Mark Scheme (Results)

Summer 2024

Pearson Edexcel International Advanced Level In Economics (WEC13) Paper 01 Unit 3: Business behavior

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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	Quantitative skills assessed	Answer	Mark
1	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** is incorrect because this would not be affected by technical economies of scale **B** is incorrect because this would not be affected by technical economies of scale **C** is incorrect because economies of scale affect long-run average costs	**(1)**
2	**QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** is incorrect because this is the marginal cost of increasing the number of haircuts from 3 to 4 **C** is incorrect because this is the average variable cost of 3 haircuts **D** is incorrect because this is the average fixed cost of 4 haircuts	**(1)**
3	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** is incorrect because the demerger would have no effect on external economies of scale **B** is incorrect because the demerger would result in GSK becoming more specialised **C** is incorrect because GSK would be unlikely to want its long-run average costs to increase	**(1)**
4	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** B is incorrect because supernormal profit will encourage market entry C is incorrect because normal profit will be made in the long-run D is incorrect because normal profit will be made in the long-run	**(1)**
5	**QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** **A** is incorrect because supernormal profit and price will change	**(1)**

		B is incorrect because supernormal profit and price will decrease D is incorrect because the business supernormal profit and price will decrease	
6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** **A** is incorrect because this would increase the occupational mobility of labour **B** is incorrect because this would increase the geographical mobility of labour **D** is incorrect because this would increase the geographical mobility of labour	**(1)**

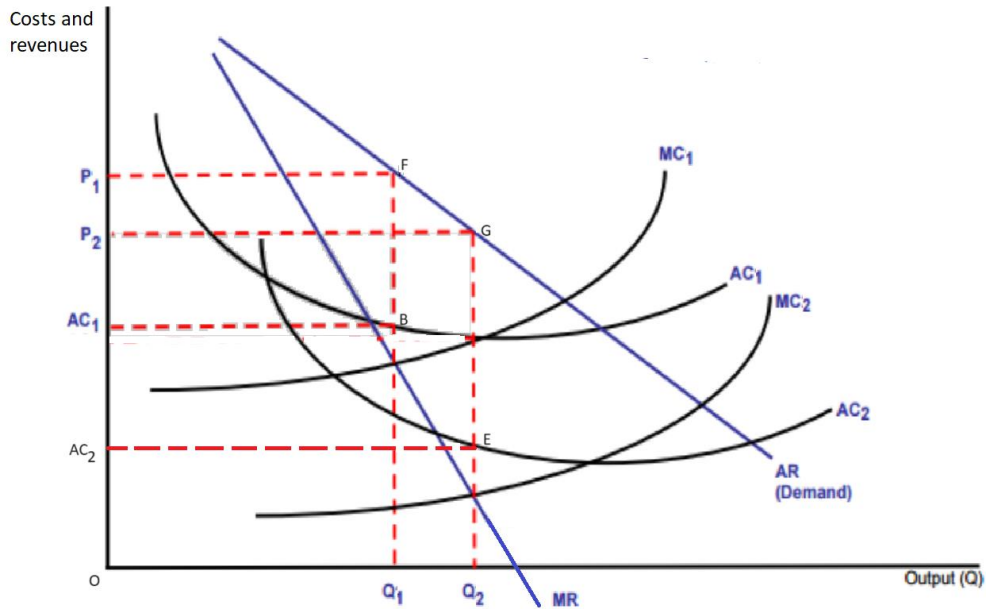
Section B

Question	With reference to Figure 1, calculate the change in Uniqlo's total costs between 2021 and 2022. **Answer**	Mark
7(a)	**Application 2** **Quantitative skills assessed:** **QS6:** Calculate cost, revenue and profit (marginal, average, totals) **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculation: 2021 total costs: (2132 - 1073) = ¥1 059 bn 2022 total costs: (2301 - 1206) = ¥1 095 bn 1 095 – 1 059 **(1)** Change in total costs = ¥36 bn **(1)** Percentage change (36/1059) x 100 **(1)** = 3.4% **(1)** **NB: Award full marks for correct answer (36 bn/ 3.4%) regardless of working** **Award only 1 mark if billion/% is not included in final answer**	**(2)**

Question	With reference to the first paragraph of Extract A, explain what is meant by the term 'organic growth'. **Answer**	Mark
7(b)	**Knowledge 2 Application 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** Up to marks for correct definition and development of the term 'organic growth' **(1+1)** e.g.: • Organic growth refers to the expansion of a company's operations **(1)** Internally/ e.g. Marketing/opening more stores/ hiring more workers / without relying on mergers/acquisitions/integration **(1)** **Application:** Up to 2 marks for application to context of Uniqlo's organic growth **(1+1)** e.g.:	**(4)**

	• Uniqlo started to sell in other countries such the USA /China/UK/ Australia/South Korea **(1)** • Uniqlo expanded through a process of organic growth **(1)** • The company opened stores in large cities within each country **(1)**	

Question	With reference to the second paragraph of Extract A, analyse **two** reasons why Uniqlo has been very successful in establishing itself in international markets. **Answer**	**Mark**
7(c)	**Knowledge 2 Application 2 Analysis 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** Up to 2 knowledge marks for identifying two reasons why Uniqlo has been very successful in establishing itself in international markets and 1 analysis mark for each linked expansion of each reason: • Price competition/Low prices **(1K)** consumers are more able to afford to purchase Uniqlo's clothes **(1AN)** • Non price competition **(1K)** differentiates the product improving competitiveness • More innovative products/improving quality **(1K)** better meeting consumer needs and increasing consumer welfare **(1AN)** • Increased brand awareness/Advertising/Celebrity endorsements **(1K)** better marketing increases brand awareness and increases demand for Uniqlo's products.**(1AN)** **Application** Up to 2 application marks for reference to the second paragraph of Extract A: • Uniqlo competes with other brands such as Zara and H&M **(1)** • Uniqlo uses ultra-lightweight and heat-generating fabrics (HeatTech) **(1)** • Uniqlo works with well-known designers and celebrities/Alexander Wang **(1)** • Uniqlo has also invested heavily in advertising **(1)** • Uniqlo was the first business in this market to use fast-moving digital images in its stores **(1)**	**(6)**

Question	With reference to Extract B, examine the likely impact of a reduction in Uniqlo's costs of production on its total profits. Illustrate your answer with an appropriate diagram. **Answer**	Mark
7(d)	**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.  **Knowledge** **Up to 2 marks for drawing a diagram that shows knowledge of:** • Original AR, MR, AC_1, MC_1 and profit maximisation equilibrium **(1)** • Original supernormal profit area $FBAC_1P_1$ **(1)** **Analysis** **A diagram that shows knowledge of:** • Decrease in variable cost would cause downward shift in MC **and** AC curves to MC_2 and AC_2 **(1)** • New higher quantity, lower price and increased supernormal profit identified $GEAC_2P_2$ **(1)** **Application** **Up to 2 marks for application to Extract B:** • Uniqlo hopes to negotiate favourable deals with suppliers of cotton and dyes **(1)** • Uniqlo will invest in technology and automation to replace workers **(1)**	**(8)**

	Evaluation **Up to 2 marks for evaluative comments (1+1 or 2 + 0), e.g.:** • To attract highly skilled labour Uniqlo has had to increase wages by 40% **(1)** This will increase MC and AC reducing profits **(1)** • It is costly to invest in technology and automation **(1)** • Global raw material costs are rising **(1)** • Significance of cost increase **(1)** • It takes time to implement new technology (**1)**	

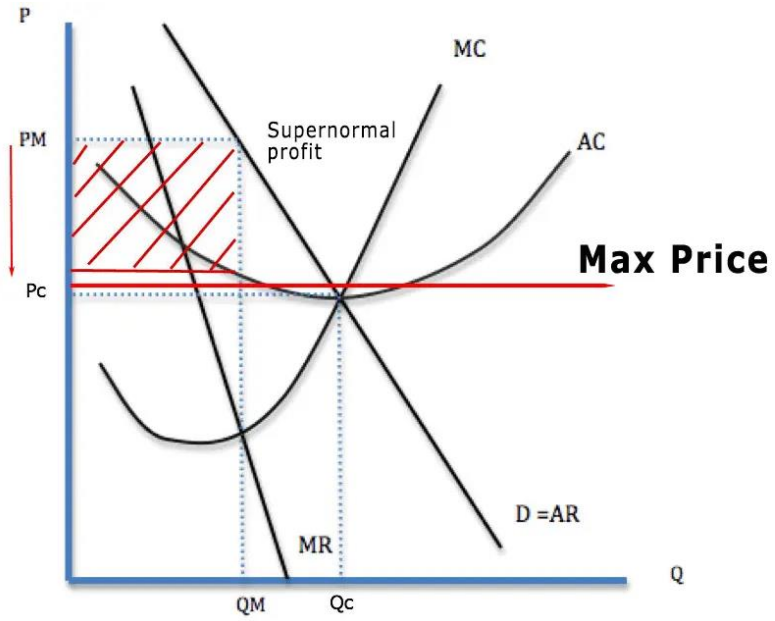
Question	Indicative content With reference to Extract C, Figure 2 and your own knowledge, discuss the likely barriers to entry for a business wishing to enter the global fashion retail market.
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line 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. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** • Barriers to entry are any obstacle that makes it difficult for new firms to enter and compete in the fashion retail market • Barriers to entry can limit the entry of new competitors, reducing market competition and potentially enabling existing firms to maintain higher prices or market shares • Large firms are well-established, making them hard to compete with. Zara is the largest global retailer followed by Uniqlo. These brands have a high degree of brand loyalty • Uniqlo, H&M and Zara all offer low prices making it harder for new firms to compete and make a profit • The businesses have significant bargaining power over their suppliers enabling them to achieve economies of scale and reduce their average costs • The profits made in the fashion retail industry can be invested into market research and innovative design enabling these businesses to offer higher quality goods hence increasing the costs for new businesses entering the market • Businesses such as Zara and Uniqlo have a high market value. They are able to access funds for large amounts of investment • The businesses compete in stores that are costly to open and run

	• To operate in the fashion retail industry, businesses need to engage in advertising campaigns to establish themselves and compete. These can be very costly and not always effective • There is strong brand loyalty in the industry as companies such as H&M and Zara are well-established brands • New businesses may face supply chain challenges • Uniqlo, H&M and Zara invest heavily in advertising, this can be considered a sunk cost if ineffective	
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 • The fashion industry in countries such as China, has a large number of firms in it, reducing brand loyalty. Uniqlo only has a 1.4% market share • There are limited capital requirements compared to industries that require substantial investment in manufacturing facilities or technology • There is easy market access because there are many online shopping and social media platforms on which clothes can be sold • Rapidly changing trends reduce brand loyalty to any one firm providing opportunities for new entrants to introduce fresh and innovative designs • There are many niche market opportunities that can be targeted by new entrants that do not compete with the larger businesses such as Uniqlo and Zara • Limited intellectual property rights reduce legal barriers to entry	
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	Evaluate policies a government could adopt to control monopolies. Illustrate your answer with an appropriate diagram(s). **Indicative content**
8	**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. • A monopoly is a sole supplier that exists in the market with high barriers to entry • A business may have monopoly power if it controls a high percentage of the market • Monopoly power enables a business to set prices, limit output and restrict competition • Profit regulation by imposing limits on the amount of profit a monopoly can earn, to ensure the business does not exploit its market power and to promote increased allocative efficiency and consumer welfare • Price regulation is a maximum allowable price for a particular good or service. This limits the amount that a monopoly can charge consumers and protects consumers from excessively high prices set by a profit-maximising monopolist



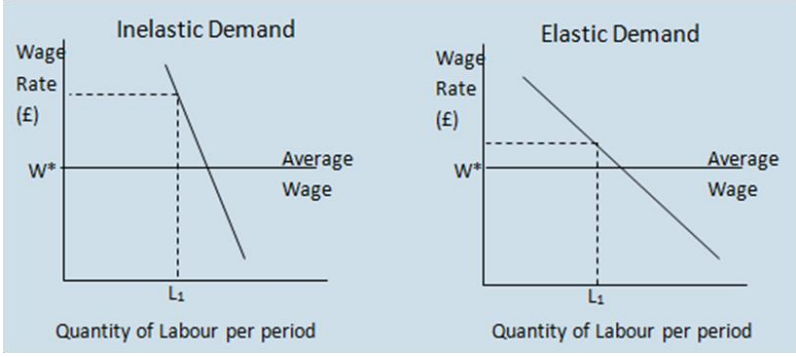
- Price is capped to Pc, reducing the price from PM. This would reduce supernormal profit and increase consumer surplus
- Performance targets: set specific objectives that the monopoly must meet, ensuring that it operates efficiently and provides quality services
- Quality standards can be used to control a monopoly by establishing specific criteria and requirements that the monopoly must meet to ensure the provision of high-quality goods or services
- Fines: competition authorities may impose fines for not meeting performance targets or quality standards
- Legislation to control mergers and takeovers: laws can block any integration that may result in an increase in monopoly power
- Nationalisation will transfer the business to the state sector where the objectives of the business may change e.g. reducing profit incentives, leading to lower prices
- Tax on profits encourages firms to invest more to reduce supernormal profits, increasing dynamic efficiency
- Tax incentives/Subsidies for new firms to enter the market increases competition and reduces monopoly power
- Government policies to promote competition and contestability e.g. deregulation

NB: If diagram does not show the impact of a policy then 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.
	Evaluation (8 marks) – indicative content • Regulatory capture may occur if the regulator becomes influenced or controlled by the monopoly that it is supposed to regulate, resulting in the regulator allowing the monopoly to abuse its dominant position • Government failure e.g. asymmetric information may lead to the government making inaccurate decisions on the level of a price cap or the level of profit control. This could cause the monopoly to shut down if it cannot cover costs/or allow the consumers to pay a high price for the goods • Government failure may lead to a misallocation of resources or unintended consequences, such as businesses shutting down • Inadequate resources may stop the government from being able to control and challenge the behaviour of a monopoly • Limited regulatory power may make it impossible to control the business. The regulator may not be able to impose a fine high enough to deter monopolies from abusing their power • Increased performance and quality targets may lead to an increase in the costs of production for the monopoly. These increases could be passed onto consumers • Price controls may cause the monopoly to cut costs which can lead to a reduction in quality for the consumer	
Level	**Mark**	**Descriptor**

	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the possible reasons for wage differentials in an occupation of your choice. Illustrate your answer with an appropriate diagram(s). **Indicative content**
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. • Level of skill and education, as lawyers with specialised skills, experience or higher levels of education receive higher wages because of scarcity of labour or higher productivity of the workers • If the demand for a particular skill set is high relative to the supply, then the wage rate is likely to be higher than if demand is low relative to the supply • Elasticity of demand for labour, the more elastic and substitutable the labour is the lower the wage rate. If labour cannot be replaced by capital the demand for labour is more inelastic and the wage rate is likely to be higher  • If the supply of labour is inelastic e.g. if high qualifications or extensive experience is required then the wage rate is likely to be higher than if supply of labour is elastic • Job characteristics and working conditions - if the job requires high levels of physical demands/high-risk level/ poor working conditions, the business may need to pay higher wages to encourage individuals to work in the occupation. Higher-paid lawyers may be required to work much longer hours or be under more stress than lower paid lawyers • Labour market discrimination could be based on biases in accessing higher-paying jobs or receiving equal pay e.g. gender, race, age

	• Higher living costs in certain areas such as Geneva may lead to higher wages to attract workers, while lower living costs in other areas of Switzerland may result in lower wages • Legislation e.g. different minimum wage rates for workers of different ages • Contractual status/Trade union membership may influence the wage paid to different groups for identical work • Greater degree of monopsony power may allow firms to reduce pay rates in certain geographical areas compared to more competitive labour markets • Public vs private sector wages **NB: If no diagram candidate can achieve a maximum of level 3** **Maximum of level 3 if no reference to an industry** **Accept other labour market diagrams if they illustrate differences in wage rates**	
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.

	Evaluation (8 marks) – indicative content • Prioritisation of reasons for wage differentials • Anti-discrimination laws might limit the size of wage differentials in an occupation • Paternity leave would cause men to also have gaps in their work, making the pay more equal between men and women • Government Policies: Government regulations, such as minimum/maximum wage laws, can influence wage differentials by setting a floor/ceiling on wages or affecting the take-home pay of workers • Trade unions may bargain for higher wages for lower-paid employees reducing the wage differential • Significance of reasons changes over time • Combination of reasons contribute to wage differentials	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the likely effects of collusion on businesses **and** consumers in an industry of your choice. Illustrate your answer with reference to game theory. **Indicative content**
10	**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.

- Collusion occurs when businesses agree to cooperate in their pricing and output policies
- This occurs when the market is an oligopoly and enables the businesses to act as a single business to fix prices and limit output, such as JD Sport and Leicester City Football Club

Effects on businesses

- Game theory suggests that the businesses can benefit from collusion by maximising joint profit e.g. in the following diagram the firms can make a joint profit of £40 as shown in the diagram

- The collusion may create barriers to entry to the market that enable the firms to restrict competition, such as limiting the supply of Leicester City sportswear
- Collusion reduces unpredictability and uncertainty in the market as prices and output are guaranteed. This may lead to increased investment as the level of risk is reduced

Effects on consumers

- Economic inefficiency causing higher prices: as prices are set above competitive levels this would lead to a deadweight loss in the economy
- Price fixing leads to a fall in allocative efficiency and economic welfare and to a fall in consumer surplus
- Reduced competition resulting from collusion may limit product choices for consumers

Effects on other businesses in the industry

- Collusion is likely to limit the ability of non-colluding firms to compete on price, quality, or innovation
- Higher barriers to entry for new firms trying to enter the market

	• Pressure exerted on suppliers to maintain high input prices or engage in collusive behaviour themselves **NB: If no reference to game theory candidate can achieve a maximum of level 3** **Candidates must include effects on both businesses and consumers to achieve a level 4** **Accept advantages as KAA and disadvantages as evaluation or vice versa**	
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.
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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.
	Evaluation (8 marks) – indicative content Evaluation • Benefits are more likely to apply to businesses that collude rather than consumers because the producer surplus is rising at the expense of the consumer surplus • Benefits to businesses may occur in the short-run only, if one or more colluding businesses break away from the agreement	

	• Collusion may be illegal. If caught the business may have to pay a fine and face damage to its reputation e.g. Leicester City FC having to pay £880 000 • The increase in supernormal profits of the colluding businesses may allow for greater dynamic efficiency as they have an increased ability to invest in quality and choice for consumers • Price stability will enable consumers to plan future expenditure • Effect on consumers depends on the value of PED. For example, if substitutes are available the impact will be reduced • The entry of new firms into the industry may break existing collusive agreements • Unstable market dynamics because the collusion agreement can break down at any time. When this happens, it can lead to sudden price wars • Some forms of collusion may be beneficial to both producer and consumer e.g. R&D cost savings and efficiencies or developing improved industry standards	
	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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