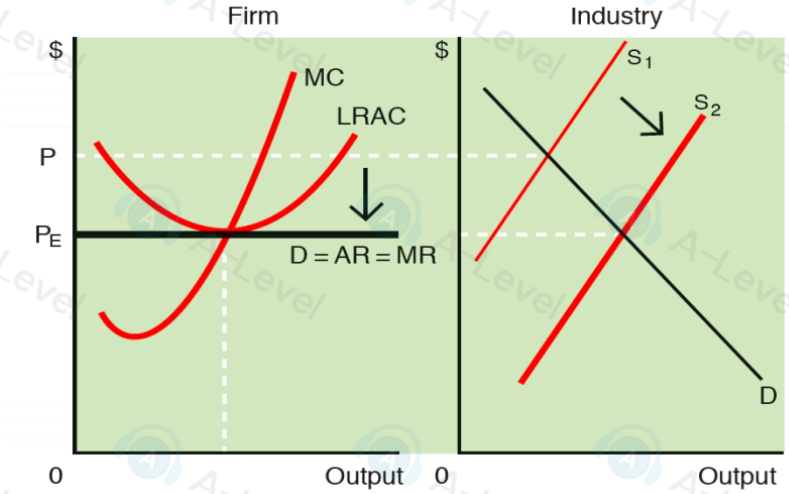
3	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** **A** *is not correct because a firm in a monopolistically competitive market does not produce at the lowest point on the AC curve* **B** *is not correct because there is freedom of entry in a monopolistically competitive market so any short-run supernormal profits would be competed away in the long-run* **C** *is not correct because is not correct because a firm operating on a monopolistically competitive market does not produce at the output at which price = MC*	**(1)**

3	**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 there can only be super-normal profits in the short-run C is incorrect because it is not operating at the MES D is incorrect because price is not equal to marginal cost	**(1)**

Question	Quantitative skills assessed	Answer	Mark
1	**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 B** **A** is incorrect because supernormal profit will be eliminated **C** is incorrect because the producer will make normal profit and therefore remain in the market **D** is incorrect because market concentration will fall as new firms enter the market	**(1)**

Question Number	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. **Knowledge, Application, Analysis (12 marks) – indicative content** • Conditions for perfect competition – large number of buyers & sellers, perfect information, no barriers to entry or exit, homogeneous products • Conditions for monopolistic competition (MC) – as above, but differentiated products and few or no barriers • Understanding of allocative, productive and dynamic efficiency - productive (lowest point of AC) allocative (p=MC) dynamic (technical) PERFECT COMPETITION • Firms are price takers – hence perfectly elastic demand • Use of diagram to show that market forces lead to downward pressure on price - Any supernormal profit in short-run is removed in long-run with new entrants - Rightward shift in market supply curve, shift downwards in firms' AR=MR=D curve i.e. lower price from P to P_E 

- Diagram shows that, in the long-run, a perfectly competitive firm achieves both productive and allocative efficiency and makes normal profit (p = AC = MC)

MONOPOLISTIC COMPETITION

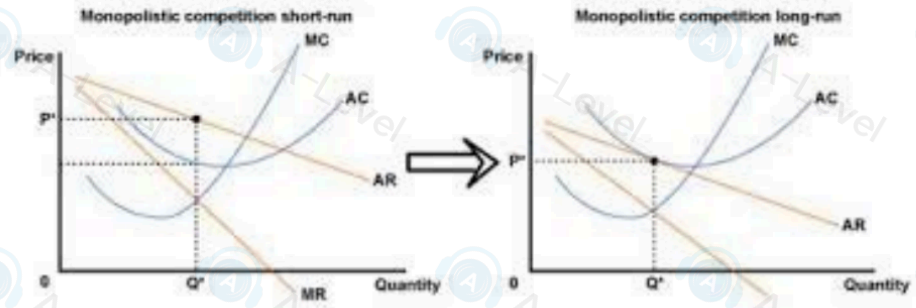
- The firm is a price maker (differentiated product) and hence faces a downward sloping demand curve. Demand tends to be relatively elastic (large number of competing firms)

Short-run monopolistic competition

- MC firms can make supernormal profits where MC =MR

Long-run monopolistic competition

- No barriers means AR shifts downwards until only normal profits are earned and price is lower at profit max level of output



- Diagrams show absence of efficiency in both short and long-run
  -output below lowest point of AC (where MC=AC), so not productively efficient
  - price above MC, so not allocatively efficient

- Proliferation of brands under MC may lead to confusion for consumers so a possible loss of efficiency
- Price is likely to be higher and output lower under monopolistic competition than under conditions of perfect competition

Points above should be illustrated with relevant examples

Restrict to a maximum of level 3 for Knowledge, Application and Analysis if no diagram provided.

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 • Complete absence of dynamic efficiency under perfect competition (homogeneous products, no barriers) - so no incentive to innovate and carry out product development • Under monopolistic competition possible dynamic efficiency at least in the short-run. Availability of super normal profit and some barriers because of branding/differentiation • Entry of new firms into both types of market structure in the long-run means that both types of firm are likely to be x-efficient	

2	**QS4: Construct and interpret a range of standard graphical forms** **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 C** A is incorrect because the firm is not producing at the productively efficient level B is incorrect because price is equal to MC D is incorrect because firms make normal profit in the long-run	**(1)**

6	**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 D** A is incorrect because the firm will be allocatively efficient and only normal profit will be made in the long-run B is incorrect because the firm will be allocatively efficient C is incorrect because the firm will make normal profit	**(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)**

3	**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 as the business will make normal profit C is incorrect because the business will reduce output D is incorrect because the price will fall	**(1)**

2	**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 D** A is incorrect because MR is not equal to 0 B is incorrect because this is not the lowest point on the ATC curve C is incorrect because the firm is making supernormal profit	**(1)**

2	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	The correct answer is **D** **A** is incorrect because price is greater than MC **B** is incorrect because the firm would remain in the industry as ceteris paribus it would be making supernormal profit **C** is incorrect because the firm is not producing at the lowest point on the AC curve	**(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 D** A is incorrect because the number of firms would fall B is incorrect because the firm is making a loss C is incorrect because the firm is making a loss and the number of firms would fall	**(1)**

6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because monopolistically competitive firms are productively inefficient and make normal profits in the long-run* ***C*** *is not correct as they make normal profits in the long-run*	**(1)**
		D *is not correct as monopolistically competitive firms are not allocatively efficient*	

3	**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 a business in a monopolistically competitive market does not make supernormal profit in the long-run **C** is incorrect because a business in a monopolistically competitive market is not allocatively efficient **D** is incorrect because a monopolistically competitive business would make normal profit in the long-run	**(1)**

6	**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** **B** *is not correct because it is not producing at the lowest point on the AC curve in the short run* **C** *is not correct because these firms make normal profits in the long run* **D** *is not correct because price is not equal to marginal cost in the short run*	**(1)**