

**GCE**

**Economics**

Unit **H060/01**: Microeconomics

Advanced Subsidiary GCE

**Mark Scheme for June 2018**

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



This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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## Annotations

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Confused
	Benefit of doubt
	AO1 – Knowledge and understanding
	AO2 – Apply knowledge and understanding
	AO3 – Analyse
	AO4 – Evaluation
	Omission
	Not answered question
	Noted but no credit given
	Too vague
	Own figure rule
	Repetition

## Subject-specific Marking Instructions

### INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

### Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section C.

If a candidate has written two answers for Section C, mark both answers and award the highest mark achieved.

### USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark in pencil a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

<b>Levels of response / Level descriptors</b>	<b>Knowledge and understanding/ Application</b>	<b>Analysis</b>	<b>Evaluation</b>
<b>Strong</b>	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
<b>Good</b>		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
<b>Reasonable</b>	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
<b>Limited</b>	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Multiple Choice Questions	Answer
1	B
2	C
3	C
4	A
5	D
6	A
7	C
8	B
9	A
10	A
11	D
12	A
13	A
14	A
15	C

Q	Key	Rationale	AO	Quantitative Skills
1	A	<p><b>Rationale</b></p> <p>A. This is when two goods are substitutes for consumers</p> <p>B. <b>Correct:</b> The production of one good uses resources that could be used in production of another</p> <p>C. This is when a firms produce a good that has multiple sources of demand</p> <p>D. This is when two goods are demanded together</p>	1	
2	C	<p><b>Rationale</b></p> <p>A. This is a means of allocating resources</p> <p>B. This is when government intervention leads to a worse outcome</p> <p>C. <b>Correct:</b> Insufficient factors of production to meet all human wants</p> <p>D. Wants are infinite</p>	1	
3	C	<p><b>Rationale</b></p> <p>A. Supply will rise and demand will fall</p> <p>B. Supply and demand will rise</p> <p>C. <b>Correct:</b> Supply will fall (as costs of production increase) and demand will rise (as tastes change infavour of the product)</p> <p>D. Supply and demand will fall</p>	2	✓
4	A	<p><b>Rationale</b></p> <p>A. <b>Correct:</b> AFC equals total fixed costs divided by output, therefore AFC will fall as output rises</p> <p>B. As output increases, AFC will fall</p> <p>C. AFC (FC per unit) falls rather than increases as output rises</p> <p>D. This will depend on the relationship between price and AFC. AFC could be greater than price.</p>	2	✓

Q	Key	Rationale	AO	Quantitative Skills
6	A	<p><b>Rationale</b></p> <p>A. <b>Correct:</b> Consumers lack correct information</p> <p>B. Merit goods lead to positive consumption externalities</p> <p>C. Merit goods will be provided by the private sector</p> <p>D. Quantity traded is too low</p>	1	
7	C	<p><b>Rationale</b></p> <p>A. Maximum price is not affected by elasticity of demand</p> <p>B. Maximum price will not be affected by elasticity of supply</p> <p>C. <b>Correct:</b> Price will be at equilibrium</p> <p>D. Maximum prices will always lead to excess demand</p>	2	
8	B	<p><b>Rationale</b></p> <p>A. Quantity demanded has increased by 25%</p> <p>B. <b>Correct:</b> <math>25\% / -20\% = -1.25</math></p> <p>C. As YED is negative income must have fallen</p> <p>D. As YED is negative, income must have fallen</p>	3	✓
9	A	<p><b>Rationale</b></p> <p>A. <b>Correct:</b> Both Y and Z are substitutes for X, so a fall in the price of X will lead to a decrease in demand for Y and Z</p> <p>B. Z is a substitute not a complement for X (as YED is positive)</p> <p>C. Y is a substitute not a complement for X (as YED is positive)</p> <p>D. Neither Y or Z are complements for X</p>	2	✓

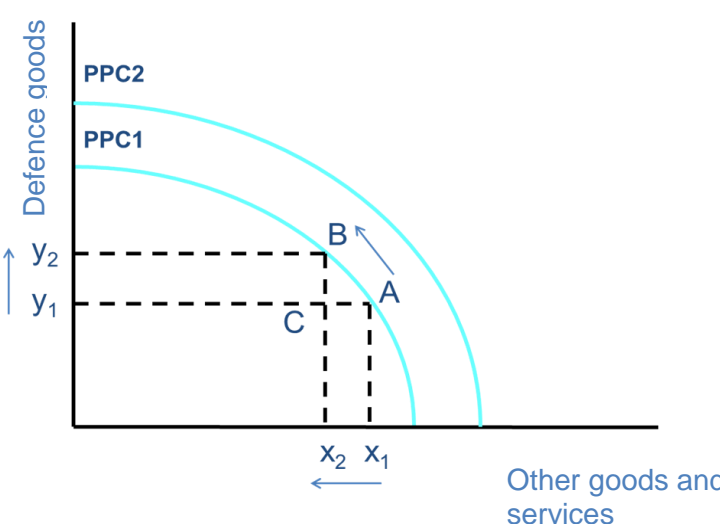


Q	Key	Rationale	AO	Quantitative Skills
10	A	<p><b>Rationale</b></p> <p>A. <b>Correct:</b> This would make it more difficult for firms to adjust supply in response to price changes.</p> <p>B. This would make it easier to supply more should price rise and make supply more price elastic</p> <p>C. This would make it easier to supply more should price rise and make supply more price elastic</p> <p>D. This would make it easier to supply more should price rise and make supply more price elastic</p>	1	
11	D	<p><b>Rationale</b></p> <p>A. This is average variable cost: <math>30/20</math>.</p> <p>B. This is total fixed cost minus total variable cost divided by output: <math>100 - 30/20</math>.</p> <p>C. This is average fixed cost: <math>100/20</math>.</p> <p>D. <b>Correct:</b> Total cost divided by output: <math>130/20</math>.</p>	2	✓
12	A	<p><b>Rationale</b></p> <p>A. <b>Correct:</b> If PED is elastic then as price rises total revenue will fall</p> <p>B. If price elasticity of demand (PED) is inelastic, total revenue and price will be positively related</p> <p>C. If PED is perfectly inelastic, a rise in price will lead to total revenue rising</p> <p>D. PED is unitary, a change in price will leave total revenue unchanged</p>	3	✓
13	A	<p><b>Rationale</b></p> <p>A. <b>Correct:</b> Costs of production will increase price and this will reduce both surpluses</p> <p>B. A fall in price would increase both surpluses</p> <p>C. Producer surplus will fall</p> <p>D. Consumer surplus will fall</p>	2	

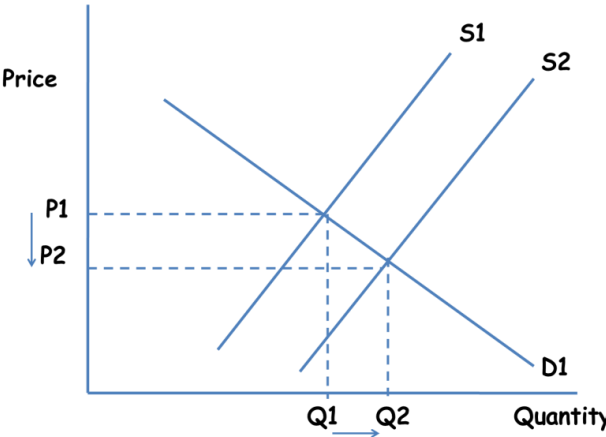
Q	Key	Rationale	AO	Quantitative Skills
14	A	<p><b>Rationale</b></p> <p><b>A. <i>Correct:</i></b> Minimum efficient scale is that output at which LRAC (long run average cost) are at their lowest.</p> <p><b>B.</b> Diseconomies of scale will lead to a rise in LRAC</p> <p><b>C.</b> External economies will cause the LRAC to shift downwards</p> <p><b>D.</b> Total cost will only fall as output falls</p>	1	
15	C	<p><b>Rationale</b></p> <p><b>A.</b> A demerit good is likely to lead to negative externalities</p> <p><b>B.</b> Overproduction occurs when marginal social cost is higher than marginal private cost</p> <p><b>C. <i>Correct:</i></b> consumption of a merit good will be too low as consumers underestimate its benefits</p> <p><b>D.</b> It is likely to lead to positive externalities</p>	2	

Question	Answer	Marks	Guidance
16 (a)	<b>State one factor of production that might be used in the production of submarines.</b>		
	Accept land, labour capital or enterprise	1 (AO1 x1)	
16 (b)	<b>State and explain two factors that might lead to an increase in the cost of replacing Trident.</b>		
	Accept any factor that might lead to a decrease in supply e.g. increased cost of raw materials; higher wage costs; a rise in interest rates\cost of capital; lower productivity; diseconomies of scale followed by a clear explanation as to how this might lead to a rise in costs of production.	4 (AO1x2 AO2x2)	Award 1 mark for identification of relevant factor (up to 2) and one mark for application i.e. why this will increase costs of production\cause a reduction in supply for submarines.
16 (c)	<b>Using defence as an example, explain two characteristics of a public good.</b>		
	Accept (2 from) non-rivalry/non-excludability/non-rejectability and additional mark for application to defence	4 (AO1x2 AO2x2)	Award 1 mark for (each) characteristic and second mark for clear link to show how defence demonstrates the characteristic. Also accept zero marginal cost.
16 (d)	<b>Using the concept of scarcity and the information in figure 1, explain the effect of increased government spending on defence.</b>		
	Accept definition of scarcity (for 1 mark only) Application in context required for additional two marks.	3 (AO1x2 AO2x1)	Award one mark for explanation of scarcity / limited resources and up to two marks for making use of the information to show how this means that the government has to make a choice between defence and other areas of spending. e.g. scarcity arises because of limited resources (1). The government has limited money/budget (e.g. from tax revenue) (1). If it spends more on defence it will have less to spend on pensions or welfare (1).

Question	Answer	Marks	Guidance
16 (e)	<b>Using information in the case study, calculate, in pounds, how much more the UK government spent on healthcare and education than on defence in 2016.</b>		
	<p>£123.648bn (3)</p> <p>123.648 (2)</p> <p>£170.752bn - £47.104bn (2)</p> <p>Spending on education and health care = 29% of £588.8bn = £170.752bn (1)</p> <p><b>Or</b></p> <p>Spending on education = 23% of £588.8bn = £135.424bn (1)</p> <p><b>Or</b></p> <p>Spending on health care = 6% of £588.8bn = £35.328bn (1)</p> <p><b>Or</b></p> <p>Spending on defence = 8% of £588.8bn = £47.104bn (1)</p> <p><b>Or</b></p> <p>Correct method i.e. 29% of... minus 8% of...(1) OFR</p>	<p>3 (AO1x2 AO2 x1)</p>	<p>Three marks for the correct answer with £ and bn</p> <p>Two marks for correct method with figures (Education+ Health – Defence)</p> <p>One mark for total spending on education/ healthcare/defence must have £ and bn</p>

Question	Answer	Marks	Guidance
<p><b>Evaluate, using an appropriate diagram(s), whether a country devoting more of its resources to the production of defence goods will always result in a reduction in its output of other goods and services.</b></p>			
<p>16 (f)</p>	<p><b>Level 3 (7-10 marks)</b>  <b>Good – strong</b> analysis of the effect of devoting more resources to the production of defence goods on the output of other goods and services. <b>Good</b> analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good – strong</b> evaluation of the effect of devoting more resources to the production of defence goods, weighing up both sides/comparing alternatives. <b>Strong</b> evaluation should include a supported judgement.  <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (4-6 marks)</b>  <b>Reasonable</b> analysis of the effect of devoting more resources to the production of defence goods on the output of other goods and services. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p>	<p>10                      (AO2x1)                      (AO3x4)                      (AO4x5)</p>	 <p>If all resources are being used, the increase in the output of defence goods will result in a fall in the output of other goods and services. There will be a movement along the PPC from A to B with an increased production of defence goods (<math>y_1</math> to <math>y_2</math>) resulting in a fall in the output of other goods and services. (<math>x_1</math> to <math>x_2</math>).</p> <p>If, however, the country is not currently using all of its resources, it may be possible to increase the output of defence goods without reducing the output of other goods and services. Employing previously unemployed resources could move the production point from C to on the curve.</p> <p>The country could also produce more of both defence goods and other goods and services if it experiences an increase in the</p>

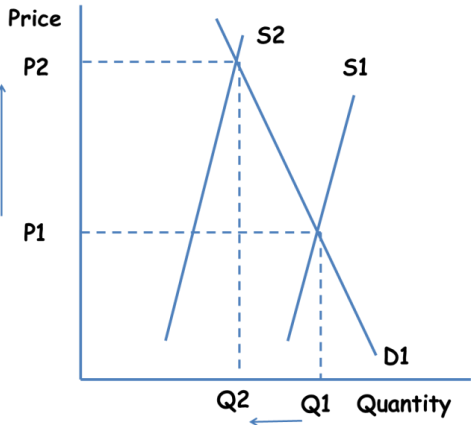
Question	Answer	Marks	Guidance
	<p><b>Reasonable</b> evaluation of the effect of devoting more resources to the production of defence goods on the output of other goods and services, considering both why it might and why it might not.  <i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 1 (1-3 marks)</b>  <b>Limited</b> analysis based on application of knowledge and understanding of the effect of the increase in the output of defence goods. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Any relevant diagram(s) may not be present or incorrectly labelled.</p> <p><b>Limited</b> evaluation in the form of an unsupported assertion <b>or no</b> evaluation.  <i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		<p>quantity or quality of resources. For example, there may have been an advance in technology or immigration of people who enter the labour force. Such changes would shift the PPC outwards (from PPC1 to PC2) and would mean that an increase in the production of defence goods would not mean that the output of other goods and services would be reduced.</p>
	<p><b>Descriptor</b></p> <p>Consistently meets the criteria for this level</p> <p>Meets the criteria but with some slight inconsistency</p> <p>Just enough achievement on balance for this level</p> <p>On the borderline of this level and the one below</p>		<p><b>Award mark</b></p> <p>At top of level</p> <p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p> <p>Above bottom and either below middle or at middle of level (depending on number of marks available)</p> <p>At bottom of level</p>

Question	Answer	Marks	Guidance
<p><b>In the UK over 85% of healthcare is provided by the public sector. Evaluate, using an appropriate diagram(s), whether healthcare should be provided by the state.</b></p>			
<p>17</p>	<p><b>Level 4 (16-20 marks)</b></p> <p><b>Good</b> knowledge and understanding of the economic benefits of state provision of health care.</p> <p><b>Strong</b> analysis of the effect of state provision on (allocative) efficiency and under-consumption/production of healthcare. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong</b> evaluation of the effect of state and or private provision of healthcare in tackling market failure caused by under production\consumption of healthcare and a conclusion drawn weighing up both sides\comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11-15 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effects of state provision of healthcare.</p> <p><b>Good</b> analysis of the effect of state provision on (allocative) efficiency and under-consumption/production of healthcare. There is correct analysis in the form of developed links. These links are developed through a clear chain of reasoning which addresses the question. The relevant</p>	<p>20 (AO1x3) (AO2x4) (AO3x6) (AO4x7)</p>	<p>Candidates may argue that state provision increases supply and may lead to increased consumption\production as equilibrium (socially desirable) output is greater than market equilibrium. However, there are problems with\limitations to state provision and/or private provision may have advantages.</p> <p>There may be a clear illustration of the mechanics of state provision decreasing costs of production, increasing supply, reducing price and the consequent extension in demand, leading to a higher output that is closer to the allocatively efficient output, so reducing market failure (under consumption of health care).</p> <p>Candidates can clearly illustrate on a diagram the effect of a state provision showing</p> <ul style="list-style-type: none"> <li>• Rightward shift in supply curve</li> <li>• Old and new market equilibrium</li> <li>• Effect on market failure e.g. comparison of original market equilibrium with new market equilibrium (social optimum).</li> </ul> 

Question	Answer	Marks	Guidance
	<p>diagram(s) are present, predominantly correct and linked to the analysis.</p> <p><b>Good</b> evaluation of the effect of state and or private provision of healthcare and a conclusion drawn weighing up both sides/comparing alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6-10 marks)</b></p> <p><b>Reasonable</b> knowledge and understanding of state provision of healthcare.</p> <p><b>Reasonable</b> analysis of the effect of state provision on under-consumption/ production of healthcare. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of the effect of state and or private provision of healthcare considering both sides/comparing alternatives.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p>		<p>The effect of state provision is to increase supply from S1 to S2 (supply curve may be upward sloping or vertical). This means that more is supplied at any given price. As a results of state provision, price falls from P1 to P2, there is an extension in demand and the new market equilibrium is at Q2. As healthcare is under-consumed\produced, the new equilibrium will be closer to the allocatively efficient output. This will reduce market failure and mean that resources are allocated more efficiently.</p> <p>Arguments in favour might refer to increased production of merit goods\ positive externalities from increased consumption of healthcare e.g. productivity.</p> <p>Accept larger state providers may benefit from economies of scale and reference to equity\fairness\access on basis of need not ability to pay.</p> <p>Arguments against include; may be expensive and impose an opportunity cost in terms of other govt. spending/higher taxes; lack of market incentives may reduce efficiency (state monopolies); lack of market 'signals' (price mechanism) may mean the government has inadequate information on consumers' preferences; reduction in individual choice/freedom; may create excess demand since supply is fixed (e.g. roads; NHS) and as the price mechanism cannot be used to ration, some other method may have to be found (e.g. queuing; waiting lists)</p> <p>Health care provision by the private sector will lead to market failure, as health care is a merit good and may be underconsumed, if provided (only) by the private sector because of information failure and/or positive externalities. It is possible, though not necessary, for candidates to consider the benefits of private provision e.g. profit motive may increase (allocative)</p>



Question	Answer	Marks	Guidance
<b><i>In the UK over 85% of healthcare is provided by the public sector. Evaluate, using an appropriate diagram(s), whether healthcare should be provided by the state.</i></b>			
	<p><b>Level 1 (1-5 marks)</b></p> <p><b>Limited</b> knowledge and understanding of state provision of healthcare.</p> <p><b>Limited or no</b> analysis of the effect of state provision on the production\consumption of healthcare. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled.</p> <p><b>Limited</b> evaluation in the form of an unsupported assertion <b>or no</b> evaluation</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		<p>efficiency and\or that government failure may occur e.g. if the government lacks information on the socially desirable level of provision.</p>
	<p><b>Descriptor</b></p> <p>Consistently meets the criteria for this level</p> <p>Meets the criteria but with some slight inconsistency</p> <p>Meets most of the criteria with some inconsistencies</p> <p>Just enough achievement on balance for this level</p> <p>On the borderline of this level and the one below</p>	<p><b>Award mark</b></p> <p>At top of level</p> <p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p> <p>Middle of level</p> <p>Above bottom and either below middle or at middle of level (depending on number of marks available)</p> <p>At bottom of level</p>	

Question	Answer	Marks	Guidance
<p><b>World oil prices are expected to double by 2020. Evaluate, using an appropriate diagram(s) the extent to which this predicted increase is likely to be due solely to a rise in costs of production.</b></p>			
18	<p><b>Level 4 (16-20 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effect of an increase in costs of production on price and output.</p> <p><b>Strong</b> analysis of the effect on supply (i.e. higher costs of production), equilibrium price and quantity. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong</b> evaluation of the extent to which the predicted increase in world oil prices is <b>solely</b> due to a rise in costs of production and conclusion drawn weighing up both sides\comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11-15 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effect of an increase in costs of production on supply.</p> <p><b>Good</b> analysis of the effect of the decrease in supply on (equilibrium) quantity (Q1 to Q2). There is correct analysis in the form of developed links. These links are developed through a clear chain of reasoning which addresses the question. Any relevant diagram(s) are present,</p>	<p>20 (AO1x3) (AO2x4) (AO3x6) (AO4x7)</p>	<p>Candidates may argue that the effect of an increase in costs of production would be to reduce supply and, given both supply and demand for oil are price inelastic, this would cause a greater than proportional increase in price. However, other (supply or demand) factors may lead to a rise in price and/or the prediction may not be accurate.</p> <p>There should be a clear illustration of the mechanics of increasing costs of production, reducing supply, raising price and the consequent contraction in demand, leading to a lower output and higher prices, with some reference to PED or PES.</p> <p>Candidates can clearly illustrate on a diagram the effect of an increase in costs of production showing</p> <ul style="list-style-type: none"> <li>• Leftward shift in supply curve</li> <li>• Old and new market equilibrium</li> <li>• Relatively inelastic supply\demand curves with proportionately larger increase in price</li> </ul>  <p>The effect of increase in costs of production is to reduce from</p>

Question	Answer	Marks	Guidance
	<p>predominantly correct and linked to the analysis.</p> <p><b>Good</b> evaluation of the extent to which a rise in world oil prices is <b>solely</b> due to a rise in costs of production and a conclusion is drawn weighing up both sides/comparing alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6-10 marks)</b></p> <p><b>Reasonable</b> knowledge and understanding of the effect of a rise in the costs of production.</p> <p><b>Reasonable</b> analysis of the effect on supply i.e. supply shifts inwards/decreases from S1 to S2. There is correct analysis in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of the extent to which a rise in world oil prices is due to higher costs of production, considering both sides/comparing alternatives.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p>		<p>S1 to S2. This is because higher production cost mean less can be supplied at any given price. As a results of higher production costs, price rises from P1 to P2, there is a contraction in demand and the new market equilibrium is at Q2. As the demand and supply of oil are relatively inelastic, this will lead to a proportionately smaller increase in equilibrium quantity and a proportionately larger increase in equilibrium price.</p> <p>Arguments against the effect of (higher) costs of production on prices would focus on limitations e.g. depends on how much costs of production rise; depends on PED; other factors may change (ceteris paribus assumption) e.g. new sources of oil may offset fall in supply; demand may fall reducing effect of rise in price; a forecast is only an estimate i.e. based on past data\may not be accurate predictor of future prices</p> <p>Strong evaluation should consider alternative reasons for the predicted rise in world oil prices and address the idea of whether it is solely rising costs of production. This could qualify as analysis or evaluation, as appropriate, provided that the impact of the alternative (e.g. political unrest in oil producing countries; growth in global demand) is assessed relative to a rise in costs of production.</p>

Question	Answer	Marks	Guidance
	<p><b>Level 1 (1-5 marks)</b></p> <p><b>Limited</b> knowledge and understanding of how an increase in costs of production might affect the price of oil.</p> <p><b>Limited or no</b> analysis of the effect on the market/S curve. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled.</p> <p><b>Limited</b> evaluation in the form of an unsupported assertion <b>or no</b> evaluation.</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		
	<p><b>Descriptor</b></p> <p>Consistently meets the criteria for this level</p> <p>Meets the criteria but with some slight inconsistency</p> <p>Meets most of the criteria with some inconsistencies</p> <p>Just enough achievement on balance for this level</p> <p>On the borderline of this level and the one below</p>	<p><b>Award mark</b></p> <p>At top of level</p> <p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p> <p>Middle of level</p> <p>Above bottom and either below middle or at middle of level (depending on number of marks available)</p> <p>At bottom of level</p>	

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