



Examiners' Report June 2022

GCE Economics A 9EC0 01

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Introduction

This was the sixth 9EC0_01 exam in the 2015 Specification series and a return to the Summer full series as compared to the October resit offers in 2020 and 2021. Unlike past papers students were guided as to the content of the paper through the Advanced Information made available by Pearson Edexcel. It proved to be an accessible paper, broad ranging and with a high degree of differentiation.

The questions covered a broad range of micro issues from Theme 1 and 3 and providing effective use of data given or their own contextual knowledge. In Section A the majority of candidates answered the multiple-choice questions correctly, although Q2(c) on PED and XED proved to be challenging.

Section A continues to highlight the need for candidates to be confident in their use of quantitative skills. There were also computational errors in Q2(a) and Q2(b) and in Section B on Q6(a). When asked to draw a diagram nearly all candidates secured full marks in Q1(b) for supply and demand but there were knowledge gaps when asked to complete a negative externalities of production diagram in Q3(a) and a two firm/two outcome game theory model (pay-off matrix) in Q4(a). Candidates need to ensure they practice the full range of diagrams in the specification.

Section B responses indicated many candidates being confident with the command words in the questions. However, Q6(b) proved to be a challenging question for candidates, with more precision in understanding how price inelastic supply and or demand can result in greater price volatility needed.

In Q6(d) candidates met the demand of using a cost and revenue diagram but needed to ensure that they applied their answer to the coffee shops scenario.

Q6(e) seemed very accessible to the majority of students regarding contestability and the context of setting up a coffee shop, although some confused contestability with competitiveness.

For Section C, where the candidates have a choice of which questions to answer, the majority of candidates answered Q7 and the remaining few Q8. In both questions candidates were allowed to refer to more than one scenario, different monopolies in Q7 and occupations in Q8. There was impressive depth and breadth of knowledge and understanding about different types of efficiency theories in Q7 and some very solid theoretical responses to Q8.

Students are encouraged to follow the news but this needs to be backed up by theory. Unfortunately, the topicality of Tesla and labour shortages in the run up this exam led to some answers in Q7 and Q8 that lacked a theoretical approach.

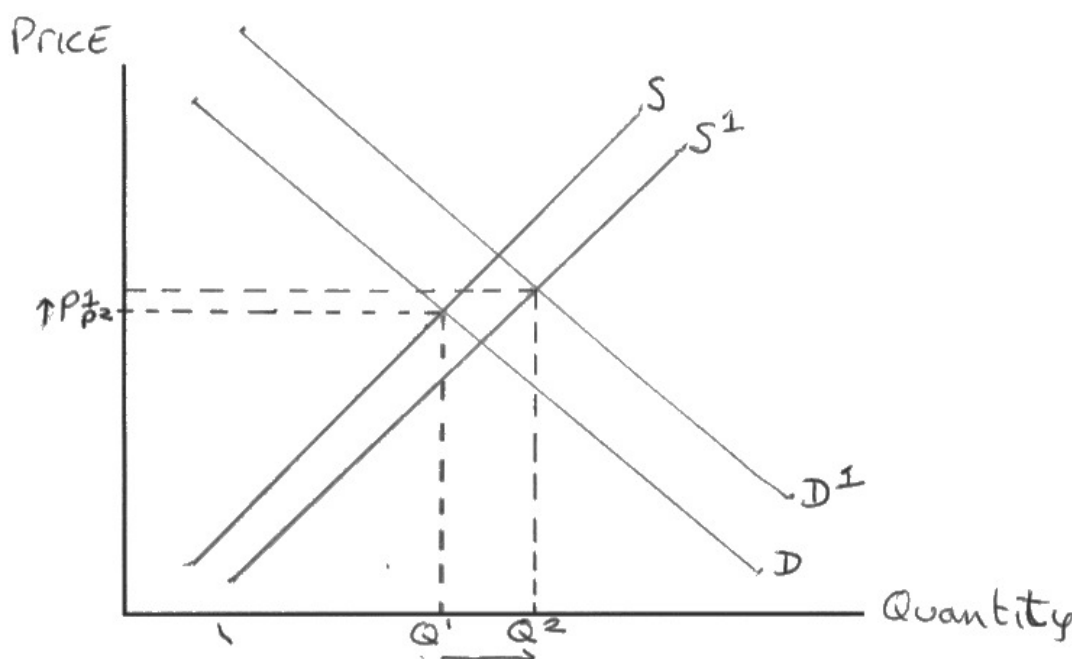
Overall, the evaluation provided by candidates within this paper demonstrated a consistency with the 2019 cohort.

Question 1 (b)

This question specifically asks candidates to draw a diagram. There is no need for candidates to write any explanation to go along with their diagram. When drawing diagrams candidates should always double-check that the lines and axes are correctly labelled. Nearly all candidates provided the answer as illustrated in the mark scheme. The diagram is for illustrative purposes and other valid alternatives in terms of labelling were allowed. Some candidates showed supply as horizontal given it is a subscription service. This was allowed and was awarded 4 marks.

- (b) Draw a supply and demand diagram to show the likely effect of the change in the number of subscribers on the market equilibrium for Disney+ services.

(4)



ResultsPlus
Examiner Comments

The diagram is drawn accurately. The candidate has identified original and new equilibrium. Unfortunately the response also shows a shift in supply so the response does not address the main aspect of the question, but it showed some knowledge and it was awarded 3 marks.

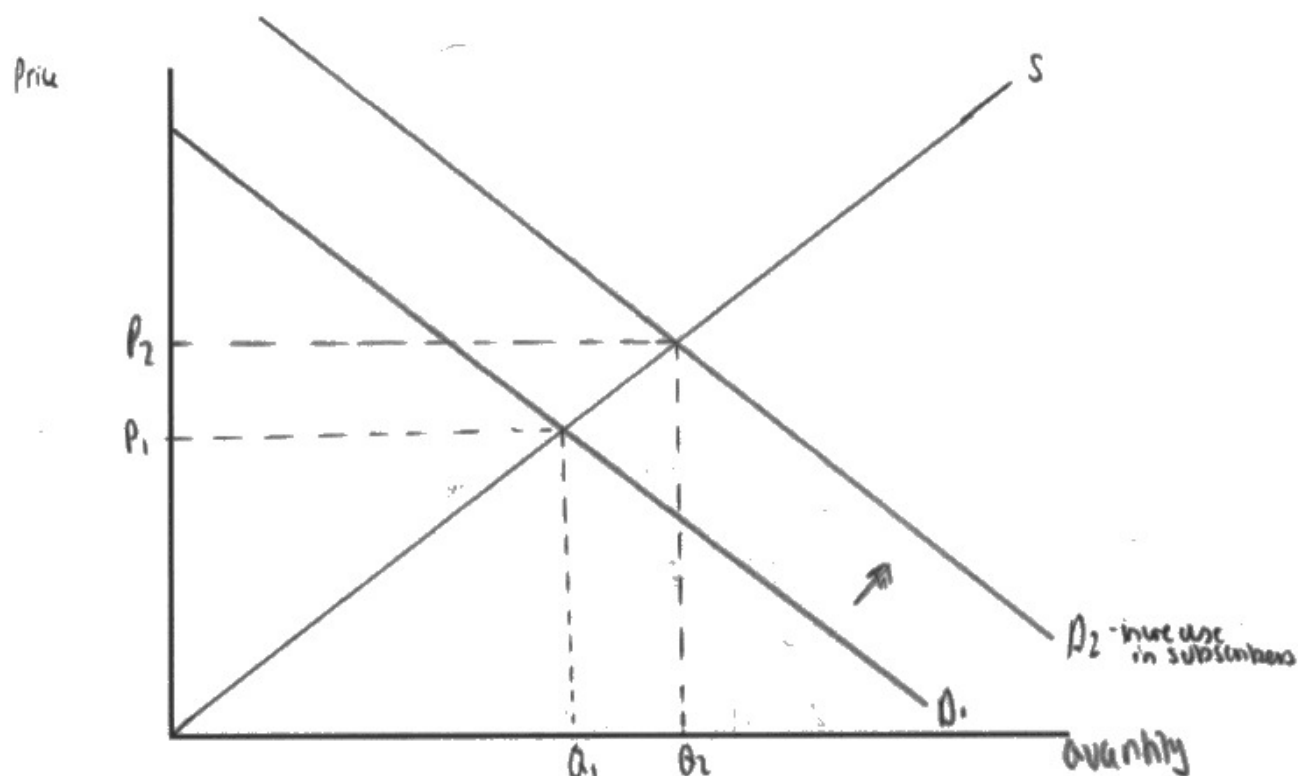


ResultsPlus
Examiner Tip

For shifts in supply and demand consider the non-price determinants as identified in the data. Do not confuse shifts in supply with extensions in supply.

(b) Draw a supply and demand diagram to show the likely effect of the change in the number of subscribers on the market equilibrium for Disney+ services.

(4)



ResultsPlus
Examiner Comments

This diagram is correctly labelled. It also shows the shift in demand in the correct direction and illustrates the new equilibrium points. In addition, it annotates the answer given the context. Whilst this is not in the mark scheme, this is a good approach to take to ensure your answer is correct or in answering longer responses where a diagram may be useful or required. Therefore, this answer achieves full marks.



ResultsPlus
Examiner Tip

Draw diagrams clearly and large enough for ease of interpretation.

Question 2 (a)

In this question the focus is on having the ability to correctly calculate the percentage change in quantity demanded and to substitute the answer into the PED formula.

A mark was not awarded for the formula itself but overall, this question was well answered by candidates and nearly all carefully made use of the formula and showed their working to achieve their final answer.

2 The table below shows data on the drinks market in Chile in 2017.

Price elasticity of demand for sweetened drinks	-1.37
Cross price elasticity of demand for bottled water in response to a price change in sweetened drinks	+0.63

elastic

Substitute

(Source: adapted from <https://bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-017-4098-x>)

- (a) The price of sweetened drinks increases by 5%. *Ceteris paribus*, calculate the percentage change in the quantity demanded for sweetened drinks. You are advised to show your working.

(2)

$$PED = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$$-1.37 = \frac{?}{5\%}$$

$$-1.37 \times 5 = \underline{6.85\%}$$



This response provides a correct answer and is awarded 2 marks.

2 The table below shows data on the drinks market in Chile in 2017.

Price elasticity of demand for sweetened drinks	-1.37 / <i>elastic</i>
Cross price elasticity of demand for bottled water in response to a price change in sweetened drinks	+0.63 / <i>substitute</i>

(Source: adapted from <https://bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-017-4098-x>)

- (a) The price of sweetened drinks increases by 5%. *Ceteris paribus*, calculate the percentage change in the quantity demanded for sweetened drinks. You are advised to show your working.

(2)

$$PED = \frac{\% \Delta Q}{\% \Delta P}$$

$$PED \times \% \Delta P = \% \Delta Q$$

$$-1.37 \times +5\% = -0.0685\%$$

$$= -0.069\%$$



ResultsPlus
Examiner Comments

This response correctly manipulates the formula to identify 5 % x 1.37 for 1 mark. However, the calculation is incorrectly given as 0.0685% which negates the answer. Therefore, this response was awarded 1 mark.



ResultsPlus
Examiner Tip

Ensure you make use of a calculator and double check that your final answer makes sense.

Question 2 (b)

In this question the focus is on having the ability to correctly calculate the percentage change in quantity demanded and to substitute the answer into the XED formula. A mark was not awarded for the formula itself but overall this was well answered by candidates and nearly all carefully made use of the formula and showed their workings to achieve their final answer.

- (b) The price of sweetened drinks increases by 5%. *Ceteris paribus*, calculate the percentage change in the quantity demanded for bottled water. You are advised to show your working.

(2)

$$XED = \frac{\% \text{ change in quantity demanded of good } x}{\% \text{ change in price of good } y}$$

$$+0.63 = \frac{\% \text{ change in quantity demanded of good } x}{\% \text{ change in price of good } y}$$

$$\% \text{ change of quantity demanded of good } x = +0.63 \times 0.05$$

$$= 0.0315 \text{ or } 3.15\%$$



ResultsPlus
Examiner Comments

This response gives a considerable amount of detail for a 2 mark calculate response. The final correct answer is quite obscured at the foot of the page and was rounded up to 3.2%. Whilst most candidates identified an answer of 3.15%, rounding up to 3.2% or down to 3% was accepted and the response was awarded the full 2 marks.



ResultsPlus
Examiner Tip

Be careful to clearly identify your final answer.

(b) The price of sweetened drinks increases by 5%. *Ceteris paribus*, calculate the percentage change in the quantity demanded for bottled water. You are advised to show your working.

(2)

$$0.63 \times 5 = 3.15$$

3.15%



ResultsPlus
Examiner Comments

This is an example of a common response to this question and it was awarded the full 2 marks.



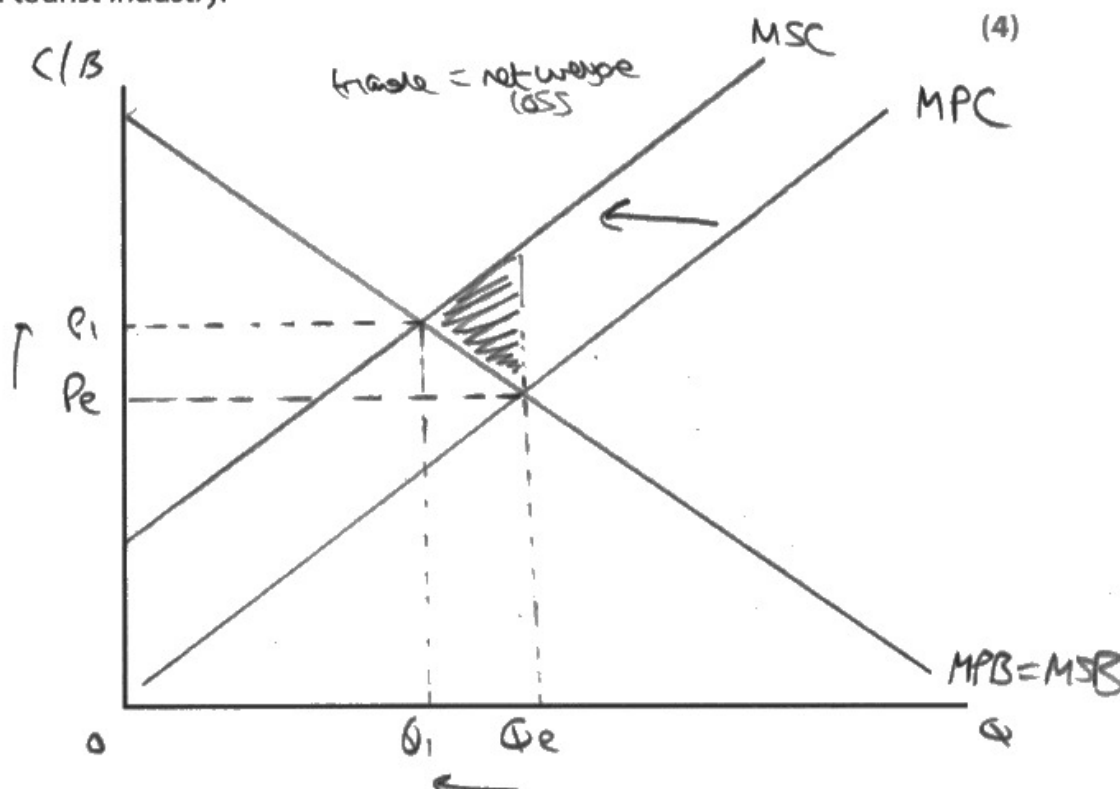
ResultsPlus
Examiner Tip

It is always worth showing your workings. This does not need to take a lot of time and can help you pick up a mark if human error creeps into your final calculation.

Question 3 (a)

The diagram in the mark scheme is for illustrative purposes and there are lots of valid alternatives. Price would be allowed instead of costs and benefits, MSC and MSB can be labelled SMC and SMB and some candidates did a double shift to the left of the MSC. Some candidates also covered supply and demand but had some elements of the externalities diagram. A small number of candidates also identified negative externality of consumption in the tourism industry, whilst this is not on the specification it was viewed as a valid response.

- (a) Draw an externalities diagram to show the likely impact of the sewage discharge on the local tourist industry.



ResultsPlus
Examiner Comments

This response is awarded 1 mark for correct labelling of MSB and MSC. There is also 1 mark for correct shift and 1 mark for identifying correctly welfare loss. This response has also clearly identified a movement in price and output to remove overproduction. This response was awarded the full 4 marks.

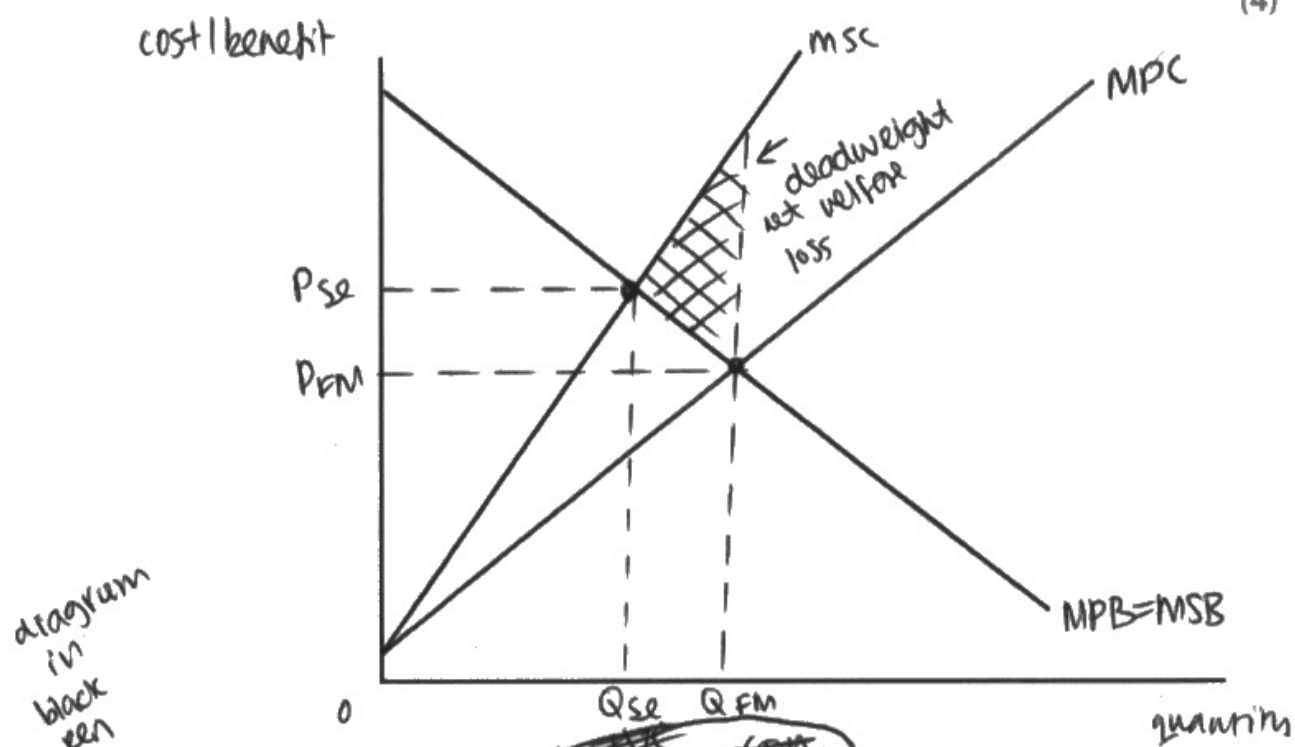


ResultsPlus
Examiner Tip

Fully label externalities diagrams.

- (a) Draw an externalities diagram to show the likely impact of the sewage discharge on the local tourist industry.

(4)



ResultsPlus
Examiner Comments

This response provides a fully annotated correct answer and was awarded the full 4 marks. The candidate has identified the social optimum price and output and the free market equilibrium.

Question 4 (a)

The diagram in the mark scheme is for illustrative purposes and other valid models were allowed. Candidates could refer to profit rather than revenue or have the top right box blank as long as the pay-off matrix worked. Likewise, some candidates had price decrease first and then price increase, with the starting position bottom right. In addition, some candidates referred to collude or not collude. A common response was awarded 3 marks. However, marks were typically awarded as follows:

- Often where they colluded there was a higher figure than if they engaged in a price war so securing one mark.
- They then indicated one firm cheated and gained financially and as a consequence the other firm lost out, so securing a second mark and potentially a third if they had a similar situation if the other firm moved first.
- The key jump to 4 marks was what if the second firm retaliated and where it went wrong was when they failed to show the second firm countering in their financial interest. If they ended up financially worse off then there was not a logic as the movement for the second firm was not rational.

The matrix had to work for the response to be awarded the full 4 marks. Application-wise, the pay-off matrix working was key rather than use of the \$361 million.

(a) Draw a simple two firm/two outcome game theory model to show why the chicken suppliers may have colluded.

(4)

Tyson Foods

Pilgrim's Pride

	Higher prices	Lower prices
Higher prices	£10m / £10m	£12m / £5m
Lower prices	£5m / £12m	£7m / £7m

top right boxes refer to Tyson Foods



This response was awarded 1 mark for correctly analysing that by colluding and setting higher prices, Tyson and Pilgrim would gain financially more than if they were to engage in a price war.

A second mark was awarded for stating that Tyson, being a first mover and undercutting Pilgrim's price, resulted in them making a financial gain of £12m and Pilgrim losing out (£5m).

There is similar analysis for Pilgrim being a first mover thus securing a third mark. For the fourth mark there is a logic to Pilgrim retaliating and following Tyson's price cut, as they are now achieving £7m which is more than £5m. This response is awarded the full 4 marks.



Practice pay-off matrix diagrams and ensure there is a clear logic in the numbers as to what firms are doing and why this is rational behaviour.

- (a) Draw a simple two firm/two outcome game theory model to show why the chicken suppliers may have colluded.

(4)

Firm A

	collude	cheat
Firm B collude	5, 5	7, 2
cheat	2, 7	3, 3

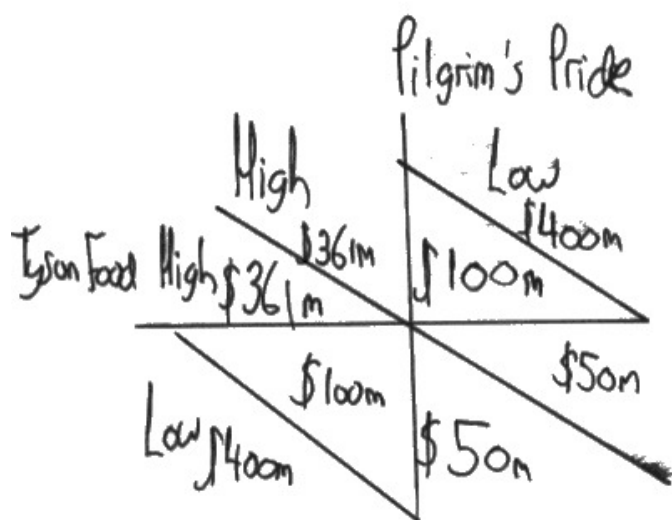


ResultsPlus
Examiner Comments

This response is awarded the full 4 marks.

- (a) Draw a simple two firm/two outcome game theory model to show why the chicken suppliers may have colluded.

(4)



ResultsPlus
Examiner Comments

This response was awarded 1 mark for analysing that by colluding and setting higher prices, Tyson and Pilgrim would gain financially more than if they were to engage in a price war. A second mark was awarded for estimating that Pilgrim, being a first mover and under-cutting Tyson's price, would result in making a financial gain of \$400m and Pilgrim losing out (\$100m).

There is similar analysis for Tyson being a first mover thus securing a third mark. The fourth mark was not awarded as there was not a logic to Tyson retaliating and following Pilgrim's price cut. They now achieved \$50m which is less than the \$100m. Tyson and Pilgrim are now financially worse off so there is no logic to this analysis. This response was awarded 3 marks.



ResultsPlus
Examiner Tip

Double check your two firm/two outcome game theory model to ensure it makes sense.

Question 5 (b)

This question was mostly well answered with common responses being purchasing economies of scale lowering average costs or unit costs. Where it was not well answered was when candidates were not clear in understanding technical economies of scale, often referring to them as technological economies or buying new technology or patents. Another area of weakness was candidates talking about the merger resulting in the removal of workers. This is rationalisation and not concerned with economies of scale.

(b) Explain **one** type of internal economies of scale that the newly merged car company may achieve.

(2)

managerial economies of scale. This is when a firm becomes large enough to employ specialised managers that are able to provide a better supervision over workers so that they are able to be more productive.



ResultsPlus
Examiner Comments

This is an example of a correct response and it was awarded the full 2 marks.

(b) Explain **one** type of internal economies of scale that the newly merged car company may achieve.

purchasing

Supplies will decrease ⁽²⁾

~~Technical Economies of Scale as their costs of sourcing units will be~~

~~spread~~ as they can bulk buy from one supplier such as

wheels for the cars.



ResultsPlus
Examiner Comments

By providing the example, this response is awarded the full 2 marks.



ResultsPlus
Examiner Tip

An example will often help in securing a second mark.

Question 5 (c)

Many candidates displayed a secure knowledge of concerns a regulator may have about a merger and were able to go onto secure full marks by explaining how it was against the consumer interest as it would result in higher prices or loss of consumer surplus.

- (c) Explain **one** likely concern the EU competition authorities may have had about the merger.

(2)

A concern would be the formation of a monopoly which is defined by the CMA as having 25% or more market share, this would mean they have more price setting power, as a result consumers are ~~paying more~~ ^{paying more} as if there were more firms price competition would exist. (Total for Question 5 = 5 marks)



ResultsPlus
Examiner Comments

This is an example of a correct answer and it was awarded the full 2 marks.

- (c) Explain **one** likely concern the EU competition authorities may have had about the merger.

(2)

The two firms may gain too much market share and use their monopoly power to exploit consumers price wise, ~~and~~ taking advantage of consumers limited choice.



ResultsPlus
Examiner Comments

This is an example of a correct answer and it was awarded the full 2 marks.

Question 6 (a)

Candidates were asked to calculate the concentration ratio with the majority taking a straightforward approach. The candidates were allowed to round up or down the answer of 52.96%. Candidates were also allowed to write as a ratio but there was little evidence of this happening. As a calculate-type question, the expectation was for a numerical answer but a definition was allowed as a knowledge mark.

- 6 (a) With reference to Figure 1, calculate the three-firm concentration ratio for branded coffee shop chains.

(5)

three

A firm's concentration ratio is the combined market share of the largest 3 firms in the branded coffee shop market which ~~there~~ are Costa, Starbucks and Cafe Nero.

$$2681 + 1025 + 648 = 4354$$

$$\text{total} = 2681 + 1025 + 648 + 50 + 40 + 30 + 3748 \\ = 8222$$

$$\frac{4354}{8222} \times 100 = 52.96\%$$

This high concentration ratio suggests an oligopolistic market structure which has a high concentration ratio.

and



This response is awarded 4 out of the 5 marks available up until the final answer. By writing the final correct answer this response is awarded the full 5 marks.



It is important to show your workings to secure marks in case your final answer is incorrect.

- 6 (a) With reference to Figure 1, calculate the three-firm concentration ratio for branded coffee shop chains.

(5)

The 3-firm concentration ratio is the percentage of market share the top three firms in the market hold. In this case, the top three firms are Costa, Starbucks & Caffé Nero (for branded coffee shop chains). These are the firms with the largest market shares. The 3-firm concentration ratio here is: $2681 + 1025 + 648 = 4354$. This means that if Costa, Starbucks & Caffé Nero were to merge, they'd have a larger concentration ratio than AMT, Selvo Coffee, & Coffee Republic & other chains combined. This large market share would give these firms a significant amount of market power, & may allow them to become price makers. They could also become a monopoly & dominate the market for coffee, increasing prices for consumers, reducing choice & therefore reducing consumer surplus.



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Examiner Comments

This response correctly identified the answer '4354' and was awarded 1 mark. The response is also awarded 1 mark for knowledge for an accurate definition. As a consequence, this response is awarded 2 of the 5 marks available.



ResultsPlus
Examiner Tip

For calculate questions, numerical responses are the most simplest expected answer.

Question 6 (b)

This question proved to be most challenging for candidates. The response was to identify that a rise in incomes would increase demand which would cause a significant rise in price if supply was price inelastic. However, as there are more plantations grown supply may become less price-inelastic and there would be less volatility. Some candidates chose to look at the factors and then to consider price-elasticity and this was marked positively. Some candidates made use of a diagram that enhanced their written explanation or evaluation. At least one reference to Figure 2 was required for application.

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- (b) With reference to Figure 2 and your understanding of price elasticity, examine **two** factors that may cause significant changes in the international price of coffee beans.

(8)

One factor that may cause significant changes in the international price of coffee beans is inelastic demand for coffee beans. If demand is inelastic then a price increase will only decrease quantity demanded by a smaller proportion as coffee has little substitutes so increase in price may not still mean consumers demand the good. ~~as coffee may appear to be a necessity good that they use daily.~~

The news price rising from \$3.24 in Jul 2020 to \$3.60 in Aug 2020 may not affect Q_D and so prices would likely rise. However if the good is elastic, this price change would cause a huge decrease in Q_D possibly explaining why price went from \$3.13 to \$2.99 in early 2020.

Another factor may be inelastic ^{YED supply income} elasticity, this would likely cause ~~decrease~~ limited spare availability of ~~factors of production~~, as ~~a~~ coffee beans take time to grow ~~causing~~ cause an increase in price for coffee beans.

as coffee may be seen as a necessity so even if incomes rise, consumers will still demand as it's a daily good to them. However if ^{coffee beans are} income elastic, an increase in income will cause a huge decrease in QD for consumers who see it as a inferior good rather than necessity good.



As a points-based question, these are marked following the marking criteria Knowledge (K), Analysis (AN), Application (APP) and Evaluation (EV).

In this response, the first point identified is price inelastic demand (1K). This is followed by two numerical references (2APP max). The next part was not seen as an effective evaluation. Another factor was price inelastic supply (1K) with reference then to income rising (1AN). Overall, this response is awarded 1K + 2APP + 1K + 1AN and achieves 5 of the marks 8 available.



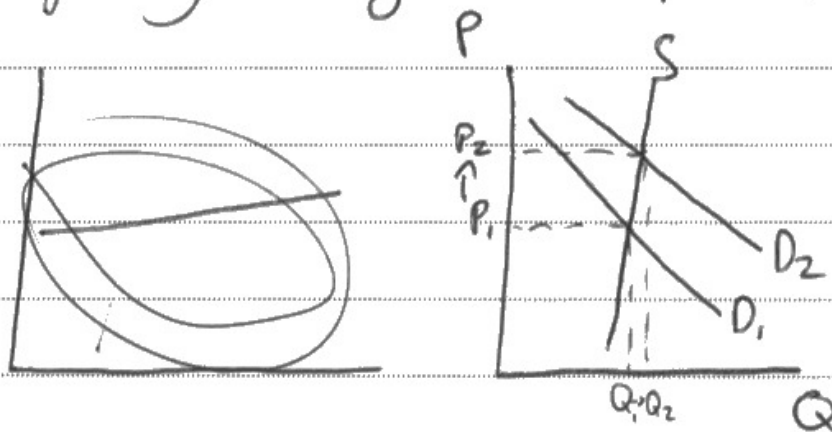
Make effective use of the data. 2 marks are always reserved for application on 8 mark responses.

- (b) With reference to Figure 2 and your understanding of price elasticity, examine **two** factors that may cause significant changes in the international price of coffee beans.

(8)

~~From January 2020 to December 2020, prices of Arabica beans jumped from \$3.13 to \$3.48 per kilogram (Figure 2). This is likely due to the price inelastic~~

From July to August 2020, prices of Arabica beans jumped from \$3.24 to \$3.60 (11.11%) per kilogram (Figure 2). This is likely due to the price inelasticity of supply (the responsiveness of supply to a change in price is PES). Over the short term, because it is impossible to increase or decrease harvest for farmers, a change in demand requires a huge change in price as there are few stockpiles and it is very expensive to move resources over into farming. Therefore this price rise can

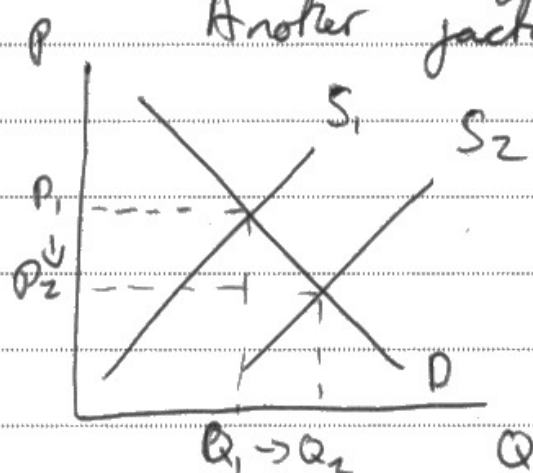


be explained as even a small shift in demand

leads to high changes in price of the beans and a lot of volatility. (as shown in the diagram ~~However~~ from $P_1 \rightarrow P_2$).

However, over the longer run, farmers can move resources more easily from one crop to another and therefore PES is more elastic. This leads to fewer price changes as suppliers can simply produce more when prices are high (incentive function of the price mechanism) as opposed to altering prices (~~positive~~ rationing function of the price mechanism). For example Figure 2 states that over the year of 2020, prices only changed from \$3.13 to \$3.48 per kilogram.

Another factor may be the harvest.



If farmers can produce more, prices will ~~increase~~ decrease as ~~shown~~ shown by the diagram above so a good harvest may lead to lower prices as there are more choices for consumers. ☺



This response is awarded 2 marks for application from the start. 1 mark is awarded for identifying supply is price inelastic for knowledge. A further mark is awarded for analysis for explaining how a significant increase in price will have a small increase in demand. The response is further supported by use of the diagram. Two evaluative marks are then awarded for identifying how and why supply may become less price inelastic in the long run. A second factor regarding a good harvest is also provided as a non-price determinant of supply (1K) with a written explanation that is again supported by the use of an accurate diagram (1AN). Overall, this response is awarded the full 8 marks.



Making effective use of supply and demand diagrams can help lock in knowledge and analysis marks or may provide a way into evaluation.

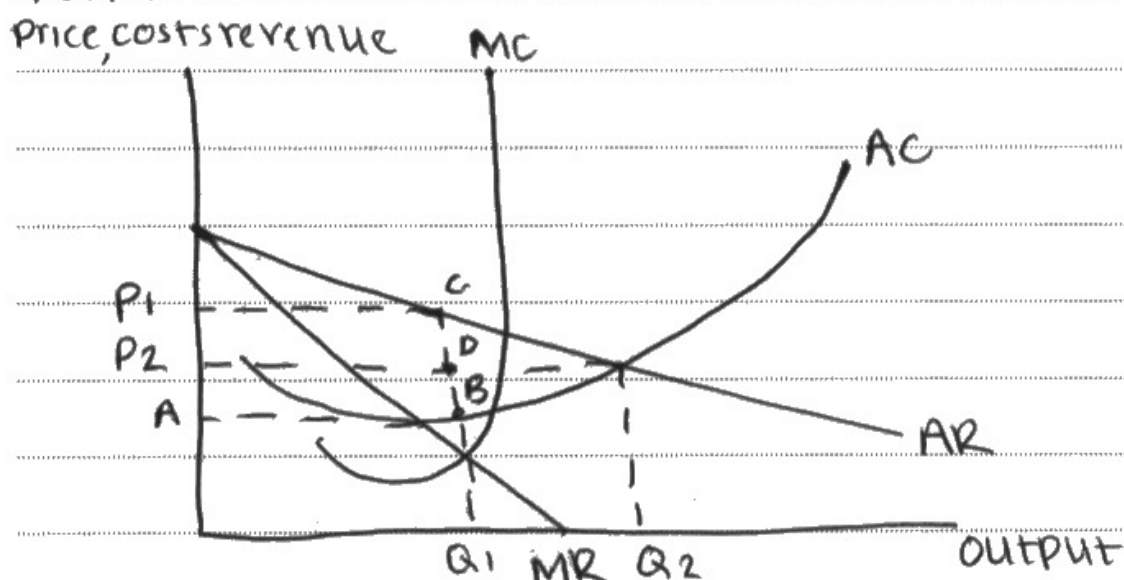
Question 6 (c)

The expectation of this question is that candidates would start with an evaluation of the profit maximisation position. However, a vice-versa approach was also valid, especially since some candidates argued that profit maximisation would be the long-term objective. To access Level 3, candidates were required to apply this position to the coffee shop owners. Therefore, some very thorough purely theoretical answers were not awarded marks in the top Level.

- (c) Profit maximisation is assumed to be the business objective of most firms.
With reference to Extract A, assess whether this is the case for coffee shop owners.

(10)

Profit maximisation is when firm produce at the point $MC=MR$



Profit maximisation is illustrated on the diagram at P_1 and output Q_1 , and the area of supernormal profits earned at this point is area P_1, a, c, b .

one of the reasons why coffee shop owners can be considered to be operating at $MC=MR$ is Coca Cola's company stated aims 'maximise long term returns to shareholders'. Therefore this suggests that the objective of Coca Cola is for Costa to maximise its profits therefore leading to an increase in the return to shareholders in the form of dividends. Therefore this suggests that the 'branded names seek to maximise profits'.

However to evaluate this firms, within the branded firms are at threat of increased competition within the market 'remain a threat to branded shops' therefore this suggests that within the coffee shop market there are relatively low barriers to entry therefore leading to a threat of hit and run competition for the branded incumbent firms. Therefore there will be little incentive for firms within the market to profit maximise at the threat of being undercut therefore they may sales maximise producing at $AC=AR$. Shown on the diagram as Price 2 and Q2 therefore reducing supernormal profits which attract firms to area P2 d, a, b.

Additionally another reason why ~~the~~ it can be assumed that coffee shops are not all profit maximisers is that small coffee shops run on an average profit as low as 2%, therefore suggesting that the large supernormal profits under p_{max} are not being made by 'all' coffee shops.

However
~~Similarly~~ the coffee shops are also operating within a niche market and therefore 'unique and luxury experience' therefore they may not need to lower their prices in order to remain competitive due to greater brand loyalty than the other chains in the market therefore suggesting that firms with a stronger brand loyalty will be profit maximisers.



This response starts with a clear definition and uses a diagram in context to argue why branded stores like Costa will want to profit maximise for their owners (L3+). The following evaluation regarding the use of sales maximisation pricing to deal with hit-and-run competition is also well applied (L2e). The candidate provided another reason, that of niche independent stores relying on consumer loyalty but being subject to low profit, as drawn from the data (L3 & L2e). Overall, this response achieved L3 (6KAA) and L2e (4ev) and was awarded the full 10 marks.



Try to evaluate in context.

- (c) Profit maximisation is assumed to be the business objective of most firms.
With reference to Extract A, assess whether this is the case for coffee shop owners.

(10)

~~Go back to~~ Coffee shop owners aim expand their firm ~~over~~ instead of profit maximisation.

~~By~~ By expanding coffee shops you can gain more customers and have an increase in brand loyalty.

On line 13 it is stated that "they will often focus on the atmosphere and customer service, luxury food and drink ranges and being apart of the local community" by doing this they would gain more ~~customers~~ brand loyalty and customers because as it's stated before (in extract A) consumers pick coffee quality ~~over~~ ~~the~~ ahead of convenient locations when choosing a coffee.

Having more brand loyalty means that ~~consumers~~ more consumers are likely to choose your coffee shop over the other ones.

By ~~choosing~~ choosing to expand their firm they will experience more ~~economic~~ growth an increase in economic growth in the long run.



This response is awarded a low Level 3 for Knowledge, Application and Analysis (KAA) as it is a very narrow response. No marks were awarded for evaluation (3/10 marks). There is a lack of precision in this response in identifying the alternative objective to profit maximisation. As a result, the candidate displays elements of knowledge and understanding of the concept and there is some understanding in context, but it has not been explained clearly in the response. By not considering profit maximisation, the candidate has not focussed on the broad elements of the question.



Ensure you have mastered key knowledge of economic terms and concepts to avoid generic responses.

Question 6 (d)

This question required candidates to use a cost and revenue diagram in order to achieve Level 3. The diagram in the mark scheme is only for illustrative purposes and alternative correct diagrams were also allowed. To secure top marks, diagrams needed to match against written explanations. For example, a rise in fixed costs would shift AC and not MC and a rise in variable costs would shift both AC and MC upwards. Candidates were required to accurately identify the change in fixed costs or variable cost in the context of the data.

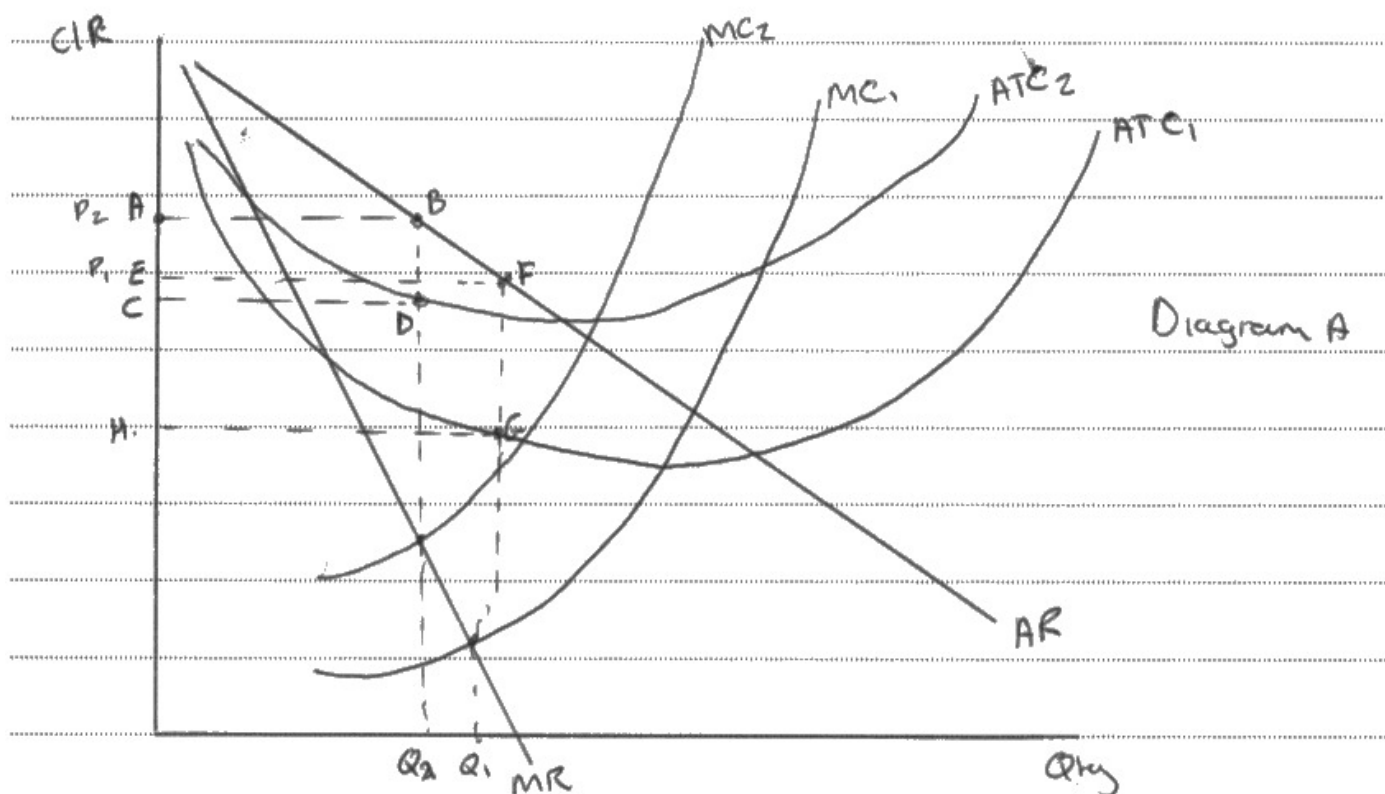
(d) Using a cost and revenue diagram, discuss the likely impact of 'rising costs' for coffee shops on their profitability (Extract A, line 2).

(12)

~~Profitability is how much profit a firm makes~~

A cost is an amount that a firm has to pay in order to produce and maintain output.

~~And increase in rising~~ Rising costs will decrease a firm's level of profit.



~~The~~ Diagram A shows how an increase in costs from ATC_1 to ATC_2 ~~and~~ will decrease the quantity from Q_1 to Q_2 and increase the price from P_1 to P_2 . This will decrease the supernormal profits of a coffee shop from EFGH to ABCD. Therefore coffee shops will try to limit rising costs as it will decrease the amount of profit they make. For example Costa coffee ~~may~~ may increase their prices of coffee as open less coffee shops which will reduce the quantity that Costa supplies. ~~This may also~~ ~~understand~~ ~~reduce growth of Costa~~ This can be seen in Extract A where it states "Costa, opened 60% fewer stores in 2018. Therefore ~~a~~ rising costs will decrease a firm's profitability. However as firms costs increase, their quality of good may also increase which could ~~pro~~ ~~be~~ increase revenue and potentially profit. An example of this is the increase minimum wage of coffee baristas who work for Costa, this may improve employees motivation which may increase productivity. This may lead to an improvement of quality leading to more coffee being sold increasing profitability.



The diagram in this response shows a rise in AC and MC and lower profitability box and achieves Level 3 for KAA for the diagram. However, the response does not identify why costs and variable costs increased in this case. The response provides some explanation of the diagram and a sophisticated sense of using the data to say why quantity is limited, but the lack of reason for the increase in costs places it borderline Level 2 and Level 3. The evaluation linking higher wages to productivity is done well and secures Level 2ev. Overall, this response achieves L3-(6) and L2e-(3ev) and is awarded 9 marks of the 12 marks available.

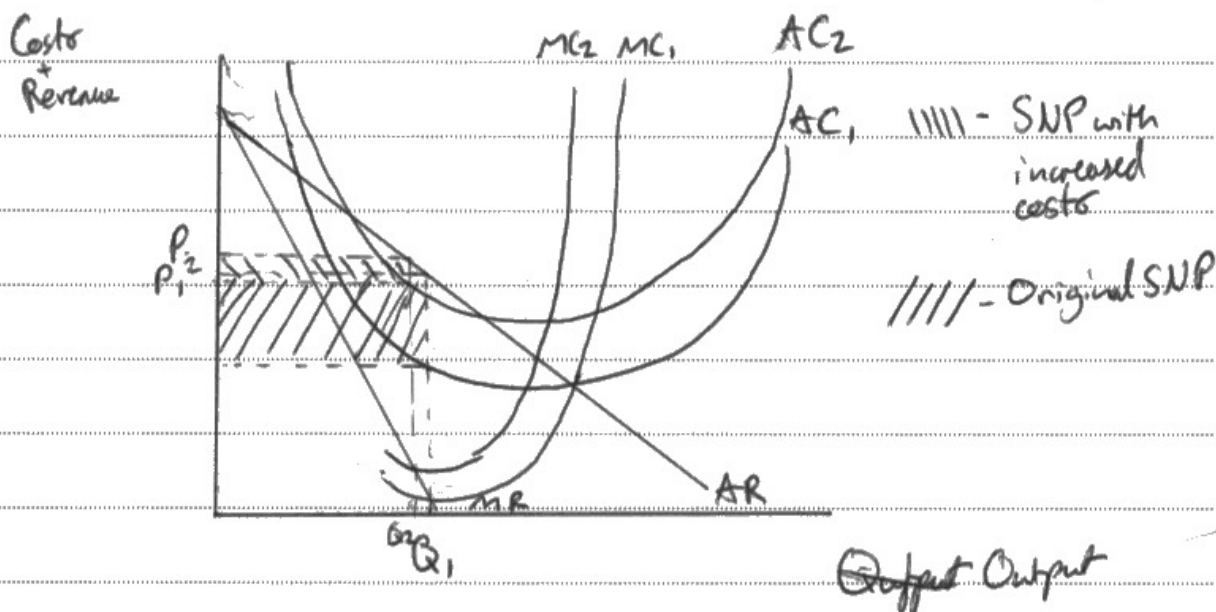


Ensure that you have a precise understanding of why costs curves shift.

Further development of evaluation is welcome but it is best to try to make two evaluative points. Evaluating the diagram would have made sense here. Perhaps the firm does not pursue profit maximisation.

(d) Using a cost and revenue diagram, discuss the likely impact of 'rising costs' for coffee shops on their profitability (Extract A, line 2).

(12)



An increase in costs of production will likely lead to decreased profitability. This is because Profit is Total revenue - Total costs and if costs increase, then profit by definition decreases.

Wages rose by "6.2%" and there were "rising rents" (Extract A). This increase in the cost of labour and land mean that average costs and marginal costs increase ($MC_1 \rightarrow MC_2$ and $AC_1 \rightarrow AC_2$). Ceteris paribus (with all else being equal) this should lead to lower profits (shown by the shaded areas).

However, PED for coffee (the responsiveness of quantity demanded to a change in price) is extremely inelastic as coffee is a necessity for many and takes up such a small percentage of their income.

This means that coffee producers can lay the majority of the burden of higher costs on consumers and therefore they will lose far less profit due to the dependence of consumers.

Moreover, Coca-Cola is likely to divert resources from Costa coffee to other areas if costs are higher. For example they opened "60% fewer stores" in 2019 than in 2018. With fewer stores opening, the ability of these firms to make widespread profits is greatly reduced and ~~the~~ shops may well close down, resulting in lower profits.

~~However~~ On the other hand, an effect could be that independent coffee shops, failing to make a profit, leave the market and if there are fewer firms in the long run, there will be less demand for labour and a decrease in ^{wage} costs eventually for the firms that survive. Therefore the long term profitability of brands like Costa may not be affected. Also labour and rent costs may be small for them in comparison to other costs like capital (coffee machines) and the actual beans, meaning that these "rising costs" may be ineffectual.



This is an example of a well developed responses which is awarded the full 12 marks.



Ensure that in planning your response you place more thinking time into the marks for Knowledge, Application and Analysis (KAA) rather than Evaluation.

Question 6 (e)

This question concerned contestability and the majority of candidates responded well to the key concept of looking at barriers to entry and exit. Where candidates underperformed, responses tended to confuse contestability with competitiveness. To obtain Level 3, candidates had to ensure they applied the theory to the coffee shop market. Candidates could argue either way whether the market was contestable or not, and vice versa. As always on level-based answers the mark scheme is indicative and provides the most obvious and most likely answers.

(e) With reference to the information provided, discuss whether the coffee shop market is contestable.

low sunk costs
new chains at
arrive quick
e.g. 25,892 independent coffee shops (15)
Storage
creaggs
forced firms with larger economies of scale
e.g. Greggs

One way in which the coffee shop market is contestable is through having a large number of firms for example Figure 1 displays statistics for a total of 8222 shops, 3748 of which are chains other than the largest 6. This shows that there are many businesses operating in the industry.

This makes the market contestable as more firms are competing for consumers and thus must go to greater lengths to attract customers for example extra A notes that independent coffee shops attempt to engage in non-price competition by creating a nice atmosphere and providing good customer service. This increases the need for other firms to compete through non-price competition in order not to lose customers, thus the market is highly contestable.

However, coffee shops may be less contestable. These new independent ~~and~~ shops are running at profits as low as 2% of revenue according

to extract a, with many going out of business. This shows that perhaps only firms with large economies of scale such as Costa can afford to operate in the market, thus independent firms may pose less of a risk, meaning there is less need for complete market making the market less contestable.

However, the market may also be characterised as contestable due to low sunk costs ^{and high exit costs} ~~costs~~ ^{entry}.

For example extract a notes that as at 2020 there were a total of 25,892 independent coffee shops. This suggests that there aren't many high barriers to entry for independent owners as there are so many. This means it is easy for

shops to set up to meet any increase in demand. Thus when high profits start being made, new coffee shops will enter the market, increasing supply and ~~pre~~ bringing prices back down to a more competitive level, reducing profits and increasing contestability.

However, there may in fact be quite high sunk costs for some chains. For example Source B notes that Greggs has changed its image through clever marketing campaigns. Money spent on advertising cannot be taken back, making it

more difficult for firms to leave the market as they lose their investment. Thus these high barriers to exit will make the industry more difficult to leave, ~~increasing~~ ~~contestability~~ decreasing contestability.



In this response, the first part argues that it is contestable over two-sides but does not directly address barriers to entry and exit so achieves Level 2 for KAA. This is then evaluated by arguing that small independents cannot achieve economies of scale as evidenced by 2% profit margins indicating problems with contestability and thus securing Level 2 evaluation.

The second point is better evaluated as it argues that again the market is contestable, but this is due to low sunk costs and so achieves L3 for KAA, with good reference to independents. The candidate expands the response by evaluating the use of Greggs heavy sunk costs involved with advertising as not contestable and achieving Level 3ev. Overall, this response secures L3 and L2e+ = 7+4e. This response is awarded 11 marks of a total of 15.



Allow yourself thinking time to address your understanding of the key concept and to plan out a relevant answer. Feeling your way through an answer risks an overlong first paragraph which lacks a precise understanding of the key concept. Whilst this can be addressed later on it can bring about time management issues.

Practice relating the key concept in the question to the data provided.

(e) With reference to the information provided, discuss whether the coffee shop market is contestable.

(15)

contestability looks at how competitive a market is by seeing if it is easy for new firms to enter the market.

It can be argued that the coffee shop market is highly contestable due to the sheer number of competitors in the market ranging from big chain stores like Costa Coffee, to ~~the~~ lots of independent, local stores which accounted for "25992 shops in 2020". In turn this demonstrates there are somewhat low barriers to entry as many independent coffee shops are able to start up, so buying coffee grinders or dispensers may not be large sunk costs. Also, coffee shops appear to be contesting with non-monetary factors such as offering "~~luxury~~ food and drinks ranges", so rather than focusing on the price of goods, they are focussing on the quality as a "unique luxury experience" is demanded. Thus, implying it is fairly easy for independent coffee shops to start up.

However, as stated in Extract A, "major coffee brand, such as Costa, continue to lead coffee shop expansion" which would imply they are a fairly

large firm in the market and so have some ability to dominate which could be shown through Costa having the largest number of shops at "2681"

as shown in figure 1. This could enable them to have some price making powers and so would reduce contestability. But, this may depend on what the JCEB is as consumers may switch to from Costa to an independent coffee shop if prices are charged too high.

Also, the coffee markets high levels of contestability may have influenced Gregg's aims to "increase... market share" through other methods by diversifying and relying less on just coffee. This is evident through Gregg's

"embrace of vegan, gluten-free and healthy options" which demonstrates how Greggs are changing their marketing strategy to appeal to different markets as they have recognised how increasing competition from independent shops may threaten them. So this would indicate that the coffee market is highly contestable.

But Greggs is a fairly well established brand in the UK's coffee market which could reduce the incentive for new firms to enter the market as Gregg's "image" alone acts as a barrier to entry.

making it difficult for independent firms to compete on a national scale across the UK. despite, this independent coffee firms are still on the rise and often thrive in their local areas which shows how contestable the market truly is.



ResultsPlus
Examiner Comments

This is a well-written answer to this question, particularly in terms of logical and coherent chains of reasoning in both KAA and Evaluation. The first point shows precise knowledge and understanding and whilst making effective use of the data, the candidate applies the concept well to the basics of setting up a coffee store. The price setting power of Costa as a barrier to entry makes again good use of the data but it would have been better to refer to limit pricing. The second point is based well in evidence and theory, and it is well evaluated as well as counter evaluated.

Overall, this response achieves Level 3 for KAA and Level 3 for evaluation = 8+5e. This response is awarded 13 marks of the 15 marks available.



ResultsPlus
Examiner Tip

In application, try to apply yourself to the context of the question, in this case, the practicalities of opening a coffee shop. Imagine yourself problem solving as an economist. Contexts are often chosen that are relatable to you.

Question 7

The stem pointed students in the direction of Tesla and application of this to the question was popular with good insights into how Tesla may focus on dynamic efficiency but then, due to its dominant position, act in an inefficient manner.

Unlike previous essay-based questions students were allowed to discuss other examples of monopolies and this approach was taken up as they moved on to discuss a second efficiency point, often looking at the behaviour of a natural monopoly, such as in the water industry.

Students were not required to draw a diagram, but the better analytical responses often did make effective use of a precise cost and revenue diagram. The diagram in the mark scheme is for illustrative purposes and other suitable diagrams were allowed.

In terms of evaluation, students did approach the question in different directions, some arguing that monopolies were inefficient and then countering this, and others vice-versa. Either approach was valid.

Lastly, there were attempts at a conclusion, but this was often used to summarise points already made rather than making a clear judgement. When the latter was the focus of the conclusion, it was often done well and helped to raise the overall score.

Write your answer here:

A monopoly is able to operate efficiently as long as they have a business plan which describes the key objectives they need to meet. During the first half of 2020, Tesla held 82% of the market share for electric vehicles in the United States. They were able to control this substantial amount of the market as ~~they~~ there are high barriers to enter the market, Tesla has a large online following due to the CEO, Elon Musk having a huge fanbase and helping Tesla to expand to the lower company it is. Tesla has a large amount of resources including capital and labour. Tesla employs 99,000 workers therefore production is maximised and extremely efficient as they are able to produce a large amount of vehicles. Tesla have always specialised in the manufacturing of EVs ~~vehicles~~ therefore they have key knowledge on how to produce the best EVs. Competitors such as Audi, BMW and VW have not specialised in manufacturing EVs therefore they have to invest in the research and development of creating high quality vehicles that are able to compete with Tesla. As more companies create EVs Tesla's huge market share may decrease however this may cause them to try and create even better ~~products~~ vehicles or a better range that could stop

consumers from buying from other firms. Tesla is able to offer EVs to most consumers as they offer high performance cars to consumers that have more disposable income, a larger vehicle catered towards families and cheaper smaller cars that allow lower waged earners to still have the opportunity to afford the car. By Tesla covering all their bases means they are able to operate efficiently as they can offer products to most people and this also stops the chances of a competitor offering a better priced to performance vehicles as Tesla may have economies of scale reducing their costs allowing them to create more profit.

Another example of a monopoly that is able to ~~run~~^{operate} efficiently in their market is the National Rail Service in the UK. This ~~company~~ firm is able to run efficiently in the market as they own the infrastructure ~~to~~ provide consumers and is very difficult for new firms to penetrate the market as they would have to build and operate their own railway service which would cost millions of £'s and would be difficult as they would need lots of land to be able to create the railway. As the national rail service is a monopoly they are able to price discriminate and charge younger people lower prices to encourage them and economically active age groups a higher price as they may have to travel into London for their job therefore have limited ways of getting into the city for a cheaper price. By having the option on how to charge consumers allows the

National railway service to operate efficiently as they are able to charge a price where they create a profit and use that to reinvest into other parts of Government sectors.

Therefore by running a monopoly smoothly may allow the firm to create large amounts of profit however if they make too high profits for example Tesla the government may introduce taxes on certain parts of Tesla's manufacturing part which ~~may cause~~ will hopefully ~~also~~ generate more revenue for the government whilst keeping CO₂ emissions low from the EVs.



This response, whilst being knowledgeable about Tesla, lacks an effective sustained use of economic theory. Application should be anchored to knowledge and understanding, and candidates must be careful that being aware of a firm or industry in detail will not score high marks unless it is showing an ability to link knowledge and understanding in context using appropriate examples.

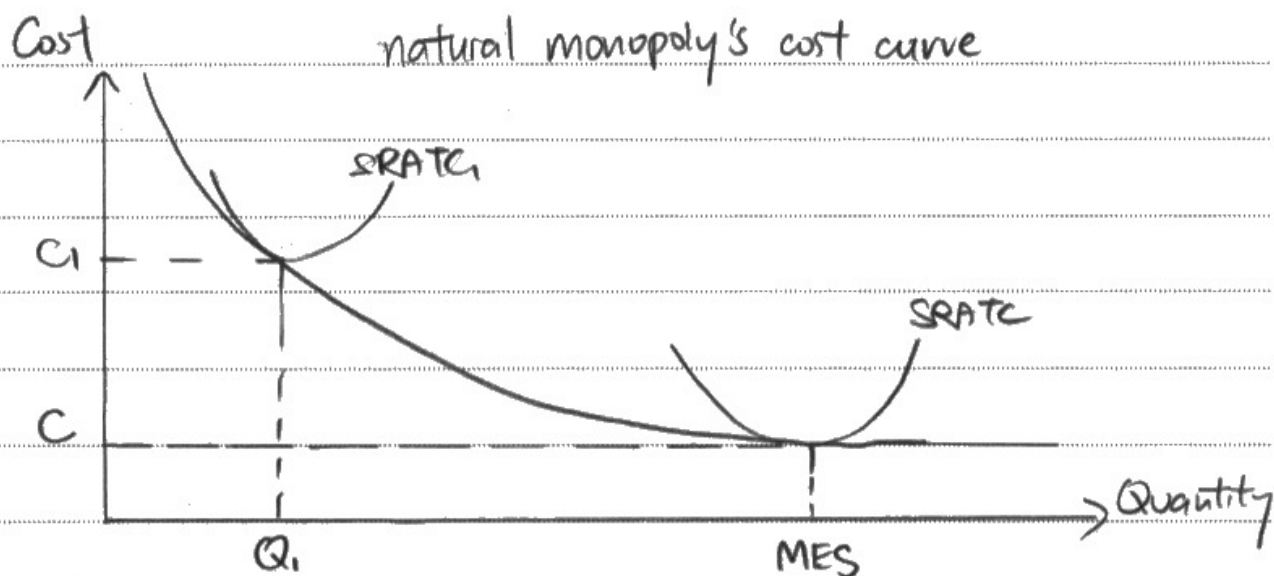
The initial point has perhaps some isolated or imprecise understanding of specialisation and research and development, but this is at Level 1. Again, there is similar coverage of economies of scale at the end of the paragraph on the second page.

The focus on infrastructure and land associated with rail being a natural monopoly displayed some elements of knowledge to get to a low Level 2 response. Likewise, the remaining analysis whilst perhaps going back over research and development does enough to lift this point to low Level 2.

Lastly the attempt at evaluation makes some linkage to social efficiency. Overall, this response was awarded L2 and L1e = 5 and 1e = 6 marks.



Whilst it is good to spend time on case studies looking at a specific firm, market or industry, it is essential that the focus is on showing an ability to link knowledge and understanding in context using appropriate examples. Start with the key concepts and see how they are applied to the case study you are looking at.

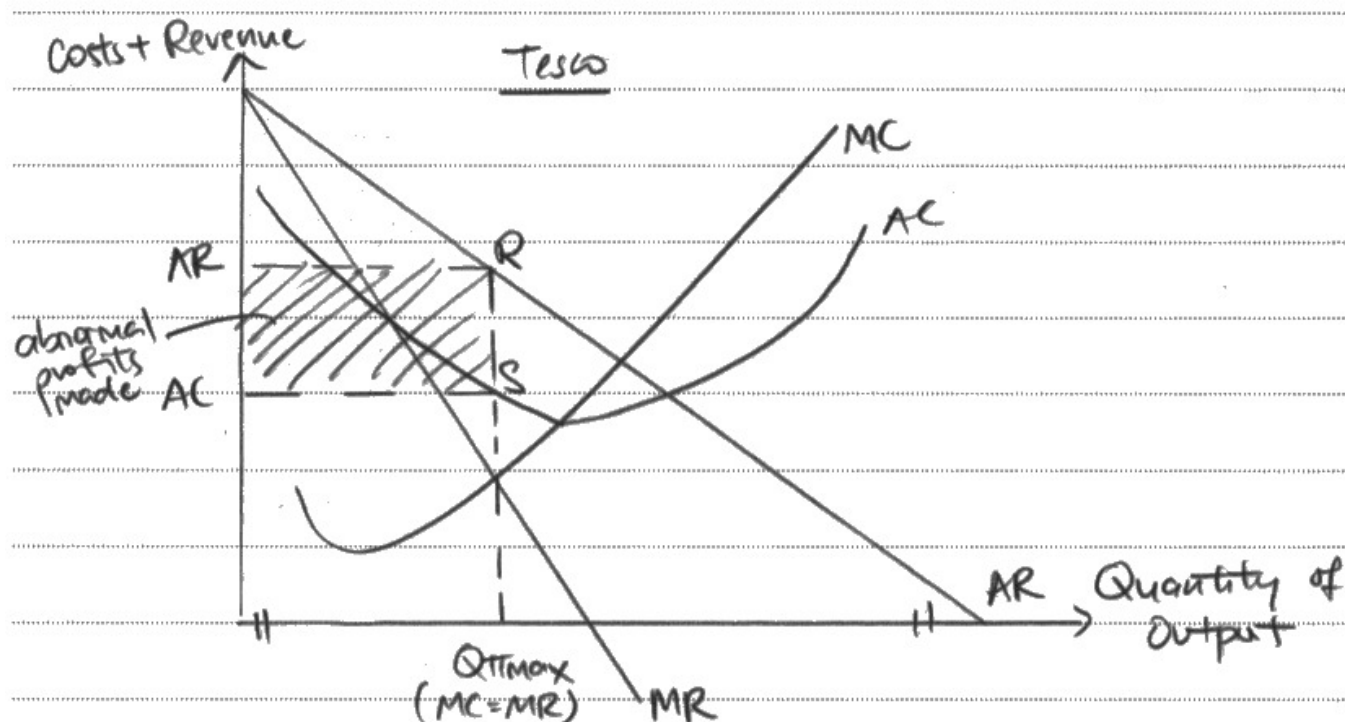


However, the extent to which the natural monopoly is productively efficient depends on the ownership. ~~The UK gas and electricity supply~~ The UK natural monopoly supplying gas and electricity was created and owned by the UK government, meaning there's an incentive to

especially working monopolies

However, monopolies may be considered X-inefficient. Due to the principal agent problem, managers are in control of taking risks and making decisions for the firm and its owners and are able to pursue their own objectives rather than the owner's objectives, especially when there's a high degree of moral hazard involved. As a result managers may be feather-bedding (e.g. buying company cars for Tesco directors and managers) or taking excessive risks that result in the firm incurring unnecessary costs, leading to X-inefficiency which may offset the previously mentioned, productive efficiency.

On the other hand, a working or legal monopoly may also be considered dynamically efficient. For example, Tesco is a working monopoly with c.30% market share in the UK supermarket industry. This means it has considerable monopoly power, ~~also~~ allowing them to set high prices — at the profit maximising position ^(Q_{Tmax} , ~~AR~~) and level of output rather than the perfect competition, socially optimum level of output.



Operating at the profit maximising output level allows Tesco to make abnormal profits (shaded area AR, AC, R, S), which can be reinvested into research and development to improve their production processes or their products themselves. This may lead to more efficient production processes or higher quality goods and services — e.g. fresher, pesticide-free fruit and vegetables, wider range of lactose free milk. ~~increasing quantity of products which increases consumer welfare~~ ~~More efficient production processes~~ through being dynamically

However, this depends on the objective of the firm. If the monopoly is profit satisfying, for example, ~~then~~ where Tesco shareholders enjoy a satisfactory level of profits through dividend payments & while managers featherbed, then ~~as a result~~ ~~then~~ a bigger proportion of any abnormal profits made may be distributed to shareholders through dividend payments, leading to less abnormal profits being reinvested into research and development and hence ~~the firm~~ Tesco may be less dynamically efficient than originally thought.

Overall, I judge that monopolies are likely to operate efficiently, especially because monopolies are guaranteed abnormal profits which can be reinvested into dynamic efficiency, compared to, say, an oligopoly where abnormal profits aren't guaranteed. However even this depends on the contestability of the market, since the higher the contestability, the ~~the~~ bigger the incentive for incumbent firms to innovate ~~and~~ ~~to~~ to compete against potential competition, which may lead to even higher dynamic efficiency gains than originally thought.



This response starts with identifying what monopoly power is in the context of Tesla. The first part focuses on efficiency, though it is related to the UK gas and electricity distribution industry as a natural monopoly.

The chain of reasoning flows well regarding productive efficiency and there is a link to the concept of productive efficiency as illustrated, although the diagram is missing the LRAC label. This paragraph secures highly at Level 3.

The next paragraph attempts to evaluate by making use of x-inefficiency and the principal agent problem and is well written, securing Level 3 evaluation.

The response then moves onto looking at the issue of dynamic efficiency in the context of Tesco with some attempt to link the context of Tesco lowering its average cost. Again, this was seen as a top Level 3 response in terms of Knowledge, Analysis and Application (KAA).

The following section of evaluation risked being repetitive, but the point regarding diverting profits to shareholders was viewed as enough for sustained Level 3 evaluation. The conclusion adds some judgement. Overall, the response achieves L3+ for KAA (12) and L3ev (7EV) = 19 marks.



Spend time planning your essay response in terms of the key points and evaluation that you want to make to avoid the risk of repetition.

In terms of context, try to ensure that examples given link tightly to the economic concept you are trying to address.

Remember a judgement is expected to get the very top marks for evaluation for the 25 mark questions.

Question 8

This question drew on candidates' knowledge from the topic area of Supply of Labour, as indicated on the Advance Information for Paper 1.

An accurate drawing of the labour market diagram was not required, but some candidates did identify suitable labour market diagrams to aid their explanation. Candidates did not have to focus on one occupation and answers to any occupation were allowed, as well as to more than one occupation to make both questions equally accessible.

This question was very topical, but it was less popular than question 7. On the whole, responses were not as strong for this question.

Despite the topic being current, many responses were very context rich, but candidates needed to ensure they spent time on the theory. However, there were some particularly good theoretical answers that were well applied.

In some cases, there was evidence of candidates only briefly covering a wide range of factors that influence supply, but with limited evaluation. Candidates do not have to offer three points or more, and typically the best performing responses covered in-depth two points with coherent chains of reasoning that were well evaluated.

Write your answer here:

One Factor that may impact supply of labour in the NHS is the qualification and training to become a nurse or doctor. The demand to become a nurse or doctor is high however the qualifications to access this opportunity is high it may take years of training and studying which may create an incentive to look for a different occupation this is because individuals act rationally and time is a significant factor when making a rational decision.

One strength of this factor is that it produces a educated workforce that provide efficient service to society which has a social benefit to society.

Alternatively one limitation is the time + to become a doctor or nurse may prevent people studying and training to become one.

Another factor that may impact the supply of labour in the NHS is geographical mobility the NHS is a national workforce for the UK that might attract other workers from foreign countries to work like immigrants in other countries that study to become a nurse or doctor but not able to full their work due to their geographical mobility.

One strength of this factor is that it provides a global workforce and diversity in the NHS also it helps increase staff shortages and unemployment.

One limitation of this factor is that the individuals who study or interested in medical work may live in foreign countries affecting the accessibility to the NHS.

Another factor that may affect supply of labour is Occupation many individuals are unable to work due to ties such as in full time education Single parent, disabled. Individuals Occupation affect the supply of labour as there is a demand to these jobs in the NHS but there are ties prevent individuals from pursuing medical jobs.

One strength of this factor is that it highlights the missing workforce that have potential opportunity to work in the medical industry.

One limitation with this factor is that there's no solution to help individuals with ties in most cases which creates more staff shortages and unemployment.

Another factor that may effect supply of labour is wages. If wages cover living costs it will increase employment in the NHS and private wealth to individuals.

However wages in Nursing and Doctor pay. Nurses are usually paid less but might do alot more social and emotional care compared to the doctors this might effect the amount of people willing to join the NHS if the workload is not efficient to the wage rate.

In conclusion there are a wide range of factors that effect the supply of labour and overall many issues can be solved within the business, like the NHS for example can provide social to help increase supply of labour.



The first factor in this response concerns training in the NHS and time lags that may result in rational behaviour taking workers elsewhere. This factor secured Level 2 for KAA. The following factor relating to geographical mobility also secured Level 2 for KAA.

There is some evidence of evaluation concerning workers wanting to work overseas, but this could have been better phrased and, as such it was awarded Level 1 for evaluation.

The reference to barriers to work, such as disability, lacked a detailed theoretical explanation and was therefore awarded Level 2 as it was limited to two stage chains of reasoning.

Finally, the response refers to wages but knowledge is imprecise and therefore is awarded Level 1. Overall, this responses was awarded L2 (7 KAA) and L1ev (2EV) = 9 marks.



- Try to avoid narrow responses or superficial answers by practising going beyond two stage chains of reasoning. Do so both for developing your point (KAA) and evaluation.
- Ensure you are evaluating what you have written in the context of the question set.
- Make effective use of a knowledge organiser so that your knowledge and understanding is precise.

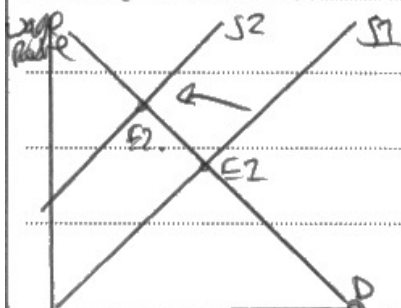
Chosen question number: Question 7 ☒ Question 8 ☒

Write your answer here:

The supply of labor is the ability + willingness of workers / individuals to work at a given wage rate at a given time in the economy.

Many factors can cause labor shortages in the UK such as wages. The occupational supply of labor is the amount of workers willing to work in a certain industry. For example, there may be labor shortages in the healthcare industry due to a lack of wage competitiveness. Qualified nurses / doctors may not be willing to work if they feel they aren't making enough. It is hard for worker representatives such as trade unions to argue for real wage increases as healthcare professionals under the NHS work for the government. So, there may be labor shortages because constant wages that do not rise with the rising cost of living may discourage people from working in healthcare, these student doctors / nurses may instead work for the private sector or go abroad to countries like the US which have a private healthcare system with higher wages.

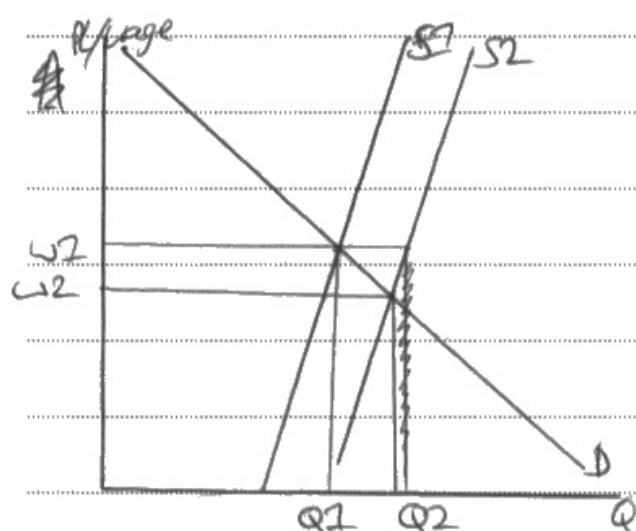
This would cause a decrease in supply available in the UK



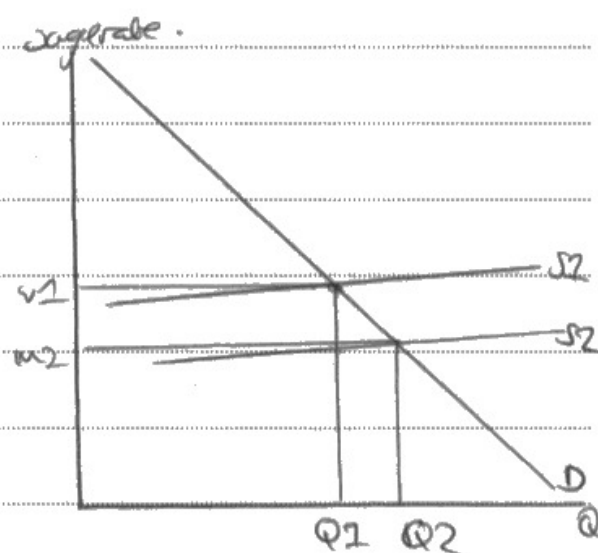
and cause an increase in supply

meaning that there is not enough supply available to meet the demand of labor.

However, the impact of these labor shortages depend on the elasticity of labor. PES of labor is the responsiveness of supply of labor to changes in the wage rate. 'Hard to fill shortages' such as qualified nurses/doctors or so engineers have an inelastic PES because these jobs require high levels of skills + training. These occupations that face shortages have to wait until their workers are fully qualified + trained, this will help to fill shortages in the ~~short~~ ^{long} run but in the short run it will remain inelastic due to time. On the other hand, lower skilled jobs such as cleaners + supermarket workers have an elastic PES. They require less skills + ~~do not~~ the firms that hire them can pick from a large pool of workers. It takes less time to train these workers and they are elastic as they are able to quickly respond to changes in the wage rate. This would lead to less labor shortages if these ~~workers~~ ^{firms} have less requirements for the job/workers.



(Inelastic PES)



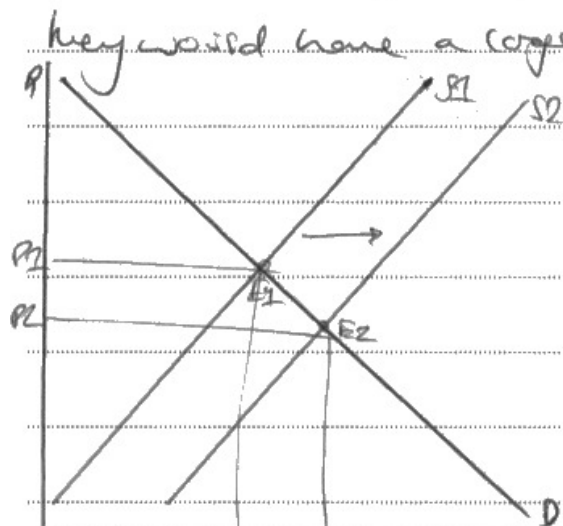
(Elastic PES)

Another factor which influences the supply of labor is market failure in the labor market. Occupational immobility is when workers lack transferable skills and cannot switch industries and Geographic immobility is when workers cannot move to find work. This market failure can cause excess supply/demand in an area or occupation. Immobility causes workers to become idle as they cannot move or find jobs that suit their skills. For example, miners became ^{occupational} immobile after the mine shut down, this was because their skills couldn't be used in any other industry or job.

However, this factor is not as important, as the gov is able to solve it to reduce its impact on supply of labor.

Occupational immobility can be solved through investment in training ^{or education} ~~and or~~ to increase the skills + quality of the workforce. Geographic mobility of labor can also be solved ~~through~~ through subsidizing housing costs or travel costs in order to encourage workers to move to areas of excess demand of labor.

The gov can also encourage migration ^{to increase the} of working-age population. This would help the firms meet their demands of labor as they would have a larger pool of ^{supply of} workers.



This would all influence the supply of labor, especially in low-skilled occupations like ^{or long ones} office jobs that do not require extensive education + training/skill for workers.

Another factor which may influence the supply of labor is non-monetary benefits. Job satisfaction may increase the supply of labor in the healthcare profession/industry & ~~possibility~~ of holidays may attract more workers to the teaching industry due to 6 weeks of holiday. These benefits attract workers and cause an outward shift in supply for these types of occupations.



In this response, factors influencing supply is dealt with richly in terms of precise economic knowledge and understanding using appropriate examples.

The first reason is set in the context of the health industry making effective use of a good diagram which was awarded L4 for KAA.

The following section evaluates making use of the price elasticity of supply concept. The switch in occupation focus to cleaners is appropriate. The diagram would have been better if it had shown a shift in demand, but the written explanation is secure to achieve Level 3 for evaluation.

The second factor regarding the issue of occupational mobility and miners is well addressed, and achieved highly in Level 3. The intervention of government as an evaluation achieved L3 for evaluation.

Finally, the consideration to non-monetary factors was awarded Level 4 for KAA.

Overall, this response was awarded the full 16 marks for KAA and 8 marks for evaluation. The judgement needed to be more secure to obtain full marks.



- Ensure that you offer a clear judgement that answers the question.
- Draw upon your wide-ranging knowledge of economic concepts and terms to provide a coherent chain of reasoning.

Paper Summary

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

- Practice complex diagrams such as externalities, the pay-off matrix and cost and revenue. Making effective use of diagrams helps to lock in knowledge and analysis marks or provides a way into evaluation.
- In application questions, try to apply yourself to the context of the question. Imagine yourself problem solving as an economist.
- 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 Knowledge, Analysis and Application (KAA).
- Quality over quantity. Try to avoid narrow responses or superficial answers by practising going beyond two stage chains of reasoning. Do so both for developing your point (KAA) and evaluation.
- Clearly identify which essay you have chosen by placing a cross in the correct box.
- Ensure you answer the precise question you have been set. For example, if you have been asked to refer to an economic concept this is what you must base your answer around.
- Ensure you have mastered key knowledge of economic terms and concepts to avoid generic responses. Studying current developments in economics is useful but it needs to be relevant to your specification.
- Remember a judgement is expected to get the very top marks for evaluation on the 25-mark question.
- Improvement in poor handwriting skills to ensure candidates' answers are clear and easy to follow.
- Ensure you have access to a calculator for the exam.

Grade boundaries

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

<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

