Cambridge Assessment International Education

Specimen Paper Answers – Paper 2

Cambridge IGCSE™ / IGCSE (9–1)

Economics 0455 / 0987

Cambridge O Level

Economics 2281

For examination from 2020

Cambridge Pathway

Contents

Introduction

These specimen answers have been produced by Cambridge ahead of the examination in 2020 to exemplify standards for those teaching Cambridge IGCSE / IGCSE (9–1) / O Level Economics 0455 / 0987 / 2281. Questions have been selected from Specimen Paper 2, Questions 1, 2,3, 4 and 5.

The marks given are for guidance only and are accompanied by a brief commentary explaining the strengths and weaknesses of the answers. Comments are given to indicate where and why marks were awarded, and how additional marks could be obtained. There is also a list of common mistakes and guidance for candidates for each question.

The specimen materials are available to download from the School Support Hub.

2020 Specimen Paper 02

2020 Specimen Paper Mark Scheme 02

Past exam resources and other teaching and learning resources are available on the School Support Hub.

Details of the assessment

All candidates take two components, Paper 1 and Paper 2.

All candidates take:	**and:**
Paper 1 45 minutes Multiple Choice 30% 30 marks Candidates answer all 30 questions Externally assessed	**Paper 2** 2 hours 15 minutes Structured Questions 70% 90 marks Candidates answer one compulsory question and three questions from a choice of four Externally assessed

Assessment objectives

The assessment objectives (AOs) are:

AO1 Knowledge and understanding

Candidates should be able to:

- show knowledge and understanding of economic definitions, formulas, concepts and theories
- use economic terminology.

AO2 Analysis

Candidates should be able to:

- select, organise and interpret data
- use economic information and data to recognise patterns and to deduce relationships
- apply economic analysis to written, numerical, diagrammatic and graphical data
- analyse economic issues and situations, identifying and developing links.

AO3 Evaluation

Candidates should be able to:

- evaluate economic information and data
- distinguish between economic analysis and unreasoned statements
- recognise the uncertainties of the outcomes of economic decisions and events
- communicate economic thinking in a logical manner.

Question 1

Read the source material carefully before answering Question 1.

Source material: Kenya's flower industry

Kenya fact file	**2015**
population	47 million
labour force	18 million
unemployment rate	10%
GDP per head	$3200

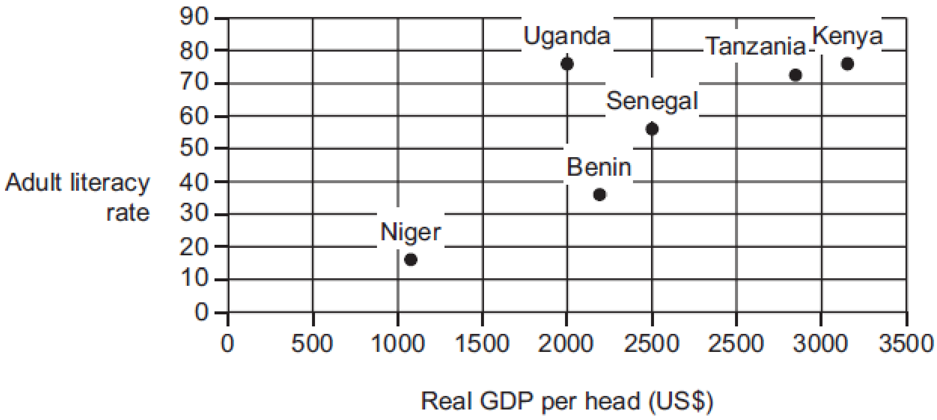
Kenya has a growing global reputation for high quality flowers and is the world's third largest producer of flowers. Production of flowers contributes to employment and to Kenya's gross domestic product (GDP) which increased in 2015. Most of the flowers are grown in an area that has the right conditions for growing flowers. It has a ready supply of water, fertile soil, warm days and cool nights, and is close to the capital's airport in Nairobi. Kenya's exports of flowers increased significantly between 1990 and 2015, and flowers are now the country's second biggest export earner after tea. Many of Kenya's flowers are sold to the UK, US and Russia for special occasions including Mother's Day, Thanksgiving and Women's Day. On these days, demand not only increases but also becomes more price-inelastic.

Kenya's flower industry faces a number of challenges. A change in temperature can slow down production so that producers can fail to deliver their flowers on time, for example to Russia in time for Women's Day. This can result in demand exceeding supply and shortages occurring. At other times there is a surplus of supply with some flowers remaining unsold. Kenyan producers are also affected by changes in the foreign exchange rate and the country's interest rate.

In 2015, the value of the Kenyan shilling (KES) depreciated from KES88 to KES98 = US$1. The country's interest rate rose to 16.5% in the same year. The country faces fierce competition in the flower industry from several countries.

As well as challenges, the industry also has a number of strengths. Many people would like to work in the industry as the wages are higher than in most other Kenyan agricultural jobs. Productivity has increased each year since 2000, in part, because of improved educational standards. Fig. 1 shows the relationship between real GDP per head and the adult literacy rate in a number of African countries.

Fig. 1 The relationship between real GDP per head and the adult literacy rate in selected African countries



Specimen answers

Answer all parts of Question 1. Refer to the source material in your answers.

1 **(a)** Calculate the number of people unemployed in Kenya in 2015. [1]

1.8 million

(b) Identify **two** reasons why the total amount saved in Kenya is likely to have increased in 2015. [2]

GDP increased. Interest rate increased.

(c) Explain the effect that a rise in the price of flowers on Women's Day in Russia would be likely to have on flower producers' revenue. [2]

Producer's revenue will increase as the demand for flowers becomes more price-inelastic on Women's Day. Higher prices will only contract the demand for flowers slightly so that consumers pay more for their flowers raising the revenue of flower producers.

(d) Analyse the evidence that shows the market for flowers is sometimes in disequilibrium. [4]

The market would not clear when demand for flowers increases to exceed supply, e.g., on Women's Day in Russia, causing a shortage of flowers that puts upwards pressure on prices. When weather conditions are ideal, extra flowers are picked causing supply to exceed demand creating a surplus that puts downward pressure on prices.

(e) Explain **two** reasons why the price of Kenyan flowers may have fallen in the US in 2015. [4]

Exchange rate depreciation of Kenya's currency against the US dollar (from KES88 to KES98) would lower the price of Kenya's exports to the US. An increase in productivity in Kenya's flower industry would lower costs of production and increase the supply of flowers. An increase in supply would lower the price of flowers exported to the US if the demand for flowers is unchanged.

(f) Analyse the relationship between real GDP per head and the adult literacy rate. [5]

There is a positive relationship between real GDP per head and the adult literacy rate shown by countries such as Kenya (real GDP per head of US$3200 and adult literacy rate of 78) and Niger (real GDP per head of US$1,100 and an adult literacy rate of 19). Uganda is an exception, with a real GDP per capita of US$2000 and an adult literacy rate of 78. The positive relationship is expected because a higher adult literacy rate suggests a more skilled workforce with higher productivity and capable of producing more output to create a higher real GDP per head.

(g) Discuss whether or not an increase in wages will always attract more people to work in Kenya's flower industry. [6]

Higher wages for people working in Kenya's flower industry will offer the chance to enjoy a higher living standard because workers can buy more products to satisfy more of their wants, but wages must rise by more than prices for this to be true. The chance of a higher living standard will attract workers to the flower industry.
Higher wages may not attract more workers to the flower industry if the wages in other industries increase by more. Equally, the higher pay may be offset by negative changes, such as longer working hours.

(h) Discuss whether or not Kenya should continue to specialise in producing flowers. [6]

Kenya should continue to specialise in flower production because it has many resources that are ideal for growing flowers, such as a ready supply of water, fertile soil, a good supply of labour and climate. As a result of these resources, Kenya can grow flowers more cheaply than other countries. This has enabled it to beat many global competitors and become the third largest flower producer in the world. This specialisation should help to increase living standards in Kenya by providing Kenyan workers with employment and higher wages.
A risk of continued specialisation in a product like fresh flowers is that Kenya relies heavily on a product that depends on the weather.

Examiner comment

Question 1(a)

The candidate provides the correct answer. This is all that is required for a simple calculation question for 1 mark because there are no marks available to award for showing a formula or working, as there are when a calculation question is worth 2 or 3 marks. In those instances, it is very important for candidates to show their working so that they may gain a mark for selecting the correct values from the data, for example, or performing part of the calculation correctly, even if the final answer is incorrect.

Mark awarded = 1 out of 1

Question 1(b)

The candidate identifies two relevant reasons from the data and is awarded 1 mark for each reason. No explanation is required because the command word is 'Identify'.

Mark awarded = 2 out of 2

Question 1(c)

The candidate selects the correct information from the data that the demand for flowers is more price-inelastic (1 mark) and explains that when price increases revenue increases (1 mark). The second sentence of the answer is accurate and interesting but is not needed it develops the explanation to demonstrate a high level of understanding on the candidate's part.

Mark awarded = 2 out of 2

Question 1(d)

The candidate selects one cause of market disequilibrium from the data, Woman's Day in Russia (1 mark), and suggests another possible cause of market disequilibrium based on the data, that of weather conditions (1 mark). For each cause, the nature of the disequilibrium is identified (1 mark for each) and the consequences for price noted (1 mark for each). On comparison with the mark scheme, this is a very full response that could earn 6 marks were they available. It has been awarded the full 4 marks on offer.

Mark awarded = 4 out of 4

Question 1(e)

The candidate selects two possible reasons for a price fall from the data (1 mark for each) and explains how each reason leads to a lower price (1 mark for each). The first explanation makes use of a numerical example based on the data on exchange rates and the second explanation accurately applies basic demand and supply analysis. High levels of understanding are demonstrated in these explanations and the maximum marks available have been awarded.

Mark awarded = 4 out of 4

Question 1(f)

The candidate uses the data to identify the basic relationship between real GDP per head and the adult literacy rate (1 mark) and selects appropriate evidence from the data to support the relationship (1 mark). The exception to the basic relationship is identified with supporting evidence (1 mark). A possible reason for the observed relationship is offered and explained in detail demonstrating clear analysis (2 marks).

Mark awarded = 5 out of 5

Question 1(g)

The candidate covers both sides of the discussion, but does not always explore the issues raised in great depth. The reason why higher wages might attract more workers is well explained (2 marks), although the importance of wages to workers is not acknowledged so an available mark is not awarded here. Two reasons why higher wages might not attract more workers are identified (1 mark for each), but they are not explained.

The answer could be improved by more detailed explanations of the reasons why higher wages may not attract more workers using more sophisticated ideas like relative wages.

Mark awarded = 4 out of 6

Question 1(h)

The candidate does a good job on the case in favour of continued specialisation, developing an argument that draws on relevant economic concepts of resource allocation and costs (3 marks). The case against continued specialisation identifies a relevant factor, but does not explain it in any detail (1 mark).

The answer could be improved either by exploring a second argument in favour of continued specialisation, such as exploiting the growth potential offered by a luxury good in a world with rising incomes, or by explaining the argument against continued specialisation more fully. To improve the answer, the links between instability and key economic variables like national income and unemployment could be developed.

Mark awarded = 4 out of 6

Total mark awarded = 26 out of 30

Question 2

Specimen answers

2. Since 1990, the population of Lithuania has fallen by one fifth because of net emigration. People usually leave in search of better living standards. In 2015, there were signs of improved macroeconomic performance as real GDP per head rose and unemployment fell. People expected that the decline in unemployment would affect the country's inflation rate and might also turn the government's budget deficit into a budget surplus.

(a) Define *budget deficit*. [2]

Government spending is greater than tax revenue.

(b) Explain **two** reasons why a country may experience a decline in living standards at the same time as an increase in real GDP per head. [4]

Living standards contain several elements, only one of which is real GDP per head. If these other elements are affected negatively when real GDP per head is rising it is possible for living standards to decline. Firstly, extra production that would increase real GDP per head might be accompanied by higher pollution levels that reduce the quality of life by causing health problems such as breathing difficulties. A second possible cause would be if the extra production is only achieved by people working longer hours.

(c) Analyse how a fall in unemployment may increase a country's inflation rate. [6]

A fall in unemployment is likely to create a shortage of workers in the labour market leading to an increase in wage rates across the economy. Higher wages will increase the costs of production for firms causing them to increase prices in order to make a profit. These price increases would be a case of cost-push inflation. Lower unemployment will also mean that more workers are in jobs earning wages that are higher than their unemployment benefits. This means that incomes are likely to be higher in the economy, especially if wages are rising as well. With higher incomes, people will spend more on consumption causing total demand to increase. Prices are likely to increase as markets ration out products. These price increases would be demand-pull inflation.

(d) Discuss whether or not a country will gain from the emigration of some of its people. [8]

The emigration of some people from a country can benefit that country. The emigrant workers may secure better-paid jobs overseas and they might send back some of their wages to relatives. This could increase incomes in the country raising spending and total demand to create economic growth and higher living standards. If the emigrants were previously unemployed, there is the added advantage that they are no longer a burden on the country in terms of benefits. At a later date the emigrants might return home having gained skills and money overseas. They can use these resources either to improve existing firms by increasing labour productivity or to start new businesses to boost the economy's growth.

If the emigrant workers are from the more skilled members of the workforce, there can be a problem as productivity may fall and economic growth slow down. There could also be a greater burden on the remaining workforce as there are fewer people to support the dependent population.

Examiner comment

Question 2(a)

The candidate provides a clear and succinct definition of the term recognising that the budget involves government spending and taxation (1 mark) and that a deficit requires the former to exceed the latter (1 mark). A numerical example could be used as an alternative approach in which government spending = US$20 billion and taxation = US$18billion to give a budget deficit of (– US$2billion).

Mark awarded = 2 out of 2

Question 2(b)

The candidate identifies two relevant reasons why living standards might decline despite an increase in real GDP per head (1 mark for each), which shows an understanding that living standards are influenced by various quality of life factors as well as quantitative measures, such as real GDP per head. For the first reason, an explanation is offered demonstrating a good understanding of how it can affect living standards negatively (1 mark), but this is not done for the second reason. In addition, the first two sentences, whilst accurate, do not earn any marks as they do not answer the question.

Mark awarded = 3 out of 4

Question 2(c)

The candidate provides a good analytical answer that explains two reasons why a fall in unemployment can cause higher inflation (1 mark for each). A clear logical line of reasoning is developed for each reason with relevant economic theory and terminology accurately applied (3 marks for each). The maximum 6 marks are awarded.

Mark awarded = 6 out of 6

Question 2(d)

The candidate reaches the top of Level 2 (5 marks). Both sides of the economic argument are accurately examined, although there is better coverage of the possible benefits of emigration in terms of applying relevant economic ideas and concepts. The discussion is logically developed with a clear structure.

The answer could be improved by exploring the case against emigration more thoroughly. However, the area requiring most development is the evaluative content of the answer. One possible approach would be to consider short term and long term effects of emigration. Another would be to put more emphasis on issues like the number of emigrants and their age composition.

Mark awarded = 5 out of 8

Total mark awarded = 16 out of 20

Question 3

Specimen answers

3. India and Ecuador are two major producers of bananas. India is the world's largest producer of bananas while Ecuador is the world's largest exporter. Multinational companies (MNCs) produce some of the bananas in both countries. The World Health Organization (WHO) recommends that each person should eat 400 grams of fruit and vegetables a day. To encourage people to eat more fruit and vegetables governments may use policy measures such as maximum prices and subsidies.

(a) Define *maximum price*. [2]

An upper limit for a product's price, fixed by the government, that producers cannot charge above. To be effective it must be set below the product's equilibrium price.

(b) Explain **two** reasons why the supply of bananas may decrease. [4]

A decrease in the supply of bananas would cause the supply curve to shift to the left. One reason would be if the costs of growing bananas increased so that it is less profitable to supply bananas. Higher costs of production could be the result of wage increases for banana pickers or higher prices for fertilisers to feed the banana plants. A second reason would be a bad weather event, such as a storm, that destroys some banana plants so that fewer bananas can be picked and supplied to the market.

(c) Analyse the factors which lead an MNC to produce in particular countries. [6]

An MNC is likely to be driven by its desire to make maximum profit so it will be attracted by factors that increase its revenue or decrease its costs. Revenue will be increased if the host country has a large potential market for the MNC's product. This will be the case if there is a large population with income to spend and few, if any, substitutes for the MNC's product. Factors that could lower the MNC's costs of production include the availability of cheap raw materials or labour, lower rates of tax on production and the possibility of government subsidies from the host country. The avoidance of expensive regulations on production, such as health and safety rules, and import duties will also be attractive to an MNC.

(d) Discuss whether or not a government subsidy given to fruit producers will benefit consumers. [8]

A subsidy of fruit producers can benefit consumers because it should lower the price of fruit. The subsidy will reduce the costs of production causing supply to increase and price to fall. Consumers can have more money to spend satisfying other wants so they can enjoy a higher standard of living. Another advantage for consumers is that fruit is a merit good, so consumers do not eat enough fruit. Cheaper fruit should increase consumption to address this market failure.

A possible drawback of subsidising fruit is funding the government subsidy. The government may reduce spending on other areas of the budget, such as transport subsidies, and consumers may get more benefit from cheaper transport than from cheaper fruit. The government might increase taxes to pay for the subsidy.

A subsidy to fruit producers can benefit consumers, but there may be costs to them that might cancel out the benefit.

Examiner comment

Question 3(a)

The candidate provides an accurate definition of the term recognising that it is an upper price limit (1 mark) set by the government (1 mark). The subsequent sentence develops the definition further to show greater levels of knowledge and understanding and ensures that the meaning of the term is very clear but it is unnecessary.

Mark awarded = 2 out of 2

Question 3(b)

The candidate identifies two relevant reasons for a decrease in supply (1 mark for each) and for each reason explains why the supply curve would shift left in the context of the banana market (1 mark for each). The explanations are developed using relevant economic ideas, such as the role of costs and the producers desire to make profit. The clear application of the theory to the banana market is a strength of the answer.

Mark awarded = 4 out of 4

Question 3(c)

The candidate provides a thoughtful analytical answer based on a sound theoretical structure using the key production concepts of revenue, cost and profit. There are six factors identified (1 mark for each to a maximum of 3) and the implications for revenue and costs are analysed for four of the factors (1 mark for each to a maximum of 3). The last two factors are not explained at all so add little to the response. Maximum 6 marks awarded.

Candidates would do well to reduce the number of factors considered because the command word ‘Analyse’ (for a 6 mark question) requires more detailed exploration of just two (possibly three) ideas.

Mark awarded = 6 out of 6

Question 3(d)

The candidate reaches the middle of Level 2 (4 marks). Both sides of the issue are examined, although there is limited application of relevant economic concepts so the points made are not fully developed. The answer has a clear structure, but there is little evaluation. The answer could be improved by analysing the impact of the subsidy on consumers using the concepts of price elasticity of demand and opportunity cost. A clearer understanding of merit goods could also be demonstrated. Evaluation could show that the potential benefit of a subsidy to consumers is dependent on factors like the price elasticity of demand. Consideration could also be given to the significance of the size of the subsidy. In addition, although both sides of an argument should be developed, an evaluative discussion does *not* require a conclusion to be drawn.

Mark awarded = 4 out of 8

Total mark awarded = 16 out of 20

Question 4

Specimen answers

4. Tanzania is a low-income country with relatively high import tariffs. Between 2012 and 2015, Tanzania experienced a high economic growth rate. This allowed the government to provide more public goods. The government also increased its investment in the merit goods of education and healthcare. Tanzania's central bank influenced household borrowing and spending with the aim of achieving price stability. As a result, the country's inflation rate fell, with money losing less of its value.

(a) Identify **two** characteristics of money. [2]

Acceptability, portability.

(b) Explain why governments provide public goods. [4]

Governments provide public goods because the market fails to provide them. Public goods are non-excludable, which causes a free rider problem where people can enjoy the benefits of consuming the good without paying for it. As a result, no consumers will pay so private firms cannot make a profit from supplying the good in a market. This occurs with a product like national defence, so it is provided by the government and funded through taxation.

(c) Analyse how a central bank might reduce household borrowing. [6]

A central bank can raise the interest rate. If the central bank raises its base rate, commercial banks usually raise their interest rates for both savers and borrowers. Higher interest rates make it more expensive to repay existing loans so households cannot afford to take on additional loans. Households without existing loans may be less likely to borrow because the higher repayments will mean they have less income remaining to spend on other goods to satisfy their wants.

(d) Discuss whether or not a government should impose tariffs on its country's imports. [8]

A government may want to protect infant industries from the threat of overseas competition in order to give them a chance to grow large enough to gain economies of scale to lower their costs so that they can compete with their rivals. This would create long term growth and employment in the country. Another reason for using tariffs would be to allow a large, established industry facing competition from cheaper rivals overseas to decline slowly in order to avoid serious structural unemployment. By managing a controlled decline, resources are more likely to be re-allocated to new uses. A third reason for using tariffs would be to protect domestic *firms from unfair competition in the form of dumping. This would involve imports being sold in the country at below cost price so that domestic firms cannot compete and are forced to close. Once the importers monopolise the market the price rises to exploit the domestic consumers.*

However, import tariffs can be damaging because they prevent the free trade that creates specialisation and the most efficient allocation of global resources. It is also argued that import tariffs can encourage infant industries to rely on protection so they fail to achieve competitive strength. Tariffs will probably encourage retaliation so that any gain made by reducing imports is cancelled out by a reduction in exports. In addition, by increasing import prices there could be a danger of higher production costs and inflationary pressures so that consumers are potentially worse off.

Examiner comment

Question 4(a)

The candidate gives two characteristics of money (1 mark for each), thus satisfying the command word 'Identify'. There is no need for further development. This is a straightforward task that is adequately answered in a quick and succinct manner, saving time for writing longer answers elsewhere on the paper.

Mark awarded = 2 out of 2

Question 4(b)

The candidate identifies the key issue of market failure that accompanies public goods (1 mark). An explanation of the reason for market failure follows, emphasising the main point of non-excludability (1 mark) that creates a free rider problem (1 mark) so that it is impossible for private firms to make any profit from supplying such goods (1 mark). An example is included (1 mark). Maximum of 4 marks awarded. The strength of the answer is the clear, logical development of the explanation.

Mark awarded = 4 out of 4

Question 4(c)

The candidate provides a good analysis of one way in which the central bank can reduce household borrowing. Clear logical stages are developed in the answer from the initial rise in interest rates to the final reduction in household borrowing (1 mark for each of 4 stages in the logical progression).

The answer could be improved by having a second line of analysis that explains a second way in which the central bank can reduce household borrowing, e.g. regulations on lending.

Mark awarded = 4 out of 6

Question 4(d)

The candidate reaches the top of Level 3 (8 marks) because this is a well-reasoned and accurate discussion examining both sides of the issue clearly and logically. Good use is made of relevant economic theory to make reasoned judgements making it a very sophisticated answer.

Mark awarded = 8 out of 8

Total mark awarded = 18 out of 20

Question 5

Specimen answers

5. There is a range of factors that influence the supply of economic goods, including natural disasters. Recently a series of earthquakes in one country destroyed buildings, including factories and offices. One factory that survived has since increased its scale of production. This firm has employed more factors of production and has experienced a fall in its average cost of production.

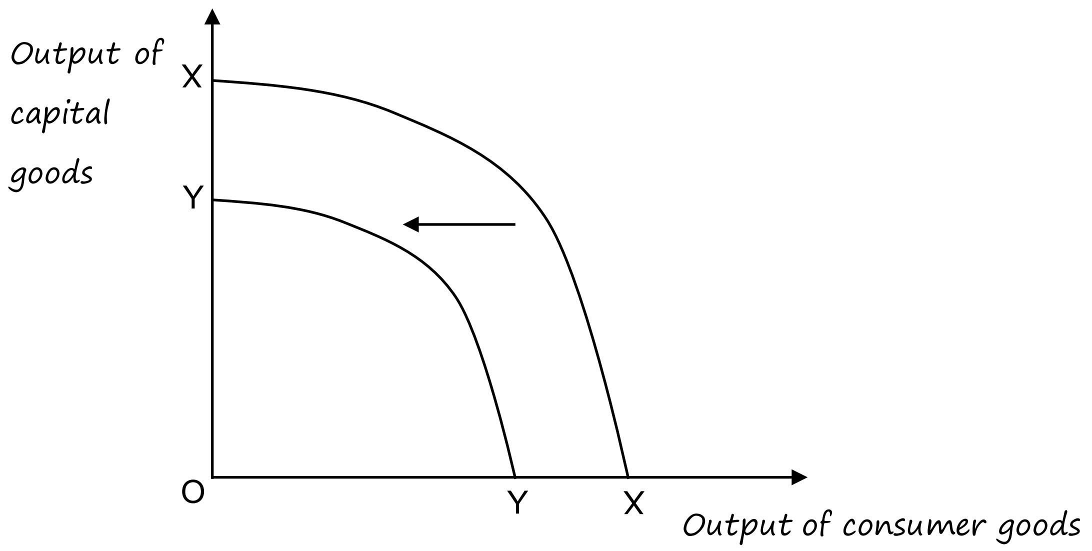
(a) Define *economic good*. [2]

It is scarce and has a price because it has an opportunity cost.

(b) Explain **two** influences on what factors of production a firm uses. [4]

One influence is the nature of the product that the firm makes. The production of services, such as hairdressing, is usually more labour-intensive, while manufacturing of goods, like cars, is usually more capital-intensive. A second influence is the prices of the factors of production. If labour is cheap because wages are low, a firm will adopt a labour-intensive approach to reduce its costs.

(c) Analyse, using a production possibility curve diagram (PPC), the effect of the destruction of some of its resources on an economy. [6]



The destruction of some resources will reduce the economy's ability to produce goods and services so the economy's PPC will shift inwards to the left.

(d) Discuss whether or not the average cost of production always falls when a firm increases its scale of production. [8]

When firms expand output, they often enjoy economies of scale where the total cost of production increases by less than the output, leading to a fall in the average cost. These economies of scale represent an increase in the firm's efficiency and can take many forms. A common source of efficiency is bulk buying where the firm can obtain cheaper raw materials because it is buying and transporting the materials in larger quantities. Suppliers are more likely to offer discounts in order to retain a major customer. Financial economies of scale are also on offer where banks offer larger companies loans at lower interest rates because the bigger firms can offer greater collateral and security so there is less risk for the bank. Technical economies of scale can be enjoyed by larger firms as they can employ the best technology available because the machines are fully occupied. In a small firm, they may stand idle for periods of time as there is not enough output produced. These periods of inactivity with increase the average cost of each unit of output made by the machine.
There is no guarantee that firms will always enjoy lower average costs when they expand because diseconomies of scale can occur where expansion causes inefficiency as the total cost increases by more than output. These diseconomies can take various forms, such as management diseconomies where a firm becomes so large that decision making by managers becomes slow. The co-ordination of separate divisions in a firm becomes difficult as the number of plants grows. Individual workers are less likely to be effectively monitored and industrial relations can break down leading to expensive strikes. Firms will try to avoid diseconomies of scale, but this may not always be possible as it is only after the expansion has taken place that the diseconomy becomes evident. Therefore, it is not the case that average costs will always fall when a firm expands its scale of production.

Examiner comment

Question 5(a)

The candidate provides a clear and concise definition of the term, stressing that an economic good is scarce (1 mark) and as a result carries an opportunity cost (1 mark).

Mark awarded = 2 out of 2

Question 5(b)

The candidate identifies one relevant influence on a firm's choice of factors of production (1 mark), and explains how it affects the factor choice through the idea of factor intensity (1 mark). The second influence identified does not receive any marks because the candidate does not consider relative factor prices.

Mark awarded = 2 out of 4

Question 5(c)

The candidate is awarded 4 marks for a fully labelled, accurate diagram. The written explanation receives only 1 mark because it does not really convey an understanding of the idea that the country's maximum output / productive potential is reduced by the loss of resources.

Mark awarded = 5 out of 6

Question 5(d)

The candidate reaches the bottom of Level 3 (6 marks). There is a balanced discussion of both sides of the argument. The analysis is stronger on the economies of scale where the explanations of the factors are linked to decreasing average costs. The treatment of diseconomies of scale does not always make the links to increasing average costs. However, overall there is good application of economic theory.

The answer could be improved by explaining more explicitly how the diseconomies of scale identified can increase average costs. The evaluative content could also be developed further. For instance, the concept of profit maximisation could be used to provide a context for firms choosing to limit output in order to avoid diseconomies of scale and rising average costs.

Mark awarded = 6 out of 8

Total mark awarded = 15 out of 20

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