Pearson Edexcel

Mark Scheme (Results)

January 2021

Pearson Edexcel International Advanced Level
In Economics (WEC13/01)
Unit 3: Business behaviour

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January 2021
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General Marking Guidance

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

Section A

Question Number	Quantitative skills assessed	Answer	Mark
1		**The only correct answer is A** **B** *is not correct because the increase in house prices in Sydney relative to other parts of Australia would reduce geographical mobility of labour* **C** *is not correct because the increase in house prices in Sydney relative to other parts of Australia would reduce geographical mobility of labour* **D** *is not correct because the increase in house prices in Sydney affects geographical mobility of labour*	**(1)**
2	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** *is not correct because this is the 3-firm concentration ratio* **C** *is not correct because this is the sum of the market shares of the largest 3 firms and 'others'* **D** *is not correct because this is the 5-firm concentration ratio*	**(1)**

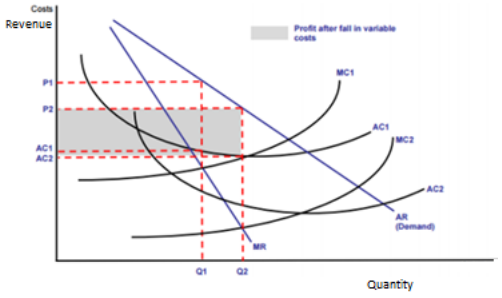
3	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** *is not correct because a firm in a monopolistically competitive market does not produce at the lowest point on the AC curve* **B** *is not correct because there is freedom of entry in a monopolistically competitive market so any short-run supernormal profits would be competed away in the long-run* **C** *is not correct because is not correct because a firm operating on a monopolistically competitive market does not produce at the output at which price = MC*	**(1)**
4	**QS8:** Make calculations of elasticity and interpret the result.	**The only correct answer is C** **A** *is not correct because a fall in net migration would cause a fall in the supply of labour* **B** *is not correct because a decrease in productive efficiency would affect output and not the elasticity of supply of labour* **D** *is not correct because a rise in trade union membership could cause a fall in the supply of labour*	**(1)**

5	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** **B** *is not correct because the profit motive and an increase in competition resulting from privatisation would increase productive efficiency* **C** *is not correct because an increase in competition resulting from privatisation would lead to greater consumer choice* **D** *is not correct because privatisation involves the sale of shares to individuals and institutions*	**(1)**
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** *is not correct because if TR is rising at a constant rate then MR will be constant* **C** *is not correct because if TR is rising at a constant rate then MR will be constant and positive* **D** *is not correct because if TR is rising at a constant rate then MR will be constant and positive*	**(1)**

Section B

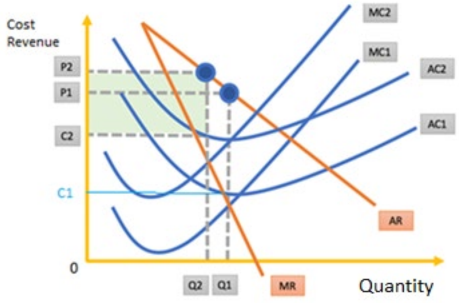
Question Number	Answer	Mark
7 (a)	**QS6:** Calculate cost, revenue and profit. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Application 2** Up to 2 marks for calculation: • Total costs = total revenue - profit **(1)** **OR** • 73822 bn Rs - 22854 bn Rs **(1)** • = 50968 bn Rs **(1)** **NB: Award full marks for correct answer regardless of working.** **If Bn omitted from answer award 1 mark only**	**(2)**

Question Number	Answer	Mark
7 (b)	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge 2, Application 2** **Knowledge:** 1 mark for definition of monopsony employer: • Monopsony employer - where there is only one employer/buyer of labour in the market **(1)** **PLUS ONE MARK FOR DEVELOPMENT** • Monopsony employer has buying or bargaining power in the labour market **(1)** • Monopsony employer can exploit its bargaining power with employees to negotiate lower wages **(1)** **Application –** Up to 2 marks for application to context of Tata steel • Tata Steel and Thyssenkrupp would become a monopsony employer of steel workers in the UK and the Netherlands **(1)** • Employees expected job losses **(1)** and lower real wages if the merged company's monopsony strength grew **(1)** • Steel workers would have no alternative employer for their skill set **(1)**	**(4)**

Question Number	Answer	
7 (c)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Either Approach 1** **Knowledge**  Up to 2 marks for drawing a diagram that shows knowledge of: • Original AR, MR, AC1, MC1 and profit-maximising equilibrium **(1)** • Decrease in variable cost would cause downward shift from MC and AC curves to MC2 and AC2 **(1)** **Analysis** Up to 2 marks for linked explanation of impact on car manufacturers' profits e.g.**:** • Car manufacturers face lower manufacturing costs **(1)** and if demand is unchanged then supernormal profits will increase **(1)** • Diagram showing increase in output at new MC=MR **(1)** with new profit area shown **(1)** **Application** Up to 2 marks for reference to Extract B • The merger would result in savings of €400 million' **(1)** • 4000 reduction in staff from the merger **(1)** • The firms hoped to benefit from lower long-run average costs **(1)** **OR Approach 2**	

Knowledge

Merger causes increase in market power between the two firms. This enables them to increase prices.



Up to 2 marks for drawing a diagram that shows knowledge of:

•Original AR, MR, AC1, MC1 and profit-maximising equilibrium **(1)**
•Increase in variable cost would cause upward shift in MC and AC curves to MC2 and AC2 **(1)**

Analysis

Up to 2 marks for linked explanation of impact on car manufacturers' profits e.g.**:**

- Profit-maximising (loss-minimising) output would fall from 0Q1 to 0Q2 / price will rise from 0P1 to 0P2 **(1)**
- Final profit-maximising (loss-minimising) equilibrium showing higher price, lower output **(1)** and fall in supernormal profit (C1, P1, Q1 to C2, P2, Q2) **(1)**

Application

Up to 2 marks for reference to Extract B

- The merged company would become the 2nd largest European steel manufacturer **(1)**
- 48 000 workers & generate €15 billion in sales **(1)**
- Increased market power **(1)**

Evaluation 2

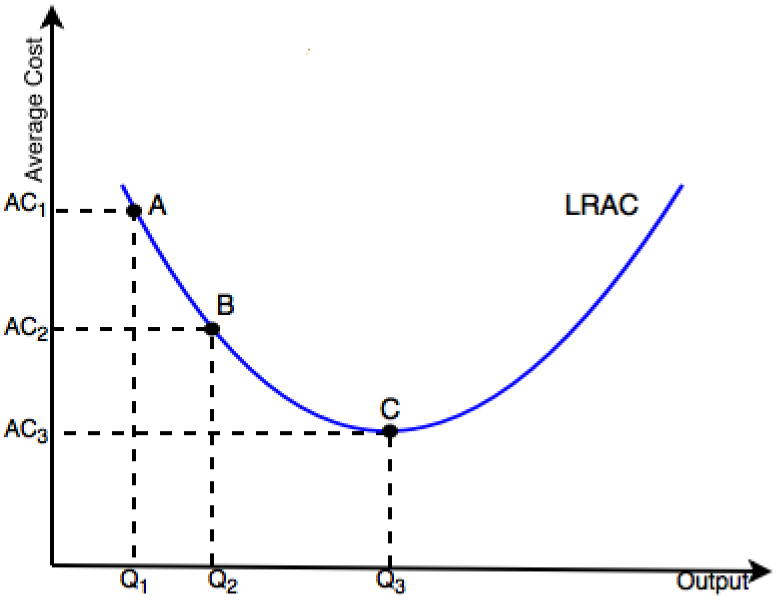
Up to 2 marks for evaluative comments, e.g.:

- Increased market power of the merged firms creates price setting ability **(1)** firms could raise prices to car manufacturers reducing profits **(1)**
- If demand is inelastic car manufacturers can raise prices **(1)** and increase revenues and profits **(1)**

		• If demand for cars is inelastic, car manufacturers will increase their prices **(1)** the increase in revenue will offset any increase in costs and profits remain the same **(1)** • It depends on the significance of steel as part of the production process. **(1)** If it is a small part of the total production costs the impact would be limited **(1)** • Merger may lead to lower average costs of production/economies of scale which may be passed on to car manufacturers **(1)** • Firms might be able to reduce costs elsewhere maintaining profits **(1)** • There is still competition in the steel market (oligopoly) **(1)** therefore prices may not increase significantly **(1)** • Car manufacturers may decide to switch to lower priced imported steel **(1)** steel costs may fall, increasing profits **(1)**	**(8)**

Question Number	Answer	Mark
7 (d)	**Knowledge 2, Application 2, Analysis 2** **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and Analysis** 1 mark for definition of merger, e.g.: • When two firms willingly join together **/** definition of competition policy- government policy that aims to make markets more competitive **(1)** Up to 2 marks for identification of two reasons why the merger was blocked and up to 2 marks for linked explanations e.g.: • Job losses/redundancy as firms cut back on excess staff **(1)** leading to job losses in the steel industry. **(1)** • Losses or fall in profit for firms that use steel in their production process **(1)** as the increase in market power of the merged firms enables these firms to increase the price of steel **(1)** • The increased price of steel **(1)** increases the costs of production for many products **(1)** • An increase in monopsony power gives the firms stronger bargaining power over wages **(1)** this could lead to lower wages in the steel industry **(1)** **Application** Up to 2 marks for reference to Extract C, e.g.: • Reduce competition **(1)** • Tata steel and Thyssenkrupp more dominance in market **(1)** • Monopsony employer of steel workers in UK and Netherlands **(1)** • Negative feedback from car manufacturers/firms in the packaging industry **(1)**	**(6)**

Question Number	Indicative content
7 (e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed** **QS4**: Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, application, analysis (8 marks) – indicative content** Definition of horizontal integration- when two firms merge at the same stage of the production process in the same industry • Firms in the Indian steel industry are dynamically efficient • Tata steel is the largest producer in India • It would become Europe's second largest steel producer generating €15bn in sales • Firms would be able to recover the fall of profits of between 8% and 17% after the tariff was imposed by the US their biggest export market • The efficiency savings would be worth over €400m • Reducing the number of employees by 4000 in administration (reduction in X-inefficiency) and manufacturing would reduce costs, increasing profits • The firm would benefit from lower LRAC - economies of scale • The firm may reach their minimum efficient scale • The firm may become more productively efficient • Dynamic efficiency may increase • Stronger monopoly power gives the firm greater price setting ability and higher prices may increase profits

	Example of diagram showing LRAC falling as output increases 

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (6 marks) – indicative content • Culture clashes may make it difficult for the firms to merge • Uncertainty may reduce employees' motivation and productivity • Diseconomies of scale may occur, e.g. if communication is difficult within the merged firm • Legal costs are high when merging, reducing profits • The firm will not become the largest steel producer in the market, limiting their price setting ability • Short-run impacts are not as significant as long-run impacts on the firm, it will take time for the new firm to establish how it will operate to see the maximum benefit • Cost saving might not be big enough to recover costs from fall in profits after tariffs imposed by the US • Risk of government intervention • Magnitude of the benefits in terms of size of the new merged firm • Tata Steel is already dynamically efficient	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question Number	Indicative content
8	**Indicative content guidance**

Indicative content guidance

Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

Quantitative skills assessed

QS4: Construct and interpret a range of standard graphical forms.

QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

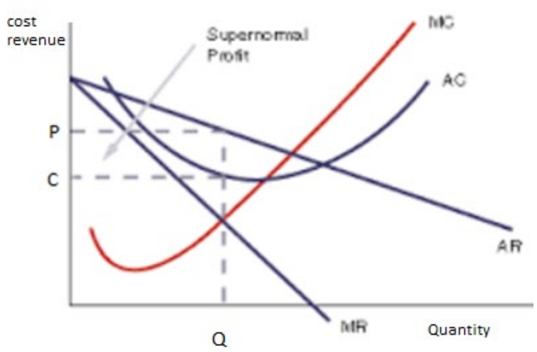
Knowledge, application, analysis (12 marks) – indicative content

An oligopoly is when a few large firms dominate the market and there is interdependence between the firms

Oligopolies may set prices using game theory

		Firm A High price	Low Price
Firm B	High Price	*(collusion)* (A) £8m, (B) £8m	(A) £1m, (B)£10m
	Low price	(A) £10m, (B) £1m	*(non-collusion)* (A) £3m, (B) £3m

If there is no collusion, then the outcome will be low price, low price. No firm will change its price from this as it would lose revenue/profit



Colluding firms act as a monopoly with price setting ability generating supernormal profits

	Disadvantages for Consumers: • A small number of producers limits competition, this limits choice for the consumer, reducing consumer welfare, e.g. limited number of mobile phone companies to choose from • Interdependence between firms may increase barriers to entry and high barriers to entry reduce the ability for new firms to compete. This reduces choice and consumer welfare • Firms may engage in anti-competitive practices such as price fixing or form cartels. These lead to higher prices, reducing consumer surplus. Disadvantages for Producers: • A large producer in the market may use price leadership to stop any price competition. This may stop other firms entering the market, as barriers to entry have increased. • Interdependence between firms may increase barriers to entry and reduce the ability for new firms to compete, e.g. no new entrants into the insurance industry • If few large firms dominate, they may all achieve economies of scale, making it difficult for new firms to enter the market and compete • Lack of competition may encourage more regulation in the market • Danger of price-cutting wars leading to lower profits or losses • Need for non-price competition which may require large marketing/advertising budget • Uncertainty in the market, e.g. ability to break the cartel agreement **NB if no industry referred to candidate can achieve a maximum of Level 3** **NB if no diagram candidate can achieve a maximum of Level 3.** **NB if producers or consumers are omitted the candidate can achieve a maximum of Level 3**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

<table>
<tr><td></td><td colspan="2">Evaluation (8 marks) – indicative content

Possible benefits to consumers
If price wars occur, prices might fall for the consumer
Firms may achieve economies of scale, reducing costs and prices for the consumer, increasing allocative efficiency and consumer surplus.
Firms will need to compete to gain market share improving quality and lowering prices
Possible benefits to producers
Collusion/cartels could lead to an increase in profits of firms
If goods are not homogenous there might be price competition and choice
Larger firms are more able to achieve dynamic efficiency, improving production and/or quality increasing sales
Greater profits from large firms enables them to have greater investment funds
Price wars reduce contestability
Competition laws may protect small businesses from being exploited
Small firms can still operate in some markets
Limited competition is preferable to a monopoly</td></tr>
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<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
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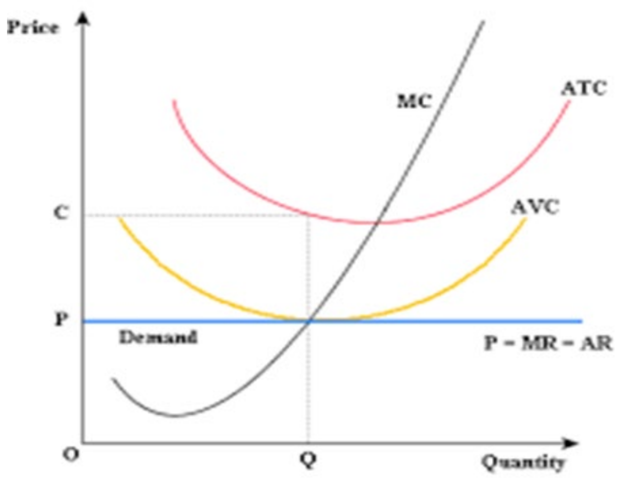
9	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, application, analysis (12 marks) – indicative content** Costs of production - include total, average and marginal cost Short-run shut down point is where average revenue equals average variable costs Long-run shut down point occurs where average revenue is below average cost Firms will continue to operate where average revenue is greater than or equal to average variable cost in the short-run Monopoly (monopolistic competition) diagram showing loss At MC = MR, (output Q2), price P2 the firm is not covering AVC and will shut down In the short-run this firm can survive if it just covers its average variable cost **Perfect competition diagram** 

	In the short-run this firm can still continue production as it just covers its AVC at a price of OP If price is below AVC the firm will shut down **Long Run** In the long-run if AR is below ATC then the firm will shut down (the firm is making a loss or earning less than its normal profit AR < AC). Shut-down point is any price and output resulting in less than normal profit For perfect competition & monopolistic competition, firms would need to profit maximise (MC = MR) in the long-run to avoid losses Monopoly & oligopoly - firms can survive in the long-run without necessarily maximising profit **NB if no diagram candidate can achieve a maximum of Level 3.** **NB if no industry referred to candidate can achieve a maximum of Level 3**

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The firm may be pursuing predatory pricing therefore continue producing whilst making a loss until other firms leave the market
The firm may be cross subsidising the product, and cover losses with profits from sales of other goods
If the firm is able to reduce costs/increase revenue it will be able to survive in the long run
Public sector firms are able to run at a loss as there is no profit incentive
A start up firm may not have a profit incentive in the short run and will accept losses as its objective is survival
A firm may be able to survive if it has large cash reserves
Airlines may continue to operate with the help of financial supports from governments
During 2020 many firms experienced financial losses and were able to continue to operate</td></tr>
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Indicative content guidance

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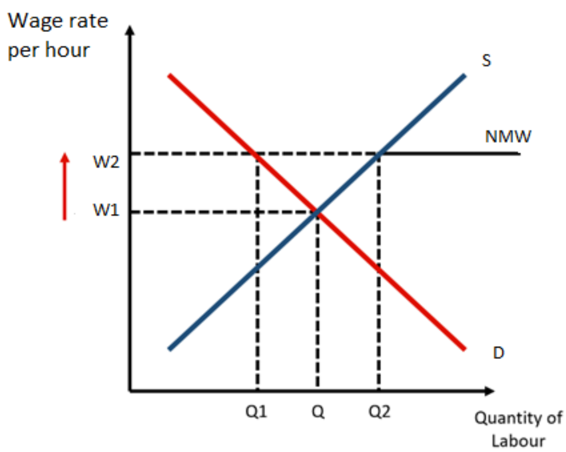
Quantitative skills assessed

QS4: Construct and interpret a range of standard graphical forms.

QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

Knowledge, application and analysis (12 marks) – indicative content

Minimum wage is a government sets a price floor that no one can be paid below.



- The introduction of a minimum wage increases the wage rate from W1 to W2
- The quantitly of labour supplied extends from Q to Q2.
- The quantity of labour demanded contracts from Q to Q1
- Unemployment would be Q2-Q1

Effects on the businesses

- An increase in costs of production for hotels/restaurants etc reducing profits
- Output may rise if employees are more motivated and productive
- A greater labour pool to choose from when employing new staff
- Increased costs associated with redundancy payments
- May substitute from labour to capital – robots to clean rooms, electronic check ins

</td></tr>
</table>

	Effect on the workers • The introduction of a minimum wage will increase the supply of labour to the tourist industry as there is an increase in the incentive to work • Unemployment will rise if firms make workers redundant if the firm can not afford the rise in wage rates • If the increase in wages is above the rate of inflation then real wages will rise • A rise in minimum wage would increase standards of living for those still employed in tourisum **NB if no diagram candidate can achieve a maximum of Level 3.** **NB if no reference to tourism industry referred to candidate can achieve a maximum of Level 3**	
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In the tourism industry many workers are paid below the minimum wage, therefore the change will have a significant impact on businesses or employees.
However, in some parts of the tourism industry, e.g. management, the new national minimum wage may be below the equilibrium wage
Tourism is labour intensive and therefore business will face significantly increased costs of production and fall in profits.
Depends on the ease with which the tourism industry can substitute labour to capital
If businesses can offset the increase in costs, jobs may not be lost/ profits will remain constant
If demand for tourism is price elastic, it will be difficult for firms to pass on higher costs to consumers so resulting in a fall in profit for hotels
Depends on where the tourist comes from – those from high income countries are likely to absorb any increase in price, enabling the hotels etc to pass on any increased costs
In the short-run firms might be slow to respond to changes in minimum wage, therefore job losses may only occur in the long run
Magnitude – how far above the equilibrium wage the minimum wage is set will determine the impact on costs and employment
Impact will depend on how well minimum wage law is enforced</td></tr>
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