1.30 Productive, Allocative, Dynamic and X-Efficiency: 30-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 30 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: 30 minutes total.

1 Evaluate the view that more competitive markets are always more efficient than less competitive markets.

(Total for Question 1 is 15 marks)

2 Explain dynamic efficiency and outline one way a firm might achieve it over time.

(Total for Question 2 is 3 marks)

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3 State briefly which market structure, on average, is most likely to achieve allocative efficiency in the long run, and give one reason why.

(Total for Question 3 is 2 marks)

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Mark scheme · 1.30 Productive, Allocative, Dynamic and X-Efficiency: 30-minute Pack

Question 1

Level 1 Basic assertions about competition and efficiency with limited development. May state that competition often improves productive and allocative efficiency but lacks depth, few or no diagrams, weak or no judgement. **1-5**

Level 2 Clear analysis across several efficiency types, including some diagrams or examples. Considers how competition promotes productive and allocative efficiency and may encourage dynamic efficiency, but recognises limitations such as underinvestment and short-run costs. Partial balanced judgement. **6-10**

Level 3 Well-developed, balanced evaluation covering productive, allocative, dynamic and X-inefficiency with clear diagrams where relevant. Weighs benefits of competition against countervailing factors such as natural monopoly scale economies, R and D funding, and regulatory costs. Provides a reasoned and supported final judgement that competition is generally beneficial for static efficiencies but not always superior for dynamic outcomes or where scale economies justify less rivalry. **11-15**

Indicative content:

- Explain how competition tends to drive firms to produce at lower average cost and to price closer to marginal cost, improving productive and allocative efficiency.
- Use diagrams: cost curves and demand to show P = MC allocative condition and SRAC minimum for productive efficiency; explain movement under entry and exit in competitive markets.
- Discuss dynamic efficiency: competition creates incentives to innovate, but profits fuel R and D; firms in less competitive markets may have more retained earnings to invest, leading to trade off between static and dynamic efficiency.
- Consider X-inefficiency: lack of competition raises the risk of managerial slack and higher costs, so more competitive markets reduce X-inefficiency.
- Analyse natural monopoly and scale economies: for some industries large scale reduces LRAC so a single firm may be productively efficient; breaking it up could raise average costs and reduce welfare.
- Consider public policy and regulation: regulation can mimic competitive pressures but may be costly or imperfect; price caps can reduce X-inefficiency but harm dynamic incentives.
- Weigh who gains and who loses: consumers gain from lower prices and higher allocative efficiency, producers may lose short-run rents but may gain from dynamic returns if protected by intellectual property or moderate market power.
- Conclude with a supported judgement, for example that competition usually enhances static efficiencies and reduces X-inefficiency, but is not always superior when dynamic efficiency or large scale economies are central, so the claim is not universally true.

Question 2

dynamic efficiency refers to efficiency gains over time, through innovation, investment and improvements that lower long run average costs or improve product quality **M1**

one way to achieve it: sustained R and D and investment in new technology that shifts the long run average cost curve downwards over time **A1**

this increases consumer welfare via lower prices or better products in future periods **A1**

Answer: Dynamic efficiency means improving efficiency over time via innovation and investment; a firm can achieve it by sustained R and D that reduces long run average costs and improves product quality.

Question 3

answer names the market structure, e.g. perfect competition **B1**

gives a reason: in perfect competition price equals marginal cost in the long run because firms are price takers and entry/exit drives profits to normal, aligning P with MC **B1**

Answer: Perfect competition, because free entry and price-taking behaviour tend to drive price to equal marginal cost in the long run.

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