



**ADVANCED**  
**General Certificate of Education**  
**2022**

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**Economics**  
Assessment Unit A2 1  
*assessing*  
Business Economics  
**[AEC11]**  
**TUESDAY 24 MAY, MORNING**

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**MARK**  
**SCHEME**

## General Marking Instructions

This mark scheme is intended to ensure that the A2 examinations are marked consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark schemes should be read in conjunction with these general marking instructions which apply to all papers.

### Quality of candidates' responses

In marking the examination paper, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 18-year-olds, which is the age at which the majority of candidates sit their A2 examinations.

### Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

### Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 18-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect and inappropriate.

### Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

### Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

**Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

**Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

**High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

## Marking calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

## Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

**Level 1 (Limited):** The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

**Level 2 (Satisfactory):** The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

**Level 3 (High Standard):** The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

**Level 4 (Excellent):** The candidate successfully selects and uses the most appropriate form and style of writing, supported with precise and accurate use of diagrams where appropriate. Relevant material is extremely well organised with the highest degree of clarity and coherence. There is extensive and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard and ensure that meaning is absolutely clear.

## COVID-19 Context

Given the unprecedented circumstances presented by the COVID-19 public health crisis, senior examiners, under the instruction of CCEA awarding organisation, are required to train assistant examiners to apply the mark scheme in case of disrupted learning and lost teaching time. The interpretation and intended application of the mark scheme for this examination series will be communicated through the standardising meeting by the Chief or Principal Examiner and will be monitored through the supervision period. This paragraph will apply to examination series in 2021–2022 only.

**Section A**

		AVAILABLE MARKS
<b>1</b>	<p>[2] for correctly identifying that this occurs at an output of 5000 tonnes (where ATC is equal to £400). [1] for correct methodology but error in calculation or presentation. [2]</p>	2
<b>2</b>	<p>A firm in the short run will continue in production if it covers its average variable costs as it must pay fixed costs anyway. The lowest AVC for the firm is 13p per litre. As 22p is greater than this, she is covering her variable costs and should remain in production in the short run even though she is making a loss.</p> <p>[2] for identifying that the firm should continue to produce as it can cover its variable cost [2] for illustrating this point with reference to the data. [4]</p>	4
<b>3</b>	<p><b>(a)</b> [1] For identification of 2016 as the base year. [1]</p> <p><b>(b)</b> [2] For calculation of the percentage change in sales as 63.7% [1] For correct methodology but error in calculation or presentation. [2]</p> <p><b>(c)</b> The volume of gin sold is the total number of bottles sold. The value is the sales revenue or total expenditure on gin; on a simple level it is calculated by price per bottle multiplied by number of bottles sold. As the price of a bottle of craft gin is more expensive than mass market gins a smaller volume will yield a greater value of sales.</p> <p>[1] mark for distinguishing between value and volume. [2] marks for explaining why value of sales of craft gin is greater than the volume of sales. [3]</p>	6
<b>4</b>	<p><b>(a)</b> Revenue is maximised when Marginal Revenue is equal to zero. This occurs at an output of 600 units and the firm will charge a price of £6. At this level of output the firms Total Revenue will be £3600 and its Total Costs £2400 giving supernormal profit of £1200.</p> <p>[4] for correctly calculating supernormal profit earned. Up to [3] for correct methodology but error in calculation or presentation. [4]</p> <p><b>(b)</b> Perfect price discrimination occurs when the firm charges each consumer the maximum price they are prepared to pay for the product. The firm will produce 800 units of output and have a total cost of £3200. The remaining revenue earned of £3200 will be supernormal profit.</p> <p>[4] for correctly calculating supernormal profit earned. Up to [3] marks for correct methodology but error in calculation or presentation. [4]</p>	8

Section B

AVAILABLE  
MARKS

- 5 (a) The 4 firm concentration ratio has changed from 76.3% in 2012 to 68.5% in 2018 indicating the market has become slightly less concentrated. All of the 4 largest grocery retailers in 2012 have seen a fall in market share. By contrast the discounters have seen significant growth in sales, Lidl by 96% and Aldi by 153%.

Up to [2] for narrative comparison of trends with little manipulation of data to show changes in relative terms.

[2] for accurate manipulation of data to show relative changes. [4]

- (b) Creative Destruction was a term devised by the Austrian Economist Joseph Schumpeter in his 1942 book *Capitalism, Socialism and Democracy*. Schumpeter described it as *'The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates. The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory illustrate the process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.'* Essentially creative destruction could be defined as the process by which former dominant companies or technologies are pushed out of the market by new innovative and dynamic ideas or entrepreneurs. Creative destruction could arise from new technology or forms of business practice. In grocery retailing the discounters have a different business model of using own brands and emphasising value for money ahead of product range or quality of shopping experience. The introduction of new technology, be it in the form of internet shopping or automation of checkouts could also bring about significant change.

Issues for analysis include:

- Definition of creative destruction.
- Analysis of how creative destruction can take place.
- Analysis of how changing business models are impacting grocery market.
- Analysis of how changing technology is impacting the grocery market.
- Appropriate use of examples.

**Level 1 ([1]–[3])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
- Basic analysis; may lack focus.
- A low quality of written communication.

**Level 2 ([4]–[6])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts

and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.

- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

### Level 3 ([7]–[9])

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Excellent, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [9]

- (c) A contestable market is one with low cost barriers to entry and exit so that it is easy for firms to enter the market and compete with existing firms in the industry. A key determinant is the size of sunk costs in the industry. The higher these are the less contestable an industry is. In a contestable market, potential rivals will have almost as important an influence on firms' behaviour as other firms already in the industry. This will impact upon the behaviour of existing firms influencing efficiency and profit in the industry.

Issues for analysis and discussion include:

- On the face of it the supermarket industry would appear to be contestable. Aldi and Lidl have both entered the market and are mounting a successful challenge to the existing companies some of which have been in existence for over a century.
- In addition, Ocado was the fastest growing supermarket in the first half of 2019 whilst Amazon plan to enter the market with the Amazon Go brand.
- However, these entry companies are not start-ups. Both Aldi and Lidl have over 10 000 stores worldwide, with Lidl being founded in 1930 and Aldi in 1946. Ocado initially had a partnership with John Lewis, owner of Waitrose but is now 50% owned by Marks and Spencer. Amazon is one of the largest companies in the world. This has provided these new entrants with the capital and expertise needed to overcome considerable barriers to entry.
- The data notes that existing supermarkets tried to prevent suppliers from supplying Aldi, they used their own brands to get around this.
- Supermarkets need sites to trade from. Good sites can cost considerable amounts of money. In addition, they may be owned by rival supermarket chains which will not sell them.
- The existing supermarkets have strong brand images and a degree of customer loyalty, however the discounters (Aldi and Lidl) have undermined this to an extent.
- Companies relying on technology such as Ocado or Amazon Go will require significant investment. This may not be recoverable if the business is unsuccessful.
- Appropriate diagrams.
- Appropriate examples.

All other valid responses will be given credit.

**Level 1 ([1]–[4])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; some limited use of data and, where relevant, diagrams in relation to the context of the question.
- Basic analysis; may lack focus.
- Basic evaluation; may lack focus.
- A low quality of written communication.

**Level 2 ([5]–[8])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant some reasonable use of data and diagrams in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- Good evaluation in relation to the impact on economic agents; evaluation may not be developed fully or may have inaccuracies at times.
- A good quality of written communication.

**Level 3 ([9]–[12])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Well focused, relevant evaluation used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [12]

- (d) The supermarket sector is oligopolistic. Traditionally oligopolies eschew price competition in favour of price stability. This is explained by the kinked demand curve theory or Game Theory. Supermarkets have engaged in a range of methods of non price competition. The discount stores put more emphasis on price than other factors. However, they do also sell a wide range of goods and use brand image and consumer loyalty to attract customers.

Issues for analysis and discussion include:

- Source 3 identifies several ways in which non price competition may occur. Store appearance, availability of staff and waiting time are important. However, these can add to costs increasing the prices.
- There are also other ways in which the grocery retailers engage in non-price competition such as loyalty cards or special offers.
- There is also evidence that price competition is important. Aldi and Lidl carry a limited range of products. They also score lowly for store

appearance, range of products and waiting times. However, they also score for value for money. There is evidence that consumers are keen to pay a lower price.

- Other grocery retailers may decide not to follow the discounters on price. They may prefer to focus on product range or quality and attract more affluent consumers who are less price conscious.
- Firms can use non price competition as a barrier to entry.
- Price competition can benefit consumers as a lower price will lead to more consumer surplus and greater consumer welfare.
- From the efficiency point of view price competition will force firms to bear down on costs increasing productive efficiency. Price is also likely to be closer to marginal cost improving allocative efficiency.
- Non price competition may benefit in terms of dynamic efficiency giving rise to greater consumer choice across a range of goods. It may also stimulate further research and development as firms strive to obtain an advantage.
- Consumers may prefer the stability that non price competition brings as they don't have to waste time and resources constantly checking to see if prices have changed.
- Appropriate diagrams.
- Appropriate examples.

All other valid responses will be given credit.

### **Level 1 ([1]–[5])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; some limited use of data and, where relevant, diagrams in relation to the context of the question.
- Basic analysis; may lack focus.
- Basic evaluation; may lack focus.
- A low quality of written communication.

### **Level 2 ([6]–[10])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant some reasonable use of data and diagrams in relation to the context of the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- Good evaluation in relation to the impact on economic agents; evaluation may not be developed fully or may have inaccuracies at times.
- A good quality of written communication.

### **Level 3 ([11]–[15])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant data



- and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
  - Well focused, relevant evaluation used accurately and appropriately in relation to the impact on economic agents.
  - An excellent quality of written communication. [15]

**AVAILABLE  
MARKS**

40

- 6 Neo classical economists state that companies should maximise their profits this would involve them producing where Marginal Revenue equals Marginal Cost. Further they argue that there is a legal contract between shareholders and the managers of firms which binds the manager to pursuing the maximisation of shareholder value. This has been given effect in the Companies Act of 2006 which asserts the primacy of shareholder interests.

Areas for analysis and discussion include:

- It can be argued that profit maximisation provides an incentive to firms to ensure productive efficiency. By driving costs down, they can increase the amount of profit available for shareholders.
- The incentive to increase profit may also encourage dynamic efficiency. Firms will invest in new technologies in order to gain a competitive advantage. This is outlined in Schumpeter's theory of creative destruction.
- However, the pure neo classical theory does not translate into the real world, firms do not calculate their marginal revenue or marginal cost as a matter of course.
- Short term profit maximisation may also damage firms long run growth. Paying dividends to shareholders may take precedence over developing new products, investing in new capital equipment or improving human capital.
- Increasing profit also benefits shareholders at the expense of wage earners and can lead to increasing inequality in society which can generate other social and economic problems.
- Firms have a range of stakeholders and may strive to accommodate their interests.
- Baumol put forward the idea that managers would seek to maximise sales revenue. This would occur when MR is 0.
- Firms might not be able to maximise profit because of the influence of stakeholders other than shareholders. They may have to settle for a level of profit which is satisfactory, William Baumol referred to this as satisficing.
- Some firms like Richer Sounds or Patagonia believe in rewarding staff as this benefits the long-term growth of the firm.
- Some firms may be owned by employees like John Lewis Partnership or by their customers like Nationwide building society. That leads to objectives other than profit maximisation such as good customer service.
- Some firms may be set up to achieve specific environmental or social aims such as social enterprises.
- Public corporations such as the BBC will have wider social objectives than simply maximising profit.
- Appropriate diagrams.
- Appropriate examples.

All other valid responses will be given credit.

### Level 1 ([1]–[7])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; some limited use of data and, where relevant, diagrams in relation to the context of the question.
- Basic analysis; may lack focus.
- Basic evaluation; may lack focus.
- A low quality of written communication.

**Level 2 ([8]–[15])**

A reasonable response provides an answer that demonstrates:

- Reasonable knowledge and understanding of relevant terminology, concepts, principles and models.
- Reasonable application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant some reasonable use of data and diagrams in relation to the context of the question.
- Reasonable critical examination of the issues in relation to the impact on economic agents; critical examination may not be developed fully or may have inaccuracies at times.
- Reasonably valid judgements linked to the issues in the question and partially reasoned conclusions.
- A reasonable quality of written communication.

**Level 3 ([16]–[23])**

A good response provides an answer that demonstrates:

- Good accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant data and diagrams are used effectively to address the issues in the question.
- Relevant critical examination of the issues used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on critical examination.
- A good quality of written communication.

**Level 4 ([24]–[30])**

An excellent response provides an answer that demonstrates:

- Comprehensive knowledge and understanding of relevant terminology, concepts, principles and models.
- Comprehensive application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Well informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [30]

AVAILABLE  
MARKS

30

- 7 There are a range of policies the government could use to deal with market dominance in important UK industries such as telecommunications, petrol retailing and banking. These include:
- Price controls – the government could impose price controls in those industries where it is felt that the dominant firm is abusing its market power through increasing prices. These price controls could lead to an increase in consumer surplus and reduce inflationary pressures in the economy. However price controls can distort market signals and lead to changes in community surplus.
  - Taxation – the government could impose windfall taxes on the excessive profits earned by dominant firms. These tax revenues could offset other tax reductions or be used to fund government spending. However higher tax rates do not necessarily lead to higher tax revenues as firms look for innovative ways to reduce their tax liabilities.
  - Break up the monopolistic firms – the government could force dominant firms to split themselves up into divisions which would become separate companies which compete with each other. However in reality the separate divisions are unlikely to compete intensely and this may actually be counterproductive if the industry is a natural monopoly.
  - Encourage competition – the government could encourage competition in these industries by providing subsidies for new entrants or by removing any legal or administrative barriers to entry that may exist. However the subsidies will involve an opportunity cost and it may be difficult to remove all of the barriers to entry.
  - Nationalisation – some economists argue that the only way to deal with market dominance is to nationalise the industry (or the dominant firm) and hence the government can run the firm or industry in a manner which benefits stakeholders other than shareholders. However nationalisation is expensive and can lead to inefficiency as the profit motive is lost.

**Areas for analysis and discussion include:**

- The difference between market share and market power
- Explanation of market dominance and why it might act against the interests of consumers and suppliers
- Reference to natural monopolies
- The efficiency or otherwise of government intervention
- The difficulty in setting appropriate price levels
- Discussion of regulatory capture
- Evaluation based on contestable markets
- The costs and efficiency of nationalisation
- The opportunity cost of using subsidies
- Welfare implications of taxation
- Reference to Laffer curve effects
- Reference to UK competition policy
- Appropriate examples
- Appropriate diagrams

All other valid responses will be given credit.

**Level 1 ([1]–[7])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; some limited use of data and, where

- relevant, diagrams in relation to the context of the question.
- Basic analysis; may lack focus.
- Basic evaluation; may lack focus.
- A low quality of written communication.

**Level 2 ([8]–[15])**

A reasonable response provides an answer that demonstrates:

- Reasonable knowledge and understanding of relevant terminology, concepts, principles and models.
- Reasonable application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant some reasonable use of data and diagrams in relation to the context of the question.
- Reasonable critical examination of the issues in relation to the impact on economic agents; critical examination may not be developed fully or may have inaccuracies at times.
- Reasonably valid judgements linked to the issues in the question and partially reasoned conclusions.
- A reasonable quality of written communication.

**Level 3 ([16]–[23])**

A good response provides an answer that demonstrates:

- Good accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant data and diagrams are used effectively to address the issues in the question.
- Relevant critical examination of the issues used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on critical examination.
- A good quality of written communication.

**Level 4 ([24]–[30])**

An excellent response provides an answer that demonstrates:

- Comprehensive knowledge and understanding of relevant terminology, concepts, principles and models.
- Comprehensive application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- Well informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [30]

**Total**

**AVAILABLE  
MARKS**

30

**90**