

Revision Sheet

A-Level Economics · Unit 7 The price system and the microeconomy (A Level)

32 vocabulary items · 23 marks of exam questions (4 questions)

Part 1 · Vocabulary review answer key. Section A wants the exact English spelling.

Question	Answer	Marks
1	private benefit	1
2	social benefit	1
3	total cost	1
4	average cost	1
5	marginal cost	1
6	average revenue	1
7	price discrimination	1
8	horizontal integration	1
9	vertical integration	1
10	total utility	1
11	indifference curve	1
12	budget line	1
13	income effect	1
14	productive efficiency	1
15	allocative efficiency	1
16	Pareto optimality	1
17	marginal social cost	1
18	marginal social benefit	1
19	deadweight welfare loss	1
20	fixed cost	1
21	variable cost	1
22	returns to scale	1
23	normal profit	1
24	supernormal profit	1
25	perfect competition	1
26	monopolistic competition	1
27	oligopoly	1
28	collusion	1
29	revenue maximisation	1
30	sales maximisation	1
31	satisficing	1
32	average fixed cost	1

Multiple Choice Answers

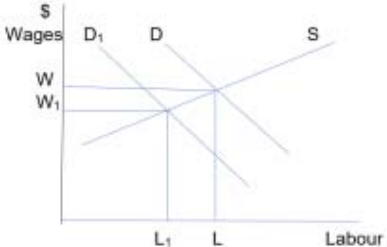
Q33: C

Q34: A

Q35: A

36	<ul style="list-style-type: none"> A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. Responses are well-organised, well-focused and presented in a logical and coherent manner.
2	<ul style="list-style-type: none"> Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. The response addresses the general theme of the question and the relevant economic issues, with limited development. Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. Responses are generally logical and coherent but are sometimes lacking in focus or organisation.
1	<ul style="list-style-type: none"> A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. The response has little relevance to the question. Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. Responses show limited organisation of economic ideas.
0	No creditable response.

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 1 and 5**.

Question	Answer
1(a)	<p>Explain what is meant by internal economies of scale, using an example from the information.</p> <p>Internal economies of scale are a reduction in long run average costs (LRAC) 1 as the firm increases its output 1</p> <p>Technical economies or Purchasing economies 1</p> <p>Candidates may use Better electrode design, etc from the information 1</p>
1(b)	<p>Consider what is meant by minimum efficient scale and to what extent the data in Table 1.1 suggest this has been achieved.</p> <p>Minimum efficient scale (MES) is the first output level on the long run average cost (LRAC) curve when further reductions in average costs no longer take place. 1</p> <p>Technology A suggests that MES has not been reached. 1</p> <p>Technology B suggests that MES may have been reached. 1.</p>
1(c)	<p>Analyse, with the aid of a diagram, the likely impact of the change to EV on the labour market for workers producing ICE in southern Germany.</p> <ul style="list-style-type: none"> Identifies the unemployment as Structural / Occupational 1, This will reduce wages as demand falls. 1 Need for re-training 1  <p>Diagram award marks as follows: Shift of demand from D to D₁ (1) Shows a fall in wages W to W₁ and Fall in labour L to L₁ / increase in unemployment (1) Axes/labels (1)</p>

Question	Answer
1(d)	<p>Evaluate, the likely macroeconomic effects of the switch to EV for both Saudi Arabia and Singapore.</p> <p>S Arabia: exports reduced 1, X-M of AD reduced 1, expect level of output to fall 1, governments may increase G to offset fall in exports 1, supply may be restricted to maintain price of oil and X-M remains indeterminate 1. Max 3</p> <p>Singapore: taxation receipts reduced 1 the pattern of consumption may change 1, but government spending may decrease to offset fall in tax revenue 1. Taxation may increase for other goods or on income. 1 Budget deficit 1 Max 3</p> <p>Evaluation 2 marks e.g. S'Pore: Effect depends on whether electricity to fuel EV is produced by alternatives to oil. 1 Saudi Arabia, S'pore: Effect depends upon alternative source of taxation revenue. 1</p> <p>Needs a different evaluative comment for S Arabia and S'pore 2 x 1mark</p> <p>Accept all valid responses.</p>

Question	Answer
EITHER	
2	<p>Market failure exists in all economies.</p> <p>Evaluate, with the aid of a diagram(s), the meaning of market failure and <u>two</u> policies a government may use to correct market failure.</p> <p>Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.</p> <p>AO1 and AO2 out of 14 marks. AO3 out of 6 marks.</p> <p>Indicative content</p> <p>Responses may include:</p> <p>AO1 Knowledge and understanding and AO2 Analysis</p> <ul style="list-style-type: none"> • Identification and explanation of market failure regarding this question may relate to allocative inefficiency, productive inefficiency or information failure. Market failure can be explained by defining allocative efficiency and linking this to the requirement to allocate resources to maximise consumer satisfaction. This can be supported by a diagram illustrating a level of output where $AR = MC$ or $MSB = MSC$ which is consistent with an outcome that achieves allocative efficiency. • Productive inefficiency occurs when the firm is not producing at its minimum average costs. Forms of competition other than perfect competition may be used to show both the lack of allocative and productive efficiency. • Government intervention takes place to address the failure of market forces to allocate resources efficiently. In this case positive externalities would lead to under-consumption of a good or service. The negative externality leads to an over production of the good. • A wide range of government intervention can be used to correct market failure. These may include: <ul style="list-style-type: none"> subsidies to increase consumption indirect taxation producers use of advertising the direct provision of goods and services price restrictions/quantity direction <p>A clearly labelled, accurate diagram can be used to show the impact of a positive/negative externality on the level of output and the welfare change will be identified.</p> <ul style="list-style-type: none"> • The diagram could show the market equilibrium point which does not take into account the existence of market failure and may compare this with the efficient level of output when the market failure is taken into account. • The diagram may be amended or re-drawn to show the impact of a chosen policy(ies) and the impact on consumption or production shown. • Reference to the diagram and the outcomes it illustrates showed be made in the text.

Question	Answer
2	<p>AO3 Evaluation</p> <ul style="list-style-type: none"> • A government might introduce a subsidy/indirect tax to encourage consumers/producers to change behaviour, however it is difficult to measure the precise value of the subsidy/indirect tax. • Subsidies are costly in that the funds might have been used by governments for other purposes. This means governments will have to make a value judgement when deciding whether to provide a subsidy. • Indirect taxes may be used to offset the effect of the market failure. • Also, the impact on price and output in some circumstances takes a long time to become effective depending on the length of contract or production process. • Advertising is often costly and it is not always certain that it will have a sufficiently persuasive effect to ensure the correct level of output/ consumption is reached. • Direct provision is also costly and sometimes less efficient than that provided through market forces. • It is possible to show that government intervention can reduce the level of inefficiency caused by the existence of positive externalities, but it is not clear whether the net effect of government intervention will always be positive. Some types of intervention will be more effective than others depending on the nature of the good/service under consideration. <p>Accept all valid responses.</p> <p>AO1 Knowledge and understanding and AO2 Analysis</p> <p>AO3 Evaluation</p>

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Evaluate, with the aid of a diagram(s), whether excess profit (super-normal profit) is always necessary for the continued existence of firms in perfect competition and monopoly.

Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.

AO1 and AO2 out of 14 marks. AO3 out of 6 marks.

Indicative content

Responses may include:

- Definitions of perfect competition and monopoly. The assumptions/characteristics of perfect competition and monopoly. Understanding of the difference between the short run (SR) and the long run (LR).
- The implications of the assumptions/characteristics for changes in the SR/LR
- Analysis of the short-run equilibrium for both a perfectly competitive firm and a monopoly.
- Illustration of the ability of firms in both forms of market structure to earn excess profits in the short run and long run. Consideration of the long-run: the change in equilibrium for a perfectly competitive firm and the lack of change in that of a monopoly.
- The diagram could show the market equilibrium for both the short-run and long-run for both perfect competition and monopoly.
- Reference to the diagram(s) and the outcomes illustrated should be made in the text.

AO3 Evaluation

- SNP are not controlled by the firm in perfect competition but a product of increased demand to which the firm reacts by equating MR to MC. The nature of SNP is transitory.
- In monopoly the firm will secure long-term SNP by pursuing profit maximization $MR = MC$. SNP are long term.
- The monopolist may use the SNP to realise dynamic efficiency such as investing in better production techniques.
- The monopolist may not fully exploit the ability to extract SNP but may pursue alternative strategies such as sales revenue maximization.
- Natural monopoly may exist and therefore SNP may not be earned.
- Monopolies may not necessarily earn supernormal profits.

Accept all valid responses.