Qurious Education

2018 Edexcel Economics Paper 1 Microeconomics Paper

Model Answers

This document is helpful for longer essay questions/responses. Please reference the Mark Scheme for answers to Multiple Choice questions.

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Pearson
Edexcel

Examiners' Report
June 2018

GCE Economics A 9EC0 01

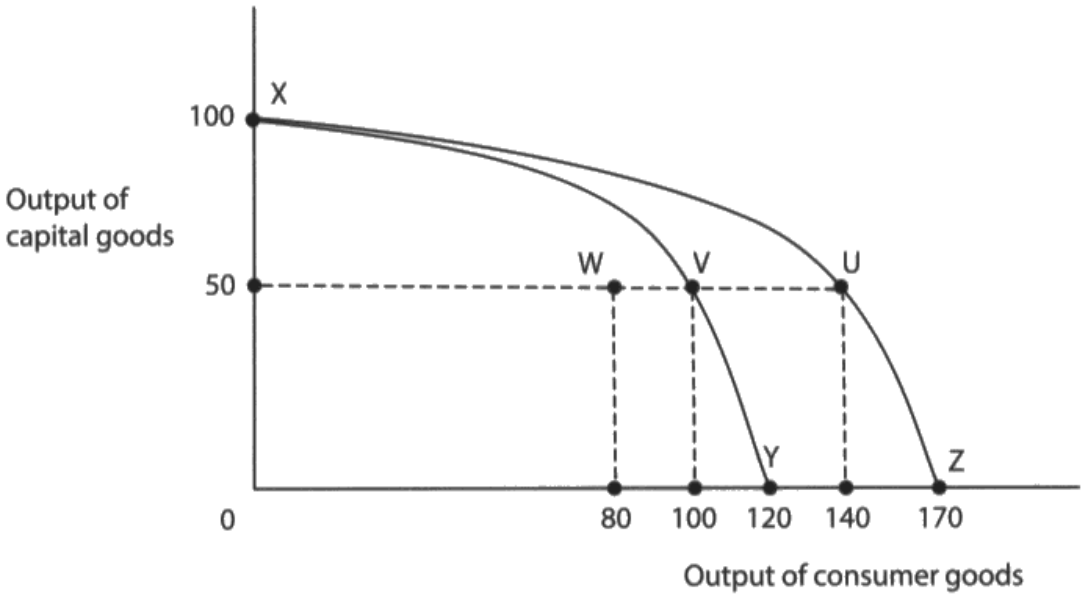
ResultsPlus

Question 1 (a)

In this question the focus is on having the ability to apply the concept of opportunity cost to the PPF curves as shown. There are 2 marks for application. The main issue that candidates faced here was failing to correctly read the information as presented; with some candidates identifying the original opportunity cost as 70 or not displaying a clear understanding of opportunity cost and therefore the ability to apply. This often meant that candidates were unable to achieve full marks, since it often led on to incorrect application.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The diagram refers to production possibility frontiers for a country that produces capital goods and consumer goods.



Originally, the economy has a production possibility frontier shown by the line **XY**, operating at point **V**. The production possibility frontier then moves to **XZ**, operating at point **U**.

(a) Calculate the **original** and the **new** opportunity cost of producing 50 capital goods. You are advised to show your working.

(2)

Original opportunity cost is 20 consumer goods

The new opportunity cost is 30 consumer goods.

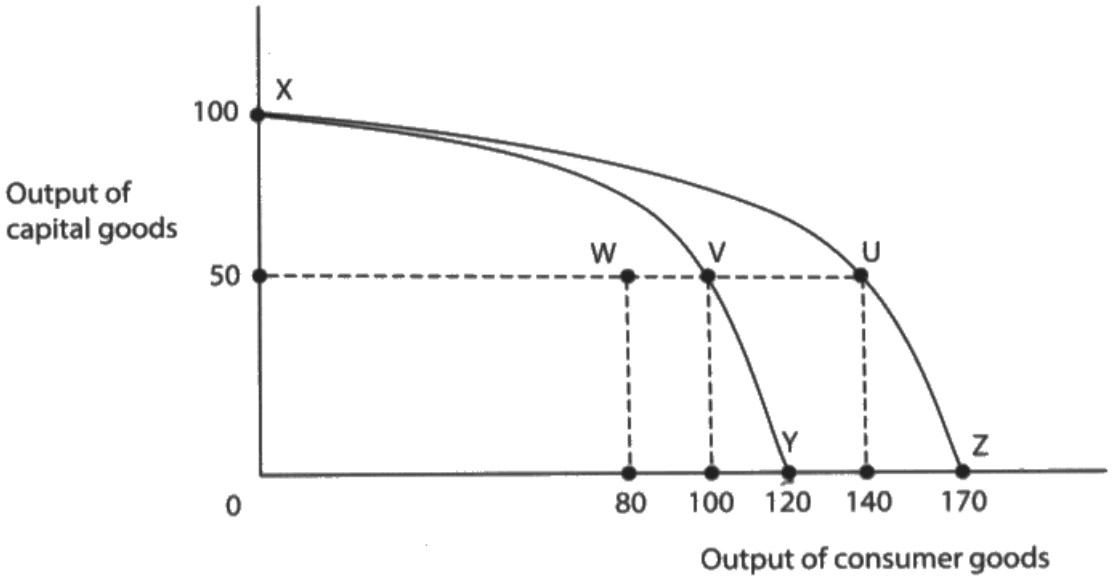
ResultsPlus
Examiner Comments

This answer scores the full 2 marks. The candidate has identified correctly the original and new opportunity cost.

Question 1 (c)

Many candidates clearly identified the unemployment of resources and most gained analysis marks operating inside PPF. Marks were lost where candidates stated unemployed resources and allocative efficiency showing dual knowledge but then no analysis so they could only be awarded a single mark.

1 The diagram refers to production possibility frontiers for a country that produces capital goods and consumer goods.



(c) Explain **one** characteristic of the economy at position **W**.

(2)

~~Both~~ Resources are under employed. Output can be increased for both consumer and capital goods with no opportunity cost. This is because W operates within the PPF.

ResultsPlus
Examiner Comments

This answer achieves a mark of 2/2.

Full marks for correctly explaining position W and analysing with use of the diagram whereby it is possible to increase output of both consumer and capital goods. The candidate displays a concise grasp of the economic concepts covered.

Question 2 (a)

This was a straightforward question with most candidates completing the calculation accurately however a few omitted the "million". There are 2 marks available for application, with 2 marks awarded for the correct answer or 1 mark for the correct calculation without stating the correct answer. If candidates failed to score full marks on this question it was generally either because they had misread the data or they made a computational error.

2 The number of individual weekly ticket sales from UK National Lottery games operated by Camelot was 73 million in the financial year 2015–2016.

The sale price of each lottery ticket was £2. This figure included 24 pence of tax revenue on each ticket sold.

(a) Calculate the weekly revenue received by Camelot after paying the tax to the government. You are advised to show your working.

(2)

Total revenue = Q x P

= 73m x 2

= £146 million

Tax revenue = Q x T

= 73m x 0.24

= £17.52 million

∴ Net revenue = Total - tax

= 146 - 17.52

= £128.48 million

ResultsPlus
Examiner Comments

This answer achieves a mark of 2/2. This candidate achieves full marks for providing the correct answer, being £128.48 million. They have carefully shown their working – so in the absence of the correct answer due to a computational error they would have secured 1 mark for £146million or £17.52 million.

ResultsPlus
Examiner Tip

Always ensure you state the correct unit of measurement.

Question 2 (b)

In this question the marks were split as 1 mark for knowledge of cross elasticity of demand and 1 mark for explaining what 1.28 meant. Many candidates achieved the full 2 marks here. The main problem that let candidates down was not providing clear analysis about 1.28 indicating they were close substitutes or analysing that this meant an increase by 128%.

Research conducted for HMRC estimated the cross elasticity of demand for using gaming machines to be 1.28 in response to changes in the price of national lottery tickets.

(Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322845/report313.pdf)

In October 2013 Camelot increased the price of a national lottery ticket from £1 to £2.

(b) Explain the likely impact of the price increase of national lottery tickets on the demand for using gaming machines.

(2)

One likely impact of the price increase from £1 to £2 per week on the demand for using gaming machines is: an increase in demand. Due to the rise in price of Lottery tickets more people spent their money at gaming machines, there was an increase in demand. This is down to the 100% rise in price for the lottery tickets. It resulted in a 128% rise in demand for gaming machines.

ResultsPlus
Examiner Comments

This answer scores the full 2 marks for stating that: 'It resulted in a 128% rise in demand for gaming machines'.

They have carefully explained their reasoning for this up to the final sentence but would have saved time by stating alone the final sentence.

ResultsPlus
Examiner Tip

Ensure you know key formulas like cross elasticity of demand to enable you to provide concise answers.

Question 3 (a)

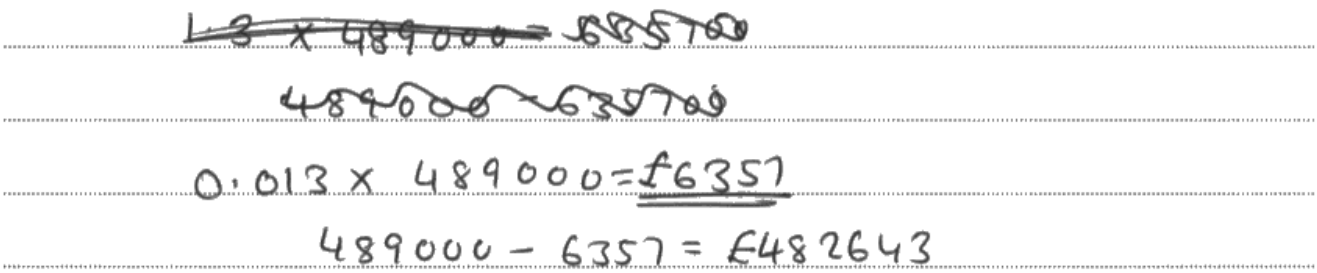
Most candidates found this to be a straightforward question, gaining 2 marks for giving the correct answer of £6357 or rounded up to £6360. There are 2 marks available for application, 2 marks for the correct answer or 1 mark for providing the correct working but not the correct answer.

3 The average fee charged by high-street estate agents to homeowners for selling property is 1.3% of the final sale price.

(Source: http://www.which.co.uk/money/mortgages-and-property/home-movers/guides/selling-a-house/estate-agent-fees-and-contracts)

(a) Assume the selling fee is 1.3%. Calculate the payment received by an estate agent on a property sold for £489 000. You are advised to show your working.

(2)



ResultsPlus
Examiner Comments

This answer scores the full 2 marks. The candidate makes clear their final answer by double underlining £6357. In the absence of this correct answer they would have obtained 1 mark for 0.013 x 489 000.

ResultsPlus
Examiner Tip

Ensure you make clear your final answer on quantitative skill questions.

Question 3 (c)

Most candidates found this to be a straightforward question. There are 2 marks available – 1 mark for the reason and 1 mark for an explanation of that reason. If candidates failed to score full marks on this question it was generally either because they failed to provide an economic reason or they failed to explain their reason for the second mark.

(c) Explain **one** likely reason for the difference in average house prices between London and the North East of England.

(2)

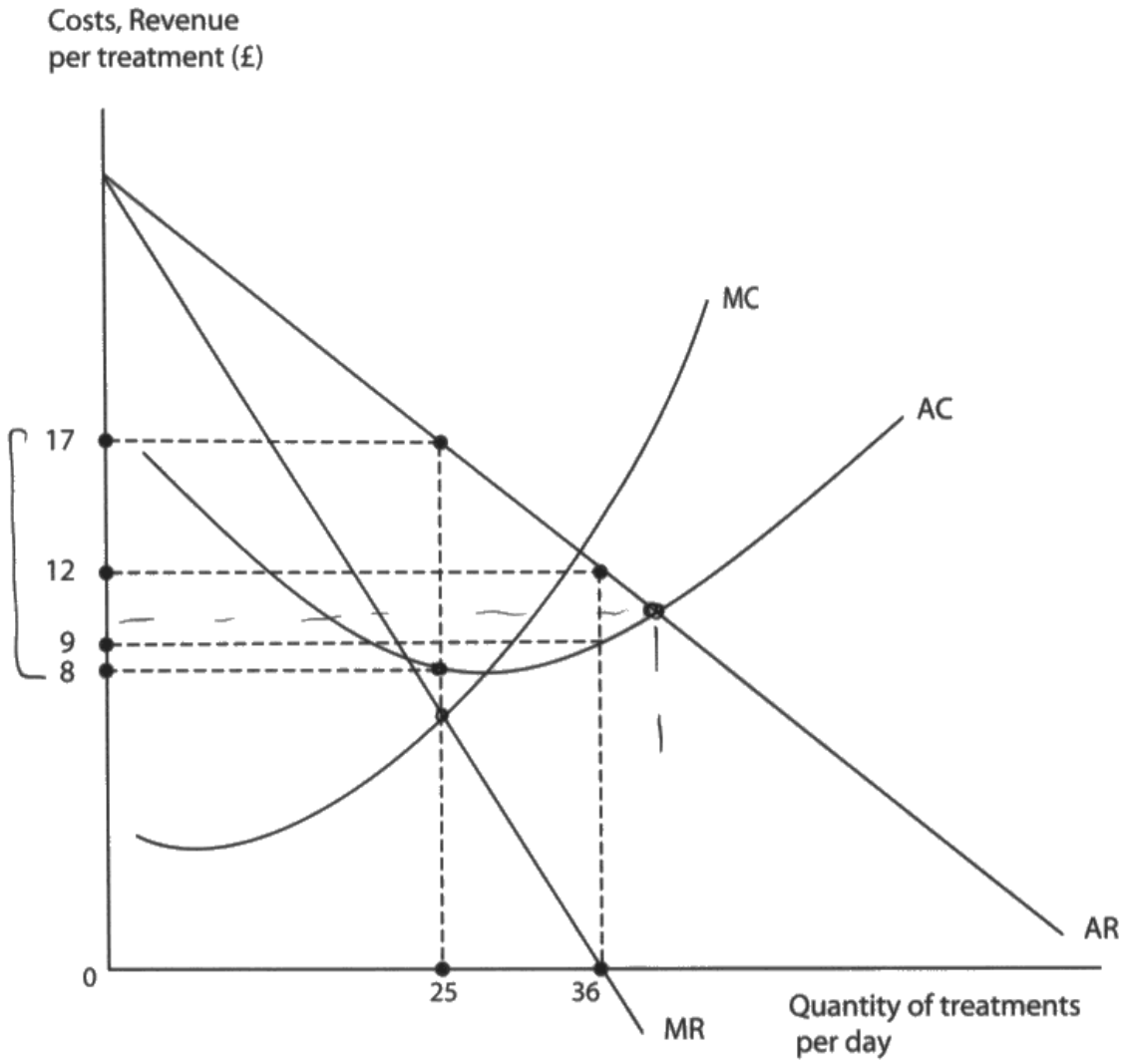
The demand for London housing is much greater for demand in the north, therefore to reach equilibrium price and avoid excess demand, prices rise. The demand for housing in London is so great because its the economic hub and the capital of the UK, it has the greatest amount of jobs located here.

ResultsPlus
Examiner Comments

This answer scores the full 2 marks by providing clear linked development.

Question 4 (a)

4 Emily owns and operates a nail ink salon. The diagram shows the cost and revenue curves for treatments at her nail ink salon. Initially, Emily sets her price to maximise profits.



(a) Calculate the **change in total supernormal profit** if Emily changes her objective from profit maximisation to revenue maximisation. You are advised to show your working.

(4)

Profit maximisation = MR = MC → (17 − 8) × 25 = £225

Revenue maximisation = MR = 0 → (12 − 9) × 36 = £108

new − old / old × 100

225 − 108 / 108 × 100 = 108.3 225 − 108 = £117

Change = − £117

ResultsPlus
Examiner Comments

For stating change = -£117 the candidate obtains full marks.

Question 5 (b)

This was a familiar topic for many candidates and the majority scored 2 marks for a clear explanation of decreasing PC sales. Most candidates achieved full marks but a small number of candidates lost a mark as their answers lacked linked development.

(b) Explain **one** likely reason for the decrease in sales of PCs.

(2)

~~The~~ Technological advance in the ~~smartphone~~ laptop market, which allows them to perform all of the tasks a PC would. Growth in demand for laptops, which perform the same functions as PCs and are trendy.

ResultsPlus
Examiner Comments

This answer achieves a mark of 1/2. This response is missing economic knowledge for the likely reason in the decrease in sales of PCs.

ResultsPlus
Examiner Tip

Ensure you always try to draw on your economic knowledge – especially for contexts candidates can easily relate to.

Question 5 (c)

This was a high scoring question with the vast majority of candidates gaining 2 marks, although a few only scored 1 mark as they had only calculated the total market share of the companies but had not expressed the answer as a percentage.

The following table shows global sales of PCs by company in 2015.

Company	Sales of PCs (million)
Lenovo	57 182
HP	53 534
Dell	39 049
Apple	20 794
Acer Group	19 680
Others	86 461
Total	**276 700**

(Source: IDC, reported in *The Times*, 14th January 2016)

(c) Calculate the five-firm concentration ratio. You are advised to show your working.

(2)

5 firms sales = 190,239 m

$\frac{190,239}{276,700} = 68.75\% \ (\times 100)$

= 68.75% = five-firm concentration ratio

ResultsPlus
Examiner Comments

This answer achieves a mark of 2/2. Full marks for correctly identifying 68.75% for five firm concentration ratios. Without the correct answers being provided only one mark would have been awarded for the formula provided as per the mark scheme.

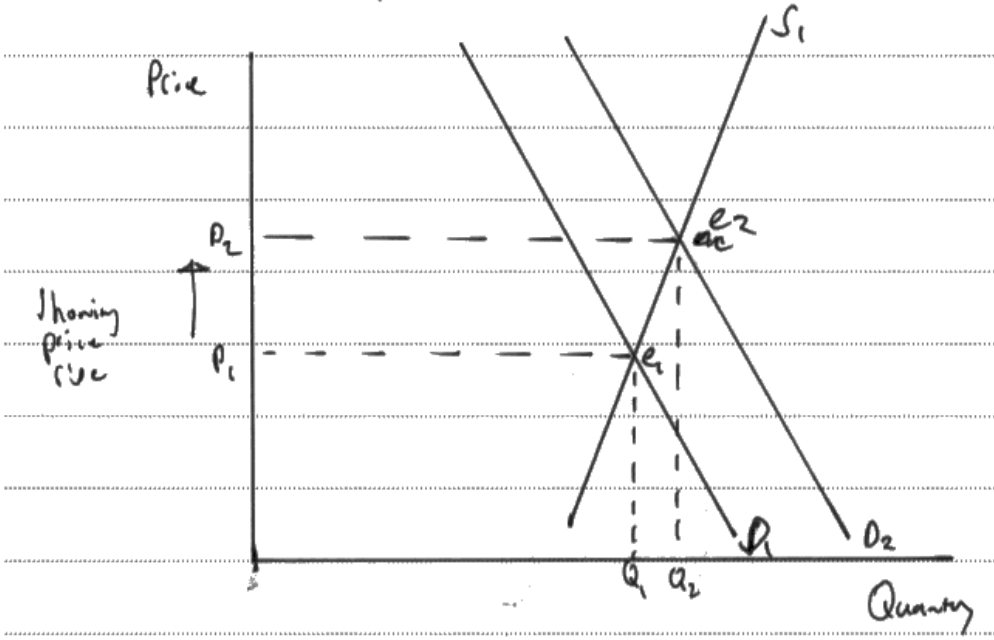
Question 6 (a)

The question required candidates to explain 'one likely reason for the overall trend in the real price of gas and electricity.' Responses tended to draw on Theme 1 supply and demand knowledge with some candidates drawing diagrams – although this was not required. Theme 1 type responses needed to ensure they provided extended analysis of market forces to achieve full marks. Theme 3 type responses tended to be more concise and higher scoring.

(a) With reference to Figure 1, explain **one** likely reason for the overall trend in the real price of gas and electricity.

(5)

Figure 1 shows that real prices of gas and electricity have increased recently, gas has increased nearly 20% from 2010 to 2012. One likely reason is an increase in demand due to a growing UK economy meaning there's a shift in demand, from D_1 to D_2 as shown diagramatically. This causes an extention in supply, results



in a new market equilibrium of e_2 where price has increased from P_1 to P_2

ResultsPlus
Examiner Comments

5 out of 5 marks awarded.

The answer began by providing clear analysis that prices have increased (1 AN) and applied this by saying by nearly 20% (1 APP). The knowledge mark is achieved for identifying an increase in demand (1 K) with further analysis that this is due to the growing economy (1 AN) causing an extension in supply (1 AN) to achieve the new equilibrium price.

ResultsPlus
Examiner Tip

For a 5 mark response the marks for linked development requires candidates to ensure they provide extended analysis as well as application.

Question 6 (b)

(b) With reference to Extract A, discuss the likely effectiveness of 'measures to open up and increase competition' in the UK energy market.

(12)

Measures to open up and increase competition in the energy market might have an effect of increasing competition so firms would therefore have to lower prices which would benefit consumers. The CMA has implemented policies such as the creation of database to help customers switch energy suppliers, the effect of this is to hopefully correct the information gap (asymmetrical information) as currently producers / firms of the energy sector may have more information to be able to see how to reduce costs, this may therefore increase competition as if more consumers are aware of what they are paying for they'll switch to ~~or~~ lower energy firms prices will will fore the overall average price to fall as other firms want to still remain 'in no game' as and a result lower prices which might reduce barriers to entry for firms. ~~as~~

However, this may ~~not~~ necessarily increase competition as ~~somet~~ although consumers are assumed to be rational and to maximise

utility they may also be incompetent and may not understand what prices will benefit them most which therefore may mean that they do not switch to cheaper firms which may reduce the incentive for the larger firms to cut prices. Another thing that might prevent this is habitual behaviour if a customer / consumer has been with the same firm for many years they may be reluctant to switch as it may be a long process.

Another likely effect will may be effective and therefore increase competition is to have stricter rules to protect vulnerable customers by ~~in~~ using temporary price caps until smart meters have been installed. The use of a temporary price cap ~~will~~ may be effective as consumers cannot be exploited by the energy firms as they will be more aware of the costs this will therefore make it more of an 'even playing field' which may increase competition ~~and~~ as it means under transparency it may also limit the energy market as there are few large

dominant firms this might be an oligopoly which are price setters by introducing a price cap temporarily it may reduce prices and barriers to entry to make the market more competitive to therefore decrease prices.

However, these price caps are temporary and the assumption that it will increase competition may not necessarily work ~~as consumers~~ and these new rules implemented might effect the firms as the CMA investigation found no evidence of anti-competitiveness by firms it might therefore make it worse for the ~~producers as they~~ and ~~not~~ by reducing profits might lead in inefficiencies.

In conclusion, the new rules will most likely protect the consumers as there are more resources for them to be able to make rational decisions, however it may not necessarily reduce it as consumers may not switch to other firms giving the overpriced energy dominant firms incentive to cut prices

ResultsPlus
Examiner Comments

This answer achieves a mark of 11/12.

It achieves Level 3 (7/8) and Level 2 EV (4e/4e).

All reasons are relevant, explained and applied to the context rather than generic. They achieve Level 3+ on KAA in the first paragraph by displaying a clear understanding of how the creation of a database helps consumers to switch and reduces barriers to entry as a result. They then go on to evaluate this measure with relevant reasoning and appropriate references to the context for a Level of 2e+. Price caps is covered here as a temporary measure until smart meters are installed – it links sufficiently towards opening up the market for a low Level 3 – by discussing the market structure. The evaluation of the price caps is worthy of L2e as it recognises different viewpoints and is critical of the evidence. This evaluation is further supported by the conclusion.

ResultsPlus
Examiner Tip

Make sure you answer the question set with well-developed use of economic theory and precise use of data. Similarly, well-balanced evaluation should also be well explained and in context as in this example. The response here also benefits from a clear structure that enables the candidate to access top Level marks.

Question 6 (c)

(c) With reference to Extract B, assess how the regulation of energy suppliers' profits is likely to affect consumers **and** suppliers in the energy market.

(10)

The regulation of energy markets is a form of government intervention, and this can have both positive and negative effects.

Consumers could potentially lose out from regulation, as although in the short term they would benifit from the 1.25% cap on total revenue through cheaper prices, in the long term it could prevent the uk energy suppliers innovating and making the firm more efficent as there would be a reduction of investment within the firm. This could cause the firms to become x-inefficent as they would no longer be operating x-efficently and thus could pass on poor quality service to consumers.

Suppliers within the energy market could also lose out from the regulation on their 'average profit of 7% of total revenue'. It would undermine their long-term energy provision and furthermore the lack of investment that would occur from the 1.25% cap could prevent the firm to become

dynamically efficient. However overall, the suppliers in the energy market would be the greater victims of the regulation on profits as it would prevent them from long-term improvement of their firm.

ResultsPlus
Examiner Comments

This answer scores 6/10 marks. The candidate has addressed the poor quality service to consumers (Level 3) though cheaper prices (L1e). Supplier's dynamic efficiency being prevented achieves Level 2 and requires further development linking to a decline in investment in power stations for example. The final paragraph is awarded Level 1 evaluation. Overall the candidate achieves L3- (5KAA) and L1 evaluation (1e).

ResultsPlus
Examiner Tip

To achieve top level KAA fully integrated responses are required and thin evaluation will not escape being awarded Level 1 evaluation.

Question 6 (d)

The price elasticity of demand for electricity in the UK is estimated to be –0.35 in the short run and –0.85 in the long run.

(d) With reference to Extract A and your own knowledge, examine **two** possible reasons for the change in price elasticity of demand for electricity over time.

(8)

Price elasticity of the demand is the responsiveness to a ~~d~~ change in demand over a change in price. Price elasticity of demand for electricity overtime shows that the change in quantity demanded for electricity increased more than the change in price, thus being inelastic as price does not influence it as such. This is because electricity is an essential in every household, 70% of the customers could have saved around £300 a year by simply switching, but they don't feel the need to. ~~Electricity is one of the main costs of a household~~ Also, the increased usage of electrical appliances due to the innovation of technology has caused the households to possibly use more energy than needed. Appliances such as PCs, phones, tablets, game

and game consoles, tvs to homeware appliances such as necessities contributed to the added usage of the electricity. Therefore, PED of electricity changing over time.

ResultsPlus
Examiner Comments

There was no mark for providing a definition but this does normally enable candidates to move their thinking and correctly respond to the question set. In this case they incorrectly defined price inelastic but by identifying electricity as price inelastic they secure one application mark and a further application mark for 70% not switching as per Extract A. Using more appliances does not answer the question indicating that they may not have been aware of what the numerical change in PED meant and its associated determinants.

ResultsPlus
Examiner Tip

Ensure you carefully study and understand the entire specification – understanding of the numerical value of price elasticity of demand and its determinants was weaker than it should have been.

Question 6 (e)

(e) With reference to Extract C and your own knowledge, discuss policies businesses **and** government might implement to reduce labour immobility to benefit the energy sector.

(15)

Labour mobility is the ability of labour to move from one area to another / sector to another
A policy that the government and businesses may implement are the increased investment in training programmes. Workers in the energy sector require specialist skills and knowledge and the increased investment in training programmes means that more people have accessibility to the teaching and encourages people enter the sector. The skills shortage is mainly to blame for the shortage of workers in the energy sector and the huge 29% unfilled jobs vacancies so giving people training on the skills needed will increase the occupational mobility of workers as they have a greater skillset.

To evaluate, this depends on the magnitude of the investment. A small investment will only have a minute change in supply of labour as lots of education required. Furthermore, there is a time lag because it may take years before these workers are even ready or have the sufficient skillset to enter the market. The benefits or increases in labour may not be very significant in the short run.

Another policy that could be implemented by the government and firms is the increased recruitment of skilled labour from abroad. The government may be able to reduce barriers to immigrants and allow a more free flow of workers. The firms may help workers settle in, provide them with language lessons or provide financial support for settling in and finding housing. As a result, the quantity of labour increases so this may mean the 29% unfilled job vacancies are filled.

To evaluate, the geographical immobility of labour may not be solved because the people ~~a~~ would have to move away from their home country, where they have emotional ties and family. Therefore, even given an incentive by wages to work abroad, people may choose voluntarily to not move because they value other emotional assets over the possible prospects of wages, etc.

To conclude, immobility of labour may be occupational or geographical and it is ~~not~~ more effective in long run because skills are required and workers need time to settle in and adjust.

ResultsPlus
Examiner Comments

This answer achieves a mark of 14/15.

Use this as a model for your writing, along with other high scoring responses. The evaluation is better balanced here although it was felt that the first evaluative paragraph was worthy of two separate L2e rather than one L3e. The second evaluative paragraph was awarded L3e.

ResultsPlus
Examiner Tip

Ensure your evaluation is well-balanced against what you have previously written.

Question 7

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

7 In September 2016 the government approved the building of an £18 billion nuclear power station, Hinkley Point C, which will supply 7% of UK electricity for up to 60 years. The power station is funded by Chinese and French investment.

Evaluate the likely private costs and external costs involved in such major power station construction projects. Use an appropriate externalities diagram in your answer.

(Total for Question 7 = 25 marks)

OR

8 In July 2016 Apple's share of the UK market for smartphones was 38%.

Evaluate whether such a high market share for one company is in the consumer interest. Use appropriate diagrammatic analysis in your answer.

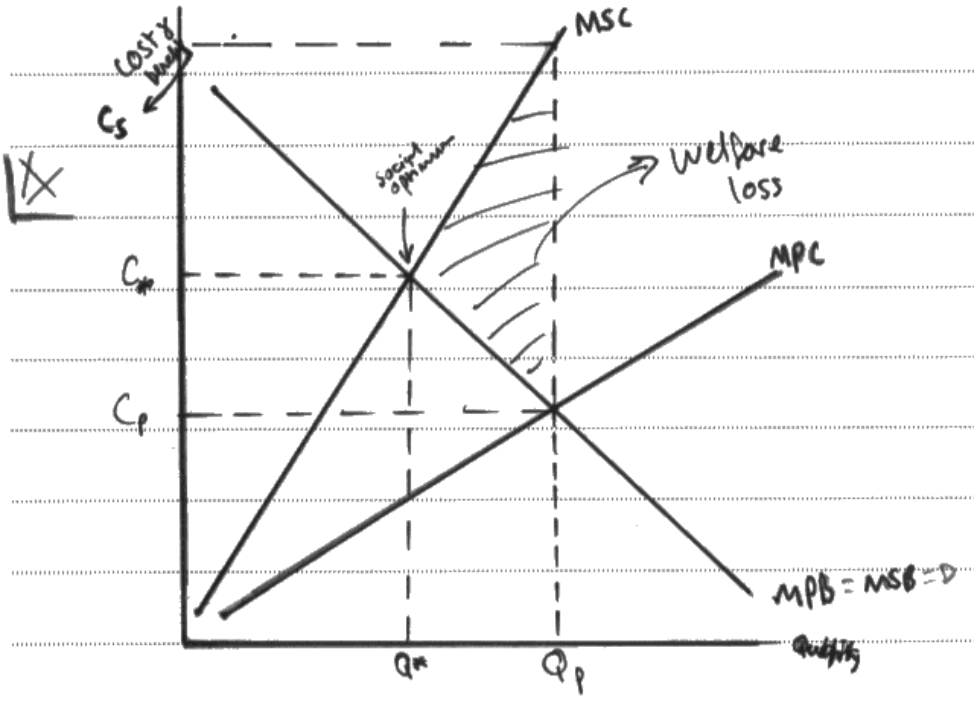
(Total for Question 8 = 25 marks)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☒ **Question 8** ☒

Write your answer here:

The external costs can also be called the negative externalities, and these are the costs that ~~are~~ affect the third party, ie the economic agents that are not involved with the directly with the project. There are many examples of negative externalities and occur where the marginal private cost (MPC) is less the marginal social cost (MSC). The social cost is equal to the private cost plus the external cost, therefore the gap in between MSC and MPC illistrates the magnitude of the externality.



As we can see in the diagram above, MSC exceeds MPC creating a welfare loss at the output of private cost. Where as the social optimum level where the marginal social cost equals marginal social benefit is at output Q^* therefore the welfare loss of society is illistrated by the shaded region in the form of a triangle.

One external cost involved in such a project is the increased danger to life of those living near the proposed sight. This is a social cost because the power station in Hinkley is nuclear powered, which is very dangerous as exposure to nuclear material can cause illnesses such as cancer or tumours. This is a negative externality as those living around the sight are not directly affected by the benefits associated ~~the, as extensively~~ meaning that the welfare loss of a longer life expectancy may decrease. Because However, this isn't the first nuclear power plant

that has been built and won't be the last. This is because of the clean energy it produces, contributes a fraction the to CO_2 emissions in comparison to fossil fuels.

The project is going to be privately by foreign direct investment ~~is~~ from France and China. Therefore other than the £18 billion ~~from~~ the private cost is quite low. This is because they will be ~~going~~ gaining energy which increases their domestic energy supply without the negative externalities ~~of~~ on their soil. However the effects of a Government/political uncertainty, such as Brexit, ~~may~~ may increase this private cost as the investment may have a lessened return due to ~~balance~~ uncertainty which dampens return. However, the negative externality of consumption may be greater (Less than) for the UK society than the private ~~ex~~ ~~because~~ because of the energy supply it will bring to the UK.

Another ~~Societal~~ external cost that the project will bring is the effect of

In ~~conclusion~~ conclusion, the project will will have a greater marginal social cost due to the large external costs associated with the project in comparison to the private cost. However it is hard to know the magnitude of the external costs due to imperfect knowledge therefore in the short run and the long run we might never know if the external costs exceed £18 billion.

ResultsPlus
Examiner Comments

This answer achieves a mark of 19/25.

A clear explanation is offered followed by an accurate diagram which is well explained. External costs gets to the third party effect (Level 4)+ but the private costs analysis is thin (Level 2) achieving overall Level 3+ KAA (12). The evaluation is concise but sophisticated in both context and theory as well as offering an attempt at judgement in the conclusion to achieve L3e- (7e).

ResultsPlus
Examiner Tip

Explaining private costs was a weak spot for many candidates. Try to ensure you can demonstrate precise knowledge and understanding of all the concepts, principles and models.

Question 8

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

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8 In July 2016 Apple's share of the UK market for smartphones was 38%.

Evaluate whether such a high market share for one company is in the consumer interest. Use appropriate diagrammatic analysis in your answer.

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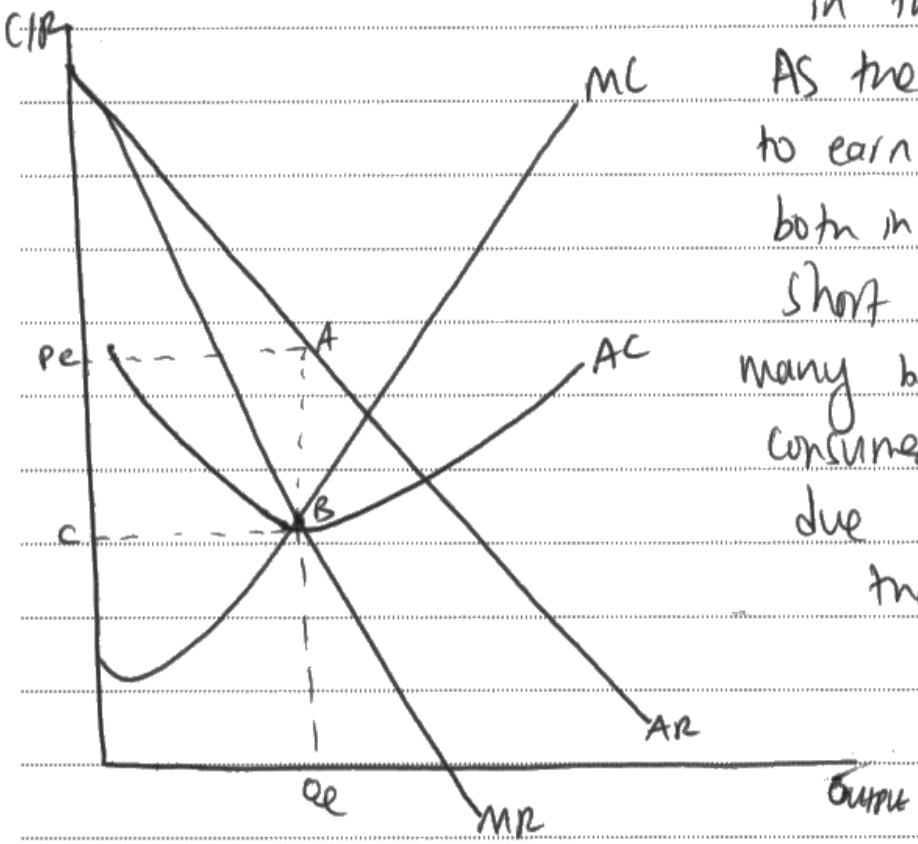
Chosen question number: **Question 7** ☒ **Question 8** ☒

Write your answer here:

Market share is the proportion of the market a single firm occupies, by having a higher market share it creates high barriers to entry into the industry as there is already marketing and brand loyalty in the industry. Apple is one of the largest phone providers in the world and this has many pros benefits and drawbacks to consumers.

Firstly, Apple is likely to be operating in an oligopolistic market structure; whereby, there are few firms, a high concentration ratio (shown by Apples 38% market share), high barriers to entry and product differentiation. In oligopolies, firms are short run profit maximisers, which allows them to earn supernormal profits, shown by the area PeABC in the diagram below.



As the firm is able to earn supernormal profits both in the long and short run, it has many benefits to consumers. This is due to the fact that Apple is able to use supernormal profits to reinvest into the company to create new innovative products for consumers, this can be seen from the release of many new iphones, ipads and the iwatch. Thus, showing Apple to be dynamically efficient, not only does dynamic efficiency benefit consumes by having more innovative, better quality products, it also

means that consumers can enjoy lower prices for smartphones. This is based on two reasons, one being that as Apple continue to improve ~~dynamic~~ dynamic efficency, they may find new technology or machinery that enables them to produce at lower costs, and if these lower costs are passed onto the consumer in the ~~form~~ form of low prices, it can mean that consumers are at a benefit, by increasing consume surplus and allowing more customers, especially those who may not have been able to afford the previous products, can now afford to ~~buy~~ buy these products. This can be seen as Apple currently have plans to launch a new 'affordable' range of macbooks. However, this may not always hold, this is because Apple, the oligopolist may not use supernormal profits being made to fund dynamic efficency, rather, they may use it by increasing shareholdes dividends and increasing CEO's and managers salary. This may lead to higher prices or less innovative products for consumers, meaning they do not benefit by Apple having a large market share.

Also The other reason why consumers may receive lower prices is if new technology in the industry means that new firms enter the market and

Competition drives prices down for consumers, again to their benefit, by increasing consumer surplus. However, as Apple currently hold 38% market share, ~~they may~~ this ~~show~~ indicates that the market is not very contestable and new firms are not able to easily ~~enter~~ enter and exit the market. This can be explained from high barriers to entry associated with the smartphone industry, for example high marketing costs - ~~the exit~~ existing firms ~~may~~ will have spent large amounts on advertising, leading to greater brand loyalty to Apple products amongst consumers. This means that new firms who wish to enter the market may not be able to attract customers due to high brand loyalty. This can be seen as majority of people in the UK have an iPhone and many because of factors like the brand. This comes at a disadvantage to customers as Apple may exploit this monopoly power by charging higher prices due to lack of competition, or even ~~not~~ providing lower quality products. This can be seen for example, when Apple admitted to slowing down older iphones, demonstrating ~~for~~ how Apple exploits monopoly power to encourage consumers to buy new phones, to increase profits.

Lastly, by having such a high market share in the industry, Apple may be ~~productively inefficient~~ or X-inefficient as they have no incentive to lower costs, The Government can charge Apple corporation taxes on high profits and this money can then be used for consumer benefit, for example, an increase in state provisions such as education or healthcare or to fund education and training programmes to increase occupational mobility of labour. Overall leading to a gain in consumer welfare. However, many large MNCs such as Apple with a high market share often engage in tax avoidance. This is where ~~there~~ their head quarters are located in a tax haven such as panema or the British virgin Islands and they pay virtually no taxes - especially in the home country or in the UK for example. It was recently revealed in the paradise papers that Apple was involved in tax avoidance - thus not allowing for gov tax revenue increases and spending on consumers in the economy overall, which is not at the customers best interest.

I believe that if companies who have a large market share like Apple are regulated in such a way that all the benefits of gaining supernormal profits such as increased dynamic efficiency, choice and quality are

achieved then it is in the consumers interest to have a firm with such a ~~very~~ large market share as long as consumers are ~~not~~ being exploited by Apple using their monopoly power or govern government do not provide all provising to maximise consumer welfare.

ResultsPlus
Examiner Comments

This is an excellent response achieving full marks 25/25. There appears to be some evidence of planning which may have helped secure top marks. The logical and coherent chains of reasoning are clear throughout as well as offering substantial evaluation and informed judgement to a high standard.