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# **GCE MARKING SCHEME**

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**SUMMER 2016**

**ECONOMICS - EC1 (LEGACY)  
1131/01**

## **INTRODUCTION**

This marking scheme was used by WJEC for the 2016 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**

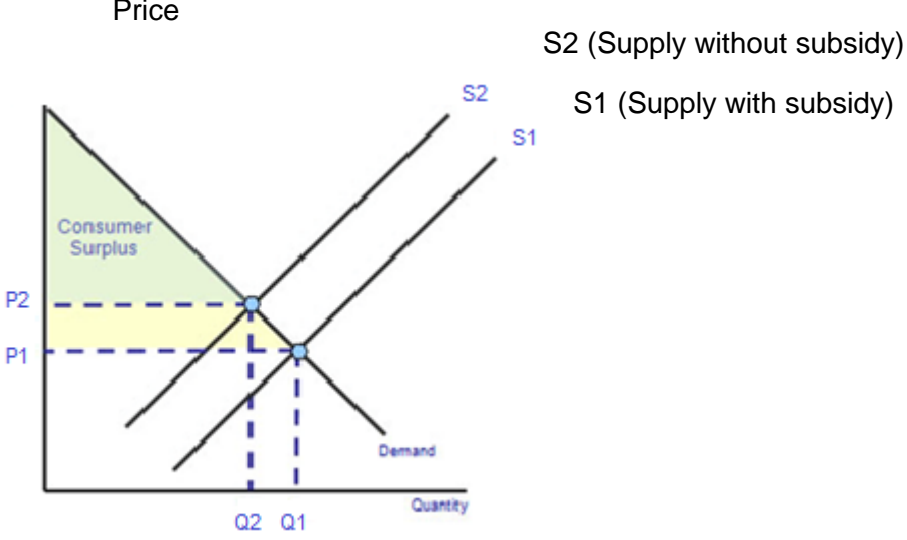
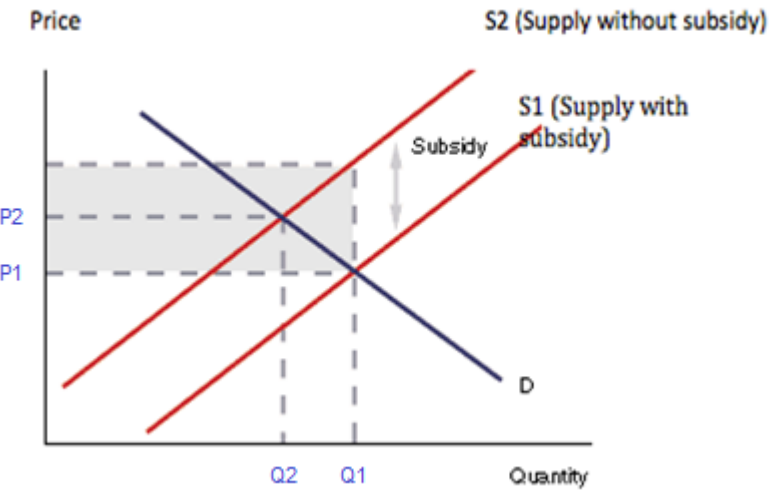
It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one 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.

**GCE ECONOMICS - EC1 (LEGACY)**

**SUMMER 2016 MARK SCHEME**

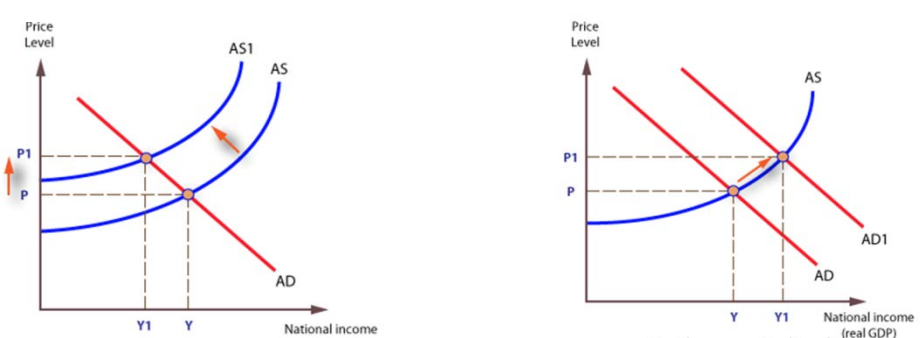
Question	Answer	Mark	Assessment objective
1	<p><b>Adapting the PPF above, explain the impact of the tsunami on the production potential of the Japanese economy.</b></p> <p>Diagram (2)</p> <p>Correct diagram showing a significant shift inwards the PPF (AO1:1) bigger in agriculture than in other sectors (AO2:1)</p> <p>Development (2)</p> <p>Data is used to explain that resources were destroyed by the disaster, limiting the production potential of the Japanese economy (AO2:1), but that because Tohoku is primarily an agricultural area, the impact was bigger in that sector of the economy (AO2:1)</p>	4	AO1 2 AO2 2

Question	Answer	Mark	Assessment objective
2	<p><b>(a) Calculate the effect of a 10% fall in the price of good A on:</b></p> <p style="padding-left: 40px;"><b>(i) the demand for good A: +6% (1)      AO2</b></p> <p style="padding-left: 40px;"><b>(ii) the demand for good B -7% (1)      AO2</b></p> <p><b>(b) Explain what is meant by cross elasticity of demand (2)</b></p> <p>Responsiveness of demand for one product to a change in the price of another. Equation only = 1.      AO1</p> <p><b>(c) Using an example in each case, explain the likely cross-price elasticity relationship between:</b></p> <p><b>(i) Good A and good C (3)</b></p> <p>AO1 (2 marks):  XED is negative which means that an increase (decrease) in the price of A (C) will cause a decrease (increase) in the demand for C (A) (1)  Therefore the goods are complements (1)  AO2 (1 mark)  Appropriate example of complements (1)</p> <p><b>(ii) Good B and good C (3)</b></p> <p>AO1 (2 marks)  XED is zero, meaning that there is no impact on the demand for one good as a result of a change in the price of the other (1). Thus they are unrelated (1).</p> <p>AO2 (1 mark)  Appropriate example of wholly unrelated products.</p> <p>The explanation does not have to be word for word what is above – an explanation of how P and Q are (or are not) interrelated, plus statement of relationship and example is what is required here.</p>	10	AO1 6 AO2 4

Question	Answer	Mark	Assessment objective
3	<p><b>Adapt the supply and demand diagrams below to illustrate:</b></p> <p><b>(a) The reduction in consumer surplus to Ghanaian consumers of petrol following the removal of the subsidy (2)</b></p> <p>AO1 understanding of consumer surplus in diagram / or correct diagram showing a shift to the left in supply or vertical shift (1). The fall in consumer surplus or new and old consumer surplus indicated (2)</p>  <p><b>(b) The cost to the Ghanaian government of operating the subsidy before it was removed (2)</b></p> <p>AO1: Understanding of subsidy in diagram through shift to left/vertical shift in supply curve(1)</p>  <p>Correct diagram showing a shift to the left in supply/ vertical shift and the total cost of the subsidy marked in at the original equilibrium output (Q2) (2)</p>	4	AO1 2 AO2 2

Question	Answer	Mark	Assessment objective
4	<p><b>To what extent can this policy, of providing free part-time education for three year-olds, be considered to be an example of government failure?</b></p> <p><b>AO1 (2)</b>            Good understanding of government failure shown (2)            Limited understanding of government failure shown (1)</p> <p><b>AO2</b>            Relevant data is identified either for or against government failure. 1 mark for each correct use of data up to a maximum of 2.</p> <p><b>AO3</b>            Good explanation of how the data provides evidence for or against government failure. (2)</p> <p>Limited explanation of how the data provides evidence for or against government failure. (1)</p> <p><b>AO4 (up to 2)</b>            A reasoned judgement as to whether the policy is or is not government failure has been reached. (2)</p> <p>A limited judgement as to whether the policy is or is not government failure has been reached. (1)</p> <p><b>Indicative content:</b>            Government failure occurs when government intervention in the economy causes an inefficient allocation of resources and a decline in economic welfare.</p> <p>The policy costs £800m per year and does not seem to be achieving much – there is a significant opportunity cost, meaning that resources may have been allocated inefficiently; economic welfare could have been higher had the resource been used elsewhere.</p> <p>The policy seems to have had a very limited impact on educational attainment <b>however the impact seems to have been greatest on the most disadvantaged members of society.</b></p> <p>The benefits the policy did have seem not to have been long lasting <b>but this is not necessarily the fault of the policy itself, it perhaps says more about failings in the system as children get older.</b></p> <p>Over 80% of those who attended nursery would have attended anyway, making it a subsidy for middle-class parents. <b>However, it did lead to an increase in uptake in children who wouldn't otherwise have gone, which was the objective of the policy although maybe this could have been attained more cheaply through different policies.</b></p> <p><b>Also, there was an increase in participation among mothers who would not otherwise have been part of the workforce</b> but the policy is pretty expensive - £800m for 12000 mainly part-time jobs <b>although this was only part of the aim of the policy.</b></p>	8	AO1 2 AO2 2 AO3 2 AO4 2

Question	Answer	Mark	Assessment objective
5	<p><b>With reference to the data, evaluate the importance of business investment in supporting the UK's economic recovery.</b></p> <p><b>AO2</b> Good use of the data to show understanding of the importance of business investment in supporting the UKs economic recovery. (2)</p> <p>Limited use of the data show understanding of the importance of business investment in supporting the UKs economic recovery. (1)</p> <p><b>AO3</b> Good explanation of how investment affects economic recovery. (2) Limited explanation of how investment affects economic recovery. (1)</p> <p><b>AO4</b> Good well-balanced evaluation of the importance of business investment in supporting the UK's economic recovery. (3-4)</p> <p>Limited evaluation of the importance of business investment in supporting the UK's economic recovery. (1-2)</p> <p>No data use = max 6 No evaluation = max 4</p> <p><b>Indicative content:</b></p> <p>Investment has been rising rapidly (5 consecutive quarters, 10.6% higher than 12 months ago). Hence this will be contributing to rising AD and actual growth, creating jobs and increasing demand along the supply chain.</p> <p><b>But</b> from chart 1 we can see that investment has still not fully recovered from the recession of 2009 and that although it is rising, it is still below its pre-crisis levels.</p> <p>Rising investment will also help to support the supply side of the economy. Business investment will be important in assisting UK firms to remain competitive on world markets, and may therefore support export demand as well, contributing to the recovery.</p> <p><b>However</b>, it may depend on what type of business investment it is – if firms are simply rebuilding stocks, then the supply side effects may be more limited.</p> <p>Rising investment will also help to create economic potential, making it less likely that the recovery will be choked off by inflationary pressure (Answer might illustrate this with an AD/AS diagram).</p> <p><b>But</b> from chart 2 we can see that consumption and government spending dominate AD – a 10.6% rise may be quite small in absolute terms and might easily be offset by (for example) cuts in government spending.</p> <p>On the other hand, business investment is likely to create demand specifically in construction and engineering, which are generally hit hardest during an economic downturn, hence contributing disproportionately to the recovery.</p> <p><b>Possible conclusion:</b></p> <p>Rising investment is clearly important in helping to support the recovery – combining an increase in AD with productivity improvements. However, the extent to which investment will really sustain the recovery will depend really on what happens to consumption as the dominant part of AD. However, the two will need to go hand-in-hand – rising consumption without investment will be likely to trigger inflation, whereas rising investment without rising consumption will be short-lived.</p>	8	AO2 2 AO3 2 AO4 4

Question	Answer	Mark	Assessment objective
6	<p><b>Using an aggregate demand and aggregate supply diagram, analyse why the trend described in the data might lead to inflation in South Africa.</b></p> <p><b>AO1 – Diagram</b></p> <p>2 marks Correct diagram with AD shifting to the right and AS shifting vertically. Two separate diagrams or one combined one are both fine. Allow any plausible version of AD/AS</p> <p>1 mark AS and/or AD are right but diagram has significant flaws, or only one aspect has been dealt with.</p> <p><b>AO2 – Data use</b></p> <p>Good understanding of the data is used in the analysis (2) Limited understanding of the data is used in the analysis (1)</p> <p>Good use is made with direct use of the chart and/or the story to show an understanding that the Rand has depreciated very sharply against the dollar.</p> <p><b>AO3 – analysis</b></p> <p><b>Rising costs (up to 2)</b> Falling Rand will drive up the price of imported raw materials, hence increasing firms' costs, forcing up prices of products dependent on imported components. Likewise the price of finished goods will directly drive up prices, which may then trigger pay demands which will also increase costs.</p> <p><b>Rising D for exports etc (up to 2)</b> Falling Rand may lead to an increase in the demand for exports from South Africa, which may create demand pull pressures inside the economy as export-sector firms compete for resources. Likewise, consumers may switch to domestic alternatives for imports, which may also create demand side inflationary pressures inside the economy.</p> <p><b>Indicative content:</b></p> <div style="display: flex; justify-content: space-around;">  </div>	8	AO1 2 AO2 2 AO3 4



Question	Answer	Mark	Assessment objective
7	<p><b>Evaluate how beneficial the steel tariffs described in the text are likely to be to the US economy.</b></p> <p><b>AO2 - application</b></p> <p>Clear reference to the context given in the data – steel tariffs and the US economy. (2)</p> <p>Limited reference to the context given in the data – steel tariffs and the US economy. (1)</p> <p><b>AO3 - analysis</b></p> <p>Good explanation of the use of tariffs. (2)</p> <p>Limited explanation of the use of tariffs. (1)</p> <p><b>AO4 - evaluation</b></p> <p>Good evaluation of the benefits of steel tariffs to the US economy. (3-4)</p> <p>Limited evaluation of the benefits of steel tariffs to the US economy. (1-2)</p> <p><b>Indicative content:</b></p> <p>Tariffs of up to 118% will help US steel manufacturers by restricting imports, increasing market share. <b>But the tariff on South Korea is low, meaning the impact may be limited.</b></p> <p>Tariff revenue will provide benefits for the US economy as the US government will spend on infrastructure, merit goods, education, training, etc.</p> <p>Tariffs will also allow domestic firms to increase their prices, hence becoming more profitable.</p> <p>Hence jobs inside the US will be protected. <b>But only a few hundred.</b></p> <p>Data suggests that other countries were dumping, hence US firms need to be protected.</p> <p>But</p> <p>Consumers and other producers are likely to face higher prices, causing reductions in consumer welfare and job losses in other sectors. <b>Depending on whether US firms take advantage of the tariff to increase prices.</b></p> <p>Risk of retaliation, impact on US non-steel exporters.</p> <p>Credit any other valid point.</p>	8	AO2 2 AO3 2 AO4 4