**Quick Answers**

## *Question 1*

**Analyse the possible effects on consumers of a merger between two paper-producing firms.**

**Coherent analysis which might include:**

- This would be a horizontal merger (1) it may enable the merged firm to take greater advantage of economies of scale (1) so lower average costs of production (1) which may lower prices (1) enabling consumers to buy more / save more (1)
- The merger may increase profits (1) allowing the merged firm to spend more on e.g. R&D (1) gain new ideas (1) increase investment (1) consumers may gain from a rise in the quality of the product (1) new products may be produced(1)
- The merger may reduce competition / result in a monopoly (1) which may increase prices (1)
- If the merged firm is a monopoly it may restrict supply / result in outlets being shut down (1) making it more difficult for consumers to obtain the product (1) may reduce choice (1) may result in diseconomies of scale (1)
- A reduction in competitive pressure (1) may reduce the quality of the product (1)

## *Question 2*

**Analyse the main reasons for the differences in the size of firms.**

- Type of business organisation (1) state-owned enterprises and multinational companies operate on a larger scale than sole traders (1)
- Size of market (1) the market for some products is large / expanding (1) example (1) while others are declining (1) example (1)
- Some firms have more access to finance (1) public limited companies can sell shares (1) sole traders cannot (1)
- Some firms grow through merging (1) type of merger e.g. horizontal merger (1)

- Motives of owners (1) e.g. some prefer the firm to remain small so that they can retain control / ownership (1)
- Some firms may be subsidised (1) which may encourage them to produce a higher output (1)
- Some firms may be more profitable (1) can reinvest profits / internal growth (1)
- Length of time in the market (1) longer there, more time to grow (1)
- Some firms may be able to take advantage of economies of scale (1) example of an economy (1)
- Some firms may experience diseconomies of scale (1) example (1)
- Type of product / capital v. labour-intensive (1) e.g. aircraft have to be produced on a large scale (1)

**Guidance**

- Maximum of 3 marks for a list-like approach

### *Question 3*

**Discuss whether a large firm will earn more profit per unit sold than a small firm.**

**Up to 5 marks for why it might:**

- May be able to take advantage of economies of scale (1) examples (2) lower average cost (1) permitting a lower price to be charged raising sales / enabling more profit to be made even if the price charged is the same (1)
- May have funds available to spend on advertising (1) create a brand image / brand loyalty (1) allowing the firm to raise price (1)
- May have more market power (1) may be able to keep competitors out of the market/have high barriers to entry (1) allowing the firm to raise price (1)

**Up to 5 marks for why it might not:**

- Large firm may experience diseconomies of scale (1) examples (2) higher average cost (1)
- Small firms may be subsidised by the government (1) lower average cost/extra source of revenue (1)

- Small firms may be producing a new product (1) for which there may be a high demand (1)
- Small firms may be in a niche market (1) consumers may be willing to pay a high price (1)
- Small firms may respond quicker to a change in demand (1) reducing surpluses and shortages (1)
- Small firms may provide a personal service / develop a personal contact (1) increasing demand / enabling a higher price to be charged (1)

**Guidance**

- Accept an answer from the perspective of a small firm earning more/less profit

### *Question 4*

**Analyse the reasons why small shops may be easy to set up.**

- They do not take much money to set up (1) costs initially will be low (1) low fixed costs (1) it may be possible to borrow the money (1) or use savings (1)
- There may be government subsidies (1) designed to encourage the growth of small firms/shops / lower costs of production (1)
- Running a small shop does not require significant management skills (1) people do not need a high level of education to run a small shop (1)
- May be less paperwork involved / regulations (1) reducing time and effort (1)

### *Question 5*

**State two sectors, other than the primary sector, in an economy.**

- Secondary sector (1)
- Tertiary sector (1)

**Guidance**

Reward but do not expect the quaternary sector.

*Question 6*

**Define industry.**

Firms (1) that produce the same product (1) example (1)

*Question 7*

**Explain two types of integration (merger).**

• horizontal integration (1) firms from same industry and same level of production integrate (1)
• vertical integration (1) firms from same industry but different levels of production integrate (1)
• conglomerate integration (1) firms from different industries integrate (1)

**Guidance**

Allow full marks if forward and backward vertical integration is explained accurately.

*Question 8*

**Discuss whether or not an economy will benefit from its firms getting larger.**

**Up to 5 marks for why it might:**

- To produce more (1) more workers may be employed (1) which may reduce unemployment (1).
- Larger firms may be more price competitive/produce at lower average cost (1) due to economies of scale (1) example (1) this may increase output (1) causing economic growth (1) lower prices (1) it may also increase exports (1) improving the current account position (1).

**Up to 5 marks for why it might not:**

- More imported raw materials/capital goods may be purchased (1) worsening the current account position (1).
- Larger firms may have more market power (1) may be less efficient (1) may experience diseconomies of scale (1) example (1) average costs may rise (1) cause cost-push inflation (1) reducing exports (1) worsening the current account position (1).

*Question 9*

**Explain, giving examples, the difference between an internal economy of scale and an external economy of scale.**

- Internal economy is the benefit a firm gains from itself (1) e.g. buying economies (1).
- External economy is the benefit a firm gains from the industry (1) e.g. ancillary industries (1).

*Question 10*

**Analyse how the ability of firms to produce on a larger scale is beneficial to consumers**

- Producing on a larger scale may enable economies of scale (1) example (1) when average costs decrease (1)
- Price of the product may fall (1) enabling consumers to buy more of the product (1) improving living standards (1)
- Producing on a larger scale reduces shortages (1) increases the quantity of products available to consumers (1)
- Producing on a larger scale may enable more to be spent on R&D (1) increasing the quality of products available to consumers (1)

*Question 11*

**Explain two internal economies of scale referred to in the extract.**

• managerial/labour economies (1) employing specialised workers (1)
• financial economies (1) easier to borrow from banks / lower borrowing costs (1).

*Question 12*

**Discuss whether or not a merger will increase profits.**

**Up to 5 marks for why it might:**

- A merger will reduce competition (1) the merged firm will have increased market share (1) this may make demand for its products more inelastic (1) may be able to raise price (1)
- The new combined firm may be able to take greater advantage of economies of scale (1) so lower average cost (1) examples (2)
- The new firm may be able to rationalise (1) cut out duplication (1) lower average cost (1)
- There may be more ideas / sharing of ideas (1) increasing innovation / raising quality (1)
- A vertical merger will provide greater control over the quality of raw materials / outlets (1)

**Up to 5 marks for why it might not:**

- The reduction in competition may reduce competitive pressure on the new firm to keep costs low (1) and quality high (1) so demand may fall (1)
- It may be difficult for the two former firms to adopt common methods of production (1) there may be duplication of equipment and staff (1)
- The merged firm may experience diseconomies of scale (1) higher average cost (1) examples (2)

*Question 13*

**Discuss whether or not a merger would make it easier for a firm to achieve its goals.**

**Up to 5 marks for why it would be easier:**

- It could be a horizontal merger (1) enabling easier exploitation of economies of scale (1) leading to lower average costs (1) examples of economies of scale (max 2) lower prices (1) leading to more demand (1) and higher profits (1)
- It could be a vertical merger (1) reducing the costs of obtaining materials / making it easier to distribute the firm's products (1)
- Reduced competition / monopoly (1) a quick way to grow (1) the firm can set higher prices (1) without losing too many customers (1)
- Reduced risk (1) the loss of one part of the business could be offset by the other (1) it is easier for the firm to survive (1)

**Up to 5 marks for why it would not be easier:**

- Reduced competition may cause complacency (1) may fail to control of costs (1)
- The merged firm may experience diseconomies of scale (1) average cost may increase as output increases (1) example (max 2) leading to higher prices (1) reduced demand (1) and lower profit (1)
- Large firms may lose customers due to lack of personal touch (1)
- Cost of integrating firms such as redundancies / fall in morale (1)
- Government may no longer support large firms (government support small firms) (1) removing tax advantages (1) and subsidies (1)

**Guidance**

- Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is to be rewarded.

## *Question 14*

**Discuss whether or not small firms are likely to survive in the long run.**

**Up to 5 marks for why they might:**

- Small firms may provide a personal service (1) may have greater contact with their customers (1) more responsive to changes in consumer demand (1)
- May be more flexible (1) fewer people to consult (1)

- May be producing products in low demand (1) not facing competition from large firms (1)
- May be a local monopoly / in a good location (1) may not face competition in the area (1)
- May cooperate with other small firms (1) enable advantage to be taken of e.g. buying in bulk (1)
- May supply specialised products / in a niche market (1) including to large firms (1)
- May receive government subsidies (1) lowering their costs of production (1)

**Up to 5 marks for why they might not:**

- May be driven out of business (1) by larger firms with lower costs of production (1) better known (1) larger firms can take advantage of economies of scale (1).examples of economies of scale (Up to 2)
- Large firms may take over / merge with smaller firms (1) to gain market power (1) take advantage of economies of scale (1)
- Government subsidies may only be short term (1)
- Some small firms may cease to exist when their owners retire/die (1) e.g. sole traders (1)
- Less capital available / difficulties in raising capital (1) make it difficult to purchase new / high quality equipment (1) make it difficult to invest in R&D (1)

**Guidance**

- Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is expected.

## *Question 15*

**Discuss whether or not a firm that produces a wide range of products can take advantage of economies of scale.**

**Up to 5 marks for why it might:**

- May be able to take advantage of financial economy of scale/greater ability to raise finance/borrow at a lower rate of interest (1) as this type of economy of scale is just dependent on the size of the firm (1)

- May be able to take advantage of risk bearing economy of scale (1) as this type is dependent on a range of products being produced (1)

- May be able to take advantage of managerial economy of scale (1) some specialised jobs e.g. accountants are not dependent on type of products produced (1)

- May be able to take advantage of external economies of scale (1) these depend on the size of the industry (1)

**Up to 5 marks for why it might not:**

- May not be able to take advantage of buying/purchasing economy (1) may not be able to buy raw materials in bulk (1)

- May not be able to take advantage of technical economy (1) the different types of product may require different capital equipment to produce them (1)

- May not be possible to achieve selling economy in the form of specialised transport (1) the different products may require different forms of transport (1)

- May not be a large firm e.g. produces small amounts of lots of goods (1) and may not benefit from economies of scale (1)

- Maybe be too big a firm (1) suffers from diseconomies of scale (1) example (1)

**Guidance**

- Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is to be rewarded.

## *Question 16*

**Discuss whether or not commercial banks in Morocco would benefit from further mergers.**

**Up to 4 marks for why they might:**

- The merger would give the banks / firms more market power (1) a relatively quick way to grow (1) may be able to raise price (1) without losing too many customers (1)

- It could be a horizontal merger (1) which may enable greater advantage to be taken of economies of scale (1) example (1) lower (average) costs (1) lower prices / increased demand (1) higher profit (1)

**Up to 4 marks for why it might not**

- The reduction in competition may make the banks / firms complacent (1) may not try to keep costs down (1)
- The firms may experience diseconomies of scale (1) example (1) higher (average) costs (1) higher prices / reduced demand (1) lower profit (1)
- Costs of integrating firms such as redundancies/loss of morale (1)
- Large firms may lose customers due to lack of personal touch (1)

**Guidance**

- Accept profits and/or costs on either side. One mark if given on both sides. More marks can only be awarded if a reason for change in profits is given.

## *Question 17*

**Define economies of scale.**

- A fall in average costs (1) resulting from an increase in output/scale of production (1)

**Guidance**

- Reward an accurately labelled diagram

## *Question 18*

**Discuss whether people would prefer to buy a product from a small firm or a large firm.**

**Up to 5 marks for why they might prefer to buy from a small firm:**

- May be flexible (1) quick to respond to changes in consumer demand (1) as do not have to consult others (1)

- May provide a personal service (1) can get to consumers and their requirements (1) adapt to particular requirements (1)
- May be specialised (1) produce high quality products (1)
- Small firms may receive government subsidies (1) enabling them to keep price low / quality high (1)
- Unlikely to experience diseconomies of scale (1) example (1)

**Up to 5 marks for why they might prefer to buy from a large firm:**

- Lower prices (1) due to lower costs (1) because of economies of scale (1) example (1)
- Better known brands (1) due to advertising (1)
- Wider variety (1) better quality (1) better after sales (1) due to more funds to invest (1).

**Guidance**

- Accept response from either perspective
- Accept better quality for either side, but only one mark if given on both sides. More marks can only be awarded if it is established why there may be better quality

*Question 19*

**Analyse the economies of scale from which a farm may benefit**

- Buying (purchasing) economies (1) e.g. buying seed in bulk at reduced price (1)
- Technical economies (1) using up to date / efficient equipment e.g. combine harvesters (1)
- Managerial economies (1) employing specialist workers e.g. farm managers (1)
- Financial economies (1) borrowing at a lower rate of interest/finding it easier to obtain a loan (1)
- Risk bearing economies (1) a farm may grow a variety of crops (1)

**Guidance**

- Maximum of 4 marks unless at least one type of economy of scale is related specifically to a farm e.g. buying seed in bulk.
- Also credit analysis of external economies of scale
- Maximum of 3 marks for a list-like approach