GCE MARKING SCHEME

SUMMER 2016

ECONOMICS – EC3
1133/01

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.

Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE Economics - EC3

SUMMER 2016 MARK SCHEME

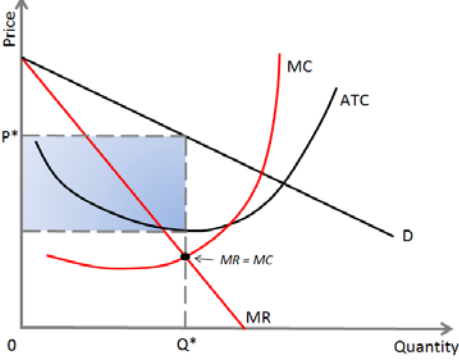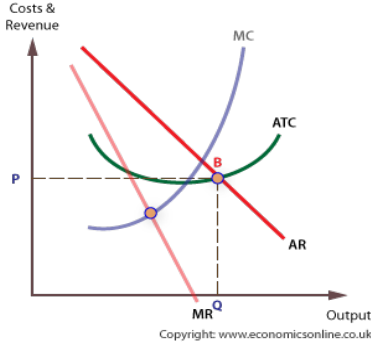| Question	Answer	Mark allocation	Assessment objective
1 (a)	**Study the information below which details the short run costs of a firm.** **Calculate the average fixed costs of the firm when output is** (i) 20 £5000/20 = £250 (1) (ii) 50 £5000/50 = £100 (1) Answers only needed for 1 mark.	2	AO1 2
1 (b)	**Explain the change in average fixed cost as output rises.** Understanding that AFC falls as output rises (1). Understanding that as a progressively higher level of output is divided into the fixed costs AFC will fall (2).	2	AO2 2
1 (c)	**Using the data explain the changes in average total cost as output rises.** As output rises ATC falls then rises (1). Explained by increasing and diminishing returns to a factor (2). Analysis of data eg calculation of ATC at two levels of output or more (2). Q AC 10 900 20 600 30 467 40 375 50 360 60 383 70 414 80 487.5 Limited explanation 1-2 marks. Good explanation 3-4 marks.	4	AO2 2 AO3 2
1 (d)	**Discuss the view that a firm will always shut down if price is less than average total cost.** Firms will shut down in the long run if P<AC because they will not make at least normal profit (2). But if P>AVC firms will stay in the market in the short run because there is a contribution to fixed costs (2). Alternative evaluation could include subsidies, cross-subsidisation, predatory pricing, limit pricing. 1 mark for weak explanation or evaluation. No evaluation maximum 2 marks.	4	AO1 2 AO4 2

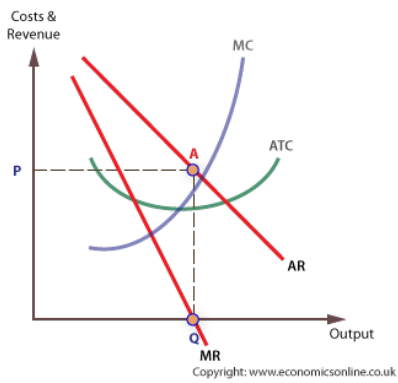| Question	Answer	Mark allocation	Assessment objective
2 (a)	**Identify on the diagram the area of loss made by the firm.** Area of loss marked in correctly (2). Candidate uses minimum AC position as profit max but area of loss shown (1).	**2**	AO2 2
2 (b)	**Adapt the diagram to explain what will happen to this firm and industry in the long run.** Correct adjustments to the diagram showing market supply shifting left (1) and each firm's AR/MR shifting upwards so all remaining firms make long run normal profits (1). Explanation - some firms leave the market shifting supply to the left raising the price for firms enabling normal profits to be earned by these remaining firms (2). 2 marks for good adaptation of the diagram and 2 marks for a good explanation. 1 mark for partial adaptation and 1 mark partial explanation.	**4**	AO2 2 AO3 2
3	**Identify the characteristics of a monopolistically competitive market and using the diagram, explain why firms in this market structure are said to be inefficient.** Many small firms, differentiated products, profit maximisers, some control over price. Imperfect knowledge, low/no barriers to entry (2). 1 mark for each characteristic identified. Allocatively inefficient explained (2 max). Productively inefficient **or** technical inefficiency explained referenced to minimum average cost (2 max). Dynamic inefficiency explained (2 max). Identification only of inefficiencies max 2 marks. No reference to the diagram maximum 4.	**6**	AO1 2 AO3 4

Question	Answer	Mark allocation	Assessment objective
4	**To what extent does this theory provide a credible explanation of the cause of inflation?** In the MV=PT equation V and T are thought to be constant at least in the short term and thus and increase in M will lead to a rise in P. Increase in the money supply will raise AD increasing the price level. Prices will have to rise to accommodate the rise in the money supply (3). Strong explanation using the equation up to 3 marks. Evaluation MV=PT is a tautology explained. V and T may not be constant and may change when there is an increase in M. QE has not caused inflation (3). Up to 3 marks for one well explained evaluative point of the Quantity Theory. Max of 2 marks for approaches to inflation which do not refer to the Quantity Theory. Maximum 3 marks with no evaluation.	**6**	AO3 3 AO4 3
5	**Using the diagram assess the extent to which a rise in the base interest rate by the Monetary Policy Committee to bring inflation within its target range will be successful.** Candidate explains the process via falling AD (effects on consumer spending via higher r/i, pessimistic expectations and the wealth effect. Also r/i will reduce I. Higher exchange rate will reduce X and increase M. Also less cost push effects from lower import prices. (6) Consumption effects on AD max 3. Investment effects on AD max 3. Net trade effects on AD max 3. (Total 6). Evaluation: Have interest rates risen to the correct level (reliability of data used by MPC, interest rate elasticity)? Problems of endogenous / exogenous shocks. Inflation could be caused by other factors – government tax policy, imported commodities, exchange rate movements, cost-push factors. (2) Two evaluative points to be introduced maximum 2 marks each. Weak/underdeveloped evaluation 1 mark. No reference to the data max 8.	**10**	AO1 2 AO3 4 AO4 4

The following levels should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.
Level 2	6-10	Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.
Level 3	11-14	Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions. Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.
Level 4	15-20	Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer. Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.

Question	Answer	Mark allocation	Assessment objective
6	**Evaluate the benefits of different business objectives of firms on a range of stakeholders.**	**20**	AO1 4 AO2 4 AO3 4 AO4 8
	Candidate identifies at least TWO objectives of firms; Profit max, sales max, revenue max, social and community objectives, market share / growth.		
	Candidate shows an understanding of stakeholders – customers, shareholders, employees, lenders, community etc.		
	Profit max: MC=MR firm makes highest profit thus benefitting the shareholders as well as providing funds for investment and more tax revenue for the government. BUT higher prices and lower output may not benefit other stakeholders such as customers. -(lower consumer surplus).		
	Sales max: AR=AC thus firm maximises output which may benefit employment at the firm. Prices are lower than profit max so customers benefit. BUT only normal profit is earned so shareholders receive lower dividends.		
Copyright: www.economicsonline.co.uk		
	Revenue max: MR=0 thus higher market share than profit max higher output benefits employment at the firm. More likely to be nearer allocative and productive efficiency at a lower price and higher output thus the community/society benefits. BUT profits lower than profit max so less for shareholder dividends.		

Social and community objectives help motivation and meet CSR requirements.
BUT add to firms costs and possibly reduce profits
Diagrams may be used to support the above.(cost curves shifting to the left).

Explanation that firms may 'satisfice' by pursuing more than one objective in order to try to satisfy all stakeholders. BUT this policy may give limited benefit to each stakeholder.
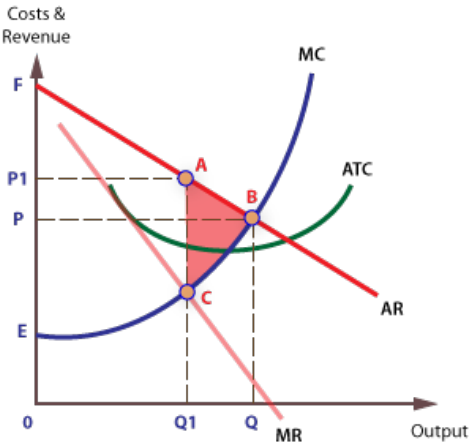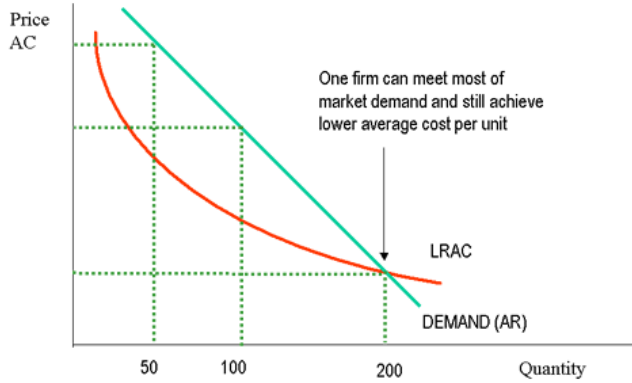
Any relevant integrated diagram 2 marks.

At least two business objectives to be explained (max 6 each) and evaluated (max 4 marks each).

Maximum 12 marks without evaluation.

For Level 4, answers must make explicit reference to a range of stakeholders.

Question	Answer	Mark allocation	Assessment objective
7	**'Further privatisations by the government would be beneficial to the UK economy'. Discuss this statement.**	**20**	AO1 4 AO2 4 AO3 4 AO4 8
	Definition of privatisation with examples.		
	Private companies have a profit incentive to cut costs and be more efficient and raise productivity.		
	But any social objectives which the firm had when the firm was state owned may be lost to the wider society.		
	The removal of political interference means that strategic decisions are made for business reasons not political/social reasons. Governments make decisions with short term objectives because they fight elections every five years.		
	But some activities are best run by the state because they are key strategic parts of the economy eg water supply , steel and railways.		
	The pressure from shareholders on directors promotes greater efficiency in the firm.		
	But shareholders can act in their own short term interest to maximise dividends not investment and they may also support takeover by foreign firms eg UK energy sector.		
	Privatisation of an industry can promote greater competition because a state monopoly is replaced by a number of firms leading to lower prices. The competitiveness of the macro economy improves.		
	But some privatisations have produced dysfunctional markets in the rail and energy sector. Some markets are natural monopolies eg water. Privatisations may produce job losses.		
	The government will also gain increased revenue from the sale of these state assets which will help to reduce the fiscal deficit. *But the government loses out on dividends from any future profits. Public sector assets often sold too cheaply*		
	Privatisation can create shareholder democracy i.e. greater share ownership *But shares often bought / held by large institutions such as pension funds, insurance funds etc*		
	Credit the use of past or recent examples of privatisation. Future privatisations may include The Highways Agency, Channel 4, Radio 1, Eurostar, PPP/PFI etc.		
	At least FOUR issues relating to the issue of future privatisations should be explained (max 3 marks) and evaluated (2 marks). For Level 4, reference must be made to **further** privatisations.		
	Any relevant integrated diagram 2 marks. Maximum 12 marks without evaluation.		

Question	Answer	Mark allocation	Assessment objective
8	**To what extent do you support the view that all monopolies are undesirable and should be broken up?** Definition of monopoly. Monopoly produces welfare loss/market failure compared to competition. Higher prices/lower output/lower consumer surplus. Copyright: www.economicsonline.co.uk Consumers have less choice, may have lower quality, less incentive to innovate. Allocative/Productive inefficiency/X-inefficiency. Exploit suppliers with late payment/demanding discounts etc. Engage in anti-competitive practices ie price discrimination, predatory pricing and limit pricing. Potential for diseconomies of scale. *But.* *Possible economies of scale benefits which are passed on to consumers in lower prices* *Dynamic efficiency – link to innovation.* *Abnormal profits can be used to fund investment and develop technology (R&D)* *Natural monopoly.*	**20**	AO1 4 AO2 4 AO3 4 AO4 8

Domestic monopolies are needed to compete internationally in global markets.

The better candidates will consider the issue of whether monopolies should be broken up as opposed to other alternatives such as regulation, renationalisation, or introducing greater competition.

Credit use of examples eg BAA, Network Rail, Welsh Water.

At least FOUR arguments on the undesirability of monopolies with a maximum of 3 marks for each point. (Maximum 12 marks without evaluation.)

Max 4 marks for each evaluation point.

Maximum 14 marks without the issue of breaking up monopolies being discussed.