Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

2.1

- produce where marginal revenue equals marginal cost (MR = MC) (1)

2.2

- aiming for results that are "good enough" to keep owners, workers and customers reasonably satisfied, rather than maximising any one thing (2 for a clear definition; 1 for a partial idea)

2.3

- when the owners (shareholders) of a firm are different people from the managers who control its day-to-day decisions (2 for a clear definition; 1 for a partial idea)

3.1 B

- Revenue is maximised where marginal revenue equals zero

3.2

- *[6]* AO1 1 + AO3 up to 5 — owners (principals) want maximum profit, but managers (agents) control decisions and have their own aims (higher salaries, an easier life, bigger firms)
- because owners cannot fully monitor managers, managers may pursue their own goals instead of profit
- the firm does not maximise profit

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For profit max:** profit funds survival and rewards owners, and competition forces firms towards it. **Against:** the divorce of ownership and control lets managers satisfice or pursue sales/revenue growth, and firms may pursue ethical or market-share aims. Judgement: profit maximisation is a useful baseline, but in large firms with separated ownership, other objectives often dominate — it depends on the firm's ownership and the strength of competition