1.30 Productive, Allocative, Dynamic and X-Efficiency: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Write full sentences for questions worth 4 marks or more and for the final 15-mark essay. Time guidance: 10 minutes total.

1 Explain how intense short run competition between firms in a market might encourage dynamic efficiency, giving one realistic limitation to this argument.

(Total for Question 1 is 3 marks)

2 Explain briefly why perfect competition in the long run achieves both productive and allocative efficiency, and give one real-world reason why perfect competition is rare.

(Total for Question 2 is 2 marks)

3 Define X-inefficiency as used in the theory of the firm and give one cause of X-inefficiency in a firm operating with little competition.

(Total for Question 3 is 2 marks)

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Mark scheme · 1.30 Productive, Allocative, Dynamic and X-Efficiency: 10-minute Pack

Question 1

intense competition can push firms to innovate to gain cost or product advantages, investing in R and D to shift LRAC downwards or differentiate products — **M1**

this leads to dynamic efficiency as new products or lower costs emerge over time benefiting consumers — **A1**

limitation: fierce competition may reduce firms profits and available funds for R and D, so in some markets competition can undermine dynamic investment — **A1**

Answer: Competition can drive firms to invest and innovate to gain an edge, producing dynamic efficiency, but if competition drives profits too low the funds and incentives for R and D fall, limiting dynamic gains.

Question 2

in perfect competition free entry drives economic profit to zero and firms produce at minimum average cost, achieving productive efficiency — **M1**

price equals marginal cost in long-run equilibrium, achieving allocative efficiency; real-world rarity: product differentiation, barriers to entry, or economies of scale make perfect competition uncommon — **A1**

Answer: Free entry and price-taking push firms to produce at minimum AC and P = MC in the long run, giving productive and allocative efficiency. It is rare because barriers to entry and product differentiation or significant economies of scale exist in most industries.

Question 3

X-inefficiency is when a firm fails to achieve the lowest possible cost of production, operating with higher costs than necessary — **B1**

one cause: lack of competitive pressure leading to managerial slack, wasteful use of inputs, or weak incentives to minimise costs — **B1**

Answer: X-inefficiency is when a firm operates above its lowest possible cost; one cause is weak competitive pressure producing managerial slack and reduced effort to minimise costs.

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