

MARKSCHEME

Section A (25 marks)

1

- a) C
- b) (adapted) Definition/ understanding of command economy 1
Definition/ understanding of free market economy 1
Any explained relevant eg 2

2

a)

Application 2

Application

$$PED = \% \Delta Q_d / \% \Delta P$$

$$\text{price rise} = 5/60 \times 100 = 8.3\% \text{ (1)}$$

$$\text{or } -5.4\% / +8.3\% \text{ (1)}$$

$$PED = (-)0.65$$

Award 2 marks for (-)0.65

**NB if answer given is between (-)0.7 and (-)0.6
award 2 marks.**

(2)

b) A

c) Any explained relevant eg 2

3

a) A

b)

Knowledge 2

Knowledge/Understanding

1 mark for reason and 1 mark for linked development.

Possible answers include:

- Risk/Imperfect information (1) which may lead to a misallocation of resources (1)
- Inequality (1) provide for those priced out of unaffordable private care (1)
- Positive externalities (1) spillover benefits to third parties i.e. employers/families (1) Diagram may illustrate this (1)
- Growth/economic freedom/welfare safety net (1) ensure the ill can recover and return to workforce (1).

(2)

c) Prices higher (1) acts as an incentive to go private (1)

4

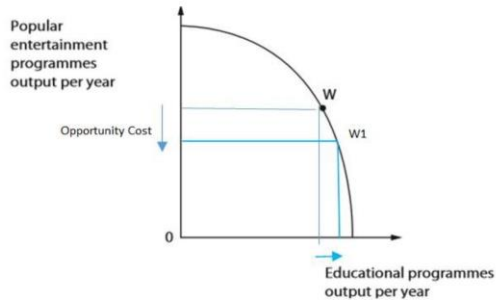
- a) (Wrongly numbered as i) Calculation of value at £500 (1)
 Calc of cons surplus £500-£157.50 = £342.50 (2) Note: a correct answer scores 2
- b)

Application

2 marks for, e.g.

An additional point to the right of W indicating movement of resources towards educational programmes (1) and the resulting opportunity cost, showing a fall in output of popular entertainment programmes (1).

The following diagram earns 2 marks:



- c) B

5

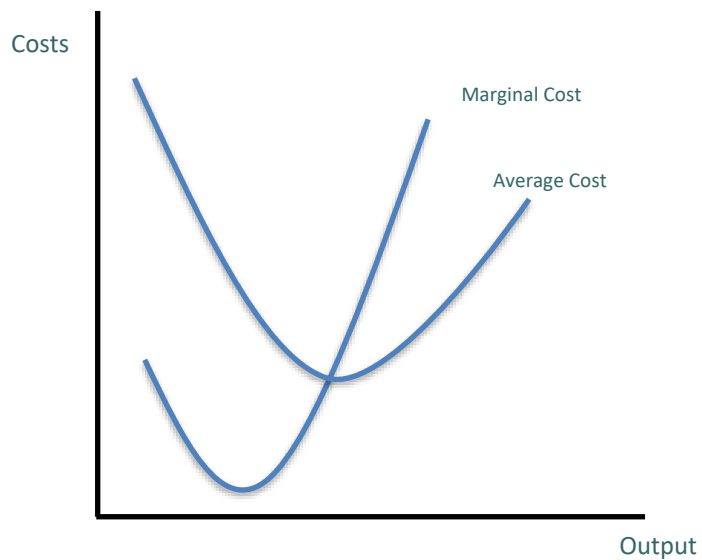
- a) D
- b) Total Revenue = $260 * 4 = 1040$ (1)
 Total cost = $200 * 4 = 800$ (1)
 Profit = £240 (2) NOTE: for 2 marks to be awarded, the candidate must get the correct answer
- C Any reasonable examples of fixed/ variable

Section B (25 marks)

Q1 Marginal Average and Total Costs

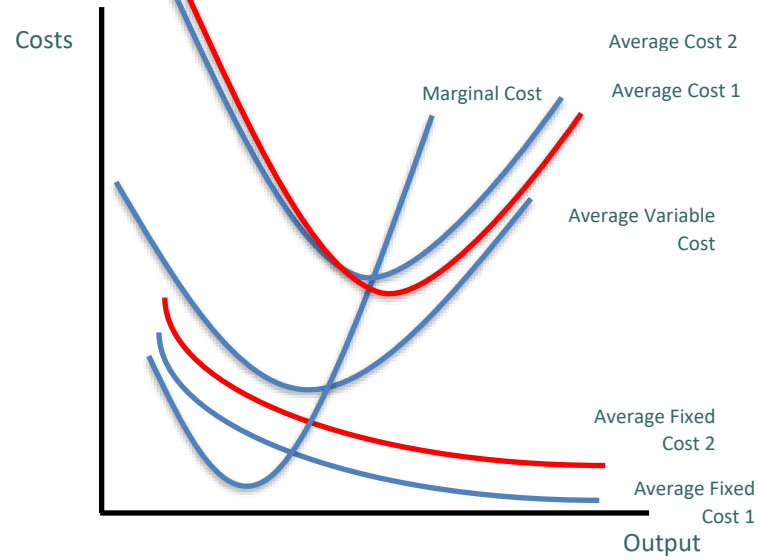
Sales	Fixed Cost	Average Fixed Cost	Average Variable Cost	Average Total Cost	Total Variable Cost	Marginal Cost
0	100.0	100.0	0			
						50.0
1	100.0	100.0	50.0	150.0	50.0	
						30.0
2	100.0	50.0	40.0	90.0	80.0	
						25.0
3	100.0	33.3	35.0	68.3	105.0	
						27.0
4	100.0	25.0	33.0	58.0	132.0	
						98.0
5	100.0	20.0	46.0	66.0	230.0	
						112.0
6	100.0	16.7	57.0	73.7	342.0	

- (a) Total fixed cost remains the same throughout
 (b) Explain that MC must pass through the lowest part of Average cost



Section C (50 Marks)

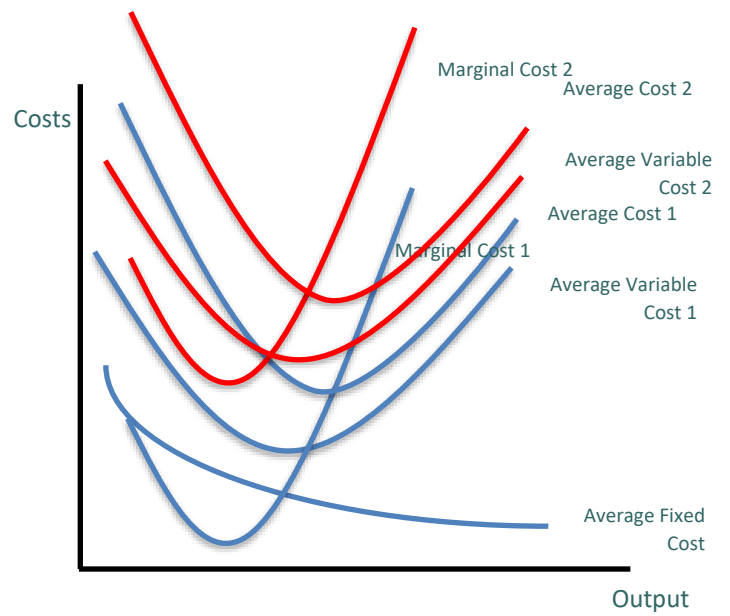
Q1. 25 marks



(a)

(a) Fixed cost does not raise marginal or variable cost.

(b) Variable cost raises marginal and variable cost



(b)

Q2. Theory of the firm: The model of perfect competition (25 marks)

In order to understand perfect competition – we can prove that = **in a firm operating under conditions of perfect competition Price, AR and MR are the same thing**

Carry out activity on Timothy's Taxis:

The price of a taxi ride is £6 (price taker)

(a) Calculate TR, AR, MR at output levels (hires) of between 10 taxis per day to 60 taxis per day

Hires per day	10	20	30	40	50	60
Price/ fare	£6	£6	£6	£6	£6	£6
TR	£60	£120	£180	£240	£300	£360
AR	£6	£6	£6	£6	£6	£6
MR	£6	£6	£6	£6	£6	£6

