GCE AS MARKING SCHEME

SUMMER 2025

AS
ECONOMICS - UNIT 1
2520U10-1

About this marking scheme

The purpose of this marking scheme is to provide teachers, learners, and other interested parties, with an understanding of the assessment criteria used to assess this specific assessment.

This marking scheme reflects the criteria by which this assessment was marked in a live series and was finalised following detailed discussion at an examiners' conference. A team of qualified examiners were trained specifically in the application of this marking scheme. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners. It may not be possible, or appropriate, to capture every variation that a candidate may present in their responses within this marking scheme. However, during the training conference, examiners were guided in using their professional judgement to credit alternative valid responses as instructed by the document, and through reviewing exemplar responses.

Without the benefit of participation in the examiners' conference, teachers, learners and other users, may have different views on certain matters of detail or interpretation. Therefore, it is strongly recommended that this marking scheme is used alongside other guidance, such as published exemplar materials or Guidance for Teaching. This marking scheme is final and will not be changed, unless in the event that a clear error is identified, as it reflects the criteria used to assess candidate responses during the live series.

WJEC GCE AS ECONOMICS – UNIT 1

SUMMER 2025 MARK SCHEME

SECTION A

Question	Answer	Assessment Objective
1	D	AO1
2	D	AO2
3	C	AO1
4	E	AO2
5	B	AO2
6	A	AO2
7	D	AO1
8	A	AO1
9	D	AO1
10	D	AO1
11	B	AO2
12	E	AO2
13	C	AO1
14	E	AO2
15	B	AO2

SECTION B

Q16(a)	Explain why supply curves will normally slope upwards from left to right.[2]
	AO1: 2 marks **Profit Maximisation:** Producers aim to maximise profits. Higher prices often provide an incentive for suppliers to increase output, leading to an upward-sloping supply curve. As prices rise, producers can generate higher profits by supplying more goods or services. Possible mark allocation: • 1 mark for explaining that producers aim to maximize profits. (Do not accept reference to 'revenue') • 1 mark for linking higher prices to increased output and higher profits. **We should also accept 'Marginal Cost Increase':** In the short run, higher levels of output incur increased marginal costs for producers. As production expands, resources become scarcer, and costs rise. This higher cost of production at larger quantities contributes to an upward-sloping supply curve. Possible mark allocation: • 1 mark for referencing higher levels of output incurring increased marginal costs. • 1 mark for explaining that increased marginal costs contribute to the upward slope of the supply curve.
Q16(b)	**Calculate the value of consumer surplus at the new equilibrium price of £3.20. [2]**
	AO2: 2 marks Award **2** marks for correct answer only, with or without '£' sign. £2 160 000 OR £2 160 **1 mark** for either: • Partial working e.g. area of the rectangle (£4 320 000 OR £4320), or • Formula has been written correctly. E.g. (£3.60 x 1200) / 2 *Do not award marks for shading or identification of the consumer surplus area on diagram.*

16(c)	**With reference to the <u>income effect</u> and the <u>substitution effect</u> explain how consumers of grapes are likely to respond to a price increase. [4]**
	AO1: 2 marks, AO2: 2 marks Award AO1 for understanding of both effects. Candidates should refer to an increase or decrease in price when explaining each effect. Award AO2 for linking each factor to the context of higher prices for grapes. **Income Effect:** The income effect refers to the impact of a price change on the real purchasing power or real income of consumers. [1] If the price of grapes increases, consumers may experience a decrease in their real income because they need to spend more to maintain the same level of grape consumption. [1] **Substitution effect:** The substitution effect occurs when consumers shift to alternative goods due to a change in the relative prices. [1] If the price of grapes increases, consumers might choose to purchase other fruits or snacks that have become relatively more affordable. This substitution reflects a response to the changed price dynamics. [1]

Q17	**Using the data and your own knowledge, discuss the advantages of a regional minimum wage for Wales. [10]**		
Band	**AO2**	**AO3**	**AO4**
	2 marks	**4 marks**	**4 marks**
	Is the answer well applied to the context of Wales?	*Has economic theory been used to explain two advantages of a regional minimum wage?*	*Has economic theory been used to evaluate those advantages, or has economic theory been used to explain two disadvantages?*
3		**4 marks** Excellent analysis Candidate effectively uses economic theory to explain two advantages of a regional minimum wage.	**4 marks** Excellent evaluation An excellent range and depth of evaluation which considers two disadvantages of a regional minimum wage.
2	**2 marks** Good application Candidate has used data from at least 2 of the 3 tables to support the arguments. **OR,** candidate has used own knowledge well to support the arguments.	**2-3 marks** Good analysis Candidate uses economic theory to explain just one advantage of a regional minimum wage, or covers two advantages in insufficient depth.	**2-3 marks** Good evaluation Only one disadvantage of a regional minimum wage is developed well, or multiple are identified without development.
1	**1 mark** Limited application Candidate has used data from only 1 of the 3 tables, OR only used own knowledge once.	**1 mark** Limited analysis Candidate shows an understanding of minimum wages only – no reference made to regional minimum wage, OR only a limited point on regional minimum wage is offered.	**1 mark** Limited evaluation Candidate evaluates generically referring to national minimum wage, OR one evaluative point or one disadvantage on regional minimum wage identified only.
0	**0 marks** No or incorrect application	**0 marks** No or incorrect analysis	**0 marks** No or incorrect evaluation

This is a reversible answer.

Indicative content:

Advantages (AO3):

- Addressing Cost of Living Differences: By considering regional variations in the cost of living, a regional minimum wage can better address the affordability of basic necessities. The differences in gross weekly earnings across South East Wales, South West Wales, North Wales, and Mid Wales highlight the varying economic pressures faced by residents. Those in the South East might need to have a higher minimum wage to maintain their purchasing power.
- Mitigating Unemployment Impact: Implementing a regional minimum wage could potentially mitigate the impact on unemployment rates, as it allows for a more nuanced approach. For example: a regional minimum wage might help with the higher unemployment rate in Mid Wales, as seen in Table 2, because it might incentivize workers to move to these areas.
- Encouraging Regional Economic Growth: A regional minimum wage may encourage businesses to invest in areas with lower earnings, potentially fostering economic growth and reducing regional disparities. This can be seen as a positive outcome for both businesses and local communities. For example: a lower minimum wage in Mid Wales might incentivise firms to move here and create more jobs.

Disadvantages (AO4):

- Administrative Complexity: Implementing and administrating a regional minimum wage system adds complexity to wage policies. It requires efficient monitoring and enforcement mechanisms, potentially leading to increased administrative costs and challenges in implementation.
- A regional minimum wage might lead to lower wage differential between skills. Whilst this may be welcomed by some, from a classical economic point of view, this could reduce incentives for skill development and negatively impact industries relying on skilled labour.
- By creating incentives for migration, this could lead to workforce imbalances and challenges for businesses in regions with lower wage levels.
- While a regional minimum wage may help address local economic challenges, it could pose uncertainties regarding the viability of businesses, especially small and medium-sized enterprises (SMEs). Some businesses may face increased labour costs, affecting their sustainability.
- A higher regional minimum wage in certain areas will increase business' costs of production, which could result in firms laying-off workers, resulting in increased unemployment.

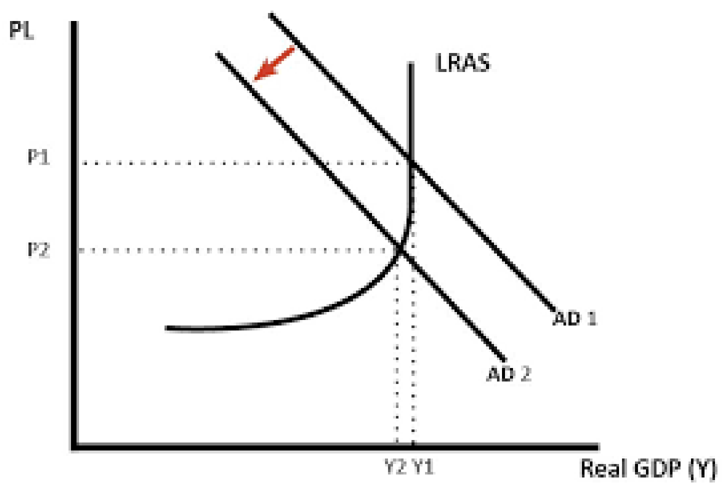
Note: This question asks specifically about the advantages and the disadvantages of a regional minimum wage for Wales. Any answer that simply looks at the case for and against a national minimum wage (rather than a regional minimum wage) can only score in Band 1 for both AO3 and AO4, but could receive 2 marks for AO2. Therefore, the maximum mark for a generic national minimum wage answer is 4 out of 10.

Q18(a)	**Calculate the values for <u>G</u> and <u>I</u>. [2]**
	AO2: 2 marks Award **1** mark for each correct answer. • G is 760 (or $760bn) • I is 240 (or $240bn)
Q18(b)	**Explain how both wealth and expectations can affect the level of consumption in an economy. [4]**
	AO1: 2 marks, AO3: 2 marks Award AO1 for understanding of both factors. Award AO3 for linking each factor to higher levels of consumption. **Indicative content** **Wealth** Wealth refers to the accumulated assets and resources owned by individuals. [1] In the context of consumption, an increase in wealth typically leads to higher consumer confidence and willingness to spend, creating a positive wealth effect. [1] *Alternative AO3:* wealth influences perceived financial well-being, impacting consumption. Increased wealth boosts consumer confidence, fostering spending through a positive wealth effect. [1] **Expectations** Expectations in economics refers to individuals' anticipations about future economic conditions, including income levels, job security, and overall economic performance. [1] Expectations play a role in consumption decisions as they shape individuals' views on future economic conditions. Optimistic expectations about income growth or job security tend to increase spending. [1]

Q18(c)	**Using an AD/AS diagram, explain how contractionary fiscal policy can lead to a fall in economic growth. [6]**		
Band	**AO1**	**AO1**	**AO3**
	2 marks	**2 marks**	**2 marks**
	Is there a correct diagram showing the effect of contractionary fiscal policy?	*Does the candidate demonstrate an understanding of contractionary fiscal policy?*	*Does the candidate explain how contractionary fiscal policy leads to a fall in economic growth?*
2	**2 marks** Good diagram A correctly draw diagram, showing an inward shift of AD. One minor error allowed.	**2 marks** Good understanding Candidate shows a good and clear understanding of contractionary fiscal policy.	**2 marks** Good analysis Clear chains of analysis, explaining how contractionary fiscal policy leads to a fall in growth.
1	**1 mark** Limited diagram A diagram showing an inward shift of AD, but one major error or minor errors evident.	**1 mark** Limited understanding Candidate shows some understanding of contractionary fiscal policy, but the understanding is limited or vague.	**1 mark** Limited analysis Candidate makes some attempt at explaining how it leads to a fall in growth, but the analysis will be underdeveloped or lacking logical chains of analysis.
0	**0 marks** No or incorrect diagram	**0 marks** No or incorrect understanding	**0 marks** No or incorrect analysis

Indicative content:

AO1 – <u>Diagram</u>



AO1 – understanding of contractionary fiscal policy

Band 1 examples:
- Generic reference to fiscal policy, e.g. an economic strategy implemented by the government; it involves changing the levels of government spending and taxes
- Contractionary fiscal policy involves increasing taxes
- Contractionary fiscal policy involves decreasing government spending

Do not accept a single point of 'aims to reduce inflationary pressure' in band 1, as this is not specific to contractionary fiscal policy.

Band 2 example:
- Contractionary fiscal policy involves increasing taxes and/ or decreasing government spending [1], as a means of slowing down an overheated economy/ reducing inflationary pressure [1]

AO3 – explanation of how contractionary fiscal policy results in a fall in economic growth

Band 1 examples:
- An increase in taxes will decrease AD, causing a fall in Real GDP.
- A decrease in government spending will decrease AD, causing a fall in Real GDP.

Band 2 example:
- An increase in income tax will leave households with less disposable income, resulting in a fall in consumption, and therefore a fall in AD. This will prompt businesses to produce fewer goods and services, causing a fall in Real GDP.

Q19(a)	**Outline what is meant by the Bank of England's status as a lender of last resort. [2]**
	AO1: 2 marks Award **2** marks for understanding the role • 1 mark for explaining the purpose, which is to provide emergency liquidity (or some variation of) • 1 mark to highlight the importance in maintaining confidence, preventing systemic failures or promoting stability during a financial crisis (or some variation thereof). **Indicative content** Examples might include: • The Bank of England (BOE) ensures financial stability during times of crisis by providing emergency liquidity to financial institutions facing solvency issues. • As the lender of last resort, the BOE plays a crucial role in maintaining confidence in the financial system. By offering emergency funds to solvent but illiquid financial institutions, it prevents systemic failures and promotes stability. • As the Lender of Last Resort, the BOE offers loans to banks or other eligible financial institutions that are experiencing financial difficulty or are considered highly risky or near collapse.

Q19(b)	**Discuss whether the Bank of England's MPC should only consider the current inflation rate when setting the base interest rate. [8]**		
Band	**AO1**	**AO3**	**AO4**
	1 mark	**3 marks**	**4 marks**
	Does the candidate demonstrate good understanding of target inflation, or the other factors the Bank is likely to take into account when setting base interest rates?	*Has economic theory been used to analyse the question effectively?*	*Has economic theory been used to evaluate the question effectively?*
3			**4 marks** Excellent evaluation An excellent range and depth of evaluation which considers why current inflation cannot be the only factor considered. At least two well-developed evaluation points needed.
2		**2-3marks** Good analysis Candidate explains why the Bank should consider current inflation when setting the base rate. At least one well-developed point is made.	**2-3 marks** Good evaluation Candidate only develops one evaluative point well, or has a number of underdeveloped evaluative points.
1	**1 mark** Candidate shows an understanding of the target inflation rate, or another appropriate factor considered when setting the base interest rate.	**1 mark** Limited analysis Candidate identifies why the Bank should consider current inflation when making their base rate decision, but this will be underdeveloped and/ or vague in this band.	**1 mark** Limited evaluation An evaluative point is identified only.
0	**0 marks** No or incorrect understanding	**0 marks** No or incorrect analysis	**0 marks** No or incorrect evaluation

Indicative content:

Possible lines of analysis (AO1/AO3) include:

- The Bank of England has the explicit target of achieving an inflation rate of 2% (plus or minus 1%). The Bank of England should consider the inflation rate to prevent runaway inflation. Adjusting the bank rate in response to high inflation helps maintain price stability.
- Communicating the Bank of England's response to inflation helps manage market expectations, promoting stability and confidence in financial markets.
- If the current rate of inflation is above target, the BoE will consider increasing the base rate in order to reduce consumption and investment, thus reducing AD with the aim of returning inflation back to its target. This will help maintain price stability and ensure households' purchasing power is not eroded.
- The level of spare capacity/ underemployment in the economy – helps to determine how much impact a change in the level of aggregate demand might have on the average price level/inflation rate in the economy. Thus, the MPC must consider how the base rate will affect AD and the demand-pull pressures this causes.
- Growth of wages/average earnings – this would raise firms' costs of production leading to cost-push inflation, and may increase consumer spending, putting upward pressure on aggregate demand and causing demand-pull inflationary pressures also.

Possible lines of evaluation (AO4) include:

- There is a Monetary Policy time lag. The bank rate operates with a time lag, making it challenging to react quickly to current inflation or GDP growth rates. Relying solely on this indicator may result in delayed or reactive policy decisions.
- The Bank might also consider **other factors**, such as: economic growth, unemployment levels, house prices, the exchange rate, consumer and business confidence, growth of wages/ average earnings, bank lending and consumer credit figures.
- E.g. economic growth:
  - "economic growth is slowing"
  - Growth rate: A growing GDP suggests economic health, and a lower bank rate can stimulate borrowing and spending, providing a necessary economic boost.
  - Considering the GDP growth rate is crucial for providing forward guidance. It helps businesses and individuals anticipate the trajectory of the economy, allowing for more informed decisions.
- Equally, external shocks can impact the economy independently of GDP growth rates. Overemphasising this indicator may lead to overlooking other critical factors contributing to economic stability.
- Prioritisation of different factors:
  - For example: strictly linking the bank rate to inflation rates may neglect considerations related to the exchange rate. Currency stability is vital for the overall health of the economy and requires a broader perspective.
  - Equally, focusing solely on inflation rates may overlook the impact on real wages. The Bank of England should consider how changes in the bank rate might affect consumers' purchasing power and living standards.
- Consumers and firms do not always behave rationally, making it more difficult to predict their behaviour in light of changes to any economic variables.

Question	ASSESSMENT OBJECTIVES					Quantitative skills marks
	AO1 marks	AO2 marks	AO3 marks	AO4 marks	**Total marks**	
AS UNIT 1: Introduction to Economic Principles						
Multiple choice questions	7	8	-	-	**15**	8
16.(a)	2	-	-	-	**2**	-
(b)	-	2	-	-	**2**	2
(c)	2	2	-	-	**4**	-
17.	-	2	4	4	**10**	2
18.(a)	-	2	-	-	**2**	2
(b)	2	-	2	-	**4**	-
(c)	4		2		**6**	2
19.(a)	2	-	-	-	**2**	-
(b)	1	-	3	4	**8**	-
Total	**20**	**16**	**11**	**8**	**55**	**16**