GCE

Economics

H460/01: Microeconomics

A Level

Mark Scheme for June 2025

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

It is also responsible for developing new specifications to meet national requirements and the needs of students and teachers. OCR is a not-for-profit organisation; any surplus made is invested back into the establishment to help towards the development of qualifications and support, which keep pace with the changing needs of today's society.

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

© OCR 2025

MARKING INSTRUCTIONS

PREPARATION FOR MARKING

RM ASSESSOR

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *RM Assessor Online Training: OCR Essential Guide to Marking*.

2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are available in RM Assessor

3. Log-in to RM Assessor and mark the **required number** of practice responses ("scripts") and the **required number** of standardisation responses.

MARKING

1. Mark strictly to the mark scheme.

2. Marks awarded must relate directly to the marking criteria.

3. The schedule of dates is very important. It is essential that you meet the RM Assessor 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.

4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone, email or via the RM Assessor messaging system.

5. **Crossed-Out Responses**
   Where a candidate has crossed out a response and provided a clear alternative then the crossed-out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed-out response where legible.

   Rubric Error Responses – Optional Questions
   Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. Enter a mark for each question answered into RM Assessor, which will select the highest mark from those awarded. *(The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.)*

Multiple-Choice Question Responses
When a multiple-choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).
When a question requires candidates to select more than one option/multiple options, then local marking arrangements need to ensure consistency of approach.

Contradictory Responses
When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only one mark per response)
Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Short Answer Questions (requiring a more developed response, worth two or more marks)
If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space).

Longer Answer Questions (requiring a developed response)
Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there, then add the annotation 'SEEN' to confirm that the work has been seen and mark any responses using the annotations in section 11.

7. There is a NR (**No Response**) option. Award NR (No Response):

   - if there is nothing written at all in the answer space

   - OR if there is a comment which does not in any way relate to the question (e.g., 'can't do', 'don't know')

   - OR if there is a mark (e.g., a dash, a question mark) which is not an attempt at the question.

   Note: Award 0 marks – for an attempt that earns no credit (including copying out the question).

8. The RM Assessor **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**

9. *Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.*

10. For answers marked by levels of response: Not applicable in F501
    To determine the level – start at the highest level and work down until you reach the level that matches the answer
    To determine the mark within the level, consider the following

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

11. **Annotations**

Annotation	Meaning	Standard Annotations for all papers	
✔	Correct – mark awarded	**BP**	Must be used on all blank pages of QP and additional objects
✘	Incorrect	**SEEN**	Noted but no credit given
BOD	Benefit of doubt	Off Page comments	Should only be used by Team Leaders for training purposes
KU	AO1 – Knowledge and understanding	**Highlight**	To highlight text within candidate responses
APP	AO2 – Applying knowledge and understanding		
AN	AO3 – Analyse		
EVAL	AO4 – Evaluation		
NAQ	Not answering question		
TV	Too vague		
OFR	Own figure rule		
CON	Confused		
?	Unclear		

12. **Subject Specific Marking Instructions**

INTRODUCTION
Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:
- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please carefully read **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

Rubric Infringement
Candidates may infringe the rubric in the following way:
- answering two questions from Section B or C.

If a candidate has written two answers for Section B or C, mark both answers and award the highest mark achieved.

USING THE MARK SCHEME
Study this Mark Scheme carefully.

The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades.

Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers.

The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way.

The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed.

Co–ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co–ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark several scripts, to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited.

You will encounter answers which fall outside the 'target range' of Levels for the paper which you are marking.

Mark these answers according to the marking criteria.

Carefully read all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range.

Always be prepared to use the full range of marks.

INSTRUCTIONS TO EXAMINERS:

A: INDIVIDUAL ANSWERS

1. The indicative content indicates the expected parameters for candidates' answers but be prepared to recognise and credit unexpected approaches where they show relevance.

2. Using 'best fit', decide first which set of LEVEL DESCRIPTORS best describes the overall quality of the answer. Once the Level is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
   - Highest mark: If clear evidence of all the qualities in the Level descriptors is shown, the HIGHEST Mark should be awarded.
   - Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the levels below and show limited evidence of meeting the criteria of the level in question) the LOWEST mark should be awarded.
   - Middle mark: This mark should be used for candidates who are secure in the Level. They are not 'borderline', but they have only achieved some of the qualities in the level descriptors.

3. Be prepared to use the full range of marks. Do not reserve (e.g.) high Level marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the level descriptors, reward appropriately.

B: TOTAL MARKS

1. The maximum mark for the paper is 80

2. The quality of the extended response is assessed on this part of the question paper which is identified with the use of an asterisk (*). The assessment of this skill is embedded within each of the levels of response, and it must be considered when determining the mark to be awarded within the appropriate level.

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Strong	Precise knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using relevant and focused examples fully integrated and good use of data where appropriate.	Correct analysis with consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are accurate with no significant errors that affect the validity of the analysis. Any diagram(s) must be integral to the analysis.	Counter argument(s) are fully developed. A conclusion is drawn weighing up both sides, considering extent and alternatives and reaches a supported judgement.
Good	Mainly accurate knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using some relevant and focused examples to the given context and scope of the question. Some good use of data where appropriate	An explanation of causes and consequences, developing most of the links in the chain of argument. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagram(s) must be integral to the analysis.	Counter argument(s) are fully developed. A conclusion is drawn weighing up both sides/comparing alternatives but without reaching a supported judgement.

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Reasonable	Awareness of the meaning of economic ideas, principles, and models	Ability to apply economic ideas to some elements of the given context, although possibly inconsistent examples not always relevant to the given context and scope of the question. Some use of data where appropriate	There is correct analysis in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may have errors that affect the validity of the analysis or are not integrated into the response.	Counter arguments are considered but not fully developed. Some attempt to conclude, which shows some recognition of the influencing factors, but without considering extent and alternatives.
Limited	Limited awareness of the meaning of economic ideas, principles, and models	Very little ability to apply economic ideas to some elements of the given context. Examples may be generic or irrelevant to the given context	There is little evidence of reasoning that addresses the question asked. Simple statement(s) of cause and consequence are used. There is a lack of a clear structure. Absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.	Counter arguments are simply stated. Unsupported statements or assertions, or no evaluation

Section A

Question			Answer	Marks	Guidance
1	a	(i)	**Using information from the stimulus material, explain the term 'external costs'** 1 mark for knowledge: ● costs imposed on a third party (1) 1 mark for application: ● CO2 emissions ● sea life harmed by consuming plastic bottles (1) ● lorries transporting bottles causing pollution (1).	**2** AO1 x 1 AO2 x 1	Annotate with ✅ Knowledge mark must refer to the cost to the third party **not** social costs. The application must be linked to the extract to be credited.

Question			Answer	Marks	Guidance
1	a	(ii)	**Using information from the stimulus material, explain the term 'information failure'** 1 mark for knowledge: ● a type of market failure where individuals or firms have a lack of information about economic decisions (1). ● where one party in a transaction has a different level of information to another (1) 1 mark for application: ● producers of plastic bottles hold more information as to their environmental consequences (1) ● consumers are unaware of the quality of tap water (1)	**2** AO1 x 1 AO2 x 1	Annotate with ✅ The application must be linked to the extract to be credited.

Question			Answer	Marks	Guidance
1	b		**Using the data in lines 15-19, calculate the percentage change in branded water bottle consumption predicted by 2028** *Award 2 marks for the correct answer:* ● 12% (2) *Award 1 mark for the correct working but incorrect answer:* ● 0.3bn/2.5bn x 100	**2** AO2x 2	Annotate with ✅ Award 1 mark if unit is missing

Question			Answer	Marks	Guidance
1	c		**Explain, using an appropriate diagram, the impact on the level of producer surplus of an increase in demand for bottled water** 	**4** AO1 x 2 AO2 x 2	Annotate with ✅ Up to 2 marks for a diagram: ● correct labelling of axes (price and quantity, price of bottled water and quantity of bottled water), right shift in demand and new and old equilibriums (1) ● old and new producer surplus (or producer surplus gain only) clearly labelled/shown (1) Up to 2 marks for explanation: ● producer surplus will be larger (1) – either stated or shown diagrammatically ● the increase in demand will increase the price, causing an increase in producer surplus (1) Candidates may argue that supply shifts left due to advertising costs. This should be credited as long as demand also shifts right.

1d*   Evaluate, using evidence from the stimulus material, whether there is market failure in the water industry.
(AO1 x 1, AO2 x 1, AO3 x 3, AO4 x 3)

Level / mark	Descriptor
Level 2 **(5-8 marks)**	**Good knowledge and understanding** of relevant economic idea(s), principle(s) or model(s) **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Strong analysis** of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. **Strong evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 1 **(1-4 marks)**	**Reasonable knowledge and understanding** of relevant economic idea(s), principle(s) or model(s) **Reasonable application** of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. **Reasonable analysis** of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. **Limited evaluation** of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a stated judgement or the absence of a judgement.
0 marks	Response is not worthy of credit

Question 1d* Guidance

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding
- Market failure is where the market leads to an inefficient allocation of scarce resources

Application
Application of economic ideas
- economic efficiency
- market failure negative externalities
- monopoly power

Relevant context
- release untreated sewage into the UK's network of rivers and the sea when there are high levels of rainfall
- United Utilities is England's most polluting water company
- water and sewerage companies act as regional monopolies
- over 200,000 people work with in the industry itself
- initiatives such as increased renewable energy generation, planting trees to restore original woodland habitats and encouraging consumers to reduce water consumption.

Analysis might include:
- release of untreated sewage creates external costs on society such as polluted seawater, this means the MSC exceeds the MPC causing the market to fail
- excessive profits could be a sign of supernormal profits as P exceeds MC meaning firms are allocatively inefficient
- water companies, as regional monopolies can restrict supply to force up the price of water
- overconsumption of bottled water leads to an external cost of pollution caused by plastic waste

Question 1d* Guidance continued

Evaluation might include:
- water companies plant trees/producing renewable energy thus the MSB exceeds the MPB- socially optimum outcome
- MSC difficult to measure
- natural Monopoly argument
- dynamic efficiency - high profits fund investment into improved water quality
- regulation in place reduces the market failure

Judgements might include:
- depends on the objective of the water company
- threat of regulation may prevent some market failure occurring
- depends on whether the positive externalities created outweigh the negative externalities

1e*   **Evaluate, using evidence from the stimulus material, whether regulation of the water industry is beneficial to consumers.**
(AO1 x 1, AO2 x 1, AO3 x 5, AO4 x 5)

Level / mark	Descriptor
Level 3 **(9-12 marks)**	**Good knowledge and understanding** of relevant economic idea(s), principle(s) or model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Strong analysis** of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. **Strong evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 2 **(5-8 marks)**	**Good knowledge and understanding** of relevant economic idea(s), principle(s) or model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Reasonable analysis** of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. **Reasonable evaluation** of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 1 **(1-4 marks)**	**Reasonable knowledge and understanding** of relevant economic idea(s), principle(s) or model(s). **Reasonable application** of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. **Limited analysis** of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. **Limited evaluation** of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.
0 marks	Response is not worthy of credit

Question 1e* Guidance

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding
- Regulation involves legal limits and/or quotas placed upon firms

Application

Application of economic ideas
- Government intervention
- Government failure

Relevant context
- OFWAT is responsible for ensuring that the industry delivers good value for consumers and the environment
- Recently OFWAT has been accused of having too close a relationship with the biggest water companies
- The regulator has allowed the water companies to raise prices since privatization
- "water companies are permitted by the regulator to release untreated sewage into UK rivers and the sea"
- "Where appropriate they (OFWAT) will also promote competition"
- "Two-thirds of England's biggest water companies employ key executives who previously worked at the regulator"

Analysis might include:
- Regulators limit price rises which helps maintain a consumer's standard of living
- Regulators can prevent price rises, and as such prevent the erosion of consumer surplus
- By promoting competition, firms would be encouraged to reduce their average costs and therefore can charge lower prices/ to innovate would/could improve customer service or water quality or consumers

Evaluation might include:
- Regulatory capture
- Regulation creates costs to firms. Firms may reduce supply as a result which means the higher costs of regulation could ultimately end up being paid by the consumer

- PED is inelastic so water companies can pass on increased costs
- Regulator lacks perfect information to make decisions which maximise welfare
- Restricting price rises will lead to water companies making cuts in other areas such as customer service levels
- Innovation may be stifled without a profit motive

Possible judgements
- depends on the time taken to investigate behaviour of these companies
- depends on severity of price rise limits
- depends on whether consumers value price or quality higher
- depends on government information.

Section B

EITHER

2*   Evaluate, using an appropriate diagram(s) the extent to which the principal agent problem is the main factor influencing the choice of objective for a firm.

OR

3*   Evaluate, using an appropriate diagram(s), the extent to which a rise in the price of oil will always lead to a rise in the price of goods and services sold in UK Supermarkets.

Level / mark	Descriptor
Level 5 (21-25 marks)	**Strong knowledge and understanding** of economic idea(s), principle(s), and model(s). **Strong application** of economic concepts to the context and scope of the question, which may include relevant examples or good use of data where appropriate. **Strong analysis** of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. **Strong evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 4 (16-20 marks)	**Good knowledge and understanding** of economic idea(s), principle(s), and model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Good analysis** of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. **Good evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 3 (11-15 marks)	**Good knowledge and understanding** of economic idea(s), principle(s), and model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Good analysis** of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. **Reasonable evaluation** of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement

Level / mark	Descriptor
Level 2 (6-10 marks)	**Reasonable knowledge and understanding** of economic idea(s), principle(s), and model(s). **Reasonable application** of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. **Reasonable analysis** of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. **Reasonable evaluation** of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement
Level 1 (1-5 marks)	**Limited knowledge and understanding** of economic idea(s), principle(s), and model(s). **Limited application** of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. **Limited analysis** of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. **Limited evaluation** of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.
0 marks	Response is not worthy of credit

Question 2* Guidance

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding
- business objectives-maximising objectives: profit, sales revenue, sales volume, growth and utility. Non- maximising objectives: profit satisficing, social welfare, corporate social responsibility.
- the principal agent problem

Application

Application of economic ideas
- factors influencing the choice of objectives
- importance of contestability

Relevant context
- relating these concepts to a market such as the soft drink market
- market power of firms

Analysis might include
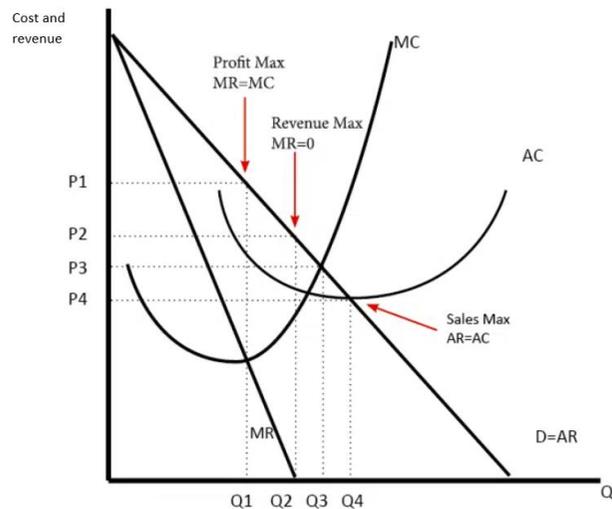
- public limited companies have a divorce of ownership and control, owners (shareholders /principals) delegate day to day decision making to managers (agents)
- agents (managers) may wish to maximise their own utility, focusing upon sales revenue maximisation (MR=0). This is because their appraisals and bonuses are more likely to be based on revenue targets
- managers are likely to pursue sales volume maximization (AC=AR) to increase market share. This is because it is likely to benefit managers through job security and promotion prospects
- managers with low accountability may have poor control over costs leading to x- inefficiency reducing the amount of profit possible.
- Managers may set an objective of satisficing to reduce conflict.

Evaluation might include

- the significance of the principal agent problem depends upon the ownership of business and the degree to which the owners are able to hold the managers accountable for their actions

- Share options given to managers may reduce the principal agent problem and encourage them to profit maximise to gain dividends

- owners are assumed to have the objective of profit maximisation (P1Q1). Smaller firms (monopolistic competition) only make normal profits in the long run so have to profit maximise to sufficiently reward their factors of production

- firms may also aim to improve their image/ brand loyalty (and market share) by setting an objective of CSR

- The level of contestability may be a more important factor:
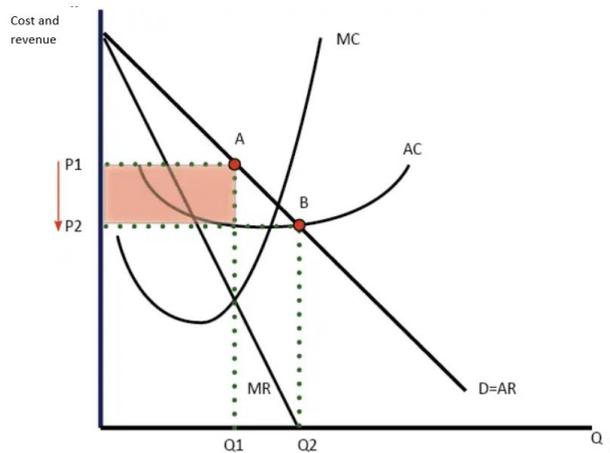
- the market environment maybe a factor particularly for firms in markets with low/weak barriers to entry
- incumbent firms may be forced to abandon a profit maximising objective in order to defend market share or deter new entrants from the market (increase strategic barriers to entry), newer entrants producing on a smaller scale with higher AC and are less likely to gen erate profits at this price and will be deterred from entering the market (price limiting)
- lowering price to revenue maximising point reduces the amount of abnormal profit gained
- a lower profit may also encourage some firms to leave the market increasing market share for the remaining firms

Judgement(s) might include

- the significance of the principal agent problem depends upon the ownership of business and the degree to which the owners are able to hold the managers accountable for their actions
- profit maximisation maybe sacrificed in the short run in order to ensure larger profits in the long run
- depends on the firm in question e.g. PepsiCo versus a non-profit making firm like Oxfam
- depends on degree of contestability
- firms are likely to vary their objectives due to changes in market conditions

Question 3* Guidance

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding might include:
- Demand and Supply
- PED
- Related markets
- Characteristics of oligopolistic market

Application
Application of economic ideas
- Relevance of PED
- Costs and revenue
- Kinked demand curve
- Importance of non- price competition
- Importance of contestability
Relevant context
- oil is used in the production process
- oil is used to power transportation
- service industry will still be affected as oil plays a role in electricity production
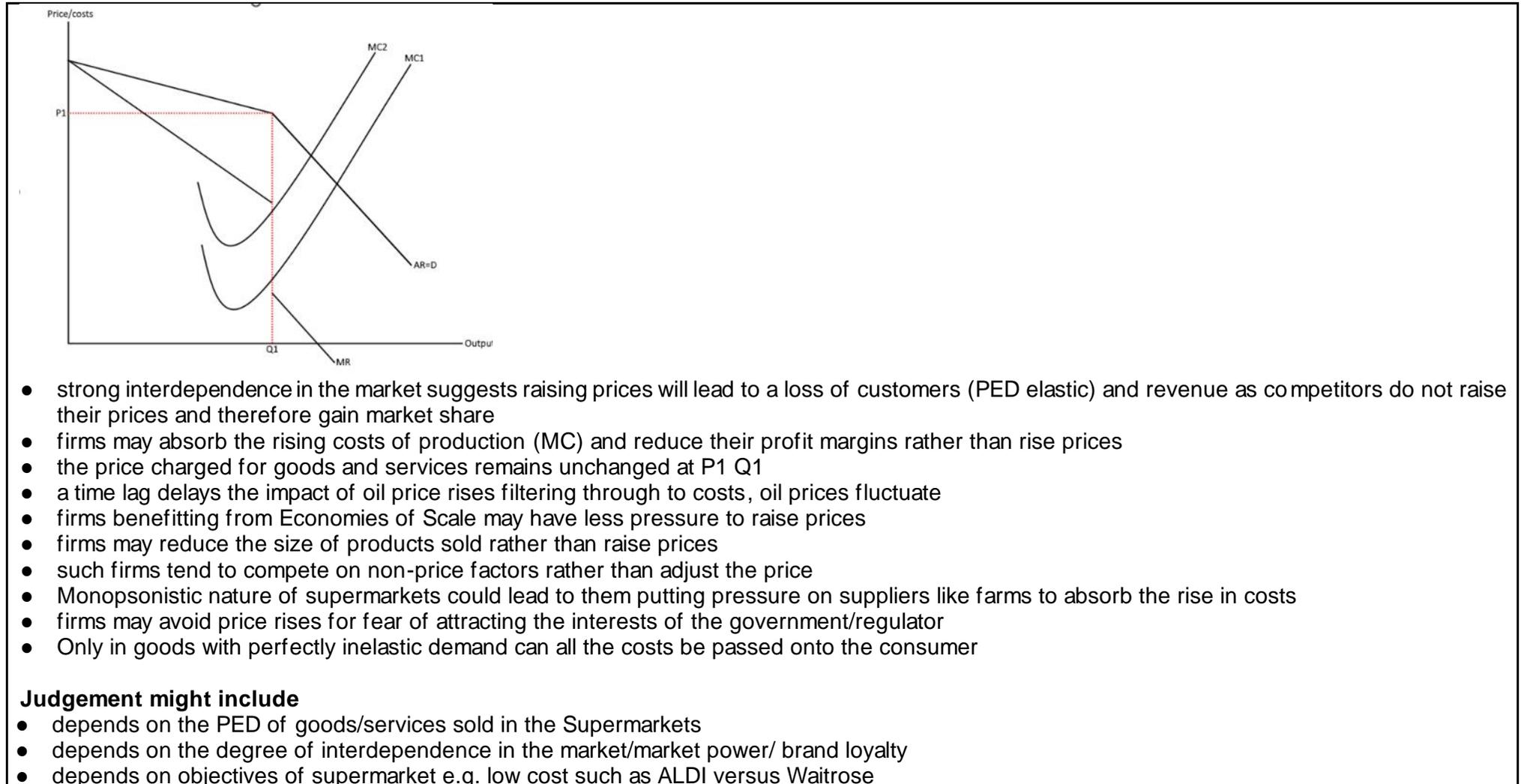- UK supermarket industry resembles an Oligopoly
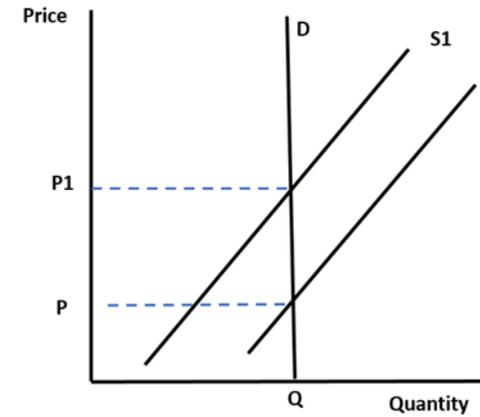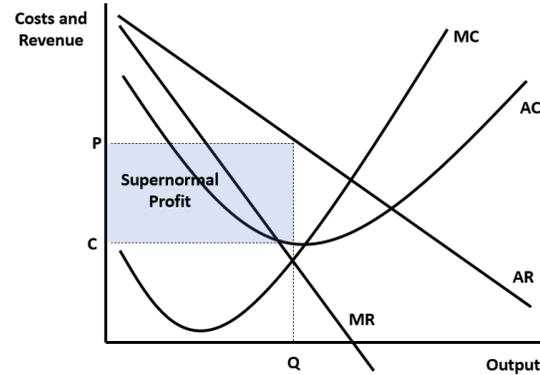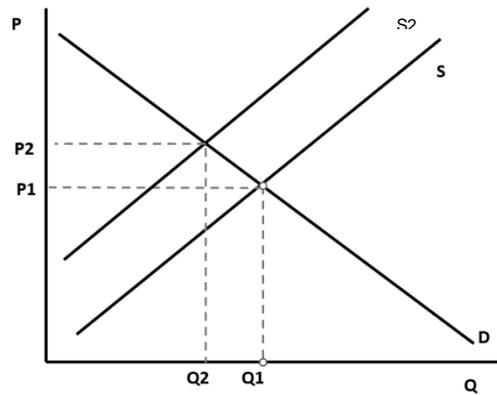
Analysis might include
● oil is a factor of production therefore producers will see a rise in their costs of production, rising costs of production lead to the industry supply curve shifting left which leads to a rise in the price of the final product
● firms may see a rise in their AC/MC of production which they could pass onto consumers in the form of higher prices.
● due to the PED of certain essential foodstuffs being price inelastic, supermarkets are able to raise the price and will see an increase in revenue
● Monopolies will have a price setting power so can pass on the increased cost to customers

Evaluation might include
Oligopolistic market - kinked demand curve analysis – sticky prices

- strong interdependence in the market suggests raising prices will lead to a loss of customers (PED elastic) and revenue as competitors do not raise their prices and therefore gain market share
- firms may absorb the rising costs of production (MC) and reduce their profit margins rather than rise prices
- the price charged for goods and services remains unchanged at P1 Q1
- a time lag delays the impact of oil price rises filtering through to costs, oil prices fluctuate
- firms benefitting from Economies of Scale may have less pressure to raise prices
- firms may reduce the size of products sold rather than raise prices
- such firms tend to compete on non-price factors rather than adjust the price
- Monopsonistic nature of supermarkets could lead to them putting pressure on suppliers like farms to absorb the rise in costs
- firms may avoid price rises for fear of attracting the interests of the government/regulator
- Only in goods with perfectly inelastic demand can all the costs be passed onto the consumer

Judgement might include
- depends on the PED of goods/services sold in the Supermarkets
- depends on the degree of interdependence in the market/market power/ brand loyalty
- depends on objectives of supermarket e.g. low cost such as ALDI versus Waitrose

Section C

EITHER

4*   Evaluate the extent to which the free market is the most effective way to ensure an efficient allocation of resources

OR

5*   Evaluate the extent to which information provision is effective at incentivising consumers to change their behaviour.

Level / mark	Descriptor
Level 5 **(21-25 marks)**	**Strong knowledge and understanding** of economic idea(s), principle(s), and model(s). **Strong application** of economic concepts to the context and scope of the question, which may include relevant examples or good use of data where appropriate. **Strong analysis** of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. **Strong evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 4 **(16-20 marks)**	**Good knowledge and understanding** of economic idea(s), principle(s), and model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Good analysis** of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. **Good evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 3 **(11-15 marks)**	**Good knowledge and understanding** of economic idea(s), principle(s), and model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Good analysis** of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. **Reasonable evaluation** of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement

Level / mark	Descriptor
Level 2 **(6-10 marks)**	**Reasonable knowledge and understanding** of economic idea(s), principle(s), and model(s). **Reasonable application** of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. **Reasonable analysis** of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. **Reasonable evaluation** of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement
Level 1 **(1-5 marks)**	**Limited knowledge and understanding** of economic idea(s), principle(s), and model(s). **Limited application** of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. **Limited analysis** of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. **Limited evaluation** of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.
0 marks	Response is not worthy of credit

Question 4* Guidance

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding
- nature of free markets
- nature of government intervention
- economic efficiency
- market failure
- government failure

Application
Application of economic ideas
- market economic system
- economic efficiency- allocative, productive
Relevant context(s)
- gas
- electricity
- basic foodstuffs

Analysis might include
- A market economy relies on the price mechanism to allocate resources. This is an automatic system that can allow consumers to be sovereign, determining what is produced.
- The signaling function of prices rising and falling avoid shortages and surpluses as suppliers expand production to meet higher demand and reduce production or leave the market when prices fall. This clearing price allows efficient allocation of resources
- The rationing function of the price allows for scarce resources to be allocated efficiently as when the price is bid up only those consumers who are willing and able to buy the product can use those resources.

- It provides an incentive, in the form of profit, to encourage producers to move their resources to making those products experiencing an increase in demand and away from those experiencing a decrease in demand. The incentivising function allows for consumer choices to determine what is produced thus reducing information failure
- The profit incentive can also encourage firms to be efficient. If there are a number of firms competing in the market, the one that produces at the lowest average cost, which is most responsive to changes in consumer demand and is the most innovative will earn the highest profit.
- Competition provides consumers with choice. This gives them the power to switch from less efficient to more efficient producers.
- Workers have an incentive, in the form of higher wages, to be productive. Those workers who have the skills in the greatest demand, will earn the highest wages
- The profit motive encourages innovation and entrepreneurship
- Intervention into market forces can result in government failure

Evaluation might include
- The free rider problem. Producers in a pure market economy will have no incentive to allocate resources to producing public goods. This is because of the non-excludability of these goods. This leads to missing markets.
- Information failure and irrationality leads to over or underconsumption of goods
- Some producers may develop market power in both product and labour markets. A lack of competition may raise prices reduce quality and make the firm or firms less responsive to changes in consumer demand.
- A monopsony employer may keep wages low and provide poor working conditions
- Externalities of production or consumption may not be taken into account leading to inefficient allocation of resources. Consumers and producers base their consumption and production decisions on private costs and private benefits. The failure to base decisions on social costs and social benefits will result in resource allocation being socially inefficient
- Immobility of factors of production may lead to an inefficient allocation of resources
- The free market can lead to inequality and some consumers not being able to meet their basic needs

Judgement(s) might include
- behavioural economics suggests that individuals can have motivations other than just private benefit so the market mechanism cannot efficiently allocate resources
- some level of intervention is essential for public goods. A mixed economy can provide this.
- depends on the level of information available to consumers

Question 5* Guidance

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding
- information provision tries to correct information failure
- private benefits are the benefits accrued by the individual taking the action
- Merit goods have more private benefit than the consumer realises
- Demerit goods have higher private costs than the consumer realizes
- External costs and benefits

Application
Application of economic ideas
  - Utility
  - Rationality
Relevant context(s)
- the application of information campaigns
- the COVID pandemic

Analysis might include
- information provision may encourage consumers to act more rationally to consume more goods and services which maximise their utility. This will lead to higher consumption of merit goods. Information provision may also discourage consumers from purchasing good and services with higher private costs than private benefits. This will also lead to lower consumption of demerit goods.
- information provision may correct asymmetric information
- information provision can simplify the decision-making process which aids consumers maximising their utility, reducing the difficulty in computation.
- vaccine advice may encourage consumers to purchase more vaccines which exhibit positive externalities, moving the private benefit closer to the social benefit and thus reducing the under consumption
- information may discourage consumers from consuming goods which exhibit negative externalities thus reducing the over consumption as the private benefit will move closer to the social benefit

Evaluation might include
- difficulty in measuring costs and benefits so hard for the government to know the level of information to provide (government information failure)
- Consumers may still act irrationally even with more information. This could be due to addictive products or herding.
- Consumers may ignore the effect on the third party and therefore this information does not change their behavior.
- information levels change rapidly especially with new viruses which makes it difficult to give correct information
- consumers on lower incomes are more likely to make decisions based on price
- Information bias – government may suffer from regulatory capture and base decisions on misleading information from private firms
- Other factors more important like social trends
- Other interventions more effective such as tax, subsidies or regulation

Judgement(s) might include
- depends on the nature of the market and the importance of price
- only effective if backed up by regulations (some countries had mandatory COVID vaccinations)
- depends on the quality and reach of the information provided
- depends on previous actions of the government; do consumers trust them

ASSESSMENT OBJECTIVES GRID

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)(i)	1	1			2	
1a(ii)	1	1			2	
1(b)		2 (2)			2	(2)
1(c)	2 (2)	2 (2)			4	(4)
1(d)	1	1	3	3	8	
1(e)	1	1	5	5	12	
2/3	6 (2)	6 (2)	6 (2)	7 (2)	25	(8)
4/5	6	6	6	7	25	
TOTAL	18 (4)	20 (6)	20 (2)	22 (2)	80	(14)

Need to get in touch?

If you ever have any questions about OCR qualifications or services (including administration, logistics and teaching) please feel free to get in touch with our customer support centre.

Call us on

01223 553998

Alternatively, you can email us on

support@ocr.org.uk

For more information visit

ocr.org.uk/qualifications/resource-finder

ocr.org.uk

Twitter/ocrexams

/ocrexams

/company/ocr

/ocrexams