



Mark Scheme (Results)

October 2023

Pearson Edexcel International

Advanced Level

In Economics (WEC13)

Unit 3: Business behaviour

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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.	<p>The only correct answer is D</p> <p>A is incorrect because this is impacted by the demand for labour</p> <p>B is incorrect because the rate of unemployment should fall</p> <p>C is incorrect because an increase in immigration would increase the population</p>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p>The only correct answer is B</p> <p>A is incorrect because high legal costs reduce contestability</p> <p>C is incorrect because patent protection would reduce contestability</p> <p>D is incorrect because regulatory capture is a form of government failure</p>	(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.	<p>The only correct answer is A</p> <p>B is incorrect because there can only be super-normal profits in the short-run</p> <p>C is incorrect because it is not operating at the MES</p> <p>D is incorrect because price is not equal to marginal cost</p>	(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.	<p>The only correct answer is C</p> <p>A is incorrect because higher rent would cause supernormal profits to decrease</p> <p>B is incorrect because higher rent would cause supernormal profits to decrease but the price remains constant</p> <p>D is incorrect because the supernormal profit would decrease and the price remains constant</p>	(1)

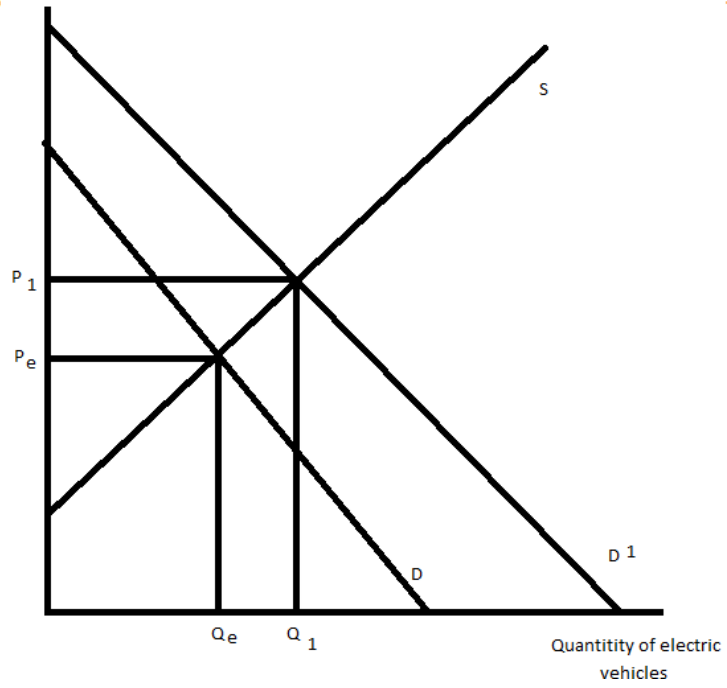
5	<p>QS4: Construct and interpret a range of standard graphical forms</p> <p>QS6: Calculate cost revenue and profit (marginal, average, totals)</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is C</p> <p>A is incorrect because 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)
6	<p>QS8: Make calculations of elasticity and interpret the result</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is B</p> <p>A is incorrect because the demand is more price elastic in the daytime than the evening.</p> <p>C is incorrect because the supply of seats in a cinema would be perfectly inelastic</p> <p>D is incorrect because the elasticity of supply will not vary between the daytime and evening</p>	(1)

Section B

Question	With reference to Figure 2, calculate the percentage change in the price of the Model 3 Rear Wheel Drive vehicle between January and October 2022. Answer	Mark
7(a)	Application 2 Quantitative skills assessed: QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculation: $(266-280) = -14$ (1)/ $(266-280)/ 280 \times 100$ (1) $(-14/280) \times 100 = -5\%$ (1) NB: Award full marks for correct answer (5% or 5) regardless of working NB: Award full marks if negative sign is missing	(2)

Question	Reference to Extract A, analyse two reasons why sales of electric vehicles in China increased. Illustrate your answer with a supply and demand diagram. Answer	Mark
7 (b)	<p>Knowledge 2, Application 2, Analysis 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.</p> <p>Knowledge Up to 2 marks for the diagram showing:</p> <ul style="list-style-type: none"> • Original supply, demand and equilibrium price and quantity (1) • New equilibrium price and quantity having correctly shifted demand (1) <p>Analysis Up to two marks for reasons from Extract A, e.g.:</p> <ul style="list-style-type: none"> • Measures to reduce CO₂ emissions in order to meet its climate change goals by 2030 (1) • Increasing the number of charging points (1) • Raising the tax on non-electric vehicles (1) • The global increase in the price of fuel has also led to an increase in demand for electric vehicles (1) <p>Application 1 mark for correct shift of demand on diagram:</p> <ul style="list-style-type: none"> • Shift demand to the right (1) <p>1 mark for reference to change in sales:</p> <ul style="list-style-type: none"> • Between 2021 and 2022 the sales of electric vehicles in China increased by 83% to 5.92 million (1) 	

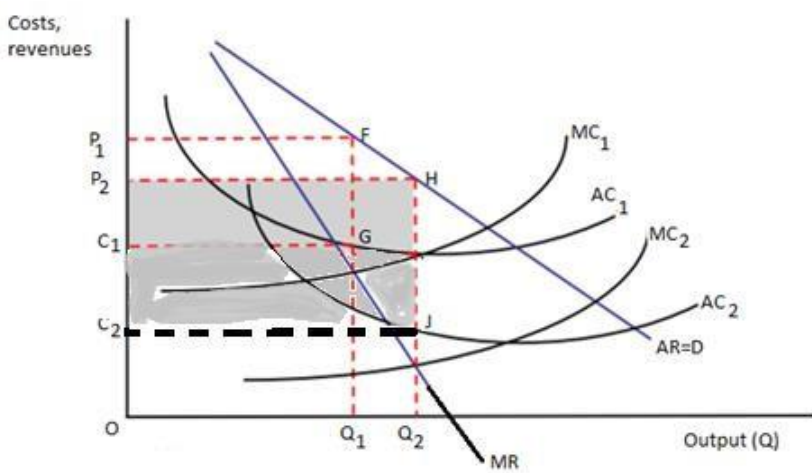
Price per vehicle



(6)

Question	With reference to Figure 1 and Extract B, explain the market structure that best describes the electric vehicle market in China. Answer	Mark
7(c)	<p>Knowledge 2 Application 2</p> <p>Quantitative skills assessed: QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge: 1 mark for identification of oligopoly (1) 1 mark for identification of a characteristic of oligopoly e.g.</p> <ul style="list-style-type: none"> • a few dominant firms/ • a high concentration ratio/ • interdependence/ • high barriers to entry/ • imperfect information/ • differentiated goods/ • non-price competition (1) <p>Application up to 2 marks for application to Figure 1 or Extract B (1+1): Figure 1</p> <ul style="list-style-type: none"> • The three-firm concentration ratio is 53%/ • The four-firm concentration ratio is 59%/ • The five-firm concentration ratio is 64%/ • The six-firm concentration ratio is 68% (1+1) <p>Extract B:</p> <ul style="list-style-type: none"> • The lower prices of Tesla’s electric vehicles had a significant impact on its competitors/ Domestic and other international manufacturers responded by reducing their prices for electric vehicles as they competed for market share (1) 	(4)

Question	With reference to the first two paragraphs of Extract B, examine the impact of Tesla producing its electric vehicles in China on its costs and profits. Illustrate your answer with a costs and revenues diagram. Answer	Mark
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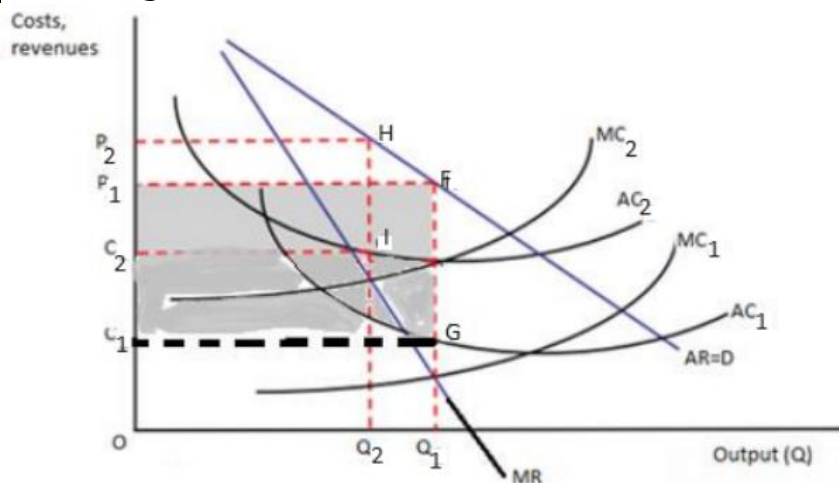
7(d)	<p>Knowledge 2 Application 2 Analysis 2 Evaluation 2</p> <p>Quantitative skills assessed:</p> <p>QS4: Construct and interpret a range of standard graphical forms</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Decreasing costs</p>  <p>Knowledge</p> <p>Up to 2 marks for drawing a diagram that shows knowledge of:</p> <ul style="list-style-type: none"> • Original AR, MR, AC1, MC1 and profit-maximising equilibrium (1) • Original supernormal profit area P1FGC1 (1) <p>Analysis</p> <p>Up to 2 marks for linked explanation of impact on Tesla's profits e.g.:</p> <ul style="list-style-type: none"> • Decrease in AC causes a downward shift in MC and AC curves to MC2 and AC2 (1) • Area of new supernormal profit identified P2HJC2 (1) <p>Application</p> <p>Up to two marks for reference to Extract B:</p> <ul style="list-style-type: none"> • Tesla was able to take advantage of government subsidies aimed at promoting the domestic electric vehicle industry lowering their costs (1) Tesla benefited from low-cost labour (1) • China has become a key manufacturing centre for Tesla, with the Shanghai factory producing over 710 000 vehicles in 2022 (1) • Tesla improved its efficiency from producing in Shanghai (1) 	
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Evaluation

Up to 2 marks for evaluative comments, e.g.:

- Costs may have risen (1) as production has been difficult in China/ Tesla faced supply chain disruptions due to the global health crisis/ Tesla's costs of production have risen/Tesla had to pay taxes on imported components and finished vehicles (1)
- When the subsidies end costs will rise again reducing profit (1+1)
- As averages incomes in China rise the wages will rise reducing the costs advantages (1+1)

Increasing costs



Knowledge

Up to 2 marks for drawing a diagram that shows knowledge of:

- Original AR, MR, AC₁, MC₁ and profit-maximising equilibrium (1)
- Original profit area P₁FGC₁ (1)

Analysis

Up to 2 marks for linked explanation of impact on Tesla's profits e.g.:

- Increase in MC and AC causes an upward shift in MC and AC curves to MC₂ and AC₂ (1)
- Area of new supernormal profit P₂HIC₂ (1)

Application

Up to 2 marks for application to Extract B

- Production has been difficult in China (1)
- Tesla faced supply chain disruptions due to the global health crisis (1)
- Tesla's costs of production have risen (1)
- Tesla had to pay taxes on imported components and finished vehicles (1)

Evaluation

- Costs may in fact have fallen (1) as Tesla was able to take advantage of government subsidies aimed at promoting the domestic electric vehicle industry lowering their costs /Tesla benefited from low-cost labour/ China has become a key manufacturing centre for Tesla, with the Shanghai factory producing over 710 000 vehicles in 2022/ Tesla improved its efficiency from producing in Shanghai (1)
- Depends on the proportion of total costs labour makes up if it is capital intensive it will be less important (1+1)
- In the long run the supply chain problems will reduce helping to lower costs and increasing profits (1+1)

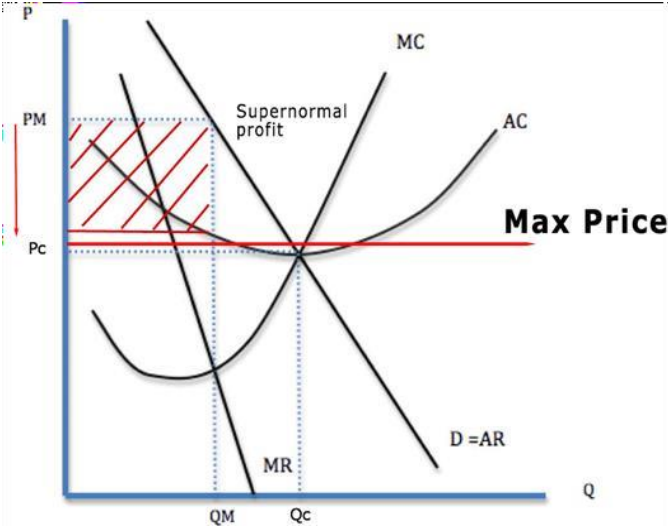
Question	(e) With reference to the information provided and your own knowledge, discuss the impact of Tesla reducing its prices on the behaviour of other electric vehicle manufacturers. Indicative content	
7(e)	<p>Indicative content guidance Answers must be credited by using the level descriptors (below) 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.</p> <p>Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge, Application, Analysis (8 marks) – indicative content</p> <p>Tesla has engaged in price competition</p> <ul style="list-style-type: none"> • Price competition is a type of competition where businesses compete against each other by offering lower prices for their goods or services • Tesla has tried to attract more customers and increase market share by offering a lower cost alternative to other electric car producers • Tesla’s current market share of 12% is below that of SAIC (25%) and BYD (16%) • Price leadership encouraged other electric car vehicle manufacturers to lower their prices • There might be a price war in the Chinese car market • Reward appropriate game theory matrix, supported with explanation • Some manufacturers may use non-price competition as means of increasing their market shares e.g. advertising, branding, product differentiation • Tesla may be using limit pricing- the reduced prices are in place to limit the profits- this may reduce the likelihood of competitors entering the market to seek profit • Predatory pricing is where the firm prices below its AVC in order to put pressure on the competition to leave the market as they will be loss making- this may result in loss of competitors/competitors exiting the market • Competitor may report Tesla to competition authorities for predatory pricing 	

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.

	<p style="text-align: center;">Evaluation (6 marks) – indicative content</p> <ul style="list-style-type: none"> • If electric vehicle manufacturers are able to differentiate their vehicles from Tesla they may not need to compete over price • There may be little impact on other vehicle manufacturers if they have a strong reputation for reliability, safety and quality • Other vehicle manufacturers in China benefit from government subsidies and low wage costs. Therefore they can also lower prices and are not significantly impacted • If Tesla/other vehicle manufacturers experience increase in costs in the long-run they may have to increase their prices • Lower prices may decrease super-normal profits reducing the available capital to spend on non-price competition • Firms are interdependent and therefore they will all copy each other’s non-price competition strategy • Vehicle manufacturers do not benefit if a price war starts as they may all lose revenue, reducing the incentive to continue to reduce prices • SAIC is in a stronger position to withstand competition from Tesla given that its market share is more than double that of Tesla • Predatory pricing is illegal and Tesla may be fined/ lose consumer confidence
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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

<p>Question</p>	<p>Evaluate policies that a government could use to control and regulate monopolies, such as PTCL. Illustrate your answer with an appropriate diagram(s). Indicative content</p>
<p>8</p>	<p>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.</p> <ul style="list-style-type: none"> • Price regulation: prevents monopolies from charging a price much higher than the price set under competitive market conditions. The government will set a maximum price below the current price (PM to PC) to increase allocative efficiency and reduce supernormal profits • Limiting the amount of profit monopolies such as PTCL are allowed to make. A maximum level of profit can be set equal to what the regulator thinks a firm would earn in a competitive market.  <p>The graph illustrates the economic impact of price regulation on a monopoly. The vertical axis represents Price (P) and the horizontal axis represents Quantity (Q). The Demand curve (D=AR) is downward sloping, and the Marginal Revenue curve (MR) is steeper. The Marginal Cost curve (MC) is upward sloping, and the Average Cost curve (AC) is U-shaped. The monopoly equilibrium is at quantity Q_M and price P_M. The competitive equilibrium is at quantity Q_c and price P_c. A horizontal red line labeled 'Max Price' is drawn at P_c. A shaded red area between P_M and P_c up to Q_M is labeled 'Supernormal profit'.</p> <ul style="list-style-type: none"> • Performance targets: would increase the quality of services e.g. internet services provided in Pakistan. The government would monitor the quality of the service, e.g. speed, reliability and coverage and set targets to improve, this increases the performance of the business and improves the experience for the consumer • Quality standards: the government could enforce standards e.g. to ensure that PTCL improves the quality of the internet by imposing fines on PTCL if it does not improve the quality of its service

	<ul style="list-style-type: none"> · Regulatory authorities can regulate against anti-competitive practices such as predatory pricing or price discrimination. These monopolies could be fined. This acts as a deterrent for monopolies and discourages them from acting in a way that is negative for consumers · Control mergers and takeovers to avoid the creation of monopolies. These monopolies could distort the market by reducing quality and/or increase prices. This would maintain the level of competition in the market maximising consumer welfare · Nationalisation: Government control of monopolies would change their objectives to work in the interest of the consumer as the business would not have a profit incentive · Measures to reduce barriers to entry e.g. subsidies to new entrants; reducing patent protection would increase competition in the market <p>NB if no diagram candidate can achieve a maximum of level 3</p>
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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	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>
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Evaluation (8 marks) – indicative content

- Limiting profits can reduce dynamic efficiency. This might cause a lack of productive efficiency in the long-run the fine for not meeting the performance targets is too low, the monopoly would not have the incentive to change its production methods/services
- A lack of regulatory power may stop the regulator from effectively controlling the operations of the monopoly
- If price regulation is set too low, the monopoly may make a loss, reducing the opportunity for dynamic efficiency or causing the monopoly to close down
- Regulatory capture means the regulator may act in the interests of the monopolists rather than consumers
- Unintended consequences e.g. reduced quality of service to consumer
- Information gaps mean the regulator does not have the required information to effectively control and regulate monopolists
- Government failure may occur where government intervention results in a net welfare loss

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 policies that a government could use to reduce the geographical immobility of labour and the occupational immobility of labour. Refer to industries of your choice in your answer. Indicative content
9	<p>Indicative content guidance</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>Quantitative skills assessed:</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Occupational immobility of labour refers to the difficulty that workers face in switching between different occupations</p> <p>Belgium has a skills shortage as unemployed people are unable to fill the vacancies available. Policies to improve the occupational immobility of labour are therefore needed</p> <p>Policies to overcome occupational immobility of labour:</p> <ul style="list-style-type: none"> • Skills training programs: Governments may provide skills training programs to help workers acquire new skills and move to a different occupation • Apprenticeship programs: Governments may offer apprenticeship programs e.g. in engineering or robotics, to provide training to increase vocational skills and fill gaps in the market • Education and training subsidies: Governments may provide subsidies to support education and training programs for workers who are looking to move to a different occupation e.g. subsidies for workers training for medical professions • Labour market information/support with job searches: Governments may provide up-to-date labour market information to help workers make informed decisions about their careers and the skills they need • Support for small businesses: Governments may offer support to small businesses to create new job opportunities and reduce occupational immobility • Tax incentives for employing workers: The government may offer tax incentives to employers who hire individuals who are facing difficulty finding work, such as those with disabilities <p>Geographical immobility of labour is the difficulty of workers moving from one location to another</p> <p>Policies to overcome geographical immobility of labour:</p>

- Relocation assistance: e.g. The Government provides financial support to low-income workers/the unemployed who need to move for work, helping them with the cost of moving
- Housing subsidies: providing housing subsidies to low-income workers/the unemployed to help them afford to move to areas with better job opportunities with high living costs
- Transportation infrastructure: Improving transportation infrastructure, such as roads, train links and public transport, can make it quicker/easier for workers to move to areas with job opportunities
- Labour market information: better provision of information about job opportunities in different regions, to help workers make informed decisions about moving
- Job creation in local areas: encourage job creation in areas with high unemployment by providing tax incentives and other subsidies to businesses that locate in these areas
- Regional/industrial policy e.g. freeports or joining a trading bloc/ common market to reduce national barriers to the mobility of labour

NB: award a maximum of level 3 for a response that does not refer to industries

NB: award a maximum of level 3 for a response that does not consider both types of immobility of labour

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

Occupational immobility policies:

- There may be a lack of funding for policies to address immobility of labour. If there is a lack of government funding or political will to support these policies, they may not be implemented
- There could be structural barriers: factors such as discrimination or lack of access to education and training could be causing the immobility. Therefore, short-term policies are not likely to be effective
- Workers might be resistant to changes in their occupations
- The market conditions could change, and policies aimed at overcoming occupational immobility may not keep pace with these changes, or may not be flexible enough to respond to shifting labour market demands
- Workers may not have the skill level to retrain to fill gaps in the market

Geographical immobility policies:

- Individuals may have strong personal and family ties that prevent them from moving, such as caring for elderly relatives or having children in school
- Workers may resist moving, especially if they are familiar with their current community and have established social networks
- Policies are costly and require significant investment in infrastructure. If there is a lack of government funding they may not be implemented or be underfunded
- Time lags in building infrastructure may occur and the problem will not be resolved in the short-run
- Workers may not have enough information about job opportunities and the conditions in different regions, making it difficult for them to make informed decisions about moving

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Question

Evaluate the impact that the size of a business has on its efficiency. Illustrate your answer with an appropriate diagram(s).

Indicative content

10

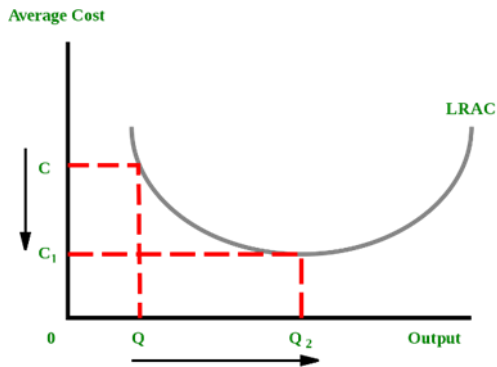
Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points 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.

- Larger businesses, such as Nestlé, might be more productively efficient than smaller businesses (producing at the MES)
- Nestlé has access to more resources and economies of scale, which can lead to increased efficiency compared to smaller food-producing businesses
- Large production runs in producing food and beverages will lower unit costs, and will enable fixed costs to be spread over a larger output. This may enable the business to produce at the productively efficient level of output



- The large businesses produce at Q_2 compared to Q and is able to produce at a lower cost C_1
- Large businesses, such as Nestlé, have specialised division of labour or capital equipment e.g. specialist packaging machines. These might improve efficiency in production, lowering average cost when producing at a higher level of output
- Large businesses might be more dynamically efficient
- The large business likely to have more price setting ability in the market allowing them to set higher prices and make supernormal profits. The supernormal profits can be reinvested into improving production or better-quality capital, investing in research and development

- | | |
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| | <ul style="list-style-type: none">• Small businesses in perfect competition/monopolistic competition are unable to make supernormal profits in the long-run and are therefore unable to invest in improving dynamic efficiency• Large businesses that are cross-subsidising might be more allocatively efficient than smaller firms as they can reallocate profits to lower the prices of essential goods |
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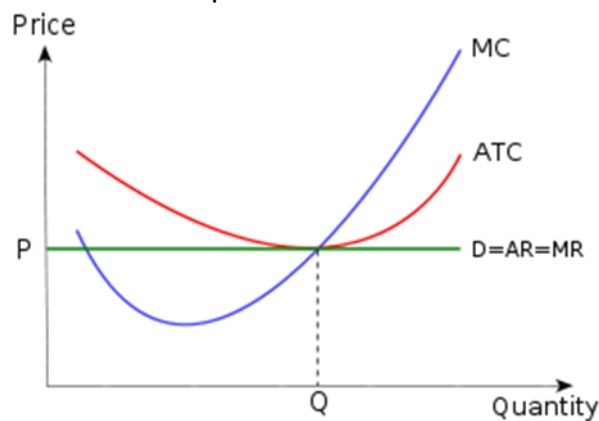
NB: award a maximum of level 3 if no appropriate diagram is drawn

Accept reverse argument as KAA

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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

- A large business may suffer from diseconomies of scale making them less productively efficient
- If suffering from x-inefficiency, the large firms' average costs will rise increasing productive inefficiency
- Small businesses may operate in a niche market where they are able to set high prices and make super normal profits that can be reinvested back into dynamic efficiency
- Large businesses may have less incentive to innovate and find more efficient ways of doing things because of their dominant market position and economies of scale
- A large business may suffer from inertia and be slow to respond to changes in the market or to new opportunities because of their size and investments in their existing operations
- A small business can be more productively and dynamically efficient than large firms because they are often more flexible and responsive to market changes. They have lower overhead costs, less bureaucratic decision-making processes, and can quickly change their production processes to meet the needs of customers
- A smaller business might be more allocatively efficient ($P=MC$). A business in perfect competition has to take the market price where $P=MC=AC=AR=MR$ therefore are allocatively efficient because of their lack of price setting ability. A larger business has price setting ability and can set at a price above MC



Level	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.

