

INTERNATIONAL A-LEVEL **ECONOMICS**

EC03

Unit 3 The Economics of Business Behaviour and the Distribution of
Income

Mark scheme

January 2025

Version: 1.0 Final



Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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International A-level Economics mark scheme

How to mark

Aims

When you are marking your allocation of scripts your main aims should be to:

- recognise and identify the achievements of students
- place students in the appropriate mark band and in the appropriate part of that mark band (high, low, middle)
- record your judgements with brief notes, annotations and comments that are relevant to the mark scheme and make it clear to other examiners how you have arrived at the numerical mark awarded
- put into a rank order the achievements of students (not to grade them – that is done later using the rank order that your marking has produced)
- ensure comparability of assessment for all students, regardless of question or examiner.

Approach

It is important to be **open-minded** and **positive** when marking scripts.

The specification recognises the variety of experiences and knowledge that students will have. It encourages them to study Economics in a way that is relevant to them. The questions have been designed to give them opportunities to discuss what they have found out about Economics. It is important to assess the quality of **what the student offers**.

Assessment Objectives

This component requires students to:

AO1	Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues.
AO2	Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues.
AO3	Analyse issues within economics, showing an understanding of their impact on economic agents.
AO4	Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

The marking grids

The marking grids cover all the Assessment Objectives indicated as being assessed in each question, followed by indicative content for individual tasks. These have been designed to allow assessment of the range of knowledge, understanding and skills that the specification demands.

The indicative content gives examples of the kind of things students might cover in their responses. They are neither exhaustive nor required – they are simply indicative of what could appear. Other valid content presented in student responses should always be credited.

Using the grids

These levels of response mark schemes are broken down into levels, each of which has descriptors. The descriptors for the level show the performance characteristics of the level. There is the same number of marks in each level. The number of marks per level varies depending upon the total number of marks allocated to the question.

Having familiarised yourself with the descriptors and indicative content, read through the answer and annotate it to identify the qualities that are being looked for and that it shows. You can now check the levels and award a mark.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptors for that level. The descriptors for the level indicate the different qualities that might be seen in the student's answer for that level.

When assigning a level, you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best-fit approach for defining the level and then use the variability of the response to help decide the mark within the level; ie if the response fulfils most but not all of level 3 with a small amount of level 4 material, it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark.

It is often best to start in the middle of the level's mark range and then check and adjust.

The exemplar materials used during standardisation should be referred to. There will be an answer in the standardising materials that will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is of the same standard, better or worse. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

An answer that contains nothing of relevance to the question must be awarded no marks.

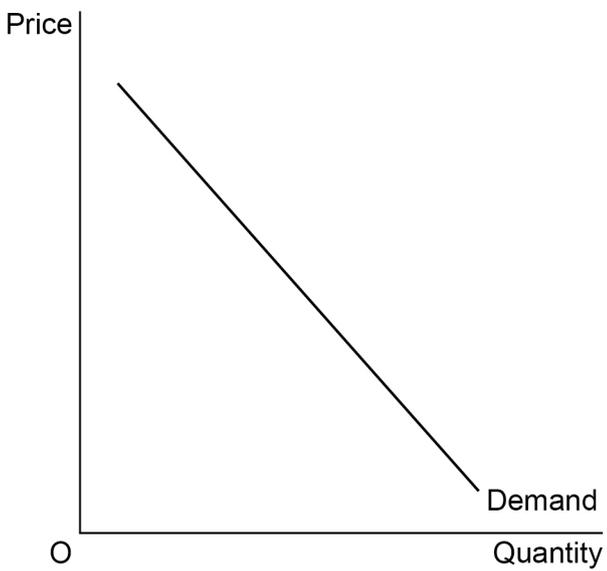
Examiners are required to assign each of the students' responses to the most appropriate level according to its overall quality, then allocate a single mark within the level. When deciding upon a mark in a level, examiners should bear in mind the relative weightings of the Assessment Objectives and be careful not to over/under-credit a particular skill. For example, in question 13 more weight should be given to AO3 than to AO1 and AO2. This will be exemplified and reinforced as part of examiner training.

Annotating scripts

Annotating scripts will help you with making accurate judgements and it will help any subsequent markers to identify how you are thinking. Please do not write negative comments about students' work; this is unprofessional and it impedes a positive marking approach.

Section A

Total for this section: 10 marks

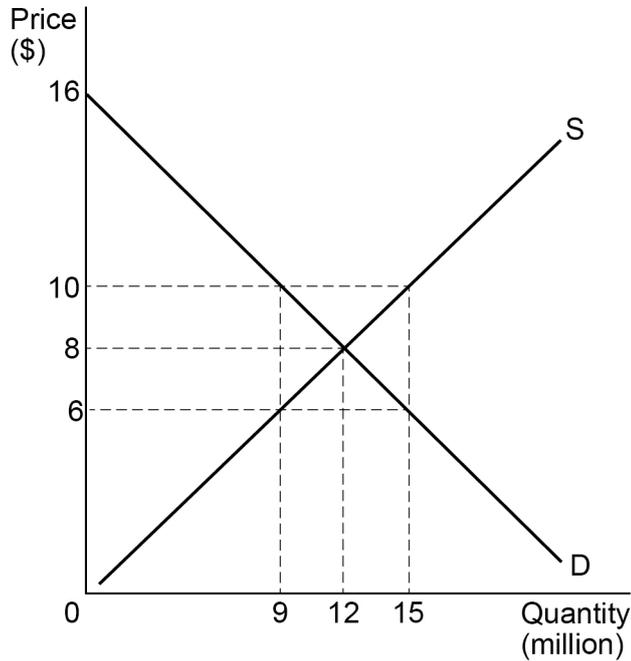
Question	Part	Marking guidance	Total marks
01		 <p>Which one of the following supports this relationship?</p> <p>Answer: B (Diminishing marginal utility)</p>	<p>1</p> <p>AO1 = 1</p>

Question	Part	Marking guidance	Total marks
02		<p>Which one of the following shows that the distribution of income in a country has become more equal?</p> <p>Answer: B (A reduction in the Gini coefficient)</p>	<p>1</p> <p>AO1 = 1</p>

Question	Part	Marking guidance	Total marks
03		<p>Cost/ revenue (¥)</p> <p>7.00</p> <p>4.50</p> <p>2.00</p> <p>0 3000 4500 6000 8000 Quantity</p> <p>MC</p> <p>AC</p> <p>MR = AR</p> <p>In the long run, when the industry is in equilibrium, how much revenue will the firm earn?</p> <p>Answer: A (¥20 250)</p>	<p>1</p> <p>AO2 = 1</p>

Question	Part	Marking guidance	Total marks															
04		<table border="1"> <thead> <tr> <th>Output (units per day)</th> <th>Average revenue (\$)</th> <th>Average cost (\$)</th> </tr> </thead> <tbody> <tr> <td>6</td> <td>150</td> <td>120</td> </tr> <tr> <td>7</td> <td>130</td> <td>105</td> </tr> <tr> <td>8</td> <td>110</td> <td>100</td> </tr> <tr> <td>9</td> <td>90</td> <td>90</td> </tr> </tbody> </table> <p>If the firm's objective is to maximise its total revenue, how much profit will it make in a day?</p> <p>Answer: C (\$175)</p>	Output (units per day)	Average revenue (\$)	Average cost (\$)	6	150	120	7	130	105	8	110	100	9	90	90	<p>1</p> <p>AO2 = 1</p>
Output (units per day)	Average revenue (\$)	Average cost (\$)																
6	150	120																
7	130	105																
8	110	100																
9	90	90																

Question	Part	Marking guidance	Total marks
05		<p>An industry regulator introduces a policy to increase the contestability of a market.</p> <p>Which one of the following is the most likely consequence of this policy for firms in this market?</p> <p>Answer: D (Firms will produce closer to allocative efficiency.)</p>	<p>1</p> <p>AO2 = 1</p>

Question	Part	Marking guidance	Total marks
06		 <p>The government introduces a maximum price of \$6 per unit.</p> <p>What is the change in consumer surplus?</p> <p>Answer: A (\$15 million)</p>	<p>1</p> <p>AO3 = 1</p>

Question	Part	Marking guidance	Total marks
07		<p>The three largest firms in an oligopolistic market collude and all agree to raise their prices by 20%.</p> <p>Which one of the following is the most likely outcome of this action?</p> <p>Answer: C (Increased total profits for the three firms)</p>	<p>1</p> <p>AO1 = 1</p>

Question	Part	Marking guidance	Total marks
08		<p>Cost/ revenue (£)</p> <p>How much profit is the firm making?</p> <p>Answer: B (£75 000)</p>	<p>1</p> <p>AO2 = 1</p>

Question	Part	Marking guidance	Total marks																		
09		<table border="1"> <thead> <tr> <th>Number of workers</th> <th>Total revenue product of labour (\$)</th> <th>Marginal cost of labour (\$)</th> </tr> </thead> <tbody> <tr> <td>3</td> <td>17</td> <td>27</td> </tr> <tr> <td>4</td> <td>45</td> <td>28</td> </tr> <tr> <td>5</td> <td>85</td> <td>29</td> </tr> <tr> <td>6</td> <td>117</td> <td>30</td> </tr> <tr> <td>7</td> <td>147</td> <td>31</td> </tr> </tbody> </table> <p>How many workers will the firm choose to employ?</p> <p>Answer: C (6)</p>	Number of workers	Total revenue product of labour (\$)	Marginal cost of labour (\$)	3	17	27	4	45	28	5	85	29	6	117	30	7	147	31	<p>1</p> <p>AO2 = 1</p>
Number of workers	Total revenue product of labour (\$)	Marginal cost of labour (\$)																			
3	17	27																			
4	45	28																			
5	85	29																			
6	117	30																			
7	147	31																			

Question	Part	Marking guidance	Total marks
10		<p>A consumer knows that adding sugar to their hot drinks will damage their health. They would like to change their behaviour. However, they continue to add sugar to their drinks.</p> <p>Which one of the following best explains why they continue to add sugar to their drinks?</p> <p>Answer: D (Bounded self-control)</p>	<p>1</p> <p>AO1 = 1</p>

Section B

Total for this section: 10 marks

Question	Part	Marking guidance	Total marks
11	1	Identify two determinants of the price elasticity of demand for labour. Award 1 mark for each determinant identified: <ul style="list-style-type: none"> • PED for the final product • time • ease/cost of factor substitutability • labour costs/wages as proportion of total cost. Credit valid alternative content.	2 AO1 = 2

Question	Part	Marking guidance	Total marks						
11	2	<p>Calculate the price elasticity of supply for labour when the wage rate increases from RM4.00 (Malaysian ringgits) per hour to RM4.80 per hour.</p> <p>Calculation:</p> $\frac{\text{percentage change in quantity supplied}}{\text{percentage change in price}}$ $\frac{\text{percentage change in quantity supplied}}{\text{percentage change in price}}$ $= \frac{42.9 - 33}{33} \times 100 = 30\%$ $\text{percentage change in price}$ $= \frac{4.80 - 4.00}{4.00} \times 100 = 20\%$ $\frac{30\%}{20\%} = 1.5$ <table border="1" data-bbox="368 1008 1294 1592"> <thead> <tr> <th data-bbox="373 1014 1134 1099">Response</th> <th data-bbox="1139 1014 1289 1099">Max 2 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="373 1106 1134 1211">For the correct answer: 1.5 (with or without working shown)</td> <td data-bbox="1139 1106 1289 1211">2 marks</td> </tr> <tr> <td data-bbox="373 1218 1134 1585"> For the correct answer but with a minus sign and/or with added units: eg –1.5 or RM1.50 OR For the correct calculation of percentage changes in price <u>and</u> quantity supplied: 20 <u>and</u> 30 (with or without % sign) OR For the correct method but the wrong answer </td> <td data-bbox="1139 1218 1289 1585">1 mark</td> </tr> </tbody> </table>	Response	Max 2 marks	For the correct answer: 1.5 (with or without working shown)	2 marks	For the correct answer but with a minus sign and/or with added units: eg –1.5 or RM1.50 OR For the correct calculation of percentage changes in price <u>and</u> quantity supplied: 20 <u>and</u> 30 (with or without % sign) OR For the correct method but the wrong answer	1 mark	<p>2</p> <p>AO1 = 1 AO2 = 1</p>
Response	Max 2 marks								
For the correct answer: 1.5 (with or without working shown)	2 marks								
For the correct answer but with a minus sign and/or with added units: eg –1.5 or RM1.50 OR For the correct calculation of percentage changes in price <u>and</u> quantity supplied: 20 <u>and</u> 30 (with or without % sign) OR For the correct method but the wrong answer	1 mark								

Question	Part	Marking guidance	Total marks												
11	3	<p>Explain, using a diagram, why the wage rate in a monopsony labour market is likely to be lower than if the labour market was perfectly competitive.</p> <table border="1"> <thead> <tr> <th>Level</th> <th>Marks</th> <th>Descriptor</th> </tr> </thead> <tbody> <tr> <td>2</td> <td>4–6</td> <td> <ul style="list-style-type: none"> Shows good knowledge and understanding of why the wage rate in a monopsony labour market is likely to be lower than if the labour market was perfectly competitive. Includes a relevant diagram that will, at the top of this level, be accurate and used appropriately. </td> </tr> <tr> <td>1</td> <td>1–3</td> <td> <ul style="list-style-type: none"> Shows some limited knowledge of why the wage rate in a monopsony labour market is likely to be lower than if the labour market was perfectly competitive. May include a relevant diagram but the diagram is not used and/or is inaccurate in some respects. </td> </tr> <tr> <td></td> <td>0</td> <td>No creditworthy material</td> </tr> </tbody> </table> <p>Indicative content:</p> <p>The expected diagram involves a monopsony labour market. There will be a divergence between the MC and AC (S_L) of labour to explain the difference in wage rates.</p> <p>Acceptable labels include:</p> <p><i>Vertical axis:</i> Wage rate, WR, \$, Price of labour <i>Horizontal axis:</i> Quantity of labour, Number of workers, QL</p>	Level	Marks	Descriptor	2	4–6	<ul style="list-style-type: none"> Shows good knowledge and understanding of why the wage rate in a monopsony labour market is likely to be lower than if the labour market was perfectly competitive. Includes a relevant diagram that will, at the top of this level, be accurate and used appropriately. 	1	1–3	<ul style="list-style-type: none"> Shows some limited knowledge of why the wage rate in a monopsony labour market is likely to be lower than if the labour market was perfectly competitive. May include a relevant diagram but the diagram is not used and/or is inaccurate in some respects. 		0	No creditworthy material	<p>6</p> <p>AO1 = 2 AO2 = 4</p>
Level	Marks	Descriptor													
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	0	No creditworthy material													

	<p>An example of an acceptable explanation:</p> <p>In a perfectly competitive labour market, where there are many buyers and sellers of labour, the marginal and average costs of labour are the same. Firms will hire additional workers until $MRP_L = AC_L$ (Demand for labour = Supply of labour) and at this point (Q_2) the wage rate W_2 would have to be paid to all workers.</p> <p>In a monopsony labour market, where the firm is the sole buyer of labour, the marginal cost of labour is greater than the average cost of labour. The firm in a monopsony labour market will employ the profit-maximising quantity of workers where $MC_L = MRP_L (Q_1)$. However, the supply curve of labour shows that to attract Q_1 workers the firm only needs to pay a wage rate of W_1 which is below the perfectly competitive wage rate, W_2.</p> <p>Credit valid alternative content.</p>	
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MAXIMUM FOR QUESTION 11: 10 MARKS

Section C

Total for this section: 45 marks

Question	Part	Marking guidance	Total marks
12	1	<p>Extract A shows research and development (R&D) spending as a percentage of global GDP and the number of annual global patent applications from 2016 to 2021.</p> <p>Explain why spending on R&D as a percentage of global GDP may affect the number of global patent applications.</p>	<p>4</p> <p>AO1 = 1 AO2 = 1 AO3 = 2</p>

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.

Level	Marks	Descriptor
2	3–4	<ul style="list-style-type: none"> Shows sound knowledge and understanding of relevant economic terminology, concepts and principles. Includes reasonable application of relevant economic principles to support the response. Includes well-focused analysis with a clear, logical chain of reasoning.
1	1–2	<ul style="list-style-type: none"> Shows some limited knowledge and understanding of relevant economic terminology, concepts and principles. May include some application of relevant economic principles to the question. May include some attempted analysis but the analysis is not adequately developed and/or may be confused.
	0	No creditworthy material

Indicative content:

- definition of a patent
- the role of patents in protecting intellectual property
- explanation and examples of R&D
- understanding that, if global GDP is unchanged, a greater % of global GDP spent on R&D will involve greater R&D spending and/or that rising global GDP and the same % being spent on R&D will also increase total R&D spending
- the role of R&D in innovation and how R&D can lead to new product development and more patent applications
- explanation that R&D may lead to the discovery of new technologies which can lead to product or process improvements and so more patent applications
- the reasons for protecting new product ideas or processes
- explanation of why, other things being equal, a rise in the % spent on R&D may increase the number of new ideas and hence the number of patent applications.

Credit valid alternative content.

Question	Part	Marking guidance	Total marks
12	2	To what extent do the data suggest that spending on R&D as a percentage of global GDP affected the number of annual global patent applications between 2016 and 2021? Use the data in Extract A to support your answer.	4 AO1 = 1 AO2 = 1 AO4 = 2

Examiners are reminded that AO1, AO2 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.

Level	Marks	Descriptor
2	3–4	<ul style="list-style-type: none"> Includes sound evidence that indicates the extent to which spending on R&D as a percentage of global GDP affected the number of annual patent applications. Includes a supported judgement concerning the extent to which spending on R&D as a percentage of global GDP affected the number of annual patent applications.
1	1–2	<ul style="list-style-type: none"> Includes some limited evidence that indicates the extent to which spending on R&D as a percentage of global GDP affected the number of annual patent applications. May attempt a judgement concerning the extent to which spending on R&D as a percentage of global GDP affected the number of annual patent applications.
	0	No creditworthy material

Indicative content:

- between 2016 and 2021, R&D spending as a proportion of global GDP rose from 2.17% to 2.71% (24.9%) while the number of global patent applications rose from 12 178 300 to 16 545 000 (35.9%), consistent with a direct relationship between the two variables
- the number of global patent applications increased in each year during this period
- the only year when R&D fell as a % of global GDP was in 2017, when it fell from 2.17% to 2.16%, while global patent applications increased from 12 178 000 to 13 082 000, which is not consistent with a direct relationship between the two variables
- in each year from 2017 onwards, R&D spending as proportion of global GDP increased from 2.16% to 2.71% (25.5%) and the number of global patent applications rose from 13 082 800 to 16 545 000 (26.5%)
- the data show R&D spending as a proportion of global GDP and so, in years when global GDP fell such as 2020, total R&D spending may actually have fallen rather than risen but despite this, the number of patent applications still increased
- R&D spending may take many years to create new products or processes and so there may be a time lag between the spending and its impact on patent applications, reducing the reliability of the link between the two data sets
- consideration of other factors that might affect the number of patent applications such as the level or length of patent protection or the simplicity of the application process

- the likely conclusion is that, on balance, there appears to be a strong, direct relationship (positive correlation) between R&D spending as a percentage of global GDP and the number of global patent applications.

Credit valid alternative content.

MAXIMUM FOR QUESTION 12: 8 MARKS

Question	Part	Marking guidance	Total marks
13		<p>Extract B (line 1) states: ‘Some firms charge different prices to different customers for the same product.’</p> <p>Explain the conditions that are necessary for firms to benefit from price discrimination.</p>	<p>12</p> <p>AO1 = 3 AO2 = 3 AO3 = 6</p>

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question. More weight should therefore be given to AO3 than AO1 and AO2.

Level	Marks	Descriptor
3	9–12	<ul style="list-style-type: none"> Is well organised and develops one or more of the key issues that are relevant to the question. Shows sound knowledge and understanding of relevant economic terminology, concepts and principles. Includes good application of relevant economic principles and/or good use of data to support the response. Includes well-focused analysis with a clear, logical chain of reasoning. May include a relevant diagram that is accurate and used appropriately to support their explanation.
2	5–8	<ul style="list-style-type: none"> Includes one or more issues that are relevant to the question. Shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present. Includes reasonable application of relevant economic principles and/or data to the question. Includes some reasonable analysis but it might not be adequately developed and may be confused in places. May include a relevant diagram to support their explanation.
1	1–4	<ul style="list-style-type: none"> Is very brief and/or lacks coherence. Shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely. Demonstrates very limited ability to apply relevant economic principles and/or data to the question. May include some very limited analysis but the analysis lacks focus and/or becomes confused. May include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.
	0	No creditworthy material

Indicative content:

- definition of price discrimination
- explanation of how firms can benefit from price discrimination through increased profit
- identification of key conditions for successful price discrimination:
 - control over supply
 - ability to separate markets and prevent arbitrage
 - differing demand conditions/elasticities in those markets
- explanation of the importance of being able to control the supply of a good or service

- explanation of the importance of the lack of suitable substitutes in allowing a firm price-setting power eg price differentials between motorway service stations or convenience stores and supermarkets
- the importance of market share or collusive agreements in granting price-setting power
- explanation of how companies can identify different characteristics that allow companies to separate customers or customer groups such as: income, working or educational status, age, gender, business or personal customer status
- explanation of the impact of these and other factors on elasticities of demand and how companies can benefit from those differences
- examples of how to prevent arbitrage/market seepage, for example by registering purchase of airline tickets to a specific consumer
- explanation of how firms can separate markets by location, for example through proof of customers' residency status or where the product is purchased
- how the time of purchase can afford opportunities to offer different prices to early-bookers compared to those booking closer to date of consumption of a service eg budget airline pricing models
- the ability to charge extra for changes to cut-price bookings to prevent cross-selling
- explanation of how proof of identity can be used to distinguish personal characteristics such as age or student status
- explanation of the conditions that enable peak-time pricing for different services such as public transport or leisure facilities.

Credit valid alternative content.

Question	Part	Marking guidance	Total marks
14		<p>Extract C (lines 7–8) states: ‘This difference in income inequality is also reflected in the two countries’ wealth distributions.’</p> <p>Discuss whether an unequal distribution of wealth is likely to be the most significant cause of an unequal distribution of income in a country.</p>	<p>25</p> <p>AO1 = 4 AO2 = 3 AO3 = 9 AO4 = 9</p>

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question. More weight should therefore be given to AO4 and AO3 than AO1 and AO2.

Level	Marks	Descriptor
5	21–25	<p>Sound, focused analysis and well-supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.
4	16–20	<p>Sound, focused analysis and some supported evaluation that:</p> <ul style="list-style-type: none"> • is organised, showing sound knowledge and understanding of economic terminology, concepts and principles but some minor errors may be present • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.
3	11–15	<p>Some reasonable analysis but generally unsupported evaluation that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren’t well-supported by arguments and/or data.
2	6–10	<p>A fairly weak response with some understanding that:</p> <ul style="list-style-type: none"> • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.
1	1–5	<p>A very weak response that:</p> <ul style="list-style-type: none"> • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.
	0	No creditworthy material

Indicative content:

- the difference between wealth and income
- meanings and methods of measuring an unequal distribution of income and wealth
- how an unequal distribution of wealth may continue over time and have a long-term influence on income, through the opportunity to transfer (inherited) wealth between generations compared to the earned nature of income streams such as wages
- analysis and evaluation of how interest, dividends and other forms of reward (income) may or may not be earned on accumulated stores of wealth
- the returns on asset ownership tending to be greater than average rates of GDP or wage growth, perpetuating income inequalities
- marginal taxation rates tending to be higher on incomes than on wealth reinforcing wealth inequality and its impact on income distribution
- how age distributions can influence income distributions eg younger or older populations reducing opportunities to work and earn incomes for certain groups
- how older populations may have more or less equally distributed incomes depending on factors such as pensions incomes or the need to care for aged relatives at the expense of work
- evaluation of how other social or cultural factors may influence attitudes or ability to work and earn an income among certain groups
- evaluation of how government policy on redistributing income can address or contribute to income inequality eg the impact of the EU's 'higher average levels of government spending and taxation' on income distribution
- evaluation of the role of healthcare in improving ability to work and earn incomes and therefore income distribution
- analysis and evaluation of the impact of education on the distribution of income eg how the EU's educational strategy may affect its income distribution
- whether average income within a country has an impact on its distribution of income eg from **Extract C**, whether Luxembourg's higher income may contribute to its lower level of income inequality compared to Bulgaria
- evidence from specific countries about the link between wealth and income inequality or other influences on income inequality
- an overall evaluation of whether an unequal distribution of wealth is likely to be the most significant cause of an unequal distribution of income in a country.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Credit valid alternative content.

Section D

Total for this section: 25 marks

Question	Part	Marking guidance	Total marks
15		<p>Monopoly power can be a cause of market failure. Some governments try to control the behaviour of large firms, for example through investigation, regulation or price controls. Other governments focus more on encouraging competition.</p> <p>Evaluate measures that a government can use to try to prevent dominant firms from abusing their monopoly power.</p>	<p>25</p> <p>AO1 = 4 AO2 = 3 AO3 = 9 AO4 = 9</p>

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question. More weight should therefore be given to AO4 and AO3 than AO1 and AO2.

Level	Marks	Descriptor
5	21–25	<p>Sound, focused analysis and well-supported evaluation that:</p> <ul style="list-style-type: none"> is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response includes well-focused analysis with clear, logical chains of reasoning includes supported evaluation throughout the response and in a final conclusion.
4	16–20	<p>Sound, focused analysis and some supported evaluation that:</p> <ul style="list-style-type: none"> is organised, showing sound knowledge and understanding of economic terminology, concepts and principles but some minor errors may be present includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response includes some well-focused analysis with clear, logical chains of reasoning includes some reasonable, supported evaluation.
3	11–15	<p>Some reasonable analysis but generally unsupported evaluation that:</p> <ul style="list-style-type: none"> focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response includes some reasonable analysis but which might not be adequately developed or becomes confused in places includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.
2	6–10	<p>A fairly weak response with some understanding that:</p> <ul style="list-style-type: none"> includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely includes some limited application of relevant economic principles to the given context and/or data to the question includes some limited analysis but it may lack focus and/or become confused includes some evaluation which is weak and unsupported.

1	1–5	<p>A very weak response that:</p> <ul style="list-style-type: none"> • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.
	0	No creditworthy material

Indicative content:

- definitions of monopoly power and dominant firms
- explanation of the role of government or regulators in setting and enforcing competition policy and consumer protection
- examples of behaviours that could be seen as an abuse of monopoly power
- analysis of the impacts of monopoly power on dominant firms’ competitors, customers and markets
- analysis and evaluation of different measures to prevent monopoly abuse:
 - investigation of dominant firms
 - regulation of mergers and takeovers
 - price and profit controls
 - measures to promote competition and reduce entry barriers
 - policies to control restrictive practices and protect consumers
 - creation of industry-specific regulatory bodies
 - removal of rights or licences to operate
 - nationalisation
 - shared access to infrastructure
- analysis and evaluation of the potential negative consequences of government intervention:
 - government failure and regulatory capture
 - impact on incentives to invest, grow, enter markets etc
 - quality of information available to government and likely extent of information asymmetry
 - cost of intervention
 - availability of time, money and expertise to address abusive behaviour
- evaluation of whether deregulating markets could encourage more competition and erode some of the market dominance of large firms
- consideration of whether the nature of an industry means it is more or less appropriate for government to intervene eg utility markets v. computer games
- evaluation of whether natural monopoly, network effects and other scale-related considerations might outweigh concerns over potential for market abuse
- consideration of the relative merits of different measures to address a specific example of market abuse
- knowledge of different situations, experience and priorities within particular economies or industries
- evaluation of the overall desirability or effectiveness of government intervention in a market economy
- overall evaluation of the measures that a government can use to try to prevent dominant firms from abusing their monopoly power.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Credit valid alternative content.

Question	Part	Marking guidance	Total marks
16		<p>The market for luxury chocolate contains many small firms. Most make use of behavioural ideas to try to increase sales of their products. For example, if a firm can persuade a customer to make a regular order, then inertia means that the customer is unlikely to cancel and buy from a competitor.</p> <p>Discuss whether firms in monopolistic competition are likely to benefit from using behavioural influences to increase their sales.</p>	<p>25</p> <p>AO1 = 4 AO2 = 3 AO3 = 9 AO4 = 9</p>

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question. More weight should therefore be given to AO4 and AO3 than AO1 and AO2.

Level	Marks	Descriptor
5	21–25	<p>Sound, focused analysis and well-supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.
4	16–20	<p>Sound, focused analysis and some supported evaluation that:</p> <ul style="list-style-type: none"> • is organised, showing sound knowledge and understanding of economic terminology, concepts and principles but some minor errors may be present • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.
3	11–15	<p>Some reasonable analysis but generally unsupported evaluation that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.
2	6–10	<p>A fairly weak response with some understanding that:</p> <ul style="list-style-type: none"> • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.

1	1–5	<p>A very weak response that:</p> <ul style="list-style-type: none"> • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.
	0	No creditworthy material

Indicative content:

- definition of behavioural influences
- explanation of monopolistic competition in both the long run and short run and its characteristics
- firms in monopolistic competition may increase sales through either price or non-price competition
- explanation that sales can be measured through value or volume and consideration of whether behavioural factors may have a greater influence on one or the other eg behavioural influences on elasticities
- analysis of whether price or non-price competition is likely to be more significant and how behavioural influences could be used
- analysis and evaluation of why behavioural economics questions traditional assumptions about utility-maximising rationality could include the role of:
 - bounded rationality and bounded self-control
 - specific biases eg inertia preventing cancellation of subscription services
 - computational problems
- analysis and evaluation of how behavioural factors can influence consumer buying patterns in relation to:
 - responses to promotion
 - presentation of information
 - decision-making processes
 - perceptions, beliefs and attitudes towards a brand
 - timing or methods of purchase
- analysis of whether and why certain types of product or purchase may be subject to greater behavioural influences than others
- evaluation of specific features of monopolistically competitive markets that may make them more or less suitable for the use of behavioural insights eg degree of price or non-price competition
- evaluation of whether behavioural influences are likely to have a greater impact on consumers than traditional, utility-related, considerations in certain situations
- knowledge of different situations where behavioural insights have been used by firms in monopolistically competitive markets
- an overall assessment of whether firms in monopolistic competition are likely to benefit from using behavioural influences to increase their sales.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Credit valid alternative content.

Assessment Objectives Grid

	AO1	AO2	AO3	AO4	Total
Section A					
01	1				1
02	1				1
03		1			1
04		1			1
05		1			1
06			1		1
07	1				1
08		1			1
09		1			1
10	1				1
Section B					
11.1	2				2
11.2	1	1			2
11.3	2	4			6
Section C					
12.1	1	1	2		4
12.2	1	1		2	4
13	3	3	6		12
14	4	3	9	9	25
Section D					
15 and 16	4	3	9	9	25
Unit total	22	21	27	20	90