GCE MARKING SCHEME

SUMMER 2019

ECONOMICS - UNIT 2
2520U20-1

INTRODUCTION

The marking scheme which follow were those used by WJEC for the 2019 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were 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' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

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.

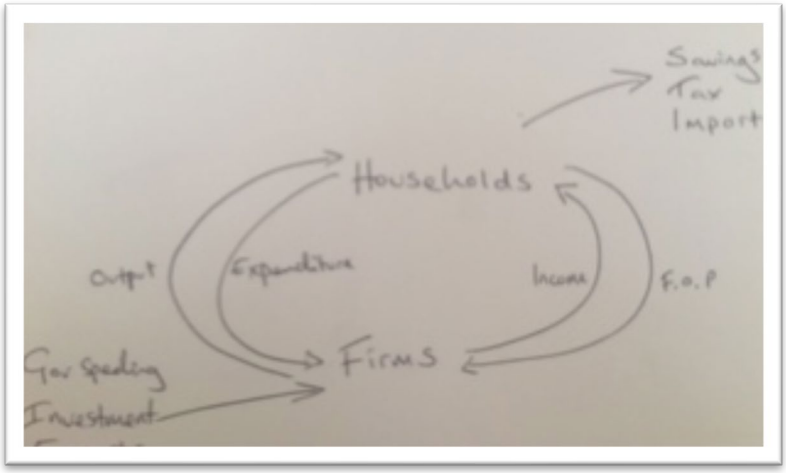
Q 1 (a) (i)	**Outline what is meant by the phrase "in 2017 prices". [2]**
	AO1: 2 marks The price has been adjusted for the inflation rate [1] in between those years. [1]
Q 1 (a) (ii)	**Calculate the 2017 toll price of £6.70 in 1966 prices. Give your answer to the nearest whole penny. [2]**
	AO2: 2 marks 0.125 x 6.70 2.14 Correct answer 39p or £0.39 1 mark for (0.391355)
Q 1 (b) (i)	**Identify two injections from the data given. [2]**
	AO1: 2 marks Correct identification of separate injections [1 per correct answer] **Possible examples include:** Government spending on building bridges Government investment into public transport Increased tourism (exports) Private investors into Wales Government spending to remove road tolls (Implied) Increased economic activity across Welsh border (exports)

1 (b) (ii)	**With reference to the circular flow of income model, explain how increasing injections might lead to a larger increase in national income. [4]**	
Band	**AO1**	**AO3**
	2 marks	**2 marks**
	How good is the understanding of the circular flow of income model?	*How good is the explanation of how increasing injections might lead to a larger increase in national income?*
2	**2 marks** Good understanding is demonstrated	**2 marks** Good explanation
1	**1 mark** Limited understanding is demonstrated	**1 mark** Limited explanation
0	**0 marks** No understanding is demonstrated	**0 marks** No explanation offered or it is incorrect

Indicative content:

AO1

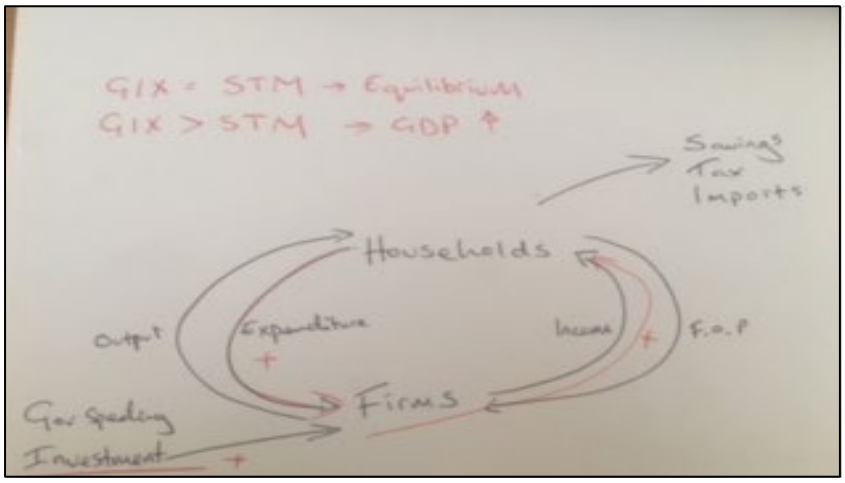
A drawing is NOT required but should be credited if drawn (correctly).



Understanding can also be demonstrated by the correct use of terminology OR appropraite reference to the examples given in the data.

AO3

A drawing is NOT required but should be credited if drawn (correctly).



Good explanation of the Multplier will include reference to injections into the circular flow model and their subsequent impact on the money flows within the system – explaining why the resultant growth in national income will be greater than the initial injection.

Possible explanation:

An increase in an injection such as bridge building (G or I) leads to more income for households as it has led to more factors of production being bought. This in turn means that households have more money to spend and, ceteris paribus, this means that expenditure will increase in the economy – which means that firms now have more money and in the next cycle of the cicular flow national income has now increased.

There is NO requirement for explanation of the Keynesian Multiplier.

Q1 (c)	Discuss whether roads are a good example of a public good. [8]		
Band	**AO1**	**AO3**	**AO4**
	2 marks	2 marks	4 marks
	Does the candidate demonstrate a good understanding of public goods?	*Are there logical arguments that roads should be considered as public goods?*	*Has economic theory been used to evaluate the question effectively?*
2	**2 marks** Good understanding is demonstrated	**2 marks** Good analysis	**3-4 marks** Good evaluation More than one evaluative point is NOT absolutely necessary for top band AO4 but a range of evaluative points should certainly be credited where appropriate
1	**1 mark** Limited understanding	**1 mark** Limited analysis	**1-2 marks** Limited evaluation
0	**0 marks** No understanding or incorrect understanding	**0 marks** No analysis or incorrect analysis	**0 marks** No evaluation or incorrect evaluation

Indicative content:

AO1

Limited understanding can be shown by identification that public goods have two main characteristics: non-rival and non-excludable. Also accept non-rejectable and non-diminishable.

Understanding can be shown by knowledge of the free-rider problem and good explanation of what the free-rider problem is and how/when it occurs and how it leads to market failure.

AO3

Given the understanding shown in AO1, does the candidate develop his/her understanding to analyse the situation with regard to roads?

For example, roads are non-excludable in the sense that everyone can drive on a road without (generally) paying for access to use it. Similarly, roads are non-rival in the sense that lots of people can use the road simultaneously and that one person's road usage does not affect someone else's.

Or, roads can lead to a free-rider problem and market failure since people can drive on roads without the need to pay for it. However, if no-one was to pay for the use of a road then there would be no funding for the construction of roads in the future and roads would not be provided for by the market.

AO4

Possible lines of evaluation include:

Roads may not be considered non-excludable if you consider toll roads such the Severn Crossings where you are paying for access to use that price road. Or, the fact that drivers in the UK pay road tax could, essentially, be construed as an effective price for using roads.

Roads may not be considered non-rival in the sense that, if lots of people are using the road, traffic congestion can arise and then one person's usage clearly does affect other road users' usage.

Different types of roads act differently. Motorways, for example, are definitely excludable (in the form of road tolls) but country lanes are less easy and it is difficult to enforce road pricing here.

Roads are rejectable. People are not forced to consume roads in the same way that they are forced to consume flood defences or nuclear defence systems.

NB: Points such as the regressive nature of tolls or Government spending MUST be linked to the issue of traffic congestion in order to gain credit.

Q1 (d)	**Consider whether the use of road tolls or investment into public transport would be more effective at reducing traffic congestion in the UK.** **[10]**		
Band	**AO2**	**AO3**	**AO4**
	2 marks	**4 marks**	**4 marks**
	Is the answer contextualised to the UK?	*How good is the analysis of how BOTH policies can effectively reduce traffic congestion?*	*Has economic theory been used to evaluate the arguments made in AO3?*
2	**2 marks** Good application	**3-4 marks** Good analysis For top band AO3 there is a requirement for candidates to consider BOTH policies and explain how the policies can effectively reduce traffic congestion	**3-4 marks** Good evaluation More than one evaluative point is NOT absolutely necessary for top band AO4 but a range of evaluative points should certainly be credited where appropriate
1	**1 mark** Limited application	**1-2 marks** Limited analysis	**1-2 marks** Limited evaluation
0	**0 marks** No application	**0 marks** No use of the data Confused/incorrect use of the data	**0 marks** No evaluation offered

Indicative content:

AO3

By increasing the price of road usage, there will be a contraction along the demand curve. This means that the quantity demanded will fall and the amount of road users fall. Traffic congestions falls as a result. A diagram is NOT required but should be credited if drawn (correctly).

Car usage and public transport are strong substitutes. Therefore, by investing into public transport more, one would expect the demand for public transport to increase. Being substitutes, this implies that the demand for car usage will fall. Traffic congestion falls as a result.

Investing into public transport makes public transport more attractive and more people are likely to use trains, buses, community transport schemes, etc … As a result, there are less vehicles on the roads which should lead to less traffic congestion overall.

AO4

Car usage is quite PED inelastic and therefore, just because the price is increasing, people may still choose their cars (especially if there no extra investment into public transport).

Public transport (especially trains) is currently very expensive, so it would take an enormous reduction in price for public transport to make much difference in car usage.

To reduce traffic, the public investment into public transport must increase demand. It might not. The investment may not reduce prices enough or may not increase quality enough that people decide to stop using their cars.

The investment should not be into public transport but rather into providing better cycle-paths and walkways. This will have a greater impact on short-journeys which are the biggest cause of traffic congestion in city centres (and the most polluting!).

AO2

Any appropriate use of data or own knowledge can be credited here.

Q1 (e) (i)	**Using the data, calculate the typical cost of a motorist driving from Bristol to Cardiff in 2017. Give your answer to 2 decimal places. [2]**
	AO2: 2 marks Correct calculation: £35.26 [2] **1 mark** Any ONE of the following may constitute ONE single mark to be awarded OR answer is correct without correct rounding up/down [1] OR answer is correct without specified 2 decimal places [1]

Q1 (e) (ii)	**To what extent will the removal of tolls on the Severn crossings affect the level of consumption and private investment in Wales? [10]**			
Band	**AO2**	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**	**4 marks**
	Good understanding of consumption and investment	*Is the answer set in context?*	*Answer fully explains how the removal of tolls can increase consumption and investment.*	*Has economic theory been used to evaluate the arguments made in AO3?*
2	**2 marks** Good understanding of both consumption and investment Explicit or implicit	**2 marks** Good application Clear reference to the data Relevant content from the data is used to develop and support their argument	**2 marks** Good analysis For top band AO3 there is a requirement for candidates to consider BOTH objectives	**3-4 marks** Good evaluation More than one evaluative point is NOT absolutely necessary for top band AO4 but a range of evaluative points should certainly be credited where appropriate
1	**1 mark** Limited understanding Or only one considered	**1 mark** Limited application	**1 mark** Limited analysis or only one objective considered	**1-2 marks** Limited evaluation Throwaway evaluation
0	**0 marks** No understanding	**0 marks** Answer not in context	**0 marks** No or incorrect analysis	**0 marks** No valid evaluation

Indicative content:

AO1

Consumption is the expenditure of goods and services by domestic (Welsh) citizens. Private investment is the expenditure on capital goods by private firms.

AO3

Consumption: Welsh citizens are likely to see an increase in income as a result of the removal of road tolls. We are told that there is likely to be an increase in tourism and economic activity which means (potentially) more exports and a greater possibility of Welsh citizens getting jobs either in Wales, or across the border. This increase in income should then result in an increase in consumption ceteris paribus.

Private investment: Businesses will be attracted to Wales because the costs of doing business, such as transportation costs, will be greatly reduced. Therefore, entrepreneurs (who are attracted by lower production costs and the prospect of higher profits) will be more likely to invest.

AO4

Consumption: Not all UK residents are from Wales and, therefore, technically, English people buying more things in Wales should be considered a (Welsh) export rather than consumption.

Similarly, if more Welsh people buy more goods and services from England then this could be considered an import and not part of consumption (C-M).

£6.70 is not an enormous price and therefore, one wonders whether it will really make a large difference to the amount of economic activity in Wales. POINT COULD BE USED FOR INVESTMENT TOO (although not creditable for both).

Investment:

Although it is now cheaper to do business in Wales, there are other obstacles such as structural unemployment which restricts the level of investment from rising by very much.

The increase in investment might only be limited to small regional areas which are close to the border, such as Cardiff. It is less likely that rural areas and coastal areas will see as much benefit.

The figure given in the text is £100m per year. Firstly, this is a relatively small figure (the GVA for Cardiff is £9.4bn) and, secondly, there is no source for this data – it could be a gross over-estimate and the real figure could actually be much smaller.

Use of data (AO2)

Any appropriate use of data or own knowledge can be credited here.

Q2 (a)	**Using examples, define the terms 'government current expenditure' and 'government capital expenditure'. [4]**
	AO1: 4 marks **Government capital expenditure:** is the spending on capital goods or physical assets [1] OR is long-term as it does not have to be renewed each year [1] e.g. roads, bridges, hospital buildings and equipment [1] **Government current expenditure:** is ongoing expenditure [1] OR current spending is short-term and has to be renewed each year. [1] e.g. public sector workers' pay [1]

Q2 (b)	**Using Figures 1 and 2, discuss the relationship between Government spending and GDP in the UK 2000-17. [6]**		
Band	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**
	Does the candidate use the data well?	*Does the candidate explain the positive relationship between the two variables*	*Does the candidate consider possible reasons for a breakdown in this relationship?*
2	**2 marks** Good use of data	**2 marks** Good explanation	**2 marks** Good evaluation
1	**1 mark** Limited use of data	**1 mark** Limited explanation	**1 mark** Limited evaluation
0	**0 mark** No use of data or incorrect use of data	**0 mark** No explanation or incorrect explanation	**0 mark** No evaluation or incorrect evaluation offered

Indicative content:

AO3

Government spending usually causes an increase in GDP. This is because Government spending is a major component of GDP in and of itself (AD = C+I+G+X-M) and, therefore, when G increases, so does GDP.

Government spending can lead to a multiplier elsewhere in the economy which also results in an increase in GDP.

AO4

G is not the largest component of AD and, therefore, even though G might increase, the other components of AD may pull in the opposite direction such that GDP falls (or simply slows).

In 2007/08 the financial crisis caused a recession (GDP to fall). Government spending was used to stimulate the economy but – by that stage – the increase in G was having little effect on the overall impact on GDP. Hence, GDP falls even though G is increasing.

Increase in G might just be malinvestment. Or the multiplier might be very small. Therefore, despite an increase in G, the increase in overall GDP might be very small.

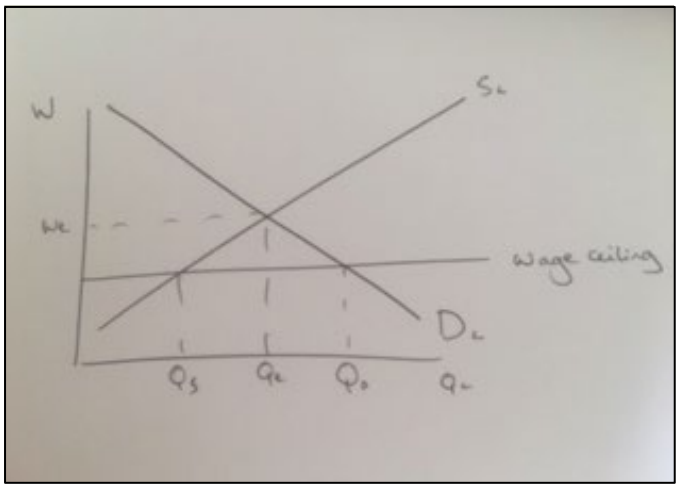
Q2 (c)	**Using a labour market diagram, explain why imposing a pay ceiling on public sector workers might cause labour shortage issues. [6]**		
Band	**AO1**	**AO2**	**AO3**
	1 mark	**2 marks**	**3 marks**
	Good understanding of a labour shortage?	*Diagram correct?*	*Does the answer explain why a price ceiling may cause labour shortage issues?*
2		**2 marks** Good diagram	**3 marks** Good analysis Supply and demand explained
1	**1 mark** Labour shortage is either defined or illustrated on the diagram (Qd – Qs)	**1 mark** Partially correct diagram (Two errors or more)	**1-2 marks** Limited analysis Only supply or demand explained
0	**0 mark** No understanding	**0 mark** No diagram or diagram is inappropriate	**0 mark** No analysis or incorrect analysis

Indicative content:

AO1

Labour shortage is either defined (there is excess demand) or illustrated on the diagram (Qd – Qs)

AO2



AO3

A pay ceiling causes a contraction along the supply curve and an extension along the demand curve. In other words, there is an excess of demand (lots of firms (in this case the government) would like to hire lots of people (Qd) but not as many people would like to work for the set wage). The excess demand is essentially a shortage; this is a labour shortage issue.

Q2 (d)	**Discuss whether a Keynesian approach to fiscal policy will be beneficial for the UK economy.** **[12]**			
Band	**AO1**	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**4 marks**	**4 marks**
	Good understanding of Keynesian approach to fiscal policy?	*Has the answer been set in the context of the UK?*	*Does the candidate explain how a Keynesian approach to fiscal policy will be beneficial for the UK economy?*	*Has economic theory been used to evaluate the arguments made in AO3?*
2	**2 marks** Good understanding May be explicit or implicit.	**2 marks** Good use of the data or own knowledge	**3-4 marks** Good analysis Candidate fully explains how a Keynesian policy will be <u>beneficial for the economy</u> (i.e. at least two macro-objectives)	**3-4 marks** Good evaluation Clear, well-reasoned and balanced evaluation that counters the claims made in AO3 successfully More than one evaluative point is NOT absolutely necessary for top band AO4 but a range of points should certainly be credited where appropriate
1	**1 mark** Limited understanding	**1 mark** Limited use of the data or own knowledge	**1-2 marks** Limited analysis	**1-2 marks** Limited evaluation Throwaway remarks without development should not be credited
0	**0 marks** No understanding or incorrect understanding	**0 marks** No context to the answer	**0 marks** No or incorrect analysis	**0 marks** No evaluation offered

THIS IS A REVERSIBLE ANSWER

Indicative content:

AO1

Using public spending to stimulate economic activity has been a key option for successive governments since the 1930s when British economist, John Maynard Keynes, argued that public spending should be increased when private spending and investment were inadequate. In other words, G increase and/or T decrease.

AO3

Using Keynesian fiscal policy should shift AD to the right. This should lead to economic growth (as more output is demanded) and a reduction in unemployment (as more labour is employed in order to make the increase in output).

Keynesian policies should not have an inflationary effect if the economy currently has a large output gap. In the UK, despite low unemployment figures, there is still a large output gap and so demand-side inflationary pressure is unlikely.

If the government has a strong credit rating (as the UK does!) then borrowing for expansionary purposes now is a relatively good option. Similarly, interest rates and bond yields are currently very low so, again, this is a good time to borrow.

There is NO requirement for a diagram but it should be credited if drawn (correctly).

AO4

Keynesian policies are often criticised because they lead to the accumulation of public debt. Increasing G and decreasing T will lead to a budget deficit and, over the years, this will accumulate into lots of debt. The UK currently had a public debt >85% GDP. Arguably, this is not the time to be piling on more debt.

The UK currently has a very low rate of unemployment and therefore the need for Keynesian policies is less.

Keynesian policies may lead to high levels of demand-pull inflation if there is not an adequate increase in capacity to match the increase in demand. The UK is currently suffering from a high level of inflation.

Inflationary pressures may also have an effect on the competitiveness of exports and so the trade balance is likely to worsen if this becomes a problem.

SS effects not credited.
Contractionary demand-side will be credited.

Q 2 (e)	**With reference to the data, discuss whether merit goods like higher education and healthcare should be provided free of charge by the government.** **[12]**			
Band	**AO1**	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**	**6 marks**
	Good understanding of merit goods?	*How well is the data used in support of the answer?*	*Good explanation of why merit goods should be provided for free?*	*Has economic theory been used to evaluate the arguments made in AO3?*
3				**5-6 marks** Excellent evaluation Clea,r well-reasoned and balanced evaluation that counters the claims made in AO3 successfully
2	**2 marks** Good understanding demonstrated. Explicit or implicit	**2 marks** Good use of data	**2 marks** Good explanation	**3-4 marks** Good evaluation Clear, well-reasoned and balanced evaluation that counters the claims made in AO3 successfully
1	**1 mark** Limited understanding	**1 mark** Limited use of the data	**1 mark** Limited explanation	**1-2 marks** Limited evaluation Throwaway remarks without development should not be credited
0	**0 marks** Wrong/incorrect diagram No diagram	**0 marks** No context to the answer	**0 marks** No or incorrect analysis	**0 marks** No evaluation offered

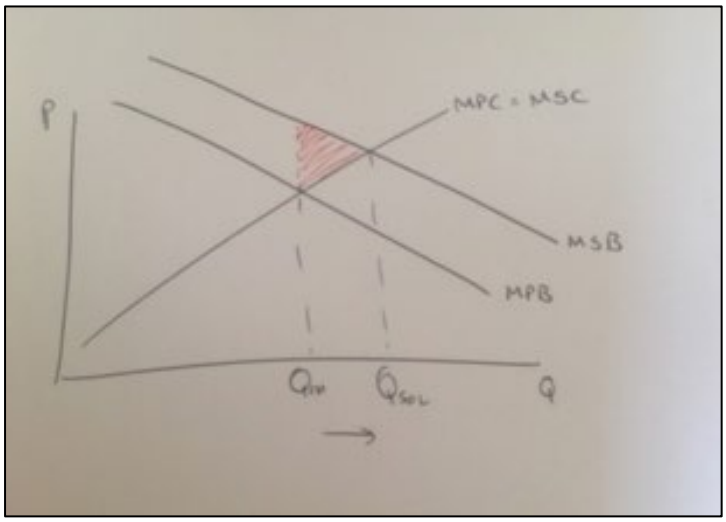
THIS IS A REVERISBLE ANSWER

Indicative content:

AO1/3 (Understanding/Explanation)

Answers to AO3 can be Micro and/or Macro based:

For example, Micro: education and health care are both examples of merit goods; that is, the social benefits are greater than the private benefits. For example, education confers benefits to the third party because it means that people are more likely to increase the pace of technology change, pay taxes, less crime … etc. In health care, the positive externalities are the fact that people do not transmit illnesses as much, workers take less absence from work, productivity increases … etc. This means that a free market will tend to under-provide these services and, as a result, Government provision is necessary in order to make sure that both health care and education are provided at a socially optimum level.



There is NO requirement to draw a diagram but it should be credited if drawn (correctly).

Macro: The government may want to provide merit goods because it is pursuing social objectives rather than macro-economic objectives. Health care, in particular, leads to higher living standards such as increased life expectancy and decreased infant mortality rates.

AO4 (Evaluation)

Answers for AO4 can be Micro and/or Macro based.

For example, Micro: Providing the goods for free at the point of use may lead to over-consumption, i.e. a source of government failure. There are good examples of this in the NHS whereby people visit doctors for ailments when they do not really need to.

Macro: The NHS is the second largest source of UK public expenditure, education is the third. These are very expensive goods to provide. They require taxes to be high in order to pay for them and this reduces consumption/living standards.

AO2 (Use of data)

Any appropriate use of the data or own knowledge is creditable.