

6	<p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because it is not producing at the lowest point on the AC curve in the short run</p> <p><b>C</b> is not correct because these firms make normal profits in the long run</p> <p><b>D</b> is not correct because price is not equal to marginal cost in the short run</p>	(1)
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6	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS6:</b> Calculate cost, revenue and profit (marginal, average, totals)</p> <p><b>QS8</b> Make calculations of elasticity and interpret the result</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is C</b></p> <p><b>A</b> is incorrect because demand will become more price elastic</p> <p><b>B</b> is incorrect because demand will become more price elastic</p> <p><b>D</b> is incorrect because total revenue would fall</p>	(1)
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1	<p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because this is profit maximisation</p> <p><b>C</b> is not correct because this is revenue maximisation</p> <p><b>D</b> is not correct as this will not maximise sales</p>	(1)
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6	<p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because monopolistically competitive firms are productively inefficient and make normal profits in the long-run</p> <p><b>C</b> is not correct as they make normal profits in the long-run</p>	(1)
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		<i>D is not correct as monopolistically competitive firms are not allocatively efficient</i>	
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<b>4</b>	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p><b>The only correct answer is D</b></p> <p>A is incorrect because the number of firms would fall</p> <p>B is incorrect because the firm is making a loss</p> <p>C is incorrect because the firm is making a loss and the number of firms would fall</p>	<b>(1)</b>
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<b>4</b>	<p><b>QS4: Construct and interpret a range of standard graphical forms</b></p> <p><b>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</b></p>	<p><b>The only correct answer is D</b></p> <p>A is incorrect because average revenue would be greater than marginal cost</p> <p>B is incorrect because marginal revenue would be lower than average revenue</p> <p>C is incorrect because marginal revenue would be less than total cost</p>	<b>(1)</b>
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<b>5</b>	<b>QS9:</b> Interpret, apply and analyse information in written, graphical tabular and numerical forms.	D	<b>(1)</b>
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<b>6</b>	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS6:</b> Calculate cost, revenue and profit (marginal, average, totals)</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p><b>The only correct answer is B</b></p> <p>A is incorrect because this is the average revenue curve</p> <p>C is incorrect because this is the total fixed cost curve or an AR curve for a perfectly competitive firm</p> <p>D is incorrect because this is a total revenue curve for a firm operating in an imperfectly competitive market</p>	<b>(1)</b>
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<b>3</b>	<p><b>QS6:</b> Calculate cost, revenue and profit (marginal, average, totals)</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p><b>The only correct answer is B</b></p> <p>A is incorrect because this is the increase in the wage for the original 50 workers</p> <p>C is incorrect because this is the total cost of employing 50 workers</p> <p>D is incorrect because this is the total cost of employing 51 workers</p>	<b>(1)</b>
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<b>2</b>	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is C</b></p> <p>A is incorrect because this is when <math>MR=0</math></p> <p>B is incorrect because this is when <math>MC=MR</math></p> <p>D is incorrect because the firm will make some supernormal profit to pay as dividends</p>	<b>(1)</b>
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5	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is C</p> <p>A is incorrect because supernormal profit and price will change</p>	(1)
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		<p>B is incorrect because supernormal profit and price will decrease</p> <p>D is incorrect because the business supernormal profit and price will decrease</p>	
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6	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS6:</b> Calculate cost, revenue and profit (marginal, average, totals)</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is A</p> <p>B is incorrect because marginal revenue is negative after an output of 0X</p> <p>C is incorrect because marginal revenue is equal to zero at an output of 0X</p> <p>D is incorrect because total revenue is maximised at an output of 0X</p>	(1)
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5	<p><b>QS4: Construct and interpret a range of standard graphical forms</b></p> <p><b>QS6: Calculate cost revenue and profit (marginal, average, totals)</b></p> <p><b>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</b></p>	<p>The only correct answer is C</p> <p>A is incorrect because this is the AFC at 20 000 shirts</p> <p>B is incorrect because this is the AFC at 15 000 shirts</p> <p>D is incorrect because this is the AFC at 5 000 shirts</p>	(1)
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2	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS6:</b> Calculate cost, revenue and profit (marginal, average, totals)</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is C</p> <p>A is incorrect because the firm is not producing at the productively efficient level</p> <p>B is incorrect because price is equal to MC</p> <p>D is incorrect because firms make normal profit in the long-run</p>	(1)
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<b>2</b>	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is B</b></p> <p><b>A</b> is incorrect because satisficing would result in a reduction of profits</p> <p><b>C</b> is incorrect because shareholders would not accept a low level of dividend payments</p> <p><b>D</b> is incorrect because the manufacturer would not want to maximise total costs</p>	<b>(1)</b>
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<b>1</b>	C	<b>(1)</b>
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<b>3</b>	<p><b>QS6:</b> Calculate cost, revenue and profit (marginal, average, totals)</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p><b>The only correct answer is C</b></p> <p>A is incorrect as this is the average revenue for Q4 2020</p> <p>B is incorrect as this is the average revenue for Q4 2017</p> <p>D is incorrect as this is the average revenue for Q4 2018</p>	<b>(1)</b>
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<b>3</b>	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p><b>The only correct answer is A</b></p> <p>B is incorrect as the business will make normal profit</p> <p>C is incorrect because the business will reduce output</p> <p>D is incorrect because the price will fall</p>	<b>(1)</b>
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Question	With reference to Figure 1, calculate the percentage change in the average world price of coffee beans from 1 July 2017 to 1 May 2019. You are advised to show your working. <b>Answer</b>	Mark
7(a)	<p><b>Application 2</b></p> <p><b>Quantitative skills assessed:</b>  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.  <b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes.</p> <p>Up to 2 marks for calculation:  <math>1.57 - 2.31 \div 2.31</math> (1)  <math>-0.32 \times 100 = -32\%</math> (1)</p> <p><b>Award full marks for correct answer (-32, -32.03, -32.035, -32.0346) regardless of working.</b>  <b>Award only 1 mark if they do not identify that it has decreased/is negative</b></p>	(2)

Question	With reference to Extract A (line 12), explain what is meant by 'short-run shutdown point.' <b>Answer</b>	Mark
7(b)	<p><b>Knowledge 2 Application 2</b></p> <p><b>Quantitative skills assessed: QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge:</b> up to 2 marks for any two of the following:</p> <ul style="list-style-type: none"> <li>• Shut down point occurs where <math>AR=AVC</math> (1)</li> <li>• In the short-run a firm may shutdown if the price it receives does not cover its average variable costs of production (1)</li> <li>• Where <math>AVC &gt; AR</math> then each additional item sold adds to losses (1)</li> <li>• Understanding of short-run (at least one fixed factor of production) (1)</li> <li>• Examples of variable costs (1)</li> </ul> <p><b>Or</b> Accurate diagram to clearly show short-run shutdown (1+1)</p> <p><b>Application - up to 2 marks for application to context of the coffee market</b></p> <ul style="list-style-type: none"> <li>• Supply of coffee beans greater than demand/ surplus 4 million bags/global production (1)</li> <li>• By May 2019, the global price of coffee beans fell to its lowest level in over 10 years (1)</li> <li>• Caused serious problems for small coffee growers in coffee-producing regions/Central America/Africa (1)</li> <li>• Farmers in Africa and Central America were making large losses (1)</li> </ul>	(4)

Question	With reference to Figure 2 and Extract A, analyse <b>two</b> possible reasons for the increase in supply of coffee beans between 2015 and 2019. <b>Answer</b>	Mark
7(c)	<p><b>Knowledge 2 Application 2 Analysis 2</b></p> <p><b>Quantitative skills assessed: QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge and Analysis</b></p> <p>1 mark for definition of supply- the quantity of goods that suppliers are willing to sell at a given price in a given time period <b>(1)</b></p> <p>Up to 2 marks for the identification of two reasons for the increase in supply of coffee and 1 mark for the linked expansion of each point</p> <ul style="list-style-type: none"> <li>• Favourable weather conditions <b>(1K)</b> enables crops to grow, increasing the harvest yield, increasing supply <b>(1AN)</b></li> <li>• Improvements in farming equipment <b>(1K)</b> improvements in technology improves productive efficiency, increasing output and increasing supply <b>(1AN)</b></li> <li>• Improvements in farming methods of production <b>(1K)</b> improves the efficiency of factors of production used in farming, increasing output <b>(1AN)</b></li> </ul> <p><b>Application</b></p> <p>Up to 2 marks for application to Figure 2 and Extract A</p> <ul style="list-style-type: none"> <li>• Global coffee production rose from 150 million bags in 2015 to 171 million bags in 2019 <b>(1)</b></li> <li>• World coffee bean supply increased by 8.2% in 2019 (Figure 2)/ supply increased 8% (Extract A) <b>(1)</b></li> <li>• Global coffee bean surplus of 4 million bags <b>(1)</b></li> <li>• Large coffee farming countries such as Brazil had increased production <b>(1)</b></li> </ul>	<b>(6)</b>

Question	With reference to Extract B, examine <b>two</b> barriers to entry into the US coffee shop market.	Mark
7(d)	<p><b>Knowledge 2 Application 2 Analysis 2 Evaluation 2</b></p> <p><b>Quantitative skills assessed: QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge and Analysis</b></p> <p><b>Up to 1 mark for the correct definition of barriers to entry</b></p> <p>Definition of Barriers to entry – obstacles that prevent new firms from entering the market <b>(1)</b></p> <p><b>up to 2 knowledge marks for identification of two barriers to entry and 1 mark for the linked expansion of each barrier to entry (2+2)</b></p> <ul style="list-style-type: none"> <li>• A number of well-known firms operating in the coffee chain market <b>(1K)</b>, making it more difficult for a new firm to establish itself because of brand loyalty, this increases barriers to entry <b>(1AN)</b></li> <li>• Firms compete using non-price competition such as advertising. <b>(1K)</b> This increases the costs of operating in the market and may prevent new firms entering if they cannot afford to cover the costs of large advertising campaigns <b>(1AN)</b></li> <li>• New firms will need to develop high quality coffee beans to compete with established coffee chains <b>(1K)</b> This requires expertise that a new firm may not have <b>(1AN)</b></li> <li>• Firms will need to compete using social media <b>(1K)</b>. This requires knowledge of social media and the ability to finance the campaign. This would increase barriers to entry to new firms <b>(1AN)</b></li> </ul> <p><b>Application</b></p> <p>Up to 2 marks for relevant application to Extract B (1+1)</p> <ul style="list-style-type: none"> <li>• Starbucks, Tim Hortons, Dunkin' Donuts, Dutch Bros Coffee and Peet's Coffee operate in the market <b>(1)</b></li> <li>• US coffee shop market is likely to be oligopolistic <b>(1)</b></li> <li>• Starbucks large with 27 000 stores worldwide <b>(1)</b></li> <li>• The firms compete using special offers, large advertising budgets and loyalty schemes <b>(1)</b></li> </ul>	

- Investing heavily in developing mobile phone apps and online ordering systems **(1)**
- Social media advertising is the most effective form of marketing for coffee shops **(1)**

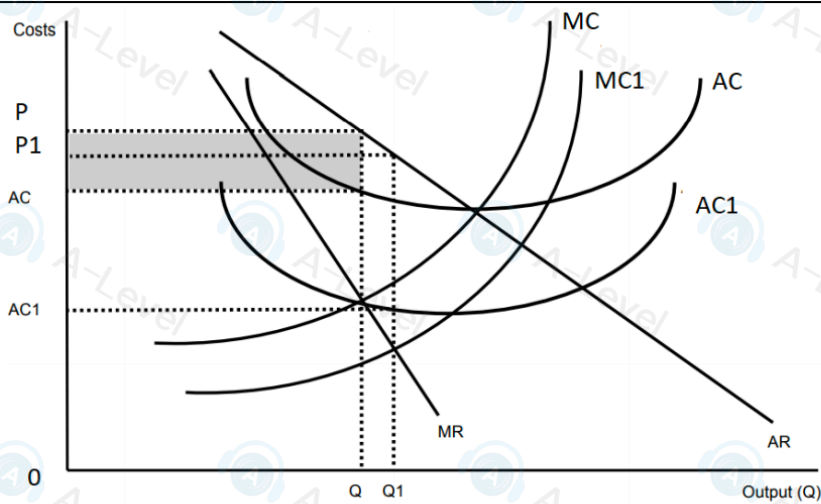
### **Evaluation**

**Up to 2 marks for evaluative comments (2+0 or 1+1), e.g.:**

- A large number of successful, small independent coffee shops in the USA **(1)** A new firm can enter the market as it does not need to operate at the same size and scale as the bigger coffee chains **(1)**
- Product differentiation such as different drinks and food options, require limited skills **(1)** reducing barriers to entry **(1)**
- New firms can locate in different areas to well-known coffee chains **(1)**. These areas might be lower cost, reducing start-up costs and barriers to entry **(1)**
- Social media marketing may be free if using apps such as Instagram and Facebook **(1)** reducing the costs of advertising **(1)**

**(8)**

<b>Question</b>	With reference to the information provided, discuss the reasons for the increase in Starbucks' profits in 2019. For <b>one</b> of these reasons, illustrate your answer with an appropriate cost and revenue diagram.
<b>7(e)</b>	<p><b>Indicative content guidance</b></p> <p>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.</p> <p><b>Knowledge, Application, Analysis (8 marks) - indicative content</b></p> <ul style="list-style-type: none"> <li>• Definition of profits = total revenue - total costs</li> <li>• Starbucks revenue increased by 7.24% in 2019</li> <li>• Starbucks profits increased by 7.11% to \$17.98 billion</li> <li>• Globally sales of coffees have increased by 2%, this would increase both the average revenue and marginal revenue curves outwards, increasing profits</li> <li>• Many new shops opening in China</li> <li>• Attracting younger coffee drinkers</li> <li>• Diagram to show an increase in both average revenue and marginal revenue shifting outwards with a new equilibrium price and quantity showing profit increasing</li> </ul> <div data-bbox="507 913 1390 1429" data-label="Figure"> </div> <ul style="list-style-type: none"> <li>• AR and MR increase to AR2 MR2 with a higher area of profit from <math>P1C1 \times Q1</math> to <math>P2C2 \times Q2</math></li> <li>• The price of coffee beans has fallen to \$1.57 per kg in May 2019 reducing the costs of production for coffee shops. This would cause the marginal cost and average costs curve to fall, increasing profits</li> </ul>



The fall in the price of coffee beans causes the MC1 and AC1 to fall, creating a higher output at a lower price. Profit increases from  $PAC \times 0Q$  to  $P1AC1 \times 0Q1$ .

**Maximum level 2 if no diagram**

**Maximum level 2 if only one reason is discussed**

Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	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.
<b>Level 2</b>	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.
<b>Level 3</b>	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.

<b>Evaluation (6 marks) - indicative content</b>		
<ul style="list-style-type: none"> <li>• The price of coffee beans fluctuates and costs may increase in the long-run reducing profits</li> <li>• Other costs of production may increase offsetting the fall in costs from the reduction in the price coffee beans, reducing overall profits</li> <li>• Costs of advertising and expansion will reduce overall profits</li> <li>• A large number of firms competing in the coffee shop market which may reduce sales and revenue in the long-run</li> <li>• A 32% fall in price of coffee beans is very large and might have had a significant impact on profits</li> <li>• The impact of the fall in the price of coffee beans on Starbucks' profits depends on the significance of coffee beans as a proportion of total costs</li> <li>• The rise in profits might be short-term only</li> </ul>		
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1-2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	3-4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	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.