Qualification Accredited

OCR
Oxford Cambridge and RSA

A LEVEL
Exemplar Candidate Work

ECONOMICS

H460
For first teaching in 2015

Component 3
Themes in Economics

Version 3

www.ocr.org.uk/economics

Contents

Introduction	3
Question paper	
Candidate A	13
Candidate response	13
Candidate response with Examiner's summary comments	16
Candidate B	20
Candidate response	20
Candidate response with Examiner's summary comments	23
Candidate C	26
Candidate response	26
Candidate response with Examiner's summary comments	29

Introduction

We produced exam-style questions for A Level Themes in economics (H460/03) and asked students to answer them.

The sample answers in this resource have been extracted from original candidate work to maintain their authenticity.

To facilitate different ways for using this resource, you will find the student answers twice, once without and then with examiner comments and marks.

Please note that this resource is provided for advice and guidance only and does not in any way constitute an indication of grade boundaries or endorsed answers.

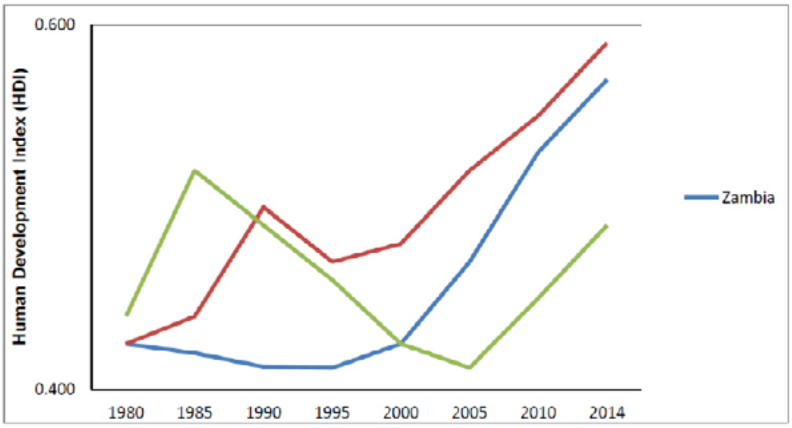
A Level Economics: Themes Paper

Read the following stimulus material and answer all the questions which follow.

Falling copper price puts end to Zambia boom years

As a region, Sub-Saharan Africa has been enjoying rapid rates of economic growth over the past 30 years. Even Zimbabwe has started to see healthier growth rates since 2005. Economic growth as led to higher living standards as measured by the human development index (HDI). Growth in countries such as Zambia and Ghana has been largely export led as they exploiting their source of comparative advantage: primary commodities.

Fig. 1 – Trends in Zambia, Ghana and Zimbabwe's HDI 1980 – 2013



The main trading partner has been China, their own high rates of growth resulting in high demand for metals such as copper and zinc. Export revenues have fueled rapid growth rates through the export led multiplier and foreign direct investment, again predominantly from China. However, as Chinese growth slows, the decline in commodity prices is being felt across Africa. Zambia is a prime example of this.

Zambia has had a decade of booming economic growth; it is Africa's second largest copper producer and China accounts for 45 per cent of the metal's global consumption. Between 1997 and 2013 mining attracted $12.6bn in foreign investment, helping the country to become one of the continents star performers. Mining now employs 90 000 people and contributes approximately three quarters of the country's foreign exchange reserves and approximately 25 per cent of the government revenue. However, commodity prices are known to be volatile and copper is no exception. In recent months the copper price hit a 5 year low of about $5,353 a tonne, below the estimated marginal cost of production of $5,500, though this is higher at many Zambian mines which are old, deep and expensive to run. Older mines are particularly sensitive to a fall in unit prices because they have a higher minimum efficient scale and don't benefit as much from economies of scale.

Fig.2 – three-month world copper price ($ per tonne)

Source: Thomson Reuters Datastream

As the copper price has weakened so too has the Zambian currency, depreciating to record lows against the dollar. Levels of investment have fallen as both domestic and foreign firms lose confidence. The copper fall is complicating government efforts to reduce a large budget deficit amid slowing economic growth. In its recent surveillance report, the IMF has estimated Zambian growth to be 5.5 per cent in 2015 and has recommended certain policies to promote greater economic stability.

Fig. 3 - Zambia GDP annual growth rate at market prices (2010)

Year	GDP annual growth rate (%)
2010	5.6
2011	6.8
2012	7.3
2013	6.4
2014	6.4
2015*	5.5

* forecasted figures

The IMF also urged the Zambian government to ensure greater policy stability and consistency to "anchor confidence in Zambia as an attractive investment destination in order to prevent mine closures and revive economic growth". So far mines haven't closed but thousands of workers have been laid off, increasing the rate of unemployment to 15 per cent. Concerns have been raised about the knock on affect these events will have on Zambia's economic development. The rising copper prices had resulted in rising incomes and a growing middle class, but a lack of sustained economic growth may not promote a sustained improvement in economic development.

The wider effects of falling copper prices

It's not just Zambian copper mines which are feeling the effects of the recent decline in world prices, mining companies globally are having to decide whether to invest into new mines or the expansion of existing ones. High capital costs are prohibiting new projects and unless prices rise to $6,600 a tonne — the level required to a make a 15 per cent return — few miners will invest in new mines or in extending old ones. In the long term this could result in a supply shortage.

In light of this price decline, there are concerns that smaller mining companies will go to the wall, unable to remain operational without the benefits of economies of scale enjoyed by the market leaders. The three largest producers are Codelco, Freeport McMoRon, Glencore and BHP Bilton. together they own nearly 40% of the global market. Market experts believe their hold over the market could get greater if copper prices don't recover and that this could increase, the already substantial, barriers to entry and be detrimental to the efficiency of the market. However, some would consider an oligopoly market preferable to one that is competitive.

1. Explain two roles of the IMF in promoting economic development. [2]
2. Explain (using fig. 1) what happened to HDI figures for Zambia over the period shown. [2]
3. Explain why the marginal concept is useful to economic agents in decision making. [4]
4. Evaluate the significance of economies of scale to a business. [8]
5. Evaluate whether economic growth always promotes economic development. [15]
6. Explain, using an appropriate diagram, the reason why commodity prices, such as in the case of copper, may be volatile. [4]
7. Evaluate, using an appropriate diagram, the extent to which an oligopoly market is preferable to a competitive market. [15]

OCR
Oxford Cambridge and RSA

…day June 20XX – Morning/Afternoon

A Level in Economics

H460/03 Themes in economics

PRACTICE MARK SCHEME

MARKING INSTRUCTIONS

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

Levels of response – Level descriptors

<table>
<tr><th></th><th>Knowledge and understanding/ Application</th><th>Analysis</th><th>Evaluation</th></tr>
<tr><td>Strong</td><td rowspan="2">Precision in the use of the terms in the question and applied in a focused way to the context of the question.</td><td>An explanation of causes and consequences, fully developing the links in the chain of argument.</td><td>A conclusion is drawn weighing up both sides, and reaches a supported judgement.</td></tr>
<tr><td>Good</td><td>An explanation of causes and consequences, developing most of the links in the chain of argument.</td><td>A conclusion is drawn weighing up both sides, but without reaching a supported judgement.</td></tr>
<tr><td>Reasonable</td><td>Awareness of the meaning of the terms in the question and applied to the context of the question.</td><td>An explanation of causes and consequences, which omit some key links in the chain of argument.</td><td>Some attempt to come to a conclusion, which shows some recognition of the influencing factors.</td></tr>
<tr><td>Limited</td><td>Awareness of the meaning of the terms in the question.</td><td>Simple statement(s) of cause and consequence.</td><td>An unsupported assertion.</td></tr>
</table>

Question			Answer	Marks	Guidance
1	a		Explain **two** roles of the IMF in promoting economic development. One mark for identifying a role from the stimulus material. One mark for explanation of this role.	**2** (AO1 ×1 AO2 ×1)	The stimulus material refers to the role of the IMF in two places: • (annual) surveillance reports • advises on macroeconomic policies to promote growth. Additional roles of the IMF include: • promotes global economic growth and international trade • lends money to countries with BoP problems • places conditions, such as greater reliance on market forces, on loans to prevent reoccurrence of problems • creates international financial stability/global monetary co-operation. Explanation may include: • impact of capital flight • how IMF policies promote international and domestic stability • impact of BoP problems
1	b		Explain (using fig. 1) what happened to HDI figures for Zambia over the period shown Up to two marks. One mark for recognising what has happened. One mark for supporting evidence in terms of the change in HDI values between 1990 and 2014.	**2** (AO2 ×2)	There are several approaches candidates could take: • percentage change over the entire period • highest and lowest HDI values. Examples: • Zambia has a 34% rise in HDI over whole time period (0.425 to 0.57) • Zambia's highest HDI is in 2014 at 0.57 whereas the lowest HDI for Zambia is in 1990 at 0.41.
1	c		Explain why the marginal concept is useful to economic agents in decision making. Up to two marks for understanding the marginal concept Up to two marks for an explanation of the usefulness to economic agents.	**4** (A01 x1 AO2 x 1 AO3 x 2)	Understanding of the marginal concept might include: • Economic agents make decisions by taking into consideration the effects of small changes to the existing situation (2 marks) Explanation of the usefulness for decision making might include: • The marginal cost of an additional unit of production or consumption can be considered and compared to the marginal benefit/revenue. • Consumers (as rational decision makers) can consider the marginal utility they'll receive from consumption of an additional unit. • Externalities (positive and negative) can be identified. • Governments may consider will the marginal concept when changing income and corporation tax rates.

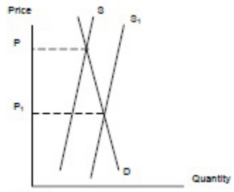
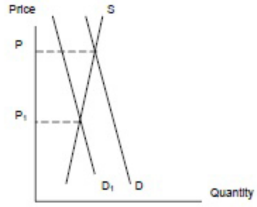
<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>1</td><td>d</td><td></td><td>Evaluate the significance of economies of scale to a business

Level 2 (5–8 marks)
Good knowledge and understanding economies of scale.
Good - strong analysis of the significance of economies of scale to a business.
Reasonable - strong evaluation including a supported judgement on the significance of economies of scale.

Level 1 (1–4 marks)
Limited - reasonable knowledge and understanding of economies of scale.
Limited - reasonable analysis of the significance of economies of scale.
Limited or no evaluation.
0 marks no response or no response worthy of credit.
Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</td><td>8
(AO1 ×1
AO2 ×1
AO3 ×2
AO4 ×4)</td><td>• Economies of scale enables a firm to achieve their minimum efficient scale (constant returns to scale).
• Economies of scale reduce average costs as firms increase their scale they'll benefit from increasing returns to scale, and so increase potential supernormal profits.
• Firms know how many additional units to employ in order to achieve their minimum efficient scale, it is a useful planning tool.
• It can be used as a barrier to entry by an incumbent firm to make the market less contestable and maintain the current market concentration ratio.
• Depends upon where the firm is along the minimum efficient scale, is it close to diseconomies of scale?
• All firms achieve economies of scale at different points.
• Not all firms seek to maximise profits and so don't need to find the point of lowest average costs.
• Is it possible to realistically identify where economies of scale occur?
• Depends on whether it is internal or external economies of scale

NOTE: Candidates may use a diagram as part of their analysis but this is necessary for them to access full marks as the question doesn't specify a diagram is necessary.</td></tr>
</table>

Question			Answer	Marks	Guidance
1	e		Evaluate whether economic growth always promotes economic development. **Level 3 (11–15 marks)** **Good** knowledge and understanding of how economic growth can promote economic development. **Good - strong** analysis of the links between economic growth and economic development. **Good - strong** evaluation including a supported judgement on whether economic growth always promotes economic development. **Level 2 (6–10 marks)** **Good** knowledge and understanding of economic growth and/or economic development. **Reasonable** analysis of the links between economic growth and economic development. **Reasonable** evaluation without including a supported judgement on whether economic growth always promotes economic development. **Level 1 (1–5 marks)** **Limited - reasonable** knowledge and understanding of economic growth and/or economic development. **Limited** analysis of the links between economic growth and economic development. **Limited** or no evaluation. **0 marks** no response or no response worthy of credit. **Note:** although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.	**15** (AO1 ×2 AO2 ×3 AO3 ×4 AO4 ×6)	*Indicative content* Reasons why economic growth may promote economic development : • a rise in GDP will increase GDP/capita and average household incomes • higher household incomes can be used to purchase more life sustaining goods and increase access to healthcare and education – decreasing infant mortality rates and increasing literacy rates, thus increasing the value of HDI • fiscal dividend – government can increase spending on public and merit goods • attract foreign direct investment – skills and technology transfer. Reasons why economic growth may not promote economic development: • lack of a sophisticated institutional structure to promote economic development • divergence between MSC and MPC from environmental degradation • higher aggregate demand may increase the price level above the inflation target if AD rises faster than LRAS • corrupt governments may not use the fiscal dividend to promote economic development. Credit, where appropriate, knowledge/analysis of other, relevant factors. Possible routes into evaluation: • economic growth doesn't always promote economic development – it depends on…….. • the cause of economic growth • the rate of growth and whether it is sustained • how governments use their fiscal dividend • involvement of international organisations such as IMF • behaviour of multinational companies – whether firms invest for the long term • measure of economic development used.

Question			Answer	Marks	Guidance
1	f		Explain, using an appropriate diagram, the reason why commodity prices, such as in the case of copper, may be volatile. Up to **two** marks for the diagram Up to **two** marks for the explanation of why commodity markets are volatile.	**4** (A01 x2 AO2 ×2)	Diagram:   Two acceptable diagrams are shown below. To access the two diagram marks the axes must be correctly labelled. Wrongly labelled axes no marks for diagram (must be price and quantity or quantity traded or quantity demanded and supplied). No marks for labelling equilibrium POINTS not PRICES. **NOTE: there should only be 2 diagram marks (check the umber of ticks awarded)** Explanation may include: Primary commodities tend to have both price inelastic demand and supply and are subject to demand and/or supply shocks. The result is that price changes tend to be large. The causes of these shifts depends on the commodity but may include reference to derived demand for commodities (such as copper), rising/falling global income/GDP, good/poor harvests (crop disease, weather), new suppliers.

Question			Answer	Marks	Guidance
1	g		Evaluate, using an appropriate diagram, the extent to which an oligopoly market is preferable to a competitive market. **Level 3 (11–15 marks)** **Good - strong** knowledge and understanding of oligopoly markets and competitive markets. **Good - strong** analysis of how oligopoly markets are preferable to a competitive market. A relevant and accurately drawn and labelled diagram is provided and is linked to the analysis. **Strong** evaluation including a supported judgement on the extent to which oligopoly markets are preferable to competitive markets. There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated. **Level 2 (6–10 marks)** **Good** knowledge and understanding of oligopoly markets and competitive markets. **Reasonable** analysis of how oligopoly markets are preferable to a competitive market. A relevant diagram is provided and is linked to the analysis. **Reasonable** evaluation of whether oligopoly markets are preferable to competitive markets. There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence. **Level 1 (1–5 marks)** **Limited - reasonable** knowledge and understanding of oligopoly markets and competitive markets. **Limited** analysis of how oligopoly markets are preferable to competitive markets. The diagram may not be relevant, may be inaccurate or may be missing. **Limited** or no evaluation. The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear. **0 marks** there is no response worthy of credit	**15** (AO1 ×2 AO2 ×3 AO3 ×4 AO4 ×6)	*Indicative content* Reasons why an oligopoly market is preferable to a competitive market: • firms in an oligopoly market will differentiate and provide greater utility to consumers through technological advancement or higher quality products. • there is price rigidity which can dissuade firms from increasing prices • oligopoly firms benefit from economies of scale and can use this to pass on the benefit of lower average costs to consumers in the form of lower prices. • oligopoly firms (through their greater size) can offer a larger volume of products and wider product range (products are heterogeneous) and will increase consumer welfare. Reasons why oligopoly firms may not be preferable to competitive markets: • oligopoly firms can collude and fix prices. • oligopoly firms can use barriers to entry to prevent new entrants increasing the concentration ratio and more competition which could benefit consumers through lower prices. • price wars can occur which price consumers into the market but results in firms with the highest average costs leaving the market as they make an abnormal loss. Credit, where appropriate, knowledge/analysis of other, relevant factors. Possible routes into evaluation: Oligopoly markets aren't always preferable to competitive markets – it depends on… • whether collusion is formal or tacit • the market concentration ratio, how much choice is there for consumers and competitive pressure on firms to be allocatively and productively efficient? • Consumer preferences – do they wish for homogenous products or prefer a range and choice.

Question	AO1	AO2	AO3	AO4	TOTAL
1(a)	1	1			**2**
1(b)		2			**2**
1(c)	1	1	2		**4**
1(d)	1	1	2	4	**8**
1(e)	2	3	4	6	**15**
1(f)	2	2			**4**
1(g)	2	3	4	6	**15**
TOTAL	**9**	**13**	**12**	**16**	**50**

CANDIDATE RESPONSES

Candidate A – UNANNOTATED

1(a) Explain two roles of the IMF in promoting economic development. [2]

The IMF advises on macroeconomic policies to promote growth and promotes international trade and global economic growth and lends money to countries with balance of payments difficulties.

1(b) Explain (using fig. 1) what happened to HDI figures for Zambia over the period shown. [2]

The highest value of HDI is in 2014 with an index of 0.57 whereas the lowest value for HDI is in 1990 with an HDI of 0.42 index points.

1(c) Explain why the marginal concept is useful to economic agents in decision making. [4]

The concept of the margin refers to the idea that the cost or benefit of an additional unit for consumption or for production will be considered when an economic agent is making a decision. For example, what is the marginal utility of consuming an additional can of coke? The law of diminishing marginal returns is where one additional unit of a factor input can result in a decreasing rate of growth for a firm.

1(d) Evaluate the significance of economies of scale to a business. [8]

Economies of scale is the reduction in average costs as output increases. Firms will reach the minimum efficient scale at which they have minimized their average costs at a range of outputs. Through the reduction in average costs, profit margins can be maximized and so firms are more likely to be able to enjoy supernormal profits at which average revenue is greater than average costs. These supernormal profits can be used to finance net investment into additional capital stock which is particularly significant if this results in greater dynamic efficiency as well as further static efficiencies, potentially providing a firm with both price and non-price competitiveness.

Economies of scale can also promote mergers and acquisitions, firms will merge in order to benefit from greater economies of scale through synthesizing activities, the value of the combined companies being greater than the values of them as discrete entities through benefiting from each others' experience and skills.

However, the significance of economies of scale relies on whether a firm relies on price competition – in a more competitive market in which consumers are more price sensitive, the ability to minimize average costs will play into the firm's hands. If there is less competition in the market a firm is under less pressure to be statically efficient and reduce costs. Firms are able to be more x-inefficient and organisationally slack, letting costs rise past the minimum efficient scale rendering economies of scale less significant.

1(e) Evaluate whether economic growth always promotes economic development. [15]

Economic growth is measured using GDP and is the increase in output of goods and services produced in an economy over one year. Economic growth is either short run, actual increase in output of goods and services, and long run, an increase in the average growth rate, sometimes known as the trend rate of growth. A rise in GDP will increase GDP/capita and so increase one of the key measures in the human development index which is used as a measure of economic (and human) development. In addition, higher aggregate demand will result in job creation, reducing demand-deficient unemployment. Household incomes will rise and so increase the demand for both life sustaining goods (such as merit goods, healthcare and education) as well as normal goods which increase material well-being – thus increasing development because infant mortality will fall and literacy rates will rise – these are the final two components of the HDI measure of development.

Improvements in healthcare which increases productivity rates and economic growth will attract both domestic and foreign investment (for example, investment into the Zambian economy by Chinese firms) into the capital stock of the economy through the accelerator principle. Firms will also be making more profit through greater growth and will be able to afford to increase net investment. This investment will increase the quality of the capital stock of the nation, reducing the capital output ratio, but more importantly for the context of this question, perhaps invest into new technologies into green technology or into transportation thus enhancing the economic workings of institutions and economic development. For example, this would be seen through improved copper extraction in Zambian mines.

Finally, the government will receive higher fiscal dividends and thus be able to increase spending on public services, such as infrastructure and education.

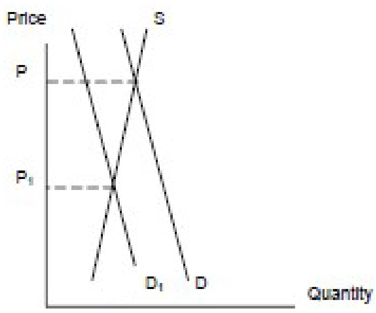
On the other hand, economic growth will only promote economic development if the government uses the proceeds from increased tax revenues to develop education and financial institutions. If the Zambian government can ensure greater political and economic stability they're more likely to attract foreign investment and be able to promote economic development.

The economic growth can only have a limited effect on economic development if it isn't steady and continued growth – a lack of economic stability will deter investors as they have no confidence in the returns on this investment. This prevents long term growth and an increase in the trend rate of growth which is necessary if investment into new technologies and projects which will enable greater economic development to be enjoyed.

To conclude, economic growth can promote economic development but the question is whether it always does – this I don't agree with. Economic development is not always the outcome of growth because it relies on how the proceeds are used, i.e. the creditability of the government and their willingness to engage in capital expenditure on development enhancing goods such as education. If, this takes place, long term growth is more like continue and so more likely to result in greater development.

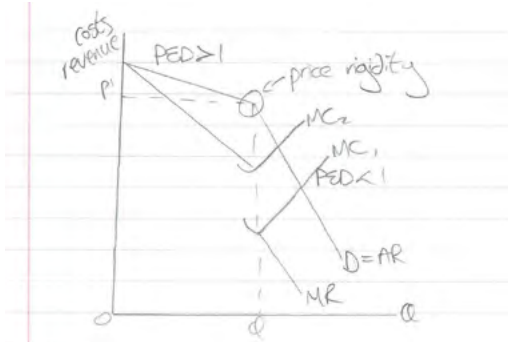
1(f) Explain, using an appropriate diagram, the reason why commodity prices, such as in the case of copper, may be volatile. [4]

Commodities such as copper are subject to supply-side and demand-side shocks, for instance if there is an economic slowdown in China (the largest consumer of copper) there will be a negative demand-side shock, thus rendering the price of the product volatile. In terms of supply, there is a limit to how much copper can be extracted, it is a finite resource and the mining isn't able to respond too swiftly to the recent decrease in the world price for copper – this price inelastic supply as shown on the diagram below:



The diagram illustrates a shift to the left in the demand curve (D to D^1) as demand for copper decreases but with a price inelastic supply curve, there is a less than proportionate decrease in quantity supplied in response to an increase in price of copper from P to P^1.

1(g) Evaluate, using an appropriate diagram, the extent to which an oligopoly market is preferable to a competitive market. [15]



An oligopoly market is one which has a high concentration ratio and few dominant firms. Heterogeneous products are sold, a wider range of differentiated products will help to maximise consumer utility but firms are interdependent resulting in price rigidity rather than price competition. A price way can result in a firm making an abnormal loss and exiting the market. There are likely to be high barriers to entry, thus maintaining the high concentration ratio.

As the kinked demand curve shows, there is price rigidity at P^1 because the demand curve is elastic above that point and inelastic below that due to the strong interdependence between oligopolist firms. This price rigidity will force firms to compete on non-price issues which can provide higher quality products for the consumer.

Whereas a competitive market will have relatively low (or non-existent) barriers to entry and exit through low sunk costs and therefore a large number of relatively small firms who all sell similar, if not homogenous, products. Consumers have a lot of choice and so firms compete on price and demand is more price elastic. Oligopoly firms, in markets such as mining, is preferable because the industry requires significant high capital costs which can only made if a firm is making supernormal profits (AR>AC). This will only happen if firms are able to enjoy economies of scale and charge a relatively high price (such as with an oligopoly market). A competitive market will not generate enough profit and the market efficiency will diminish – the external economies of scale will be lower – as large extraction projects operate more efficiently if there are few large firms rather than many smaller ones. Larger firms will be more likely to innovate to compete on non-price methods or they may even seek to exploit the opportunity to share operation methods and enjoy lower long run average costs through external economies of scale.

However, oligopoly markets may not be preferable because oligopoly firms can collude and fix prices, which is an illustration of anti-competitive behavior. This is the concern raised in the stimulus material; if a number of small mines exit the market due to low world copper prices and the high running costs of the older mines (the estimated marginal cost of production is $5,500), the concentration ratio will rise and the three biggest producers will hold more than 40% of the market. By agreeing to limit the supply of a commodity, such as copper, these firms could increase the price above the competitive level and price low income consumers out of the market. This will work against the interests of the consumer. This is significant when producing essential goods, such as commodities.

To conclude, oligopoly markets are often preferable to competitive markets, particularly when mining for a commodity such as copper. Through the investment of their supernormal profits they're able to promote innovation which can drive down both operating costs as well as average prices. However, it does depend on whether firms collude (a practice which is illegal in the UK). Collusion can still be tacit and this can work against consumer interest. Perhaps, it depends on whether you consider who's perspective the question is taken from – a shareholder may prefer an oligopoly market where there is far more chance for supernormal profits and greater dividend payments, unless the market is contestable and entry limit pricing is being employed. It can also depend on whether you consider the short run or long run benefits in a market; in the short run, an oligopoly may appear to be less preferable, but through innovation and internal and/or external economies of scale, oligopoly firms may be better able to provide (a) the consumer choice and (b) the more competitive prices for more advanced, differentiated, products which could add more the a consumers' wellbeing.

CANDIDATE RESPONSES

Candidate A – ANNOTATED

1(a) Explain two roles of the IMF in promoting economic development. [2]

The IMF advises on macroeconomic policies to promote growth and promotes international trade and global economic growth and lends money to countries with balance of payments difficulties.

Good knowledge of the role of the IMF.

2 marks

1(b) Explain (using fig. 1) what happened to HDI figures for Zambia over the period shown. [2]

The highest value of HDI is in 2014 with an index of 0.57 whereas the lowest value for HDI is in 1990 with an HDI of 0.42 index points.

The candidate has used the data correctly and considered the period appropriately.

2 marks

1(c) Explain why the marginal concept is useful to economic agents in decision making. [4]

The concept of the margin refers to the idea that the cost or benefit of an additional unit for consumption or for production will be considered when an economic agent is making a decision. For example, what is the marginal utility of consuming an additional can of coke? The law of diminishing marginal returns is where one additional unit of a factor input can result in a decreasing rate of growth for a firm.

There is a good understanding of the marginal concept but not a good explanation of how it is used by decision makers.

2 marks

1(d) Evaluate the significance of economies of scale to a business. [8]

Economies of scale is the reduction in average costs as output increases. Firms will reach the minimum efficient scale at which they have minimized their average costs at a range of outputs. Through the reduction in average costs, profit margins can be maximized and so firms are more likely to be able to enjoy supernormal profits at which average revenue is greater than average costs. These supernormal profits can be used to finance net investment into additional capital stock which is particularly significant if this results in greater dynamic efficiency as well as further static efficiencies, potentially providing a firm with both price and non-price competitiveness.

Economies of scale can also promote mergers and acquisitions, firms will merge in order to benefit from greater economies of scale through synthesizing activities, the value of the combined companies being greater than the values of them as discrete entities through benefiting from each others' experience and skills.

However, the significance of economies of scale relies on whether a firm relies on price competition – in a more competitive market in which consumers are more price sensitive, the ability to minimize average costs will play into the firm's hands. If there is less competition in the market a firm is under less pressure to be statically efficient and reduce costs. Firms are able to be more x-inefficient and organisationally slack, letting costs rise past the minimum efficient scale rendering economies of scale less significant.

This is strong analysis and strong evaluation of the significance of economies of scale.

Final mark = 7 marks

Level 2

1(e) Evaluate whether economic growth always promotes economic development. [15]

Economic growth is measured using GDP and is the increase in output of goods and services produced in an economy over one year. Economic growth is either short run, actual increase in output of goods and services, and long run, an increase in the average growth rate, sometimes known as the trend rate of growth. A rise in GDP will increase GDP/capita and so increase one of the key measures in the human development index which is used as a measure of economic (and human) development. In addition, higher aggregate demand will result in job creation, reducing demand-deficient unemployment. Household incomes will rise and so increase the demand for both life sustaining goods (such as merit goods, healthcare and education) as well as normal goods which increase material well-being – thus increasing development because infant mortality will fall and literacy rates will rise – these are the final two components of the HDI measure of development.

There is good analysis of the link between economic growth and economic development.

Improvements in healthcare which increases productivity rates and economic growth will attract both domestic and foreign investment (for example, investment into the Zambian economy by Chinese firms) into the capital stock of the economy through the accelerator principle. Firms will also be making more profit through greater growth and will be able to afford to increase net investment. This investment will increase the quality of the capital stock of the nation, reducing the capital output ratio, but more importantly for the context of this question, perhaps invest into new technologies into green technology or into transportation thus enhancing the economic workings of institutions and economic development. For example, this would be seen through improved copper extraction in Zambian mines.

Finally, the government will receive higher fiscal dividends and thus be able to increase spending on public services, such as infrastructure and education.

Further good analysis of the benefits of economic growth.

On the other hand, economic growth will only promote economic development if the government uses the proceeds from increased tax revenues to develop education and financial institutions. If the Zambian government can ensure greater political and economic stability they're more likely to attract foreign investment and be able to promote economic development.

Reasonable evaluation of the link between economic growth and development – drawn from the case study.

The economic growth can only have a limited effect on economic development if it isn't steady and continued growth – a lack of economic stability will deter investors as they have no confidence in the returns on this investment. This prevents long term growth and an increase in the trend rate of growth which is necessary if investment into new technologies and projects which will enable greater economic development to be enjoyed.

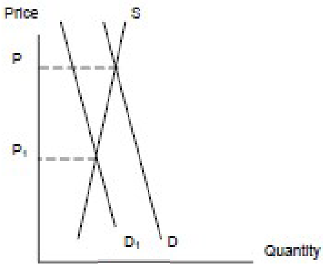
To conclude, economic growth can promote economic development but the question is whether it always does – this I don't agree with. Economic development is not always the outcome of growth because it relies on how the proceeds are used, i.e. the creditability of the government and their willingness to engage in capital expenditure on development enhancing goods such as education. If, this takes place, long term growth is more like continue and so more likely to result in greater development.

Good evaluation of the reasons why economic growth may not result in economic development.

Level 3, 15 marks

1(f) Explain, using an appropriate diagram, the reason why commodity prices, such as in the case of copper, may be volatile. [4]

Commodities such as copper are subject to supply-side and demand-side shocks, for instance if there is an economic slowdown in China (the largest consumer of copper) there will be a negative demand-side shock, thus rendering the price of the product volatile. In terms of supply, there is a limit to how much copper can be extracted, it is a finite resource and the mining isn't able to respond too swiftly to the recent decrease in the world price for copper – this price inelastic supply as shown on the diagram below:



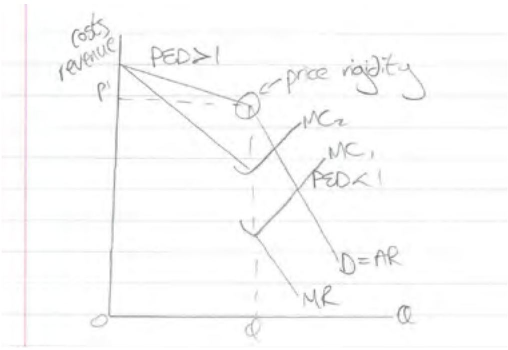
The diagram illustrates a shift to the left in the demand curve (D to D^1) as demand for copper decreases but with a price inelastic supply curve, there is a less than proportionate decrease in quantity supplied in response to an increase in price of copper from P to P^1.

There is a relevant diagram and a relevant explanation.

4 marks

1(g) Evaluate, using an appropriate diagram, the extent to which an oligopoly market is preferable to a competitive market. [15]

An oligopoly market is one which has a high concentration ratio and few dominant firms. Heterogeneous products are sold, a wider range of differentiated products will help to maximise consumer utility but firms are interdependent resulting in price rigidity rather than price competition.
A price way can result in a firm making an abnormal loss and exiting the market. There are likely to be high barriers to entry, thus maintaining the high concentration ratio.



As the kinked demand curve shows, there is price rigidity at P^1 because the demand curve is elastic above that point and inelastic below that due to the strong interdependence between oligopolist firms. This price rigidity will force firms to compete on non-price issues which can provide higher quality products for the consumer.

An appropriate diagram has been used and integrated into the analysis.

Whereas a competitive market will have relatively low (or non-existent) barriers to entry and exit through low sunk costs and therefore a large number of relatively small firms who all sell similar, if not homogenous, products. Consumers have a lot of choice and so firms compete on price and demand is more price elastic. Oligopoly firms, in markets such as mining, is preferable because the industry requires significant high capital costs which can only made if a firm is making supernormal profits (AR>AC). This will only happen if firms are able to enjoy economies of scale and charge a relatively high price (such as with an oligopoly market). A competitive market will not generate enough profit and the market efficiency will diminish – the external economies of scale will be lower – as large extraction projects operate more efficiently if there are few large firms rather than many smaller ones. Larger firms will be more likely to innovate to compete on non-price methods or they may even seek to exploit the opportunity to share operation methods and enjoy lower long run average costs through external economies of scale.

Strong analysis of the behavior and characteristics of an oligopoly firm which makes some reference to the stimulus material.

However, oligopoly markets may not be preferable because oligopoly firms can collude and fix prices, which is an illustration of anti-competitive behavior. This is the concern raised in the stimulus material; if a number of small mines exit the market due to low world copper prices and the high running costs of the older mines (the estimated marginal cost of production is \$5,500), the concentration ratio will rise and the three biggest producers will hold more than 40% of the market. By agreeing to limit the supply of a commodity, such as copper, these firms could increase the price above the competitive level and price low income consumers out of the market. This will work against the interests of the consumer. This is significant when producing essential goods, such as commodities.

To conclude, oligopoly markets are often preferable to competitive markets, particularly when mining for a commodity such as copper. Through the investment of their supernormal profits they're able to promote innovation which can drive down both operating costs as well as average prices. However, it does depend on whether firms collude (a practice which is illegal in the UK). Collusion can still be tacit and this can work against consumer interest. Perhaps, it depends on whether you consider who's perspective the question is taken from – a shareholder may prefer an oligopoly market where there is far more chance for supernormal profits and greater dividend payments, unless the market is contestable and entry limit pricing is being employed. It can also depend on whether you consider the short run or long run benefits in a market; in the short run, an oligopoly may appear to be less preferable, but through innovation and internal and/or external economies of scale, oligopoly firms may be better able to provide (a) the consumer choice and (b) the more competitive prices for more advanced, differentiated, products which could add more the a consumers' wellbeing.

Strong evaluation – there is a supported judgement. The candidate is quite critical of the question and is able to suggest different scenarios of when an oligopoly is better or worse.

Level 3

15 marks

Total marks = 47/50

CANDIDATE RESPONSES

Candidate B – UNANNOTATED

1(a) Explain two roles of the IMF in promoting economic development. [2]

The IMF has 188 member countries and surveys the economic health of these countries. Firstly, it promotes monetary co-operation and exchange rate stability, which generates confidence for investors which can boost development. Secondly, it also can provide loans to countries struggling with international payments, hence assist with poverty alleviation which could trigger greater development.

1(b) Explain (using fig. 1) what happened to HDI figures for Zambia over the period shown. [2]

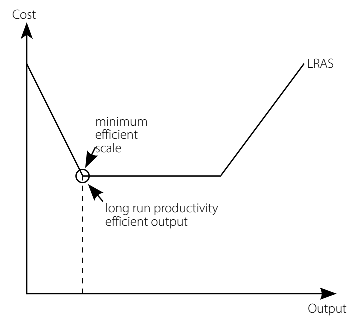
The HDI remained low and gradually falling from 1980 to late 1990, hovering above 0.400 index points. It then rose constantly and rapidly from 2000 to 2014 to around 0.550 index points, overtaking one country and catching another.

1(c) Explain why the marginal concept is useful to economic agents in decision making. [4]

The concept of margins can help economic agents how much to produce or consume, because they can gauge a concept of marginal costs and benefits, hence see how much to produce or consume. Producing more may add to revenue may generate costs, similarly, consuming more units may add to utility but with costs too. If economic agents know or appreciate these, then they may be able to create a better allocation of scarce resources, since they better understand the opportunity cost of their actions.

1(d) Evaluate the significance of economies of scale to a business. [8]

Economies of scale are the cost benefits that can be exploited from expanding output, in order to reach the minimum efficient scale and achieve productive efficiency. They can arise from external or internal economies of scale, including managerial and marketing economies of scale. They are important because they allow costs per unit to fall which could provide savings for the business – as shown in the diagram below:



They may also pass on these cost savings to consumers in lower prices therefore become more price competitive and gain market share. If their sales rise their revenue and profit could rise, leading to supernormal profit which could be re-invested to achieve dynamic efficiency. They are also significant because a firm may know when it begins to reach diseconomies of scale therefore could decide when to stop increasing output. Furthermore, the benefits of economies of scale are significant because they may trigger firms to attempt mergers or acquisitions and therefore boost their size and subsequent output.

The significance of economies of scale depends on whether it is internal or external economies of scale. External economies of scale are particularly beneficial for firms which need to be close to suppliers or similar industries to share ideas and collaborate on research – for example, manufacturing firms or pharmaceuticals where the clustering of similar industries aids transportation and communication.

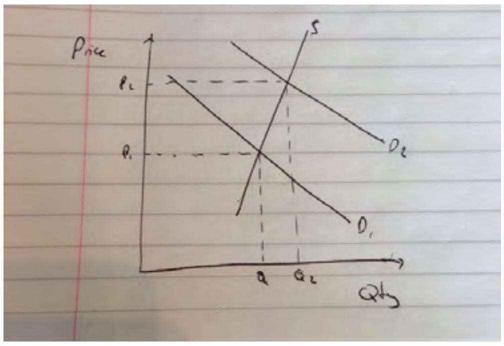
1(e) Evaluate whether economic growth always promotes economic development. [15]

Economic growth may be actual or potential growth, as measured by GDP. Economic development is a difficult term to measure, although the World Bank classifies development through GDP, with less than $900 dollars per year classifying a country as 'low income'. There are also measures such as HDI, which considers GDP, literacy and mortality rates. Significant characteristics of developing countries are large spare capacity due to large population and low literacy, whereas there is arguably less spare capacity in developed nations. Actual economic growth is growth driven by aggregate demand, which can create jobs, cause incomes to rise therefore reduce poverty. Also it is clear that if GDP rises HDI will rise too, since they are interlinked. GDP growth It could also incentivise innovation and enterprise, one of the factors of production. In a developing country, this could trigger economic development as GDP can rise significantly and more and more spare capacity can be used up. On top of this there will be spare capacity to build schools and hospitals to improve other measures of HDI too. However, in developed countries, if already near capacity, then there is little upwards flexibility for development, therefore the growth may merely have inflationary pressure. It may be argued that economic growth has negative externalities, especially in developing countries more than developing ones, such as through accentuating inequality, as has been seen in the UK and US. This could hinder growth due to less consumption from those worse off and capital accumulation of the wealthy, therefore growth would lead to less development in already developed countries. Therefore it can be seen that economic growth does not always lead to development. However, there is always the scope for new innovation which could dramatically alter the productive capacity of even developed nations, which we cannot foresee, so in the future growth could lead to development whenever and wherever it occurs.

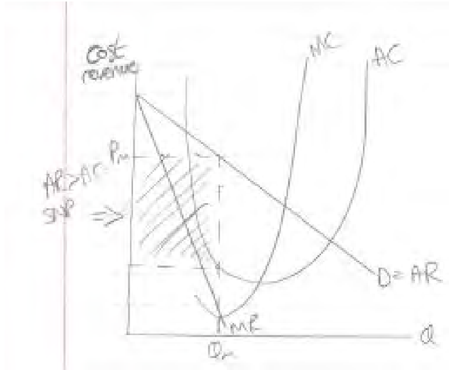
1(f) Explain, using an appropriate diagram, the reason why commodity prices, such as in the case of copper, may be volatile. [4]

Copper is a raw material, which is a cause for the price volatility, because demand can be highly variable, whereas supply is inelastic, due to factors such as contracts and the difficulty of extracting it. Therefore supply cannot easily match changes to demand.

Therefore, as the diagram shows, if demand rises, the price of copper can rise significantly (P1 to P2). Due to supply inelasticity, there is a period of excess demand which will last significantly longer than in other markets.



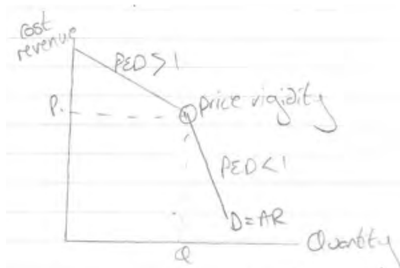
1(g) Evaluate, using an appropriate diagram, the extent to which an oligopoly market is preferable to a competitive market. [2]



An oligopolistic market can be defined in terms of both market structure and market behaviour. Firstly there would be interdependence and there would be a high concentration ratio in comparison to a competitive market due to some legal barriers such as costs or reputation, as well as asymmetric information. A competitive market on the other may be perfectly competitive, hence would have lots of firms with homogenous products and perfect information operating in the market. Both market structures have benefits and drawbacks.

The problem of collusion arises when oligpolosists collude.

This gives the oligopolists a semblance of monopoly power which is not preferable because it can lead to restricted output and higher prices (Pm) which is bad for consumers. As can be seen, allocative efficiency at P = MC is not achieved. Furthermore, there is little incentive to be productively efficient because there is effectively no competition with collusion. This is bad because it harms consumers by pricing them out of the market and decreases consumer welfare by transferring it to supernormal profit. On the other hand, competitive firms are incentivized to be as productively efficient as possible, because they are competing on price factors due to their homogenous good. Therefore costs are minimised and hence arguably in terms of productive efficiency, competitive firms are more desirable. However, oligopolists do have the possibility of benefiting from economies of scale where smaller, competitive firms would not, and these cost savings may be passed onto consumers.



However, due to the high barriers the oligopolists may keep the savings to make more profit. Although this decreases productive efficiency, it could increase dynamic efficiency. If investment is made into products and processes, choice may increase for consumers where it would not exist under a competitive market, because they can only make supernormal profit in the short run.

As the diagram shows, due to interdependence, there are sticky prices. If these are high this is bad for consumers. However, due to regulation, these prices may be low, and benefit consumers. Supermarkets are an example of where prices are falling even in an oligopolistic market. Furthermore, sticky prices are not always bad because it can mean that consumers have more information on prices as well as having fewer firms to make decisions about, leading to greater consumer sovereignty. However, this is only a small possibility and it is likely consumers will benefit more within a competitive market with more information in order to make purchasing decisions.

Therefore, it can be seen that for a consumer a competitive market is best, although the loss of dynamic efficiency could be problematic. Nonetheless, profit is vital for firms to function in a market, and oligolpolists may have greater ability to re-invest and employ people, hence which market is preferable is largely dependent on from whose perspective you are coming from.

CANDIDATE RESPONSES

Candidate B – ANNOTATED

1(a) Explain two roles of the IMF in promoting economic development. [2]

The IMF has 188 member countries and surveys the economic health of these countries. Firstly, it promotes monetary co-operation and exchange rate stability, which generates confidence for investors which can boost development. Secondly, it also can provide loans to countries struggling with international payments, hence assist with poverty alleviation which could trigger greater development.

The candidate understands the roles of the IMF.

2 marks

1(b) Explain (using fig. 1) what happened to HDI figures for Zambia over the period shown. [2]

The HDI remained low and gradually falling from 1980 to late 1990, hovering above 0.400 index points. It then rose constantly and rapidly from 2000 to 2014 to around 0.550 index points, overtaking one country and catching another.

Data has been used correctly, the units of measurement are understood and the entire range has been considered.

2 marks

1(c) Explain why the marginal concept is useful to economic agents in decision making. [4]

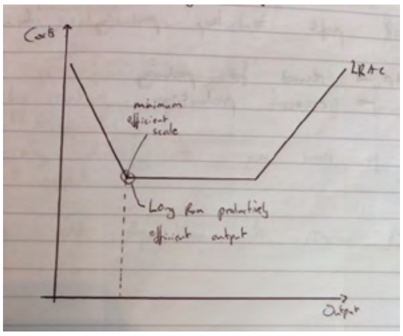
The concept of margins can help economic agents how much to produce or consume, because they can gauge a concept of marginal costs and benefits, hence see how much to produce or consume. Producing more may add to revenue may generate costs, similarly, consuming more units may add to utility but with costs too. If economic agents know or appreciate these, then they may be able to create a better allocation of scarce resources, since they better understand the opportunity cost of their actions.

The concept of the 'margin' is understood. The explanation of how it is used by economic agents could have been developed to consider, for example, whether another worker is employed or another product is consumed.

3 marks.

1(d) Evaluate the significance of economies of scale to a business. [8]

Economies of scale are the cost benefits that can be exploited from expanding output, in order to reach the minimum efficient scale and achieve productive efficiency. They can arise from external or internal economies of scale, including managerial and marketing economies of scale. They are important because they allow costs per unit to fall which could provide savings for the business – as shown in the diagram below:



They may also pass on these cost savings to consumers in lower prices therefore become more price competitive and gain market share. If their sales rise their revenue and profit could rise, leading to supernormal profit which could be re-invested to achieve dynamic efficiency. They are also significant because a firm may know when it begins to reach diseconomies of scale therefore could decide when to stop increasing output. Furthermore, the benefits of economies of scale are significant because they may trigger firms to attempt mergers or acquisitions and therefore boost their size and subsequent output.

Good knowledge of economies of scale.

Good analysis of the significance of economies of scale but there isn't any evaluation of the significance.

The significance of economies of scale depends on whether it is internal or external economies of scale. External economies of scale are particularly beneficial for firms which need to be close to suppliers or similar industries to share ideas and collaborate on research – for example, manufacturing firms or pharmaceuticals where the clustering of similar industries aids transportation and communication.

Now there is some evaluation – enough for level 2 but mid-range L2.

6 marks.

1(e) Evaluate whether economic growth always promotes economic development. [15]

Economic growth may be actual or potential growth, as measured by GDP. Economic development is a difficult term to measure, although the World Bank classifies development through GDP, with less than $900 dollars per year classifying a country as 'low income'. There are also measures such as HDI, which considers GDP, literacy and mortality rates. Significant characteristics of developing countries are large spare capacity due to large population and low literacy, whereas there is arguably less spare capacity in developed nations. Actual economic growth is growth driven by aggregate demand, which can create jobs, cause incomes to rise therefore reduce poverty. Also it is clear that if GDP rises HDI will rise too, since they are interlinked. GDP growth It could also incentivise innovation and enterprise, one of the factors of production. In a developing country, this could trigger economic development as GDP can rise significantly and more and more spare capacity can be used up. On top of this there will be spare capacity to build schools and hospitals to improve other measures of HDI too. However, in developed countries, if already near capacity, then there is little upwards flexibility for development, therefore the growth may merely have inflationary pressure. It may be argued that economic growth has negative externalities, especially in developing countries more than developing ones, such as through accentuating inequality, as has been seen in the UK and US. This could hinder growth due to less consumption from those worse off and capital accumulation of the wealthy, therefore growth would lead to less development in already developed countries. Therefore it can be seen that economic growth does not always lead to development. However, there is always the scope for new innovation which could dramatically alter the productive capacity of even developed nations, which we cannot foresee, so in the future growth could lead to development whenever and wherever it occurs.

Good knowledge of economic growth and development

Analysis of the benefits of economic growth but an AD/AS diagram would be beneficial here.

Counter argument given here as to the problems of economic growth and how (in developing countries) growth doesn't always facilitate development. However, there could have been deeper discussion on why growth doesn't result in development – how does the government allocate the dividends from growth?

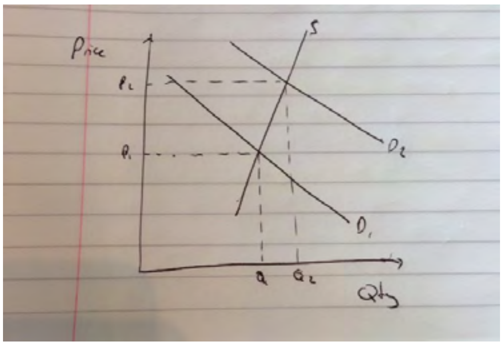
Final point that even developed economies can and do develop further, it is a dynamic concept.

Level 2 good analysis and reasonable evaluation (just).

6 marks

1(f) Explain, using an appropriate diagram, the reason why commodity prices, such as in the case of copper, may be volatile. [4]

Copper is a raw material, which is a cause for the price volatility, because demand can be highly variable, whereas supply is inelastic, due to factors such as contracts and the difficulty of extracting it. Therefore supply cannot easily match changes to demand.



Therefore, as the diagram shows, if demand rises, the price of copper can rise significantly (P1 to P2). Due to supply inelasticity, there is a period of excess demand which will last significantly longer than in other markets.

There is a recognition that the supply curve will be price inelastic and an explanation of why.

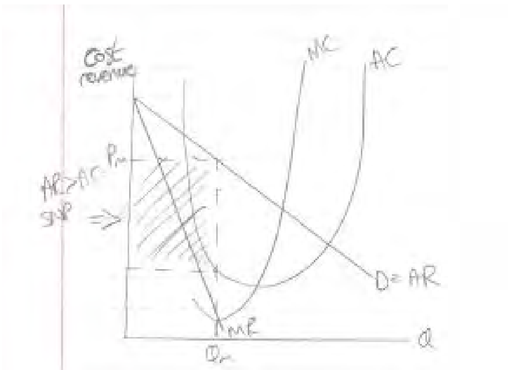
2 marks for the diagram

2 marks for the explanation

4 marks

1(g) Evaluate, using an appropriate diagram, the extent to which an oligopoly market is preferable to a competitive market. [2]

An oligopolistic market can be defined in terms of both market structure and market behaviour. Firstly there would be interdependence and there would be a high concentration ratio in comparison to a competitive market due to some legal barriers such as costs or reputation, as well as asymmetric information. A competitive market on the other may be perfectly competitive, hence would have lots of firms with homogenous products and perfect information operating in the market. Both market structures have benefits and drawbacks.



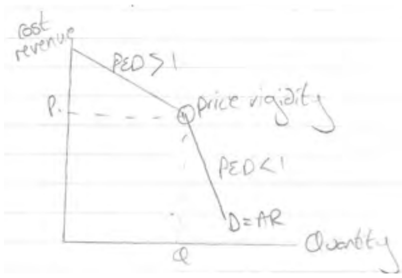
Good knowledge of the characteristics of both types of market.

The problem of collusion arises when oligpolosists collude.

This gives the oligopolists a semblance of monopoly power which is not preferable because it can lead to restricted output and higher prices (Pm) which is bad for consumers. As can be seen, allocative efficiency at P = MC is not achieved. Furthermore, there is little incentive to be productively efficient because there is effectively no competition with collusion. This is bad because it harms consumers by pricing them out of the market and decreases consumer welfare by transferring it to supernormal profit. On the other hand, competitive firms are incentivized to be as productively efficient as possible, because they are competing on price factors due to their homogenous good. Therefore costs are minimised and hence arguably in terms of productive efficiency, competitive firms are more desirable. However, oligopolists do have the possibility of benefiting from economies of scale where smaller, competitive firms would not, and these cost savings may be passed onto consumers.

Analysis of the problems presented by oligopolist firms which is compared to perfectly competitive markets.

However, due to the high barriers the oligopolists may keep the savings to make more profit. Although this decreases productive efficiency, it could increase dynamic efficiency. If investment is made into products and processes, choice may increase for consumers where it would not exist under a competitive market, because they can only make supernormal profit in the short run.



Good evaluative point about the use of supernormal profits.

As the diagram shows, due to interdependence, there are sticky prices. If these are high this is bad for consumers. However, due to regulation, these prices may be low, and benefit consumers. Supermarkets are an example of where prices are falling even in an oligopolistic market. Furthermore, sticky prices are not always bad because it can mean that consumers have more information on prices as well as having fewer firms to make decisions about, leading to greater consumer sovereignty. However, this is only a small possibility and it is likely consumers will benefit more within a competitive market with more information in order to make purchasing decisions.

Analysis on both sides of the benefits of an oligopolist with reference to a relevant diagram.

Therefore, it can be seen that for a consumer a competitive market is best, although the loss of dynamic efficiency could be problematic. Nonetheless, profit is vital for firms to function in a market, and oligolpolists may have greater ability to re-invest and employ people, hence which market is preferable is largely dependent on from whose perspective you are coming from.

A supported judgement is reached. There could have been further analysis and a little more support of the final judgement, for example the issue of collusion but overall this is a focused and analytical assessment of the question.

Therefore the candidate is able to access level 3.

12 marks.

Total marks = 35/50

CANDIDATE RESPONSES

Candidate C – UNANNOTATED

1(a) Explain two roles of the IMF in promoting economic development. [2]

One role the IMF has in promoting economic development is through lending. The IMF may provide loans to lower or middle income countries to support their expansion possibly by supply-side policies. The second role is offering assistance and economic training to equip agents in improving or increasing economic growth.

1(b) Explain (using fig. 1) what happened to HDI figures for Zambia over the period shown. [2]

At the start of the period in 1980 the HDI for Zambia remained constant, near Q4, with little change. However, in 1995 the HDI started to rise exponentially and by 2014 the index showed it was near 0.6 a 0.2 percent difference than 20 years ago.

1(c) Explain why the marginal concept is useful to economic agents in decision making. [4]

The marginal concept can be useful with both firms and macroeconomic agents with the theory of firms we can apply the law of diminishing returns to this matter. By all but one factor of production being fixed, a company may experience an increase in costs once it goes past a certain level of output. As a result by firms anticipating this, they will be able to see what the marginal output would be when there costs start to rise again. Likewise, when a government is assessing whether to implement a strategy to increase income tax rates, they may consider the consumers marginal propensity to consume; whether consumers, given their current income are still willing to spend more. Therefore, if their marginal propensity to consume is low, governments may feel less incentivised to make the decision to increase tax rate.

1(d) Evaluate the significance of economies of scale to a business. [8]

Economies of scale can have both positive and negative consequences to a business. Firstly, by a firm benefiting from economies of scale, it will result in having lower unit costs. As a result, a business may be able to offer better prices within the market, given that their variable costs have decreased. In turn, by offering a different price, firms will be able to be more competitive within their market and subsequently, possibly increase their market share. Similarly, a firm having this ability of experiencing economies of scale they will be able to increase their output as well. Given the decrease in unit costs. Therefore they are able to offer more to the market with this benefit of economies of scale, given their current resources which may have restricted an increase in output before.

However, there are arguments to suggest that economies of scale to a business may have implications. For instance, benefiting from economies of scale in the market can have positive consequences but it may depend upon the extent on which the unit costs decrease by and how low the minimum efficient scale is. If a competitor is able to offer a lower unit cost, then they will be seen as more competitive. Therefore firms may not benefit from economies of scale to the extent at which would improve their performance.

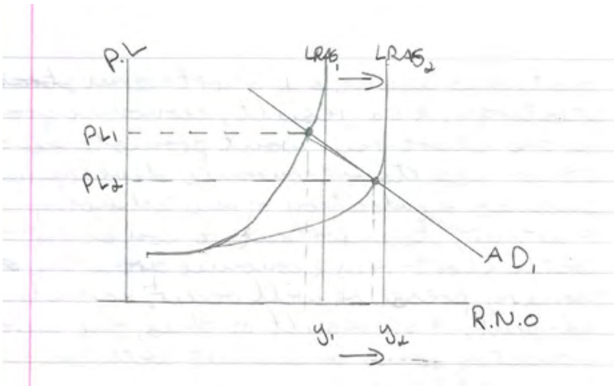
Furthermore, economies of scale can be seen as a barrier to entry to a market and therefore a negative consequence. By firms having economies of scale and lower price level, firms may find it hard to enter a market. They are unable to offer at that price and as a result may force for the current market to stay inefficient.

1(e) Evaluate whether economic growth always promotes economic development. [15]

Economic development usually refers to adoption of new technologies, a transition from agriculture based to industry based economy and also a general improvement in living standards. Therefore, when evaluating economic growth, we must analyse whether it has an effect on this. I think it is important as well to consider economic growth in time lags and as a result we will examine by looking at short run and long run economic growth.

Firstly, by there being short run economic growth an economy may see an improvement in the standard of loving. In a period of economic growth in the short run there is high economic activity. There is more consumption taken by consumers and so therefore will be able to increase their happiness and welfare, which are indications of living standards. They are also able to fulfil their economic objective of the satisfaction of needs and wants. Likewise, firms will be gaining higher revenues. As a result, firms will be able to increase their net investment and will in turn possibly offer more employment opportunities to those seeking work. Therefore, there are less chances of poverty given that jobs are being created in the short run. However, I think it is important to take into account that this again, is a short term strategy. As a result, economic growth in the short run won't promote the other aspects of economic development such as the adoption of new technologies. Furthermore, it's important to consider that with short run economic growth, inflationary pressure will occur, namely demand-pull. As a result of this, the purchasing power of consumers with lower incomes will decrease as they may not be able to purchase goods, given that their prices are rising. Therefore, there would be a decrease in welfare and happiness within an economy.

Nevertheless, in the long-run, it can be argued that economic growth can promote both aspects of economic development. In the long run, firms that have had larger revenues from economic growth would have invested into productive potential such as new technologies or machinery. Firms would do this so that they would become more competitive and efficient.

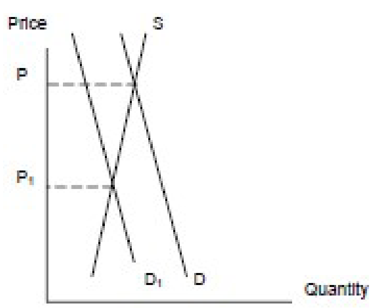


As you can see in the diagram, with long run economic growth, firms would invest into long term productivity to therefore become more competitive. They will adopt new technologies in their investment so that in turn they become more efficient. Similarly, by having this investment and therefore long run economic growth an economy will see an ease in its rate of inflation (price level) from PL1 to PL2. As a result of this, there is an improvement in standards of living as goods have become more affordable to those who are struggling on lower incomes.

Furthermore in the long run governments will be benefiting from increase fiscal dividends on tax receipts from improved profits of firms and higher income of consumers. As a result, the government will increase spending on merit and public goods. By the government spending on this they will be able to improve the standard of living particularly its HDI aspect of literacy rates.

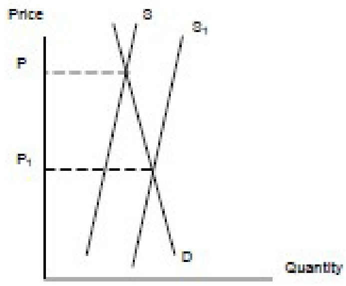
1(f) Explain, using an appropriate diagram, the reason why commodity prices, such as in the case of copper, may be volatile. [4]

As you can see in diagram 1 by there being a decrease in demand, D1 to D2 there is a decrease in price from P1 to P2. In the case of copper price from P1 to P2. In the case of copper prices this could be due to Zambia's trading partners economic performance. By there being a slowdown in China's economy there is less consumer confidence and so therefore will result in less demand. This will eventually cause Zambian miners to lower prices so they can be still seen as affordable.



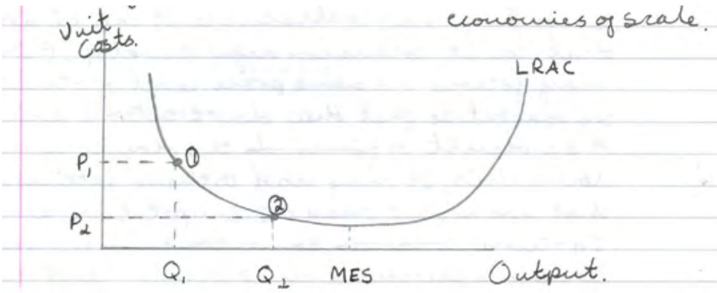
Likewise, by there being decrease in supply as shown by diagram 2. There would be an increase in price (P1 to P2). This represents volatility. This decrease can be due to copper mines being unable in the long run to cover their costs and as a result will have to scale back resulting in less being supplied to the market.

1(g) Evaluate, using an appropriate diagram, the extent to which an oligopoly market is preferable to a competitive market. [15]



Oligopoly markets drive efficiency. The firms with the market are constantly competing and so therefore can result in allocative efficiency. There is an improvement in the distribution of resources as firms wish to maximize revenues. However, it can be argued that oligopoly markets have fundamental flaws which may prevent this drive for efficiency. Similarly, competitive markets can be seen as preferable as well.

With an oligopoly markets, firms are often competing to retain their competitiveness within the market and therefore market share. This may reap benefits in terms of efficiency. In the long term, oligopoly firms will aim to be productively efficient so that they can gain from economies of scale. For instance, technological economies of scale.



As you can see in the diagram, by the firms having the incentive to be the most productive such as machinery. As a result of this in the long run a firms unit costs would decrease as less factors of production are need to produce a certain amount of goods. Therefore, we see a drop from P1 to P2. Similarly by in turn investing into this technology the oligopoly firms will be increasing their output from Q1 to Q2. As a result, the market may see an increase in allocative efficiency as more goods are being made available to consumers. However, by benefiting from economies of scale in the long run can cause for a market to become less contestable. Firms may be unable to enter the market due this barrier to entry. Therefore, there may be decreased levels of competitiveness within a market. Furthermore by oligopoly markets becoming less contestable, it can be argued that tacit collusion may develop. Firms may follow the same price of others in the market so that they don't enter a price war. As a result of the oligopoly market doing this, it may lead to them setting prices that are higher than the competitive level. In turn some consumers may be unable to purchase their goods and therefore will result in a decrease in allocative efficiency, Also there may be an increase in x-inefficiency. Due to firms possibly not having the incentive to cut costs, given that there is little competitive behaviour in the market.

Likewise it can be suggested that competitive markets are preferable to a market as it can drive allocative efficiency. By making a market more contestable by abolishing barriers to entry new firms will be able to enter the market and offer more products to consumers such as copper. Similarly, there may be increased competition because of this so current firms may see to improve their efficiency so that they can retain their market share. However, this may depend upon firms being willing to enter the market. Firms may feel less incentivised given that the current market price for copper, for instance, is at a low value. Therefore, if firms are financially unable to offer this price, then an oligopoly market may be seen as more preferable.

The candidate understands some of the consequences of having an oligopoly market but hasn't drawn on a number of the key characteristics of an oligopoly market, such as interdependence and price rigidity. Although, they have given some nice analysis of how economies of scale can be used as a barrier to entry and prevent markets becoming contestable. The diagram is relevant but perhaps the kinked demand curve would facilitate further analysis of the behaviour of oligopolists.

CANDIDATE RESPONSES

Candidate C – ANNOTATED

1(a) Explain two roles of the IMF in promoting economic development. [2]

One role the IMF has in promoting economic development is through lending. The IMF may provide loans to lower or middle income countries to support their expansion possibly by supply-side policies. The second role is offering assistance and economic training to equip agents in improving or increasing economic growth.	*The candidate has identified two valid roles of the IMF.* *2 marks*

1(b) Explain (using fig. 1) what happened to HDI figures for Zambia over the period shown. [2]

At the start of the period in 1980 the HDI for Zambia remained constant, near Q4, with little change. However, in 1995 the HDI started to rise exponentially and by 2014 the index showed it was near 0.6 a 0.2 percent difference than 20 years ago.	*There is use of data but the candidate hasn't recognised the lowest and highest points. 1 mark*

1(c) Explain why the marginal concept is useful to economic agents in decision making. [4]

The marginal concept can be useful with both firms and macroeconomic agents with the theory of firms we can apply the law of diminishing returns to this matter. By all but one factor of production being fixed, a company may experience an increase in costs once it goes past a certain level of output. As a result by firms anticipating this, they will be able to see what the marginal output would be when there costs start to rise again. Likewise, when a government is assessing whether to implement a strategy to increase income tax rates, they may consider the consumers marginal propensity to consume; whether consumers, given their current income are still willing to spend more. Therefore, if their marginal propensity to consume is low, governments may feel less incentivised to make the decision to increase tax rate.	*The candidate has some appreciation for the marginal concept and has applied it appropriately to an economic agent – the government in this case but doesn't fully explain why the government would consider the MPC when reviewing tax rates.* *2 marks*

1(d) Evaluate the significance of economies of scale to a business. [8]

Economies of scale can have both positive and negative consequences to a business. Firstly, by a firm benefiting from economies of scale, it will result in having lower unit costs. As a result, a business may be able to offer better prices within the market, given that their variable costs have decreased. In turn, by offering a different price, firms will be able to be more competitive within their market and subsequently, possibly increase their market share. Similarly, a firm having this ability of experiencing economies of scale they will be able to increase their output as well. Given the decrease in unit costs. Therefore they are able to offer more to the market with this benefit of economies of scale, given their current resources which may have restricted an increase in output before.	*It would have been better to use long run average costs.* *A little vague on the benefits of economies of scale here.*
However, there are arguments to suggest that economies of scale to a business may have implications. For instance, benefitting from economies of scale in the market can have positive consequences but it may depend upon the extent on which the unit costs decrease by and how low the minimum efficient scale is. If a competitor is able to offer a lower unit cost, then they will be seen as more competitive. Therefore firms may not benefit from economies of scale to the extent at which would improve their performance.	*Good recognition that it depends on how low the MES is.*
Furthermore, economies of scale can be seen as a barrier to entry to a market and therefore a negative consequence. By firms having economies of scale and lower price level, firms may find it hard to enter a market. They are unable to offer at that price and as a result may force for the current market to stay inefficient.	*The analysis is a little confused here. The candidate has realised that when the incumbent firm has economies of scale this creates barriers to entry and so can be a positive consequence* *Limited evaluation only and reasonable analysis – overall level 1 and 4 marks.*

1(e) Evaluate whether economic growth always promotes economic development. [15]

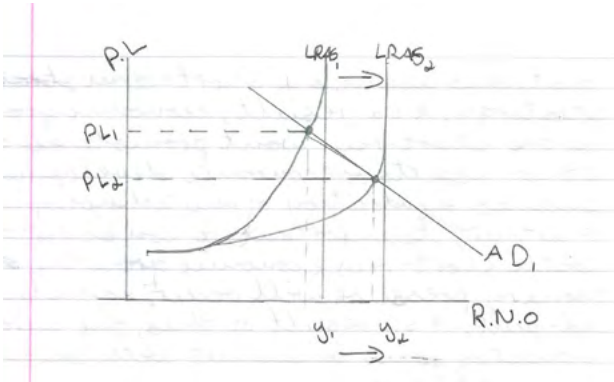
Economic development usually refers to adoption of new technologies, a transition from agriculture based to industry based economy and also a general improvement in living standards. Therefore, when evaluating economic growth, we must analyse whether it has an effect on this. I think it is important as well to consider economic growth in time lags and as a result we will examine by looking at short run and long run economic growth.

Good knowledge of economic development

Firstly, by there being short run economic growth an economy may see an improvement in the standard of loving. In a period of economic growth in the short run there is high economic activity. There is more consumption taken by consumers and so therefore will be able to increase their happiness and welfare, which are indications of living standards. They are also able to fulfil their economic objective of the satisfaction of needs and wants. Likewise, firms will be gaining higher revenues. As a result, firms will be able to increase their net investment and will in turn possibly offer more employment opportunities to those seeking work. Therefore, there are less chances of poverty given that jobs are being created in the short run. However, I think it is important to take into account that this again, is a short term strategy. As a result, economic growth in the short run won't promote the other aspects of economic development such as the adoption of new technologies. Furthermore, it's important to consider that with short run economic growth, inflationary pressure will occur, namely demand-pull. As a result of this, the purchasing power of consumers with lower incomes will decrease as they may not be able to purchase goods, given that their prices are rising. Therefore, there would be a decrease in welfare and happiness within an economy.

Reasonable analysis of the link between economic growth and economic development.

Nevertheless, in the long-run, it can be argued that economic growth can promote both aspects of economic development. In the long run, firms that have had larger revenues from economic growth would have invested into productive potential such as new technologies or machinery. Firms would do this so that they would become more competitive and efficient.



As you can see in the diagram, with long run economic growth, firms would invest into long term productivity to therefore become more competitive. They will adopt new technologies in their investment so that in turn they become more efficient. Similarly, by having this investment and therefore long run economic growth an economy will see an ease in its rate of inflation (price level) from PL1 to PL2. As a result of this, there is an improvement in standards of living as goods have become more affordable to those who are struggling on lower incomes.

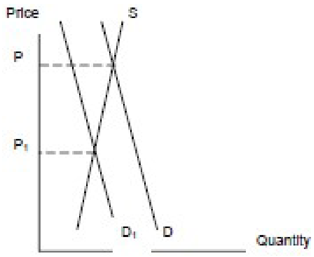
Appropriate use of a diagram and analysis of the benefits of an increase in firms' investment.

Furthermore in the long run governments will be benefiting from increase fiscal dividends on tax receipts from improved profits of firms and higher income of consumers. As a result, the government will increase spending on merit and public goods. By the government spending on this they will be able to improve the standard of living particularly its HDI aspect of literacy rates.

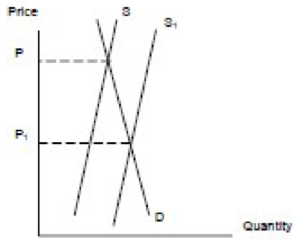
There is a little further analysis but no evaluation.

Final level = Level 1 5 marks.

1(f) Explain, using an appropriate diagram, the reason why commodity prices, such as in the case of copper, may be volatile. [4]



As you can see in diagram 1 by there being a decrease in demand, D1 to D2 there is a decrease in price from P1 to P2. In the case of copper price from P1 to P2. In the case of copper prices this could be due to Zambia's trading partners economic performance. By there being a slowdown in China's economy there is less consumer confidence and so therefore will result in less demand. This will eventually cause Zambian miners to lower prices so they can be still seen as affordable.



Likewise, by there being decrease in supply as shown by diagram 2. There would be an increase in price (P1 to P2). This represents volatility. This decrease can be due to copper mines being unable in the long run to cover their costs and as a result will have to scale back resulting in less being supplied to the market.

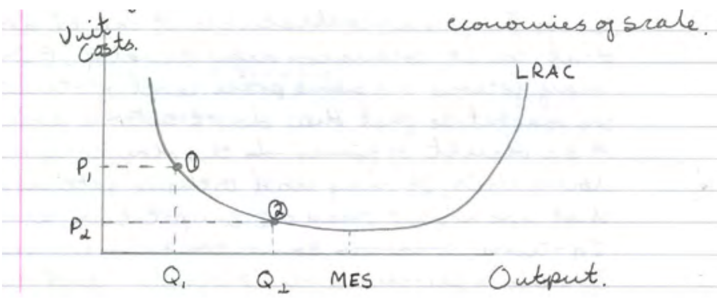
Two marks for a correct diagram and two marks for the explanation.

4 marks

1(g) Evaluate, using an appropriate diagram, the extent to which an oligopoly market is preferable to a competitive market. [15]

Oligopoly markets drive efficiency. The firms with the market are constantly competing and so therefore can result in allocative efficiency. There is an improvement in the distribution of resources as firms wish to maximize revenues. However, it can be argued that oligopoly markets have fundamental flaws which may prevent this drive for efficiency. Similarly, competitive markets can be seen as preferable as well.

With an oligopoly markets, firms are often competing to retain their competitiveness within the market and therefore market share. This may reap benefits in terms of efficiency. In the long term, oligopoly firms will aim to be productively efficient so that they can gain from economies of scale. For instance, technological economies of scale.



As you can see in the diagram, by the firms having the incentive to be the most productive such as machinery. As a result of this in the long run a firms unit costs would decrease as less factors of production are need to produce a certain amount of goods. Therefore, we see a drop from P1 to P2. Similarly by in turn investing into this technology the oligopoly firms will be increasing their output from Q1 to Q2. As a result, the market may see an increase in allocative efficiency as more goods are being made available to consumers. However, by benefiting from economies of scale in the long run can cause for a market to become less contestable. Firms may be unable to enter the market due this barrier to entry. Therefore, there may be decreased levels of competitiveness within a market. Furthermore by oligopoly markets becoming less contestable, it can be argued that tacit collusion may develop. Firms may follow the same price of others in the market so that they don't enter a price war. As a result of the oligopoly market doing this, it may lead to them setting prices that are higher than the competitive level. In turn some consumers may be unable to purchase their goods and therefore will result in a decrease in allocative efficiency, Also there may be an increase in x-inefficiency. Due to firms possibly not having the incentive to cut costs, given that there is little competitive behavior in the market.

Likewise it can be suggested that competitive markets are preferable to a market as it can drive allocative efficiency. By making a market more contestable by abolishing barriers to entry new firms will be able to enter the market and offer more products to consumers such as copper. Similarly, there may be increased competition because of this so current firms may see to improve their efficiency so that they can retain their market share. However, this may depend upon firms being willing to enter the market. Firms may feel less incentivised given that the current market price for copper, for instance, is at a low value. Therefore, if firms are financially unable to offer this price, then an oligopoly market may be seen as more preferable.

The candidate understands some of the consequences of having an oligopoly market but hasn't drawn on a number of the key characteristics of an oligopoly market, such as interdependence and price rigidity. Although, they have given some nice analysis of how economies of scale can be used as a barrier to entry and prevent markets becoming contestable. The diagram is relevant but perhaps the kinked demand curve would facilitate further analysis of the behavior of oligopolists.

Total marks 26/50

The type of diagram isn't specified

Analysis of why an oligopoly market is less preferable than a perfectly competitive market but the candidate hasn't compared this directly.

Further analysis of the reasons against oligopoly markets being preferable.

Further analysis of the reasons for preferring a perfectly competitive market.

Good knowledge and understanding of oligopoly markets and competitive markets.

Good analysis of how oligopoly markets are preferable to a competitive market. A relevant diagram is provided and is linked to the analysis.

Reasonable evaluation of whether oligopoly markets are preferable to competitive markets.

There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.

Overall, Q7 is awarded L2 8 marks

The small print

We'd like to know your view on the resources we produce. By clicking on the 'Like' or 'Dislike' button you can help us to ensure that our resources work for you. When the email template pops up please add additional comments if you wish and then just click 'Send'. Thank you.

Whether you already offer OCR qualifications, are new to OCR, or are considering switching from your current provider/awarding organisation, you can request more information by completing the Expression of Interest form which can be found here: www.ocr.org.uk/expression-of-interest

OCR acknowledges the use of the following content:
Square down and Square up: alexwhite/Shutterstock.com

Please get in touch if you want to discuss the accessibility of resources we offer to support delivery of our qualifications: resources.feedback@ocr.org.uk

Looking for a resource?

There is now a quick and easy search tool to help find **free** resources for your qualification:

www.ocr.org.uk/i-want-to/find-resources/

ocr.org.uk/alevelreform
OCR customer contact centre

General qualifications
Telephone 01223 553998
Facsimile 01223 552627
Email general.qualifications@ocr.org.uk

OCR is part of Cambridge Assessment, a department of the University of Cambridge. *For staff training purposes and as part of our quality assurance programme your call may be recorded or monitored.*

Cambridge Assessment

ISO 9001 UKAS MANAGEMENT SYSTEMS 001