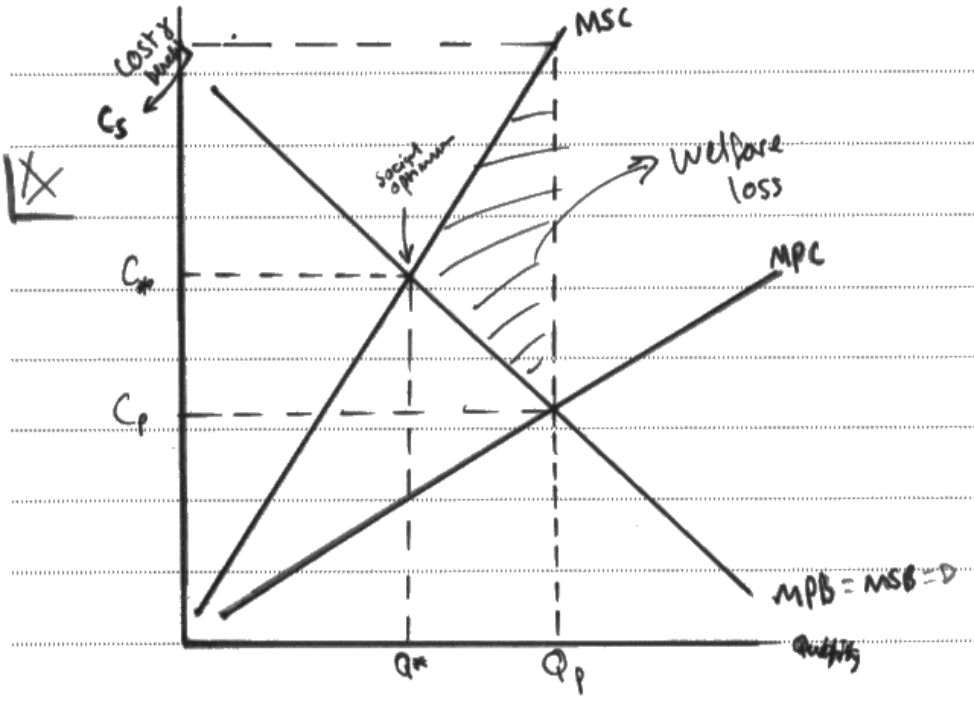
(Total for Question 8 = 25 marks)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☒ **Question 8** ☐

Write your answer here:

The external costs can also be called the negative externalities, and these are the costs that ~~are~~ affect the third party, ie the economic agents that are not involved with the directly with the project. There are many examples of negative externalities and occur where the marginal private cost (MPC) is less the marginal social cost (MSC). The social cost is equal to the private cost plus the external cost, therefore the gap in between MSC and MPC illistrates the magnitude of the externality.



As we can see in the diagram above, MSC exceeds MPC creating a welfare loss at the output of private cost. Where as the social optimum level where the marginal social cost equals marginal social benefit is at output Q^* therefore the welfare loss of society is illistrated by the shaded region in the form of a triangle.

One external cost involved in such a project is the increased danger to life of those living near the proposed sight. This is a social cost because the power station in Hinkley is nuclear powered, which is very dangerous as exposure to nuclear material can cause illnesses such as cancer or tumours. This is a negative externality as those living around the sight are not directly affected by the benefits associated ~~the~~ meaning that the welfare loss of a longer life expectancy may decrease. Because However, this isn't the first nuclear power plant

that has been built and won't be the last. This is because of the clean energy it produces, contributes a fraction the to CO_2 emissions in comparison to fossil fuels.

The project is going to be privately by foreign direct investment ie from France and China. Therefore other than the £18 billion gbp the private cost is quite low. This is because they will be ~~going~~ gaining energy which increases their domestic energy supply without the negative externalities ~~of~~ on their soil. However the effects of a Government/political uncertainty, such as Brexit, ~~may~~ may increase this private cost as the investment may have a lessened return due to ~~balance~~ uncertainty which dampens return. However, the negative externality of consumption may be greater (Less than) for the UK society than the private ~~ex~~ ~~because~~ because of the energy supply it will bring to the UK.

Another ~~social~~ external (external) cost that the project will bring is the effect of

In ~~con~~ conclusion, the project will will have a greater marginal social cost due to the large external costs associated with the project in comparison to the private cost. However it is hard to know the magnitude of the external costs due to imperfect knowledge therefore in the short run and the long run we might never know if the ~~[redacted]~~ external costs exceed £18 billion.

ResultsPlus
Examiner Comments

This answer achieves a mark of 19/25.

A clear explanation is offered followed by an accurate diagram which is well explained. External costs gets to the third party effect (Level 4)+ but the private costs analysis is thin (Level 2) achieving overall Level 3+ KAA (12). The evaluation is concise but sophisticated in both context and theory as well as offering an attempt at judgement in the conclusion to achieve L3e- (7e).

ResultsPlus
Examiner Tip

Explaining private costs was a weak spot for many candidates. Try to ensure you can demonstrate precise knowledge and understanding of all the concepts, principles and models.

Question 8

This question was the more popular of the two essay questions. Question 8 focused on the impact on consumers of one firm having high market share. Many candidates correctly identified that this question focused on monopoly power and were able to accurately draw technical diagrams. Some candidates failed to refer back to consumers and instead focused purely on the advantages and disadvantages of high market share. Many candidates used the stimulus on Apple and showed awareness of the firm and the impacts it has on consumers. This was not necessary in order to achieve full marks but those who applied to Apple did score highly. Other candidates applied to other firms that they were more familiar with, which still allowed them to access the top mark bands. The old definition of 25% market share was valid but beyond the specification and most textbooks.

Centres may be interested to look at the CMA's new definition on "monopoly power/market dominance". The most common approach linked profits made by the firm followed by a discussion of the possibility of dynamic efficiency, innovation and customer service compared to x-inefficiency, high prices, lack of consumer care or poor quality. Evaluation when not well developed was fairly generic (profits may not be reinvested, diseconomies of scale etc.) and rarely developed beyond L1e or L2e.

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

7 In September 2016 the government approved the building of an £18 billion nuclear power station, Hinkley Point C, which will supply 7% of UK electricity for up to 60 years. The power station is funded by Chinese and French investment.

Evaluate the likely private costs and external costs involved in such major power station construction projects. Use an appropriate externalities diagram in your answer.

(Total for Question 7 = 25 marks)

OR

8 In July 2016 Apple's share of the UK market for smartphones was 38%.

Evaluate whether such a high market share for one company is in the consumer interest. Use appropriate diagrammatic analysis in your answer.

(Total for Question 8 = 25 marks)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

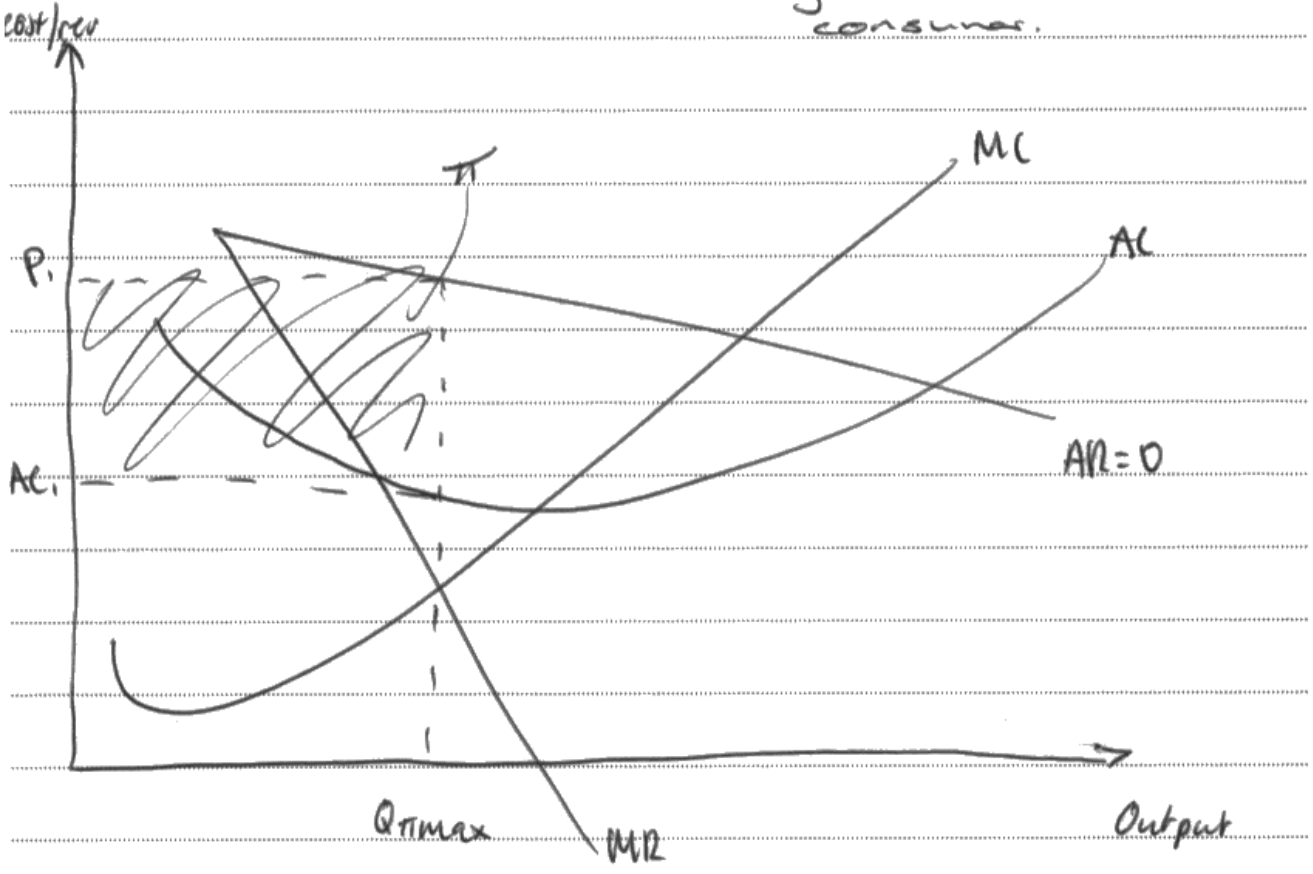
Chosen question number: **Question 7** ☒ **Question 8** ☒

Write your answer here:

A firm with market share over 25%. is called a monopoly, and possess strong pricing power as a result.

High market share certainly benefitted the consumer through Apple's ability to increase dynamic efficiency through product innovation and produce the iPhone. Apple has a 38%. market share in the smartphone industry.

and as such are able to control output and price at the level of profit maximisation where MR=MC. As P_1 is higher than AC_1, Apple, as was seen with the sale of the iPod, recieved supernormal profit (π) in the early 2000s. Steve Jobs thus reinvested $1 billion into developing the iPhone, which, aided both Apple and the consumer, as this was an example of an increase of dynamic efficiency through innovation. Therefore, this led to an increase in consumer welfare, acting in interests of consumer.



However, monopolists often do not chose to increase dynamic efficieny through their

supernormal profits, instead, they often increase shareholder utility. Producing at Qmax increases the demand for dividends on shares which are then paid to shareholders to satisfy them in order for them to not sell their shares. This was seen with Vodaphone, who paid $57 million to shareholders in the form of dividends following the sale of Verizon. Hence choosing not to increase dynamic efficiency and proving to be anti-consumer.

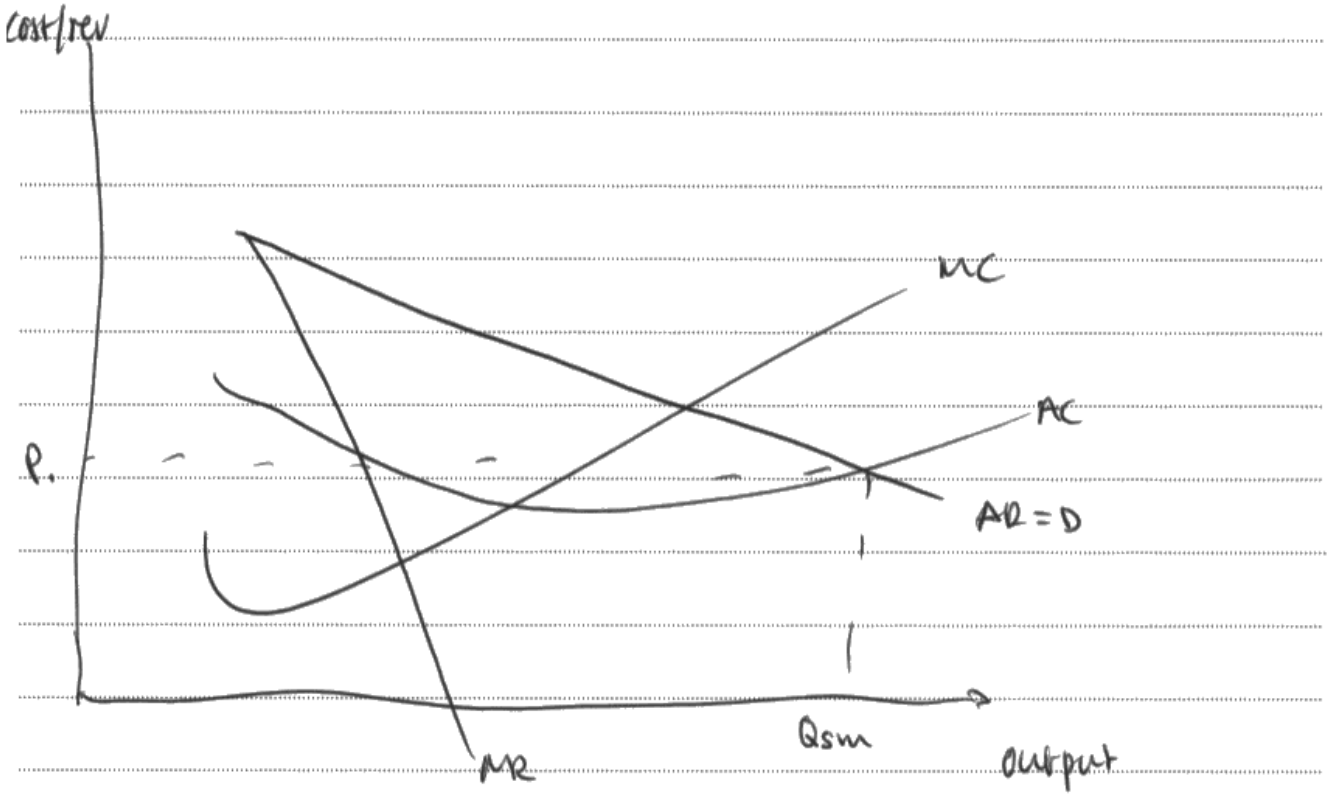
Additionally, firms with large market shares can pass on low costs of production via lower prices. This was seen with Amazon in the early 2000s, who exerted their internal economies of scale aquired by their market share of over 30%, and aquired reduced price from supplies. This therefore reduced their average cost, and enabled them to pass the low production costs onto the consumer through lower prices. This was therefore seen as an increase in productive efficiency which benefitted both the consumer and the producer. This was seen via the relative price of the Amazon Echo, which had a retail price of £49.99 whereas the Apple Hub, Amazon's competition, was priced at £319.99. Therefore,

Amazon, who have a large market share, benefited the consumer through an increase in productive efficiency and thereby lower costs, and acting in their interests.

However, this is not always the case. Monopolists such as Microsoft have dominant market shares, and therefore powerful pricing power. Thus, by pricing at where MR = MC, the consumer has no option but to accept this. This was the case with Microsoft's 'Word office document' package, which cost considerably more than the free service aquired on the Apple Mac. Therefore, firms with high market share are not always acting in consumer interest.

On the other hand, firms with high market share such as French broadband company Wanadoo, acted against consumer interest and decreased consumer choice. They did this through increasing barriers to entry via operating at their sales maximisation level (AR = AC) of output. This made it unprofitable for new firms to enter the market, as AR < AC, therefore they would be making a loss. In doing so, this decreased competition for the consumer, hence reducing welfare

and acting against their interests.



However, limit pricing is illegal, and Wanadoo were fined €10 million by the European Court of Justice. Therefore, Wanadoo reverted back to a more acceptable pricing strategy, which allowed new firms to enter the market and again supernormal profits. This therefore increased consumer welfare as choice increased. Therefore, Wanadoo were acting against consumer interest in the short run.

To conclude, firms with high market share do often act in the consumer's interest. However, in some examples firms prioritise the utility of shareholders over the well being of the consumer. Yet on average, firms with high market share are pro-consumer.

ResultsPlus
Examiner Comments

This answer achieves a mark of 21/25.

This answer focuses primarily on the theoretical arguments in context to an advanced level. Apple's innovation focus benefiting consumers is evaluated well with the Vodafone point being valid and displaying some reading around the subject thus achieving Level 3+ & L3e. The ability to achieve economies of scale is linked well through chains of reasoning and context of benefiting the consumer and is again well evaluated to achieve Level 4 & L3e. The Wanadoo point we were less convinced by and awarded Level 2 but the evaluation here was again strong achieving L3e. Finally, the candidate offered valid judgement in their conclusion. Overall, they achieved Level 3+ and L3e = 12 + 9e. Inevitably some judgement is made by examiners as to whether overall a response is to a Level 4 or 3, in this case rather than adding the additional Wanadoo point, time may have been better spent on explaining how a monopoly can control output and price to achieve maximum KAA.

ResultsPlus
Examiner Tip

Try to plan your responses so that you can use your time effectively to secure the highest Level responses.

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

7 In September 2016 the government approved the building of an £18 billion nuclear power station, Hinkley Point C, which will supply 7% of UK electricity for up to 60 years. The power station is funded by Chinese and French investment.

Evaluate the likely private costs and external costs involved in such major power station construction projects. Use an appropriate externalities diagram in your answer.

(Total for Question 7 = 25 marks)

OR

8 In July 2016 Apple's share of the UK market for smartphones was 38%.

Evaluate whether such a high market share for one company is in the consumer interest. Use appropriate diagrammatic analysis in your answer.

(Total for Question 8 = 25 marks)

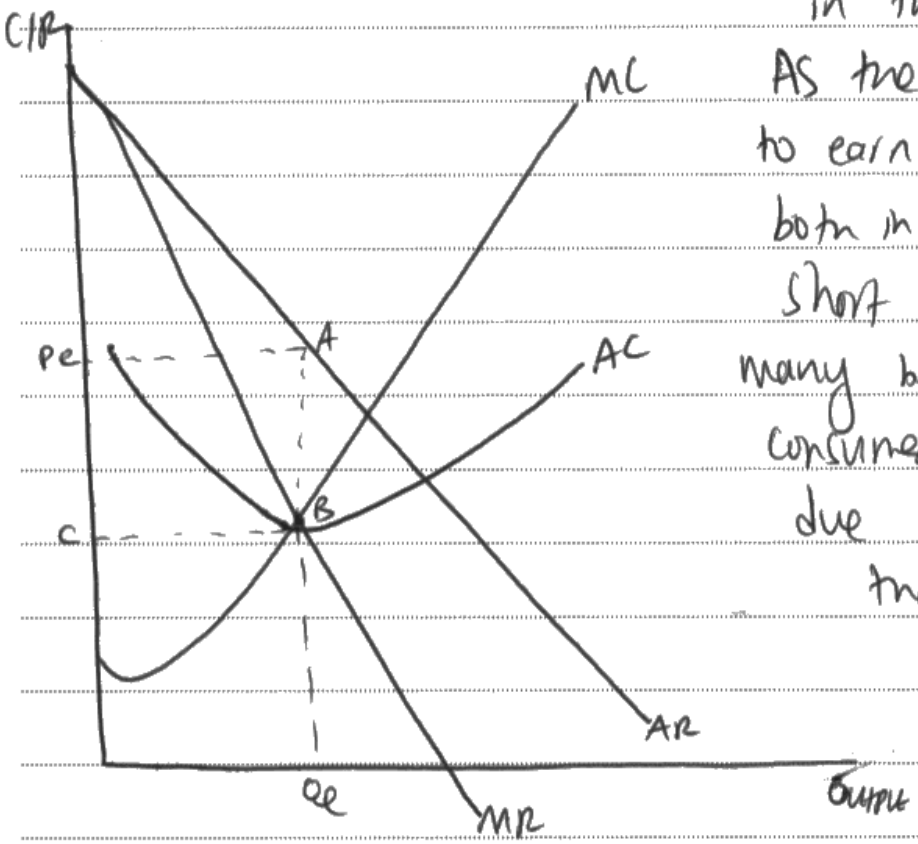
Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☒ **Question 8** ☒

Write your answer here:

Market share is the proportion of the market a single firm occupies, by having a higher market share it creates high barriers to entry into the industry as there is already marketing and brand loyalty in the industry. Apple is one of the largest phone providers in the world and this has many pros benefits and drawbacks to consumers.

Firstly, Apple is likely to be operating in an oligopolistic market structure; whereby, there are few firms, a high concentration ratio (shown by Apples 38% market share), high barriers to entry and product differentiation. In oligopolies, firms are short run profit maximisers, which allows them to earn supernormal profits, shown by the area PeABC in the diagram below.



As the firm is able to earn supernormal profits both in the long and short run, it has many benefits to consumers. This is due to the fact that Apple is able to use supernormal profits to reinvest into the company to create new innovative products for consumers, this can be seen from the release of many new iphones, ipads and the iwatch. Thus, showing Apple to be dynamically efficient, not only does dynamic efficiency benefit consumers by having more innovative, better quality products, it also

means that consumers can enjoy lower prices for smartphones. This is based on two reasons, one being that as Apple continue to improve dynamic efficency, they may find new technology or machinery that enables them to produce at lower costs, and if these lower costs are passed onto the consumer in the form of low prices, it can mean that consumers are at a benefit, by increasing consume surplus and allowing more customers, especially those who may not have been able to afford the previous products, can now afford to buy these products. This can be seen as Apple currently have plans to launch a new 'affordable' range of macbooks. However, this may not always hold, this is because Apple, the oligopolist may not use supernormal profits being made to fund dynamic efficency, rather, they may use it by increasing shareholdes divdends and increasing CEO's and managers salary. This may lead to higher prices or less innovative products for consumers, meaning they do not benefit by Apple having a large market share.

Also The other reason why consumers may receive lower prices is if new technology in the industry means that new firms enter the market and

Competition drives prices down for consumers, again to their benefit, by increasing consumer surplus. However, as Apple currently hold 38% market share, ~~they may~~ this ~~show~~ indicates that the market is not very contestable and new firms are not able to easily ~~enter~~ enter and exit the market. This can be explained from high barriers to entry associated with the smartphone industry, for example high marketing costs - ~~the exit~~ existing firms ~~may~~ will have spent large amounts on advertising, leading to greater brand loyalty to Apple products amongst consumers. This means that new firms who wish to enter the market may not be able to attract customers due to high brand loyalty. This can be seen as majority of people in the UK have an iPhone and many because of factors like the brand. This comes at a disadvantage to customers as Apple may exploit this monopoly power by charging higher prices due to lack of competition, or even ~~not~~ providing lower quality products. This can be seen for example, when Apple admitted to slowing down older iphones, demonstrating ~~for~~ how Apple exploits monopoly power to encourage consumers to buy new phones, to increase profits.

Lastly, by having such a high market share in the industry, Apple may be ~~productively inefficient~~ an X-inefficient as they have no incentive to lower costs, The Government can charge Apple corporation taxes on high profits and this money can then be used for consumer benefit, for example, an increase in state provisions such as education or healthcare or to fund education and training programmes to increase occupational mobility of labour. Overall leading to a gain in consumer welfare. However, many large MNCs such as Apple with a high market share often engage in tax avoidance. This is where ~~there~~ their head quarters are located in a tax haven such as panema or the British virgin Islands and they pay virtually no taxes - especially in the home country or in the UK for example. It was recently revealed in the paradise papers that Apple was involved in tax avoidance - thus not allowing for gov tax revenue increases and spending on consumers in the economy overall, which is not at the customers best interest.

I believe that if companies who have a large market share like Apple are regulated in such a way that all the benefits of gaining supernormal profits such as increased dynamic efficiency, choice and quality are

achieved then it is in the consumers interest to have a firm with such a ~~very~~ large market share as long as consumers are ~~not~~ being exploited by Apple using their monopoly power or govern government do not provide all provising to maximise consumer welfare.

ResultsPlus
Examiner Comments

This is an excellent response achieving full marks 25/25. There appears to be some evidence of planning which may have helped secure top marks. The logical and coherent chains of reasoning are clear throughout as well as offering substantial evaluation and informed judgement to a high standard.

Paper Summary

Based on their performance in this exam, candidates are offered the following advice:

- Practice using quantitative skills both numerically and as knowledge/understanding, analysis, application and evaluation.
- Ensure you carefully study and understand the entire specification – understanding of PPF, use of market forces and relative price elasticity was weaker than it should have been.
- Read the question instructions very carefully to make sure your answer remains relevant.
- Pause and think through your response – evidence of planning is not required but a lack of a coherent structure tends to result in a failure to provide a fully integrated response to achieve top level KAA.
- Ensure diagrams are accurately drawn, fully labelled and used to answer the questions set.
- Practicing full papers under timed conditions is essential in planning schemes of work. Bad handwriting and incomplete answers were evident at times and not scoring highly in the level based responses may be due to time related issues resulting in thinner responses.
- Practice offering informed judgement, being critical of the underlying assumptions in economic theory and recognising different viewpoints, as you respond to the essay-based optional question.
- Clearly identify which essay you have chosen by placing a cross in the correct box.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL.