



Theme 3 Sample Essays [Free Version]

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Expert Tuition Managing Director, Ahmed Alaskary, has put this revision pack together to help students with their A-Level Economics revision. Ahmed has over 10 years experience teaching A-Level Economics, with a particular expertise in the Edexcel examination board.

This pack is intended to supplement a students learning and **should not** be used as an alternative to thorough revision of the specification. The intention is to show students how they can apply their knowledge to exam-style questions. The essays are a combination of amended past papers (adjusted for the new specification) and other questions based on the specification.

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Marks Breakdown¹

5 Mark Question:

Knowledge 1, Application 1, Analysis 3

8 Mark Question:

Knowledge 2, Application 2, Analysis 2, Evaluation 2

10 Mark Question:

Knowledge 2, Application 2, Analysis 2, Evaluation 4

12 Mark Question:

Knowledge 2, Application 2, Analysis 4, Evaluation 4

15 Mark Question:

Knowledge 3, Application 3, Analysis 3, Evaluation 6

25 Mark Question:

Knowledge 4, Application 4, Analysis 8, Evaluation 9

¹ We strongly recommend that students familiarise themselves with the mark scheme and in particular, as part of their revision, read through Examiner Reports for questions they find difficult when studying.

Discuss ways in which intervention by the Competition & Markets Authority might promote economic efficiency in markets [15]

Productive efficiency is where a firm is operating at the bottom of its long run average cost curve. ($AC=MC$). Allocative efficiency is where the firms set its price equal to marginal costs ($AR=MC$). The Competition & Markets Authority (CMA) seeks to protect consumer interests by clamping down on anti-competitive behaviour.

One way in which the regulator can increase efficiency is through price capping. An example of this is RPI – X: this takes the inflation rate (RPI) and discounts an ‘X’ factor which represents the efficiency savings that firms must make to maintain the same level of supernormal profits. This will result in firms having to cut their costs and to become more efficient, as they want to maximise their profits. Additionally, the firm will have an incentive to beat the X target, as by doing so, they would earn additional supernormal profits. As such, price caps such as RPI – X result in an increase in productive efficiency.

However, the regulator may be ineffective due to regulatory capture. This is where the regulator and the regulated firm develop a strong relationship which results in the regular being more lenient to the firm. Also, the regular suffers from asymmetric information. This is because they rely on the information provided to them by the firm, and thus, the firm may withhold information that would make the regular ineffective at promoting efficiency.

Another way the regulator can increase efficiency is by setting performance targets. These are targets that firms need to achieve otherwise they would face fines. An example of this would be to reduce the number of customer

complaints or to reduce queuing times. Given that this would result in an improved experience for the consumer, there will be an increase in allocative efficiency.

A significant problem associated with increased efficiency is that there is a potential conflict between productive and allocative efficiency. This is because as a firm cuts its costs to become more productively efficient, this can compromise the quality of the good, therefore decreasing allocative efficiency. As such, it is difficult for the government to determine which efficiency to prioritise.

The government can also promote efficiency by fining inefficient firms. The regulator has the power to fine firms that are acting in anti-competitive or inefficient manner and this would eat into their supernormal profits. This would deter firms from being inefficient, as they would want to maximise their profits.

However, the government must ensure the fine is set at the appropriate level. If the fine is set too high, then this can have the reverse effect on efficiency as firms that do get fined would have substantially less supernormal profits to invest into R&D. Given this, there would be a decrease in dynamic efficiency. On the other hand, if the fine is too small, then firms are unlikely to be deterred and will continue being inefficient.

Fourthly², the government can increase efficiency by ruining the reputation of firms that are inefficient. They could do this by making the firm's case public – this would result in a decrease in customer demand and a fall in the firm's profits. As firms would not want to risk losing customers and market share, they are more likely to act efficiently.

However, the regulator would be ineffective if the firm has strong brand loyalty. This is because consumers are unlikely to change their spending habits or switch to other firms if they are loyal to that brand. A good example of this is Starbucks, who were exposed for having paid minimal corporation tax in the UK. Despite this, Starbucks were hardly affected by the negative press as they have managed to build up a loyal customer base over a number of years. Given this, the regulators ability to increase efficiency through public exposure would be limited for certain companies.

² For a 15 marker, you only need to make 3 well-developed points, so this is extra to help students with other points.

Other essays in the pack include:

- **Discuss whether profit maximisation is a realistic business goal? [25]**
- **To what extent does the threat of competition affect a firm's behaviour? Answer either with reference to the healthcare product industry or to an industry of your choice [25] [June 2011]**
- **Assess how the newly combined Kraft and Cadbury food company could increase its share of the chocolate market in competition with Mars. Refer to game theory in your answer [15] [June 2011]**
- **With reference to the information provided, evaluate whether Kraft's takeover of Cadbury is likely to increase economic efficiency [15] [June 2011]**
- **Using examples from the Extracts, assess the degree of monopsony power in the groceries market [15] [June 2012]**
- **To what extent is price discrimination possible for firms selling products both on the internet and in high street shops?**
- **To what extent does the evidence suggest that the US car market is contestable? [15] [June 2012]**
- **Discuss two possible government measures to improve the mobility of labour in the coal mining industry [12] [January 2013 [Unit 1]]**

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