Question 14 (Answer: **A**)

- Economies of scale mean average cost falls as output rises.
- That is the definition, so lower average cost must follow.
- Total cost still rises with output – it is the cost *per unit* that falls.

Question 13 (Answer: **A**)

- The Japanese car industry's size lets its firms produce at a lower cost per unit.
- Cost savings arising from the size of the whole *industry* are external economies of scale.
- They benefit every firm in the industry, not just one.

3(a)	**Define *average total cost.*** Total cost divided by output (2). Cost per unit (1).
3(b)	**Explain how using renewable raw materials may affect a firm's profits.** Logical explanation which might include the following. • Using renewable resources may be more expensive (1) increase costs of production (1) reduce profits (1). • Can advertise that renewable resources which create less pollution / improve environmental sustainability are being used (1) increase image of the firm (1) raise demand (1) increase profits (1). • Using renewable resources may be subsidised (1). May become cheaper to use renewable resources in the long run (1). • Resources will not be depleted / firms have a constant supply of raw materials (1) raise profits (1).

3(c)	**Analyse the internal economies of scale that a cosmetics firm could experience**. Coherent analysis which might include the following. • Buying / purchasing economies (1) buy ingredients in bulk at a discount (1). • Labour economies (1) workers specialising e.g. designing the packaging (1). • Managerial economies (1) e.g. specialist human resource manager (1). • Technical economies (1) advanced technology could be used to produce perfume (1). • Financial economies (1) the firm finding it cheaper / easier to borrow from banks (1). • Research and development economies (1) develop new perfumes (1). • Selling / marketing economies (1) lower average advertising costs (1). • Risk-bearing economies (1) selling perfume in more markets (1).

3(d)	**Discuss whether or not perfume should be taxed at a higher rate than food.** In assessing each answer, use the table opposite. Why it should: • perfume is a luxury whereas food is a necessity • rich spend more on perfume than the poor • taxing food more may increase poverty as poor spend a high proportion of their income on food • perfume is less likely than food to be a merit good • a higher price for perfume will not significantly contribute to inflation, not a significant item in CPI • perfume may be imported while food may be supplied by domestic firms. Why it should not: • demand for perfume may be elastic and so may not raise much revenue. In contrast, inelastic demand for food so may raise high tax revenue • perfume may be an important domestic industry. Higher taxes may result in closure / unemployment • some food is a demerit good e.g. food with a high sugar content • taxing demerit food may improve health • taxing food may reduce obesity.

3(d)	

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Question 14 (Answer: **B**)

- An external economy of scale is a cost saving that comes from outside the firm.
- Better transport infrastructure benefits every farm in the area, not just one.
- So it lowers costs for the whole industry – an external economy, not an internal one.

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Question 11 (Answer: **C**)

- Moving down an average total cost curve means average cost is falling as output rises.
- That is economies of scale.
- A merger raises output, so the combined firm can move further down the curve.

Question 16 (Answer: **C**)

- A monopoly faces no competition, so it can raise price and restrict output.
- Being larger it can also exploit economies of scale, so its average costs may fall.
- So price and profit rise while consumer choice and output fall.

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Question 13 (Answer: **B**)

- Internal growth means expanding the firm's own operations rather than buying another firm.
- It is worth doing while average costs are still falling, so economies of scale remain.
- If diseconomies set in at low output, growth would raise costs instead.

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Question 12 (Answer: **A**)

- Internal growth means the firm expands its own operations.
- Opening another shop of its own is internal growth.
- Buying a firm at the same stage of the same industry would be external and horizontal.

Question 13 (Answer: **B**)

- A downward shift of the whole long-run ATC curve means lower average cost at every output.
- That comes from something outside the firm's own scale – a technological advance, or lower input prices.
- Moving *along* the curve would be economies of scale from producing more.