



GCE A LEVEL MARKING SCHEME

SUMMER 2023

**A LEVEL
ECONOMICS - COMPONENT 1
A520U10-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2023 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of economics concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level-based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

GCE A LEVEL ECONOMICS – COMPONENT 1

SUMMER 2023 MARK SCHEME

SECTION A

Question	Answer
1.	A
2.	C
3.	B
4.	A
5.	A
6.	D
7.	B
8.	C
9.	D
10.	B
11.	D
12.	C
13.	B
14.	D
15.	B
16.	A
17.	A
18.	E
19.	B
20.	D

SECTION B

21. (a) Using an example, show what is meant by an external cost in this case. [2]

AO1: 2 marks

1 mark for an appropriate example of an external cost

1 mark for a good understanding of what an external cost is

Indicative content

External cost: An impact on a third party as a result of (in this case) consumption that is ignored by consumers and producers

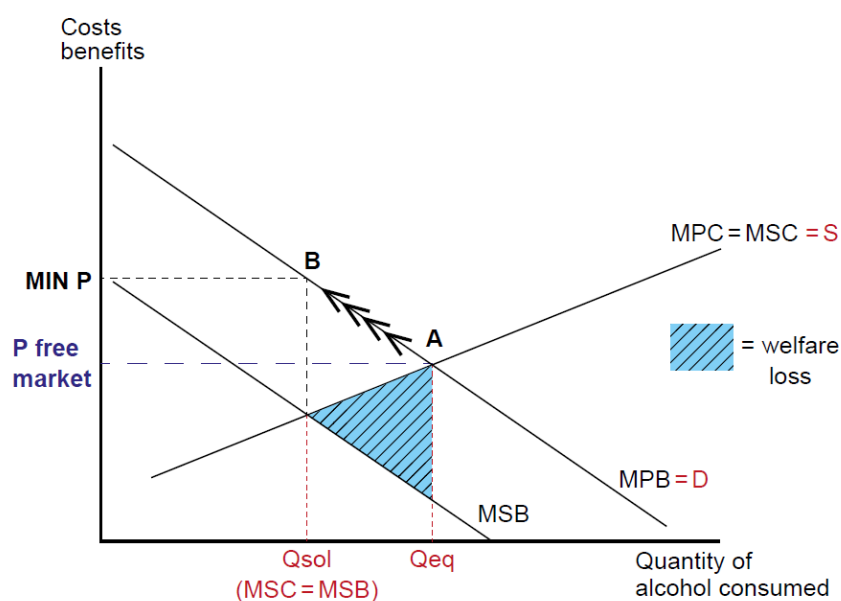
Example: Impact on third parties (not the consumer themselves) Impact on those needing to clean up mess, increased accidents, strain on health system etc.

- (b) Outline how a minimum price could correct the market failure present in this case. Adapt the diagram as part of your answer. [4]

Band	AO1 (diagram)	AO1 (outline)
	2 marks	2 marks
2	2 marks Good diagram Accurate diagram that shows how a minimum price will reduce consumption to the socially optimal level and eliminate the welfare loss.	2 marks Good knowledge Clear outline of how market failure will be corrected.
1	1 mark Limited diagram The diagram has errors and/or fails to show both the adjustment in equilibrium quantity and the elimination of the welfare loss.	1 mark Limited knowledge Some understanding of how market failure will be corrected but with important elements missing. Answers in this band will include those that show an understanding of market failure but not how it is corrected.
0	0 marks No valid diagram	0 marks No valid knowledge An understanding of market failure is not present.

Indicative content

Diagram:



The minimum price will reduce demand from Q_{eq} to Q_{sol} (contraction in demand of $A \rightarrow B$) eliminating the welfare loss.

Outline:

Market failure is a situation in which in a free market a good is over or under consumed (or produced). In this case, the good is overconsumed (because the external costs of consumption are ignored), producing a welfare loss.

This welfare loss can be eliminated by imposing a minimum price which would reduce consumption to the socially optimal level.

22. To what extent can these trends be explained by cross price elasticity of demand?

[7]

Band	AO1	AO2	AO3	AO4
	1 mark	2 marks	2 mark	2 marks
2		2 marks Good application Context has been used thoroughly for both products.	2 marks Good analysis Strong chains of reasoning are present, showing a strong understanding of how either positive or negative XED might be used to explain a relationship between products making clear reference to price changes.	2 marks Good evaluation Strong counter-argument demonstrating that other factors other than the prices of the products involved might explain the relationship.
1	1 mark Knowledge and understanding of XED is shown.	1 mark Limited application Direct use of the context has been made on one side of the argument.	1 mark Limited analysis There is a chain of reasoning using theory about why XED might explain a relationship between the products, making clear reference to price changes.	1 mark Limited evaluation Counter-arguments/points on the opposite side are present but are under-developed.
0	0 marks No valid understanding Understanding of XED not present.	0 marks No valid understanding Context not used.	0 marks No valid analysis Relevant chains of reasoning are not present.	0 marks No valid evaluation Relevant counter-arguments are not present.

AO1

XED shows the responsiveness of demand for one product to a change in the price of another.

AO2

Cow's milk and plant-based milks are substitutes – they both fulfil the same need
 Cereal and cow's milk are complements, but then so too, arguably are cereal and plant-based milk

Other factors other than the relationships shown in the extract might be at work, such as an increased movement away from animal-based products for health and ethical reasons

AO3

A possible explanation is that a rise in the price of one of the products has caused a rise in the demand for the other, or that a fall in the price of the second product has caused a fall in the demand for the first. Hence the relationship can be explained by a positive XED. This would be a substitute relationship between the two types of milk.

Alternatively, a complement relationship might be present between cereal and cow's milk. If the declining popularity of cereal is a result of price changes, then XED could be the key – more expensive cereal means less is bought, hence reducing the derived demand for cow's milk.

AO4

XED is all based on price changes and we have no information about whether the prices of any of the products has changed.

Even if the price of cereal has increased, other things being equal, this would also reduce the demand for plant-based milks too.

There are many other factors other than price that could be changing in these markets (health awareness, social trends, income levels) meaning that XED is not relevant.

23. (a) **With the aid of the data explain the relationship between the budget/fiscal deficit and periods of recession.** [4]

AO2: 2 marks: clear direct use of both charts is made, with clear links between negative growth and rising budget deficits using numerical data in the charts.

AO2: 1 mark: The link is identified without use of the numerical data itself. Some reference is made to the charts, however – the answer is not completely abstract

AO2: 0 marks: The answer is purely theoretical

AO3: 2 marks: A strong chain of reasoning that explains **ONE** of the following:

- (i) In a recession, GDP falls and unemployment rises. This reduces the tax base (reducing income tax revenue) and also cuts VAT and corporation tax receipts (not all of this is needed)
- (ii) Rising unemployment and falling incomes mean that more money will automatically be paid out on benefits.
- (iii) In a recession, governments may engage in expansionary fiscal policy, deliberately increasing spending and cutting taxes to support AD and bring the economy out of recession more quickly.
Alternatively, **TWO** of the above may be explained but chains of reasoning are less developed.

AO3: 1 mark: One of the three factors outlined above is explained but rather superficially

AO3: 0 marks: The link is only asserted.

- (b) Discuss the view that a government should only ever borrow to finance capital expenditure. [6]

Band	AO1	AO3	AO4
	1 mark	2 marks	3 marks
			3 marks Excellent evaluation Strong two-sided answer that comes to an overall judgement as to whether borrowing for other types of spending is justified.
2		2 marks Good analysis Strong line of argument explaining one side of the argument. The answer clearly justifies higher borrowing for capital spending alone (not other types of spending).	2 marks Good evaluation Strong counter-argument explaining that borrowing for other types of spending may well be justified.
1	1 mark Knowledge and understanding of government capital spending is shown.	1 mark Limited analysis There is a chain of reasoning but it is underdeveloped in terms of linking borrowing to capital spending.	1 mark Limited evaluation Evaluation may be superficial or lacking detail, but reasons for other borrowing are present.
0	0 marks No valid understanding Understanding not demonstrated.	0 marks No valid analysis Relevant chains of reasoning are not present.	0 marks No valid evaluation Relevant counter-arguments are not present.

Indicative content

AO1

Capital spending is long term spending on physical assets which does not have to be renewed each year. It includes spending on social capital such as infrastructure.

AO3

Increased borrowing creates negative side effects in the form of higher debt service costs in the future, possible higher bond yields. It imposes burdens on future generations.

Capital spending should increase the long-term rate of economic growth, therefore raising the government's tax base and allowing the higher debt service costs to be paid, meaning that borrowing for capital spending can be justified because it will be at least partly self-financing.

Capital spending creates infrastructure which will be used for many years by future generations, therefore it is reasonable to expect them to pay for it, possibly in the form of higher taxes to meet the debt service costs. Financing all capital spending out of the current budget would be unfair to today's tax payers, who might not live to see the benefits and suffer from lower spending on current services as well.

Borrowing to fund increased benefits spending isn't justified because it doesn't provide future benefits and won't increase the long run growth rate.

Answers might use AD/AS diagrams to illustrate all this, showing an increase in both AD and LRAS

Some answers may argue that since economies will self-stabilise from recessions in any case, there is no reason for governments to borrow to support AD and any attempt to do so will damage LR growth (via crowding out)

AO4

Borrowing for current spending and benefits payments can be justified in recession – failure to do so might create the risk of a deflationary spiral which leads to an even worse fiscal position than had the government simply borrowed in the short term.

Cutting government spending in a recession to balance the budget may therefore (a) not actually work and (b) may drive up inequality as cuts to government services often impact on low-income groups the most.

With interest rates as low as they are, borrowing isn't an issue anyway – the service costs are very low, there's no meaningful risk of crowding out nor does there seem to have been any increase in bond yields even in the most indebted countries partly because of the impact of QE.

Answers might use AD/AS analysis to show that the failure to borrow for current/benefit spending may worsen a recession.

Some might answer that higher borrowing isn't even justified for capital spending because of the risk of government failure and/or crowding out. Borrowing even for capital expenditure will increase the National Debt and mean higher interest payments.

24. Using the diagrams below assess the extent to which deflation is always bad for an economy. [8]

The answer is fully reversible

Band	AO1	AO3	AO4
	2 marks	3 marks	3 marks
		3 marks Excellent analysis Well-developed analysis as to why demand deflation is generally bad for an economy and why supply side deflation is generally good for an economy with clear chains of reasoning.	3 marks Excellent evaluation The argument is well qualified to explain why supply side deflation isn't always good or demand side deflation isn't always bad. Answer comes to a judgement as to the extent to which deflation is or isn't bad.
2	2 marks Good knowledge Both diagrams are used as part of the answer and both demand side and supply side deflation are understood.	2 marks Good analysis Well-developed analysis as to why demand deflation generally is bad for an economy or why supply side deflation is generally good for an economy with clear chains of reasoning.	2 marks Good evaluation The argument is well qualified to explain why supply side deflation isn't always good or demand side deflation isn't always bad.
1	1 mark Limited knowledge Only one of demand side and supply side deflation is understood, but at least one diagram is used.	1 mark Limited analysis Some analysis of why demand deflation is bad for an economy and why supply side deflation is good. Chains of reasoning are under-developed.	1 mark Limited evaluation Some to attempt to qualify the benefits of supply side deflation or the costs of demand side deflation, but the chain of reasoning is under-developed.
0	0 marks No valid understanding Understanding not demonstrated.	0 marks No valid analysis Relevant chains of reasoning are not present.	0 marks No valid evaluation Relevant counter-arguments are not present.

AO1

The left-hand diagram shows demand deflation. Prices are falling, but so too is real GDP. The economy is heading into recession with falling prices

The right-hand diagram shows supply-side deflation – GDP is rising and prices are falling. Superficially this is win-win.

AO3

Demand deflation is generally considered to be undesirable because:

The real value of debt is rising, encouraging households to cut back on spending to pay down debt/avoid incurring more debt. This reduces AD which creates the risk of a vicious circle.

Because prices are lower in the future, households may defer spending, which again create the risk of a deflationary spiral.

The increased value of real debt and falling nominal GDP increases the debt burden on the government and reduces their ability to use fiscal expansion to drive the economy out the deflationary spiral. Higher debt to GDP ratios may also mean that the government's ability to engage in expenditure on social capital and social protection is reduced.

Negative inflation drives up real interest rates and therefore reduces the power of monetary policy. Since it is hard to reduce nominal interest rates below zero, monetary policy may eventually become completely ineffective.

Firms facing falling revenue, reducing profits – this may force them to cut back on investment and to cut costs leading to job losses, reduced dividend pay-outs and so on.

Supply side deflation is generally more beneficial

Falling prices are increasing consumers' real incomes and improving international competitiveness (assuming the exchange-rate is unchanged). At the same time real GDP is rising, creating jobs and higher spending power.

AO4

Demand deflation might not be all bad:

In the short run, prices are lower which increases consumers' real incomes and the real value of saving – deflation in Japan created the rise of the 100Y shop in which consumers could get very low-priced products.

Demand deflation only affects some groups negatively – those with high levels of debt and those who lose their jobs. Falling prices for other groups may generally be welcomed, even if GDP as a whole is falling.

Falling prices may boost an economy's international competitiveness, therefore improving the trade balance, offsetting the fall in domestic demand.

Provided that deflationary expectations don't get established; deflation may simply be a sign that the economy is self-stabilising in the standard neo-classical model.

Short periods of demand deflation are increasingly common in a low-inflation world – provided that deflationary expectations don't become permanently established, such deflation can often be temporary and therefore no worse than any other type of recession.

Supply-side deflation might not be all good

Improvements in international competitiveness may be offset by changes in ex rates and much will depend on the PED of the country's exports.

If deflationary expectations become established, the supply-side deflation may turn into demand side deflation as consumers start to defer spending or are reluctant to build up debt.

Overall judgements

Can take a range of forms – might argue about the causes, extent, duration, policy response and so on.

25. Explain the relationship shown in figure 1 above and with reference to figure 2 consider the extent to which the relationship shown is beneficial for African economies. [9]

Band	AO2	AO3	AO4
	2 marks	3 marks	4 marks
3		3 marks Excellent analysis Link between commodity prices and growth is clearly explained with excellent chains of reasoning showing how and why GDP will be affected.	4 marks Excellent evaluation Strong two-sided answer which comes to a reasoned judgement as to whether or not the relationship is beneficial.
2	2 marks Good application Direct use is made of the data in figure 1 for different commodities and reference is made to figure 2.	2 marks Good analysis Link between commodity prices and growth is clearly explained with good chains of reasoning making it clear why GDP will be affected.	2-3 marks Good evaluation Well-developed reasons as to why the relationship isn't beneficial.
1	1 mark Limited application Use is made of the data in figure 1 but is either indirect or narrow.	1 mark Limited analysis Link between commodity prices and growth is explained, but chains of reasoning are weak.	1 mark Limited evaluation Some arguments made as to why the relationship is beneficial, but these are not developed.
0	0 marks No valid application Information in figure 1 is not used.	0 marks No valid analysis Relevant chains of reasoning are not present.	0 marks No valid evaluation. Relevant counter-arguments are not present.

Indicative content

AO2

LR impact is greater than SR impact in all categories (1.75% vs 0.21%)

GDP growth is more sensitive to agricultural price changes than energy/metals (SR about 0.36% vs 0.26%)

Difference between SR and LR is greater for agricultural raw materials than for others

Commodity prices have a significant impact on economic growth – African economies therefore quite sensitive to factors outside their control

Figure 2 shows significant volatility in global commodity prices as a whole over the period shown

AO3

Written for rising commodity prices, but allow the reverse analysis for falling commodity prices)

GDP is the value of national output, will therefore rise if global prices rise or if output rises.

Commodities often have low PED, meaning that total revenue will increase if price rises.

Many African economies have a high proportion of factors of production in primary products. An increase in primary product prices will therefore directly impact GDP in the short run by increasing the value of existing output.

Longer run impact is greater than short run because of

- PES – takes time to mobilise factors given production time lags especially in agriculture
- Impact on profitability – might attract new producers
- Impact on profitability, might allow investment into better production techniques (mining equipment, irrigation etc)

Higher commodity prices may attract FDI, creating jobs and increasing GDP (although, again, a LR impact rather than a SR one).

Rising commodity prices will take some households out of poverty allowing for better access to education and health services, increasing growth in the longer run.

Increased value added in commodities likely to increase the government's tax base allowing for further investment into social capital.

Increased \$ earnings may allow external debt to be paid down, freeing resources for use domestically/improving credit rating of government and reducing bond yields.

AO4

Beneficial if commodity prices are rising. Figure 2 shows that commodity prices are significantly higher than in the late 90s/early 00s, which will have contributed to rising incomes in African economies.

In countries where education levels are low, the strong link between commodity prices and GDP allows these economies to benefit from global growth.

If global growth increases the demand for commodities and drives up their prices (some evidence for this in figure 2) then African economies will benefit (although risk of Dutch Disease etc.)

But Prebisch-Singer hypothesis argues that primary product prices will fall relative to those of secondaries, worsening the terms of trade for primary product dependent economies.

Makes these economies very vulnerable to external shocks; Primary product prices are volatile (figure 2), meaning that GDP itself will also be volatile with implications for the stability of government finances and household incomes.

Sensitivity to primary product prices suggests that some of these economies are heavily primary product dependent. Could suggest the principle of comparative advantage at work, but primary product dependency comes with downsides (higher risk of corruption/poor governance, conflict especially in the case of dependency on precious metals/gemstones).

Even if rising commodity prices increase economic growth, this doesn't guarantee an increase in economic development.

Resource curse: poor economic performance of countries with an abundance of natural resources.