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Introduction

These exemplar answers have been chosen from the summer 2017 examination series.

OCR is open to a wide variety of approaches and all answers are considered on their merits. These exemplars, therefore, should not be seen as the only way to answer questions but do illustrate how the mark scheme has been applied.

Please always refer to the specification (http://www.ocr.org.uk/Images/170839-specification-accredited-a-level-gce-economics-h460.pdf) for full details of the assessment for this qualification. These exemplar answers should also be read in conjunction with the sample assessment materials and the June 2017 Examiners’ Report to Centres available on the OCR website http://www.ocr.org.uk/qualifications/.

The question paper, mark scheme and any resource booklet(s) will be available on the OCR website from summer 2018. Until then, they are available on OCR Interchange (school exams officers will have a login for this).

It is important to note that approaches to question setting and marking will remain consistent. At the same time OCR reviews all its qualifications annually and may make small adjustments to improve the performance of its assessments. We will let you know of any substantive changes.
Section A

Question 1(a)(i)

What relationship does Fig. 1 suggest existed between changes in real GDP and changes in rail passenger journeys between 2004 and 2015? [1]

Exemplar 1 – 1 mark

Examiner commentary

Clear answer in terms of ‘positive relationship’, the first bullet point of mark scheme.

Exemplar 2 – 0 marks

Examiner commentary

This answer was just too vague. ‘Similar’ and ‘direct relationship’ were not enough to show a positive relationship or show understanding of as GDP increases so do rail passenger journeys.
Question 1(a)(ii)

How would an economist explain this relationship? [2]

Exemplar 1 – 1 mark

Real GDP causes changes in the % of rail passenger journeys due to the effect Real GDP has on income. Increasing Real GDP leads to increasing income and the % of rail passenger journeys increases. [2]

Examiner commentary

This answer did not say enough for 2 marks. It does get one mark for increasing income, but does not link it to ‘affordability’ or ‘increase in consumer confidence’.

Exemplar 2 – 2 marks

As real GDP falls, consumers are going to be left with lower disposable income and therefore less people will take the train and look for a cheaper option as consumer confidence falls. [2]

Examiner commentary

Marks given for fall in GDP, lower disposable income, so demand falls as consumer confidence falls. This candidate puts the reason opposite to mark scheme (second point in guidance), but is still valid.
Question 1(b)

Identify and explain, using the stimulus material, one reason why the privatisation of the rail network has made it a more contestable market.

Exemplar 1 – 1 mark

The privatisation of the rail network has made the market more contestable as now any firm can bid on contracts to run part of the railway network, making it a more contestable market. [2]

Examiner commentary

This answer got 1 mark for application regarding 'bid', but would have needed to show an understanding of a characteristic of a contestable market.

Exemplar 2 – 2 marks

As the rail networks are bidded for by firms, it is a contestable market as this means firms enter the market with no sunk costs or barriers to entry as they can bid for use of the tracks for a fixed period of time. [2]

Examiner commentary

'Bidded' shows application and 'sunk cost' shows understanding of a contestable market. A clear accurate answer.
**Question 1(c)**

Explain, using a diagram, why the high level of fixed costs in providing the infrastructure of the railway network make it an example of a natural monopoly.

Exemplar 1 – 0 marks

Diagram is a monopoly diagram, rather than a natural monopoly diagram, so no marks. 'High barriers to entry' not enough for the explanation, as it still relates to a monopoly.

**Examiner commentary**

Diagram is a monopoly diagram, rather than a natural monopoly diagram, so no marks. 'High barriers to entry' not enough for the explanation, as it still relates to a monopoly.
Examiner commentary

A very clear diagram showing a natural monopoly and LRMC being below LRAC. It also shows with two price levels and two quantities that there are lower AC of a single firm. The explanation covers bullet point 2 on the mark scheme in terms of increasing economies of scale mean that LRAC is constantly decreasing.
Question 1(d)(i)

What evidence is there in the stimulus material of TOCs engaging in price discrimination? [2]

Exemplar 1 – 0 marks

TOCs have to bid for use of the railway network on a route and this means TOCs have to pay for the right to run a service.

Examiner commentary

A typical incorrect answer where an understanding of price discrimination would need to be shown.

Exemplar 2 – 2 marks

Figure 3 shows how consumers are charged different prices according to when they travel. This is third-degree price discrimination as at off-peak (7-9am) a single ticket is £5.80 whereas at peak (9-3pm) a single ticket is only £5.10.

Examiner commentary

A clear answer showing knowledge of price discrimination and applies it to the stimulus. Showing different prices at different times.
Question 1(d)(ii)

Evaluate the extent to which the consumer benefits from price discrimination by a firm with monopoly power.

Exemplar 1 – Level 1 – 3 marks

As shown in the diagram, Market A has a relatively price inelastic demand curve meaning that a small increase in price would only result in a small change in demand and therefore would maximise the monopoly firm's revenue. However, Market B in the diagram is shown to have relatively price sensitive demand curve and therefore monopoly firms must keep prices much lower in this market in order to maximise revenue. The reason that having high prices in Market A is beneficial to consumers is that it means that firms can...
Examiner commentary

There is strong knowledge and application in this answer, for diagrams and knowledge of peak and off peak they also showed knowledge of price discrimination and monopoly, but it was should have been linked to the benefits to the consumer. This answer does go on to show reasonable analysis about benefits through cross subsidisation and lower affordable price. They could have gained more marks by developing this point in terms of greater consumer surplus. Also there should have been the evaluation of how it may not be a benefit. So strong knowledge and application, reasonable analysis, but no evaluation, so not enough for L2 and because there is strong knowledge and application it gets towards the higher end of level 1, 3 marks.
Price discrimination occurs when a firm charges consumers different prices depending on their willingness to pay in order to profit or increase profits. One reason why the consumer may be worse off from price discrimination is that it leads to a decrease in their consumer surplus as shown in the diagram.

Initially, the firm profit maximises by producing where Qo units and at a price of Po, this leads to consumer surplus shown by P0b a but if price discrimination occurs, then the firm's marginal revenue becomes its marginal revenue so the quantity increases to Q1 and P1 as becomes the firms profits so the consumer surplus is removed reducing consumer welfare. However, the profit extra profits gained by the consumer could be a firm of shown by the shaded region in the diagram above will lead to an increase in research and development which would increase lead to new products being produced and consumed.
Examiner commentary

This is an excellent clear answer that is fully focused on the question set. Many candidates confused this question and focused on monopoly power rather than price discrimination. It starts an explanation of what price discrimination is, so there is reasonable knowledge in the first paragraph. In the second paragraph it starts with why price discrimination will be worse for consumers (this is acceptable for one sided analysis). A clear diagram and good use of theory is used to show strong analysis and shows good knowledge. The last paragraph on page 7 ‘However’, becomes evaluation in terms of looking at the benefits to consumers, again with a clear chain of reasoning and further use of the diagram. There is further evaluation on the additional pages, linked to consumer surplus. The last paragraph shows a judgement in terms of it ‘crucially depends upon whether the profits are re-invested or not’. So good knowledge, strong analysis, and strong evaluation. L2, 8 marks
Question 1(e)

Evaluate, using evidence from the stimulus material, the case for private sector ownership of passenger rail services.

Exemplar 1 – Level 3 – 9 marks

The public ownership of the passenger rail system can be modelled as a monopolistic power within the market. One role of the supplier of the rail services results in higher prices and less sensitive train services compared to that of a free market. Privatisation leads to a number of private firms being allowed into the market to compete for customers, potentially resulting in a perfectly competitive market in theory. This transition from monopoly to perfectly competitive manner should not only lead to decreased prices and increased capacity, but also the removal of both productive and allocative inefficiency.

The diagram shows the difference between the price and output provided by a monopoly \((P_m, Q_m)\) and the price and output provided when competition is introduced to the market \((P_c, Q_c)\).

It is clear to see that when the market becomes competitive, consumer benefit from both lower prices and a higher output than experienced previously. Also, when the market invests in...
perfectly competitive. In fact will operate both productively and allocatively efficient shown on Figure 2.

Figure 2 ps, e:

At equilibrium in this market price... at a result in allocative efficiency. $AC = AR$

resulting in productive efficiency.

However, the competitive market may not be perfectly competitive. In reality, the firms in the industry are likely to become oligopolies. This means that the few firms in the industry have rigid price and therefore compete on other things such as quality, the service they provide... This is shown in the case study... Line 29 says Virgin and Stagecoach pledge to invest $1 billion... to ensure a more

personalised fly experience! The shows that the oligopoly
does work in wanting to increase quality of based on the... they cannot compete on price. Resulting in higher

prices in 2013...

[12]

1e The public run monopoly however may benefit from dynamic efficiency. Where one firm runs the whole market... it has a greater scope for economies of scale compared to many little firms. This could result in falling long-run average cost and
Examiner commentary

The answer is unclear in the opening few lines, but then gets knowledge for number of private firms being in the market to compete for consumers. They then go on to analyse the benefit in terms of increased efficiency and the answer has reasonable analysis in terms of lower prices and higher output. There is more knowledge shown through the diagram on page 9 and application to the case study below that. On the additional page (page 18) there is good evaluation of why a public run service may be better. This shows good use of theory, which is well linked. A judgement would have brought this answer to strong evaluation. There is good knowledge, reasonable analysis and good evaluation. The analysis could have been improved by using the data more to evidence points. This answer has enough to get into L3, but because the analysis was only reasonable (which is L2) it gets the bottom of L3. 9 marks.
Private sector ownership meant that the government remained silent on whether rail services would be run by private firms, and not the government.

Some would argue that private sector ownership of the rail services is good because it incentivises firms to be very efficient, so that they can reduce costs and therefore be more competitive. This will mean that the consumer surplus will rise. This can be shown on a diagram:

- By exploiting economies of scale, available to firms:
- Railway firms can increase the quantity they supply, thus reducing the cost of supplying each seat. This leads to a rightward shift in supply (S₁ → S₂), where quantity has increased and so price has decreased. Resulting in a gain in consumer surplus of P₁B₁P₂C₂.

This is shown not by increasing the railway's price; if consumers will drop, and therefore it would be beneficial to privatise the railways. On top of this, the companies providing these services pay out huge sums of money to the government for the contracts. For example, Stagecoach and Virgin are set to pay the government £3.8bn. This could be used for the NHS.
Examiner commentary

An excellent answer that gained full marks. It starts with clear knowledge of what private sector ownership means. There is further clear knowledge in terms of efficiency and links this to consumer surplus. The diagram is clear and well analysed so is good analysis. The question asks candidates to use evidence from the stimulus and this is done at the bottom of page 8 and top of page 9 and is linked to the analysis, so it is now strong analysis with application. The structure of this answer is very clear. The case for is presented then the case against, starting with 'on the contrary'. This paragraph has a clear chain of reasoning and is good evaluation. The last paragraph shows clear judgement of the case for and justifies it in terms of only beneficial if the correct safeguards are implemented by the government. There is good knowledge and application, strong analysis, and strong evaluation, so L3, 12 marks. (It is worth noting that if the question asks for evidence from the stimulus then evidence is required for top marks)
Section B

Question 2

The world price of oil fell from over $100 a barrel during 2014 to below $45 a barrel in 2016.

Evaluate, using an appropriate diagram(s), the usefulness of the free market forces of demand and supply in analysing commodity markets, such as oil.

Exemplar 1 – Level 2 – 6 marks

PLAN:  

Intro - Free market forces - commodity prices

Paragraph one - explain with D & S what has happened and suggest why?

Paragraph two - commodities fluctuate - fixed prices may be more faire.

Evaluation - usefulness depends on how many buyers & sellers, and power of these buyers and sellers. If unequal power, seller/buyer may be exploited. So market forces aren’t working correctly (with e.g.)

Free market forces are useful tools in allocating resources such as oil efficiently. However a problem with free market forces is that they allow constant fluctuations in the price of commodities such as oil.
The diagram shows that in 2014, the market for oil has caused a fall in the price of oil from over $100 in 2014 to less than $45 in 2016. A decrease in the demand for oil has shifted the oil demand curve left. When a curve is shifted, there is a new equilibrium price and as stated the equilibrium price has fallen from over $100 to less than $45. This model works in allocating resources, such as oil, efficiently because the price is always at the level that consumers demand and that suppliers/producers are willing to sell it for.

However, free market forces can be seen as unfair, especially in allocating commodities such as oil that are constantly fluctuating in price. In order to protect the needs of the supplier, who in this circumstance is likely to have a revenue at less than half in 2016, that they
Examiner commentary

The diagram shows knowledge and application because it is in terms of oil. There is also reasonable analysis of the diagram below it. The next paragraph talks of market forces being unfair, which is not answering the question set. The last paragraph could have been improved by developing the argument and the evaluation, i.e. by showing sufficient cause and effect in the analysis or evaluation. So reasonable knowledge and application, reasonable analysis and limited evaluation. This is borderline L1/L2 so just gets into the bottom of L2. 6 Marks
Demand is the quantity of a good or service that consumers see willing and able to buy at any possible price in a given period, and...
Supply is the quantity of a good or service that producers are willing to supply at a given price. A commodity is an ensemble good such as oil or food whose price fluctuates regularly...

S is the supply curve for oil showing how much firms are willing to supply at each given price. The price of P. Br. Some are willing to supply at a quantity of Q. 

Maximum money received is greater than the marginal cost. At a Q, the price is just right. P is the consumer demand (comparing the benefit of buying in the oil).

Demand Q because the benefit of consuming an additional unit exceeds the cost (or opportunity cost). Therefore, the P.Q is the market equilibrium. However, between 2014 and 2016, the price of oil...

Frank Dean consumers are going to demand more, consuming the good. And demand will shift to D1 from D. As more time passes...

If the price of oil makes it less profitable for the oil companies to extract it, the cost due to very high fixed costs will lead to firms...

Firms experience falling profits. Therefore, supply falls and shifts from S to S1. The new equilibrium point depends on how much the demand and...
...supply...curve...shift...and...in...the...diagram...the...quantity...at...oil...falls...to... 
...and...the...price...rises...to...P... ...

Things...such...as...government...restrictions...on...the...amount...of...oil...extracted... 
or...oil...resources...running...out...would...cause...supply...to...fall...and... 
demand...may...rise...as...economic...growth...is...strong...and...durable... 
more...oil...is...needed...for...increased...output...of...all...kinds...of...goods... 
and...services...especially...in...manufacturing...Therefore...the...market... 
demand...and...supply...can...show...why...prices...fluctuate...so...much... 
when...demand...ris...to...Q1...and...supply...falls...to...S1...in...the...following... 
reasons...to...price...of...oil...rise...to...P1...in...P2...showing...why...prices... 
fluctuate...can...so...volatile...

The...elasticity...prices...and...elasticity...of...demand...and...supply...in... 
commodity...markets...depends...on...elasticity...of...demand...and... 
supply...The...price...elasticity...of...demand...for...oil...is...likely... 
to...be...inelastic...because...even...though...there...are...alternative...energy... 
Sources...such...as...wind...and...solar...they...have...yet...to...generate...enough... 
power...to...completely...substitute...oil...Also...oil...is...a...necessity...for... 
many...economies...Therefore...if...there...is...a...change...in...the... 
price...of...oil...demand...will...not...rise...as...responsive...and...will...only... 
change...slightly...Therefore...it...may...be...more...difficult...to... analyse... 
This...elasticity...inherent...within...demand...and...supply...because... 
the...elasticity...of...the...product...have...to...be...taken...into...account...and... 
their...change...may...also...be...smaller...because...more...regulated... 
and...consumer...preferences...change...towards...more...green...energy...sources... 
Furthermore...demand...and...supply...are...very...much...because...the... 
price...show...how...much...oil...is...at...each...moment...and... 
producer...surplus...change...as...price...shifts...and...the...demand...

Therefore...if...you...know...that...producer...surplus...has...increased...
you know that... Be... oil... some... were... willing... to... supply... more... oil... at... first... price... and... is... consumer... surplus... for... increased... you... know... that...  
consumer... was... willing... to... pay... more... for... the... oil... This... can... be... used...  
for... other... by... regulators... Some... who... analyse... the... commodity... market... to... decide... on... the... best... market... price... at... a... particular... time...  
However... to... extent... to... which... the... see... some... of... demand... and...  
Supply... can... be... used... depends... on... the... level... of... intervention... by...  
governments... and... market... trade... international... organisations... such... as... the... WTO...  
Governments... may... subsidise... the... production... of... oil... a... green... energy...  
which... will... not... stop... demand... and... supply... acting... completely... freely...  
and... effect... on... oil... industry... Roller... cost... share... may... also... be...  
operated... by... governments... which... will... affect... how... much... oil... is...  
unavailable... as... an... open... market... and... make... it... difficult... to...  
available... supply...  
In... conclusion... the... free... market... forces... of... demand... and... supply...  
are... very... useful... in... analysing... commodity... markets... because... you... can...  
show... how... external... changes... such... as... an... increase... in... demand... for...  
substitute... energy... sources... decreases... the... demand... for... oil... and...  
therefore... affects... its... price... Free... Demand... and... supply... show... why... the...  
price... of... commodity... is... volatile... because... whatever... Oil... is...  
shifts... the... market... equilibrium... changes... and... so... does... the... price...  
However... but... some... limitations... become... the... oil... market... may... not...  
be... completely... see... what... governments... may... deliberately... changes...  
the... demand... and... supply... of... oil...  

Examiner commentary

Reasonable knowledge shown in first paragraph and combined with the diagram also is awarded limited analysis. The next paragraph on page 11 is incorrect when saying that a fall in price will cause a shift in the demand curve. The paragraph at the bottom of page 11 is a stated point of evaluation in terms of government restrictions, so it is at this point limited evaluation. Then later in same paragraph analysis for forces of demand and supply show why prices fluctuate so much. The first paragraph on page 12 takes the answer to reasonable analysis in terms of inelastic demand. The next paragraph also clearly answers the question in terms of the usefulness of demand and supply and extends the answer in terms of producer surplus, so is now strong analysis. Bottom of page 12 also becomes reasonable evaluation in terms of ‘used depends on the level of intervention’. Good evaluation is achieved on the top of page 13 in terms of government subsidies and buffer stocks. There is also judgement in the conclusion in terms of government may deliberately change demand and supply’

So reasonable knowledge and application, strong analysis and strong evaluation. There were some errors in understanding, so there was just enough achievement on balance for this level and hence 22 marks.
Question 3

In April 2016 the UK National Minimum Wage for those aged 25 and over was increased by over 7% from £6.70 per hour to £7.20 per hour. It is now called the National Living Wage.

Evaluate, using an appropriate diagram(s), the impact on an economy of an increase in the minimum wage.

Exemplar 1 – Level 3 – 13 marks

Figure 1 shows a minimum wage being imposed. As the wage rate rises, the quantity of workers demanded falls from QD to QD and the amount of people willing to work (quantity supplied) moves from QS to QS. The quantity of workers demanded falls...
8. Because as the wage rate increases, costs for the firm also increases. However, unemployment will be. This then increase unemployment, meaning more people claim benefits. This increases government expenditure. This reduces the amount of money available for other things such as infrastructure and health services. The government may not have the funds to provide these benefits on top of existing expenditure, so have to increase government income, or reduce expenditure. This can be done by increasing taxes. This will however leave consumers with less disposable income, reducing GDP. Instead of increasing income they may try to reduce expenditure. This could be done by lowering the minimum wage back or less when it was increased by reducing income inequality and cutting benefits expenditure.

This may not occur though. If the markets for goods have inelastic demand or a high demand due to ‘fall in wage rate and disposable income, firms will have to maintain or increase supply. If the manufacturing of these products can be capital intensive and need labour, firms will have to continue paying current workers/new workers the higher
Wage rate. This may be the case if workers were unemployed due to the new wage can no longer afford luxury products and have to move to a different location for substitute products.

The quantity of workers supplied supposedly increases as more people are willing to work at a higher wage rate. This will reduce unemployment and decrease government expenditure on benefits, allowing this money to be invested. For example, creating more jobs. As more people work at a higher wage rate, disposable income increases, allowing people to buy more increasing GDP. However, as firms costs go up, they may increase prices, causing inflation.

Although more people are willing to work, they may be unskilled and not have the qualifications to get these higher wages. This will increase income inequality, meaning the government will have to increase tax on those on a higher income increasing government income and/or increase government expenditure on benefits for those on low or no pay. If they increase taxes, people may then be reluctant to work at as after tax they may have less income than they did.
Examiner commentary

Good knowledge for increasing minimum wage and a well labelled diagram. Bottom of page 11 they say, 'minimum wage imposed' which is not answering the question. They then go on to analyse the impact in terms of unemployment and reducing government expenditure, but then the answer becomes confused, so analysis is just reasonable. The evaluation is also reasonable in terms of capital intensive. There is a further point of analysis regarding increasing income and GDP, which takes it to good analysis. The rest of the answer does not add anything more. So good knowledge and application, good analysis and reasonable evaluation, which is L3, but there are some inconsistencies so middle L3, 13 marks.
An increase in the national living wage will lead to an increase in unemployment, thus to balance, we have:

\[
\text{Equilibrium wage} = \text{new wage rate} = \text{minimum wage rate}.
\]

This will lead to a decrease in QD but an increase in Qs for the demand of workers.

The difference between QD and Qs shows the quantity demanded of workers that are affordable by paying the new wage rate and not most of workers really to work, thus job loss is unemployed.

However, the increase in wage may recover.
Exemplar Candidate Work

...had it be an increase in unemployment, i.e.

an increase in the supply of workers made more likely to
work and become more productive. This would increase the supply and hence decrease
productivity. The new equilibrium output for Q4 is

now equilibrium level.

...Exemplar Candidate Work

Exemplar Candidate Work

A Level Economics

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A Level Economics

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To conclude, an increase in wage rate to the required minimum wage will increase unemployment of a potentially considerable amount if the increase is large. This is not noticed by an increase in wage as it might not be enough to hire people large as it wouldn't be profitable for hire to do so. This will lead to an increase in supply of workers but a large increase required

resulting in unemployment. However, as a result, it may not result in shortage of the required goods as a result of increasing. That in return

is a normal reason people like it. However, they will be not a great change

for me just like it because I'm still unemployed

work even though the fir is even continue to

build.

also, it will only work it how

with money come for the firm. It expanded in the role of profitability, and it's the profitability involved in how many the pressure wage increase will make for the employment. In addition it depends on the taxes. These levels and use of the

in ways they might not have the resources to

produce, and in fact, you will give more

such of capital for everyone.
Examiner commentary

This is an example of a strong answer. The diagram is correct and fully labelled, and they do talk of an increase in the NMW, a better diagram would have shown the increase from £6.70 to £7.20 and would have gained application marks. There is also reasonable analysis of the diagram, which then gets reasonable evaluation for also considering the disadvantages an increase in the NMW may cause. The second paragraph on page 11 goes on to show further analysis in terms of increase in MRP which is now good, page 12 shows another correct diagram, which gets a further knowledge mark. Analysis becomes strong with the explanation of the diagram. There is further knowledge of the theory (MR X MPP). The last paragraph on page 12 becomes good evaluation when it talks of unemployment occurring if not met by an increase in productivity. On page 13 there is a judgement in terms of it depends on productivity and rate of increase, so it becomes strong evaluation. There is good knowledge, strong analysis, and strong evaluation, which is L5. It gained 24 marks, if there had been the application on the first diagram or elsewhere in the answer it would have gained full marks.
Perfect competition theory is based on a set of very unrealistic assumptions.
Evaluate the usefulness of perfect competition theory in explaining the behaviour of firms in the real world.

**Exemplar 1 – Level 2 – 6 marks**

**PLAN:**
Intro - perfect competition explanation and why it is not realistic.

Para 1 - perfect competition compared to so monopolistically competitive markets.

Para 2 - fruit and veg market may be very close to perfect competition.

Evaluation - How useful depends on the market you are comparing to e.g. useful for coffee shop + hairdressers but not phone companies.

Perfect competition is a theoretical view of a market which is used as a tool to compare real markets against it; however it is based on unrealistic assumptions such as no barriers to entry, homogenous products and uniform pricing.
A perfectly competitive market has normal profits, this is another reason that perfect competition is not useful in the real world. We assume and know the most businesses aim to achieve high profit, if a firm was to enter a market in which they couldn’t gain sufficient profit they would be likely to leave the market. These assumptions we have about firms do not correlate with the assumptions of a perfectly competitive market and that is why perfect competition theory may be considered not useful in explaining the behaviour of firms in the real world.

However, there are some markets that still hold many of the characteristics of a firm in a perfectly competitive market. An example of this is hairdressers. Hairdressers offer the service of a haircut, the quality of haircuts are subjective to the consumer but generally the
Service of getting one’s hair cut at any salon tends to be a very similar process and results in pretty much the same thing. This closeness to a homogenous product, having many firms in the market and having relatively low barriers to entry means that the perfect competition model is comparable to the real world. However, it may not relate to this market due to the vast price range of services like this. Therefore, although some markets share many similar assumptions to the theory of perfect competition, their behaviour around certain aspects around things like price setting is not comparable, thus making the theory useless.

Overall, the extent to which the theory of competition is applicable to the behaviour of real firms depends upon the nature of the product and how generally competitive firms are acting.
Examiner commentary

Knowledge given for assumptions and being unrealistic. Further knowledge for diagram, despite it not being fully labelled. They do go on to say why the assumptions are not useful, so limited evaluation, this point is stated rather than developed. Hairdressers is not a good example to use, but there is limited analysis for ‘perfect competition is comparable to the real world’. The summary at the end adds nothing more to the answer. Good knowledge and application, limited analysis and limited evaluation. Takes it to just above L1 and hence bottom L2 6 Marks

Exemplar 2 – Level 5 – 25 marks

A perfect competition market structure is a market structure in which there are many firms, products are homogeneous and there are low barriers to entry. The usefulness of the model is examined.

Figure 1. In this essay...

Figure one shows the diagram of a perfectly competitive market. The diagram shows how there are many normal firms and rivalry when prices increase. This is because in the short run a perfectly competitive model can earn supernormal profit, in the short run because in the long run due to low barriers to entry, inhomogeneous products, a consumer will be attracted into the market. Firms have increased their market share by reducing prices but ultimately it will be demand curves. From \( D = P = M C \) to demand and so now any normal profit is earned. This is useful in exploration with firms in a perfectly competitive market.
...Exemplar Candidate Work

A Level Economics

Exemplar Candidate Work

1. A change in price in the long-run could mean consumers switch to competitors with lower prices. It can be argued that this may not be useful in the real world as there is often some brand loyalty

2. In the long-run, consumers may not switch because of lower prices. It can also be inconvenient for them to switch and so maybe willing to pay that extra price.

Figure 2 also shows that in a perfectly competitive market, firms are producing. Average cost curves are at the lowest point of their average cost curve. They are also more efficient at a price equal to marginal cost. This illustrates a result in static efficiency. The is useful in explaining how firms make a profit, such that low prices are efficient. There is less waste and a more in x-efficiency. (Inefficient to efficient)

3. and so firms can create a greater profit margin by reducing costs rather than necessities. Prices. However, firms want to make a profit as the market is perfect in the short run.

Perfect competition may be useful in examining the behaviour of a firm as an individual. It assumes that producers and consumers have perfect knowledge. It also is unrealistic as in the real world there is likely to be some barriers to entry and even though goods are homogeneous, they are unique as to other things such as the quality or the service provided.

An alternative then that is more useful in explaining the behaviour of firms in the real world is the theory of an oligopoly. In this market structure firms compete through price...
Examiner commentary

This is an excellent answer and one that is fully focused on the question set. There were unfortunately many candidates that saw this question as merely the advantages and disadvantages of perfect competition and hence only achieved marks in L1 or L2. It is interesting to note here that the candidate clearly underlined the important parts of the question and did some very brief pointers under each part of the question and focused their answer on that. The stem/line before the question is there to guide candidates, but is often ignored. This answer starts with a clear knowledge of what the assumptions are and immediately makes it clear what the question is about in terms of usefulness. The diagram is correctly labelled and gains another knowledge point and a further one for clear knowledge of theory (top of page 15) The answer then goes on to analyse the usefulness (again using the wording of the question) and gains good analysis. In the next paragraph they achieve strong analysis in terms of usefulness in making a profit and developing their point. The answer then starts to evaluate why perfect competition may not be useful (again using the wording of the question) (bottom page 15 and top of page 16) The next paragraph becomes good evaluation when they make a comparison between oligopoly and perfect competition to show how perfect competition is unrealistic. The last paragraph is a clear judgement in terms of ‘benchmark’ so now strong evaluation. There is strong knowledge throughout. So, all the criteria for L5 are present, hence 25 marks.
Profit maximisation is an unrealistic objective and does not explain the behaviour of firms in the real world.

Evaluate the extent to which profit maximization is the most important objective influencing the activities of a firm in the real world.

Exemplar 1 – Level 1 – 5 marks

Profit maximisation is where a firm sets out to achieve the greatest amount of profit it can achieve in a given time.

On the one hand, it can be argued that profit maximisation is the most important objective for a firm as profits are what a firm can use to maintain its operations and in order for them to grow as a business. For example, if a firm sets out to maximise its profits in order for them to be able to pay its dividends, investing by its shareholders. In addition to this, profits are needed to be able to pay its workers wages, various taxes and still have enough money after all of its various expenses for the owners to make money.
Furthermore, it can be argued that a firm would not be able to continue running if a firm did not make a profit, otherwise it is losing money. Therefore, owners would decide to pursue profit maximisation as its main focus.

However, there are many other objectives a firm may pursue. One of said reasons could be the fact that the firm is a not-for-profit organisation (for example, a charity) meaning that it is not concerned with earning its owners a profit.

Furthermore, if a firm is struggling to survive each month, the owner may decide to move towards focusing on the survival of the business as their main priority until their situation improves. As well as this, if a firm has substantial profits, it may need limit its operations for a few months to be able for the business to grow as it is focusing the majority of its funds on the business expansion.
In addition, whether the firm chooses profit maximisation could be dependent on the market. If the firm is in a perfect competition, focusing its attention on increasing their market share. Similarly, if the firm has the monopoly power in the market, it may decide to focus on increasing its market share.

To conclude, I feel that profit maximisation is the most important influence of a business as the owners/shareholders may wish to increase their own personal gain. In addition, the firm can use their abnormal profit to expand the businesses operations in terms of its market share, its quality of service and so on. This can be dependent on external factors but overall, it is the most influencing objective.
Examiner commentary

This is a typical weaker response, where the candidate did not fully address the question set. Knowledge given for first paragraph and application for 'not for profit', analysis for 'investing for shareholders', evaluation for alternative 'survival' and again for 'depends on the economic situation'. This answer could have been improved by analysing why profit maximisation is the most important objective. Other objectives should have been considered, and the diagram needs to be labelled.

So reasonable knowledge and application; limited analysis and reasonable evaluation. Two of the three descriptors for L1 are there, evaluation is a reasonable, but not enough for L2, so top of L1.
I aim to evaluate the extent to which profit maximisation is the most important objective of firms. Profit maximisation is when firms produce output when MC = MR where profits are maximised.

Many firms profit maximise as they want profit. This is because many firms have shareholders who want increased gains from dividends. This means that they sell at MC = MR so that the firm can gain supernormal profits and make the shareholders happy.

The diagram shows that output at point MC = MR, costs are at C₁ and if the firm sets prices at P₁, they make supernormal profits from C₁AR₁P₁ output. This means that the owners of the business are happy. This is important as in the beginning, the firm’s main objective is the owner’s objectives as they are the risk takers. However, this depends on the type of business as some organisations may not have profit as an objective.

Firms may also want to profit maximise so that they can make supernormal profits that they can re-invest into the business as it may be cheaper to re-invest into the business and grow than to borrow from banks and pay high interest rates. So, there fore the firm wants to increase profits so in the long term, they can re-invest and be dynamically...
efficient and stay competitive. This depends on
the type of market. As if it is a monopoly, it may not
be in need to re-invest as it is the dominant producer
in the market. So there is no incentive.

On the other hand, some firms may profit maximise as
they want to benefit from economies of scale in the long
run and so by aiming to obtain profits, they have
incentives to lower their costs. As shown in the diagram,

\[
\text{Economies of Scale}
\]

as output increases, costs decrease from \(C_1\) to \(C_2\) and
therefore costs are
output lowered
for the firm and they are able to have higher profits as
their unit cost is lower in the long term.

On the other hand, some firms may have divorce of
ownership and control where shareholders want profits
however, the managers may want to get personal targets
such as in football to win the trophy. An example is
football clubs, the shareholders want profits, but managers
want to win cups and stay on top of league tables.
This means that firms may profit satisfice where they
set minimum target levels to please the shareholders.
This depends on the firm type of firm and how far
the managers and shareholders are as sometimes the
managers may be a shareholder; e.g. Apple users all
have shares in the company so they may all have a
common objective.
Another reason a firm may not profit maximise is that they may want to just survive in the market and make supernormal profit. The firms may decide that they want to wait and not become. They may want to sell as much stock as possible without making a loss and wait to gain brand loyalty so that in the long term they may profit maximise. This is Sales maximising as firms sell all their goods to gain market share and brand loyalty as shown in the diagram.

\[ \text{MC} \]  
\[ \text{AC} \]  
\[ \text{AR} = \text{AC} \]  
\[ \text{MR} \]  
\[ \text{P} \]

As firms sales maximise, at AR=AC, they produce output at Q, where they only make normal profit at P, i.e. profit. An example is Amazon kindle ebooks. They were priced so gained market share and brand loyalty so the prices were raised substantially. This depends on where the firm is as if the firm is already established, and has brand loyalty, they will go straight to profit maximising.

Another reason firms may not profit maximise is because they may have other primary objectives such as raising money for charities and not-for-profit organisations such as the honest company. These firms aim to keep revenue maximising and reinvest any profits back into the company and so...
Examiner commentary

The answer starts by showing clear knowledge of profit maximising being where $MC = MR$, it then analyses a reason why firms seek to profit maximise (profit for shareholders). The diagram does get knowledge, but there is an incorrect identification of the profit line. There is further analysis in terms of the owners being risk takers and again in the next paragraph in terms of re-investing profits and it being cheaper than getting a loan, this takes it to good analysis. Evaluation starts during the bottom of the first paragraph on page 15 in terms of it depends upon the type of firm, but this is only limited, because it is a stated point at this stage. On page 16 the evaluation becomes good in terms of ‘divorce of ownership and control’ and ‘profit satisfice to please shareholders’. There is also good application to the real world, ‘football’ and ‘Apple’ and then ‘Amazon’. For strong evaluation there needs to be a judgement, and this is on the additional pages when the answer talks in terms of it depends on short run and long run and is justified in terms of increasing market share first then profit maximising in the long run. There is strong knowledge and application, good analysis, and strong evaluation, which is level 5. The mark of 23 is due to the analysis only being good so middle of the level.
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