



# **GCE MARKING SCHEME**

**ECONOMICS  
AS/Advanced**

**SUMMER 2014**

## **INTRODUCTION**

The marking schemes which follow were those used by WJEC for the Summer 2014 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.

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**EC1**

**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**

**MARK SCHEME - SUMMER 2014**

Question	Answer	Mark allocation	Assessment objective
1 (a)	<p><b>Mark on the production possibility curve diagram in figure 1 China's production pattern in 2011.</b></p> <p>Candidate marks the correct proportion of capital goods inside the PPF (allowing for economy not at proportion)</p> <p>Or</p> <p>Candidate marks on the PPF the approximate level of capital goods and other goods.</p>	1	AO1 1
(b)	<p><b>Explain why the data shown in figure 2 might lead to higher economic growth in China.</b></p> <p>Candidate explains that high numbers of capital goods will increase productivity or will increase the stock of factors of production. (2)</p> <p>Therefore with higher productivity/more FoPs, the potential of the economy will be greater, PPF/AS will shift outwards etc. (2)</p> <p>Also: increased production of capital goods implies higher investment. Hence AD will increase which will create actual growth/rising GDP. (2)</p> <p>Good use of data/diagrams will support the quality of the answer.</p>	4	AO1 1 AO2 1 AO3 2
2	<p><b>Define productivity and calculate the apparent change in productivity between 2010 and 2012.</b></p> <p>Productivity is measured by output per head <i>or</i> output per input (1)</p> <p>2010 productivity = 50 (1)</p> <p>2012 productivity = 40 (1)</p> <p>Productivity falls by 10 (2)</p> <p>Full calculation marks (2) if the candidate correctly calculates productivity in each year without working out the difference.</p> <p>Some credit for candidates who show understanding of productivity and that it has fallen (lower output, more workers) without a correct definition or correct calculation.</p>	3	AO1 1 AO2 2

Question	Answer	Mark allocation	Assessment objective
3 (a)	<p><b>Calculate the consumer surplus after the imposition of the tax.</b></p> <p>Consumer surplus clearly defined (Difference between the price a consumer is willing to pay and the actual market price). (1)</p> <p>Or correctly identified on the diagram. (1)</p> <p>Correct calculation £100. (2)</p> <p>Correct calculation of consumer surplus before tax (£225). (1)</p> <p>£ not needed for (2)</p>	2	AO1 1 AO2 1
(b)	<p><b>Calculate the government's total tax revenue after the imposition of the tax.</b></p> <p>Tax revenue = £180 to £200 accepted. (2)</p> <p>Tax area clearly identified. (1)</p> <p>OR</p> <p>£18-20 tax/unit identified. (1)</p>	2	AO1 1 AO2 1
4	<p><b>How might uncontrolled market power of such monopolies result in market failure?</b></p> <p>Understanding of market failure (1)</p> <p>Increase in inequality (1)</p> <p>Restriction of competition (1)</p> <p>Restriction of choice/producer sovereignty (1)</p> <p>Welfare loss (1)</p> <p>Higher prices/lower output (1)</p> <p>Loss of consumer surplus (1)</p> <p>Diagram (2) Demand and supply diagram showing a rise in price above the competitive price (1) with a reduced consumer surplus and/or welfare loss (1)</p>	3	AO1 1 AO2 1 AO3 1

Question	Answer	Mark allocation	Assessment objective
5 (a)	<p><b>Using a diagram explain why a reduction in the number of pollution permits would raise their price.</b></p> <p>Diagram showing a supply curve shifting to the left with a new higher price and lower quantity. (2)</p> <p>Explanation: Good development of how fewer permits will reduce their supply shifting the supply curve to the left raising their price. (2)</p> <p>If no diagram: Clear explanation of how market forces will push up the price of permits: Up to (2)</p>	4	AO1 1 AO2 1 AO3 2
(b)	<p><b>Discuss whether an increase in the price of permits would be likely to cut carbon emissions.</b></p> <p>Yes it will cut emissions:</p> <ol style="list-style-type: none"> <li>(1) Efficient/low polluting firms have an incentive to reduce pollution further so that they can make profits from selling the permits. (1-2)</li> <li>(2) Inefficient/high polluting firms have an incentive to reduce pollution further by becoming more efficient/investing in new technology to avoid buying the more expensive permits. (1-3) <u>3= very well analysed argument.</u></li> <li>(3) Pollution may fall because the increased cost of permits will increase prices, reducing output – therefore total production will fall, making pollution fall/higher costs drive firms out of business meaning that they are no longer polluting, (1-2)</li> </ol> <p><b>BUT:</b></p> <ul style="list-style-type: none"> <li>• Price may still not be high enough to incentivise firms to reduce pollution. (1-2)</li> <li>• Firms may relocate to countries where there are no emissions limits. Hence total pollution will not fall. (1-2)</li> <li>• The level of emissions is determined by the number of permits issued. (1)</li> <li>• The scheme might not be administered properly/corruption/failures in measurement of CO<sub>2</sub>. (1)</li> <li>• If demand for final product is price inelastic, the impact may be smaller (because permit costs can be passed on). (2)</li> <li>• Large profitable firms may be less affected (up to 2 but only if well explained).</li> </ul> <p>Max 4 without evaluation. Reversible answer.</p>	6	AO1 1 AO2 2 AO3 1 AO4 2

Question	Answer	Mark allocation	Assessment objective
6	<p><b>Using the data explain the meaning of the term government failure.</b></p> <p>Definition/Understanding of GF: Government attempts to correct market failure resulting in a greater welfare loss. (2)/Government intervention in a market which results in a misallocation of resources (2)/Other appropriate definition/understanding shown.</p> <p>Evidence: the tax has led to a rise in emissions, when the purpose of the tax was to reduce emissions. Good developed data use required for 2 marks (ideally focus on increase in emissions due to use of connecting flights or very well developed argument on tax revenue), more general reference 1 mark.</p>	4	<p>AO1 1 AO2 1 AO3 2</p>
7	<p><b>Discuss the view that a cut in interest rates is the best economic policy for this economy.</b></p> <p>Cuts in interest rates will increase AD: increase consumption (Greater incentive to borrow, reduced mortgage repayments, reduced incentive to save) and investment, reduce savings.</p> <p>Depreciates the exchange rate, reducing export prices, causing a rise in exports. Rising import prices might reduce the value of imports. Again AD rises.</p> <p>Resultant rise in national income and employment.</p> <p>Well-developed point up to 3 (+potentially 1 for diagram).</p> <p>BUT:</p> <p>Possibly negative expectations prevent rises in C and I. Exports may not rise despite the fall in export prices. Depends how much interest rates are cut by. Strength of the multiplier effect. Another policy may be better- explanation. Might cause inflation. Both demand pull (2) and cost push (2). Low consumer or business confidence will negatively affect a cut in interest rates.</p> <p>Good use of diagram on either side, up to 1 mark.</p> <p>Depends on: The rate of potential growth in the economy. Whether the trade balance improves or deteriorates.</p> <p>Max 4 without evaluation.</p>	8	<p>AO1 2 AO2 2 AO4 4</p>

Question	Answer	Mark allocation	Assessment objective
8	<p><b>How effective might supply side policies be in solving the economic problems identified in the data?</b></p> <p>Definition/understanding of supply side policies. (1)</p> <p>Explanation of how labour market policies might lead to reduced unemployment up to 3 marks per well-developed point:</p> <p>Education/training.</p> <p>Better information systems/IT/internet, etc. about vacancies.</p> <p>Welfare reform-effect on incentives to work.</p> <p>Tax reform- effect on incentives to work.</p> <p>Increase in the national minimum wage.</p> <p>Better infrastructure will enable workers to get jobs elsewhere/encourage firms to come to take advantage of high unemployment.</p> <p>Lower corporation tax encourages business start-ups/higher profits for training</p> <p><b>BUT:</b></p> <p>Up to 2 marks per well-developed point:</p> <p>Time – very long time before benefits are seen.</p> <p>Potential for government failure – policy is ineffective (e.g. training is inappropriate for the needs of the labour market).</p> <p>Policies offer poor value for money (ineffective in terms of cost/job).</p> <p>Easier for firms to recruit trained labour from abroad.</p> <p>Some unemployment may be demand deficient.</p> <p>Reduced benefits may negatively affect those at risk in society.</p> <p>Max 4 without evaluation. Max 6 without clear data reference.</p>	8	<p><b>AO1 2</b></p> <p><b>AO2 2</b></p> <p><b>AO4 4</b></p>



Question	Answer	Mark allocation	Assessment objective
9 (a)	<p><b>By how much will imports fall as a result of the tariff?</b></p> <p>90m. (1) From 210m to 120m (1) Accept answers without millions.</p>	1	AO1 1
(b)	<p><b>What will be the government's revenue as a result of the tariff?</b></p> <p>£600M. (1) Accept answer without millions.</p>	1	AO1 1
(c)	<p><b>With reference to the diagram, explain how domestic producers might benefit from the imposition of tariffs?</b></p> <p>Increase in producer surplus: Use of diagram(1), more profits etc. (2)</p> <p>Increase in domestic output: Use of diagram (1) –means more sales/revenue/profit. (2)</p> <p>Higher price of imports (use of diagram – specified(1)). allows greater profits for domestic firms (2).</p> <p>Reduced imports (shown/enumerated – use of diagram(1)) mean higher domestic market share (2).</p>	3	AO2 1 AO3 2

**EC2**

**GENERAL MARKING GUIDANCE**

**Positive Marking**

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**GCE ECONOMICS - EC2**  
**MARK SCHEME - SUMMER 2014**

**Section A**

Question	Answer	Mark allocation	Assessment objective
<b>1 1</b>	<p><b>Using examples from the above data explain the meaning of the term fiscal policy.</b></p> <p>Good understanding showing an awareness that fiscal policy involves the use of both government spending and tax. (2)</p> <p>Some understanding: Either identifies only G <b>or</b> T or mixes in other extraneous factors such as interest rates. (1)</p> <p>No understanding shown. (0)</p> <p>Data:</p> <p>No data use. (0)</p> <p>Fair data use: the answer makes reference to the US government's decisions in this case but either only tax <b>or</b> government spending has examples or no specific numerical data is used, but the answer is set in context.(1)</p> <p>Good data use: clear use of both a tax (increase in income tax rates of 4.6%) and government spending (\$110bn cuts in defence spending) <b>or</b> "temporary tax cuts ended and government spending cuts introduced for a total of \$600bn". Use of bar chart.(2)</p>	<b>4</b>	<b>AO1 2</b> <b>AO2 2</b>
<b>1 2</b>	<p><b>With reference to 14-16 explain the concept of opportunity cost.</b></p> <p>Definition/understanding of opportunity cost:</p> <p>Strong definition: Value of best alternative foregone or Equivalent. (2)</p> <p>Weak definition: If you do one thing you can't do something else. (1)</p> <p>Use of data: Good: Explains that defence spending means that the government has less money available to spend on infrastructure - there isn't enough money to spend on both. Or candidate shows an understanding that opportunity cost means that the benefits from one option are lost because the other has been chosen. Or shows a clear sense that there is a constraint present – it is impossible to have both. Simply states that infrastructure is the opportunity cost of defence spending without explaining why. (1)</p>	<b>4</b>	<b>AO1 2</b> <b>AO2 2</b>

Question	Answer	Mark allocation	Assessment objective
13	<p><b>Using an aggregate demand and supply diagram explain the Federal Reserve's decision not to raise US interest rates until unemployment falls below 6.5%.</b></p> <p><b>Up to 3 for</b>            Reduce/slow down the rate of growth of AD:            Good explanation of why AD will be affected, clearly explaining at least two of C, I and the exchange rate. (3)            Fair explanation of why AD will be affected weak explanation of at least two of C, I and the exchange rate, or good explanation of one factor. (2)            Weak explanation of why AD will be affected: answer really asserts that C will fall due to increased saving and no more.(1)</p> <p><b>Up to 2 for impact on the US economy</b>            Fall/reduced rate of growth of AD will stop unemployment falling, reduce GDP growth, push the US economy back into recession, worsen the budget deficit: 2 for good, relation to the impact on key economic variables in the US.</p> <p><b>Up to 2 for good diagram use:</b>            Correct diagram showing fall in AD or reduced rate of increase if AD. (1)            Diagram referenced clearly in the answer. (1)            Candidates may explain that low interest rates will increase AD and thus should be kept low to reduce unemployment.            Max 6 if the effects on AD are fully explained.</p>	6	<b>AO1 2</b> <b>AO2 2</b> <b>AO3 2</b>

Question	Answer	Mark allocation	Assessment objective
1 4	<p><b>Using a diagram discuss the view that raising income tax rates for those individuals earning over \$400,000 will increase tax revenue for the US government.</b></p> <p><b>Raising tax rates will increase revenue:</b></p> <p>Higher tax rates means that those earning over \$400,000 will pay more tax, hence total tax revenue will rise.(2)</p> <p>Higher tax rates may lead to high income earners demanding higher bonuses, working harder and so on to recoup the lost income. (2)</p> <p>Supported by use of upward sloping segment of the Laffer curve. (2)</p> <p><b>Raising tax rates will not increase revenue:</b></p> <p>Higher income tax rates may reduce entrepreneurialism, make the US less attractive for new businesses to be founded, hence tax revenue might fall. (2)</p> <p>High tax rates might lead to increased tax avoidance/evasion. (explained = 2)</p> <p>Business people relocate abroad meaning that the tax base falls. (explained = 2)</p> <p>Higher tax rates may reduce AD, reducing spending and therefore tax. (1)</p> <p>Only a small number of people earn over \$400,000, so limited impact. (2)</p> <p>Illustrated by downward sloping segment of the Laffer curve. (2)</p> <p>Max 5 without evaluation. Max 6 without diagram. Max 3 for integrated diagram, Max 1 for unused but accurate diagram.</p> <p>Mechanistic explanation of Laffer curve only = up to 3.</p>	8	AO1 1 AO2 1 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
1 5	<p><b>Explain using a diagram why falling over the ‘fiscal cliff’ “could have pushed both the US economy and maybe the global economy into recession”. (lines 5-6)</b></p> <p><b>Cause a US Recession (up to 4 marks, 6 with a diagram)</b></p> <p>AD will fall because of cuts in government spending which will cause job losses and impacts along the supply chain. (2)</p> <p>AD will fall because tax increases will cause consumption and possibly investment to fall, again causing job losses and impacts along the supply chain. (2)</p> <p>Linked back to US recession using diagram - AD shifts leftwards reducing the equilibrium level of real GDP. (2)</p> <p><b>Max 4 if don’t treat G and T separately.</b></p> <p><b>Cause a global recession (up to 4 marks, 6 with a diagram).</b></p> <p>Exports from other countries to the US will fall reducing AD in those countries for which the US is a major market, reducing GDP in those countries. (2)</p> <p>US is the world’s largest single economy, meaning that it can have significant effects. (2)</p> <p>Reduced US profits/confidence may reduce outward US FDI. (2)</p> <p>US recession may damage confidence around the world, therefore having ‘contagion effects’, reducing consumption and investment there. (2)</p> <p>US recession may cause the dollar to slump again making it harder to sell to the US. (2)</p> <p><b>Diagram. (2)</b> Well integrated diagram. (2) Correct diagram but not integrated. (1)</p> <p>Max 6 without reference to effects on both the US and global economy.</p> <p>Max 6 without diagram. If diagram is not explained/integrated, max 1.</p>	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
1 6	<p><b>Discuss whether “spending less on defence and more on both improving America’s crumbling infrastructure and boosting spending on education and training” (lines 15-16) will be enough to reduce the US trade deficit.</b></p> <p><b>Yes it will reduce the deficit (up to 6):</b></p> <p>Improving US infrastructure (Max 5) can improve the US trade deficit by:</p> <p>Encouraging inward FDI/higher domestic investment so that more products are made domestically instead of imported/more can be exported. (1-2)</p> <p>Better infrastructure will allow businesses to be more productive/transport goods more easily/reduce costs therefore making US firms more competitive, higher quality and increasing X/reducing M.(1-3)</p> <p>Spending on education and training (Max 5) can reduce the trade deficit by:</p> <p>May raise productivity/quality, reducing unit costs/improving value added and therefore making US firms more competitive, increasing exports and reducing imports. (1-3)</p> <p>May allow the US to produce goods and services domestically that might otherwise have been imported, reducing imports. (1-2)</p> <p>Reducing defence spending can reduce the trade deficit by (Max 4):</p> <p>May reduce demand for imported components such as steel, electronics and so on. (1-2)</p> <p>May lead to redundancies in the military-industrial complex, increasing unemployment and reducing imports. (1-2)</p> <p><b>No it will not be enough to reduce the trade deficit (up to 6):</b></p> <p>Improvements in productivity may not be enough given low-cost competition from abroad. (1-2)</p> <p>The US recovery, once it begins may suck in imports faster than exports can compensate. (1-2)</p> <p>Risk of government failure in infrastructure spending/training and education, meaning that the policies are ineffective. (1-2)</p> <p>The US economy isn’t the only one making supply side reforms - the changes may only be sufficient to stop the deficit from rising further.(1-2)</p> <p>The global economy, especially the euro zone, is performing poorly meaning that even if the policies have an impact, exports may still not rise. (1-2)</p> <p>Rising employment might raise spending and lead to a rise in imports. (2)</p> <p><b>Max 2 in total for any of the following:</b></p> <p>Supply side policies take time to take effect (explained (1) so therefore the trade deficit may only begin to fall in the long run/not fall in the short run. (1)</p> <p>Other factors affect the trade deficit such as the exchange rate and if these are moving in an adverse direction, the deficit may still not fall. (1-2)</p> <p>Depends on how much the changes are. (Max 1)</p> <p>Appropriate well integrated diagram use up to 2 marks.</p> <p>Max 6 without evaluation. (Reversible answer)</p>	10	AO1 2 AO2 2 AO3 2 AO4 4

## Section B

Question	Answer	Mark allocation	Assessment objective
2 1	<p><b>Explain why the equilibrium wage rate for some jobs is below the national minimum wage.</b></p> <p><b>Supply is relatively high (max 6 including diagram):</b></p> <p>Low levels of skill/training are needed. (1) Therefore supply will be high at any given wage rate (or equivalent) because anybody can do it.(1)</p> <p>Low levels of formal qualifications are needed. (1) Therefore supply will be high at any given wage rate (or equivalent) because anybody can do it. (1)</p> <p>Clampdown on benefits etc. (1) may have led to an increased supply of workers into low skilled jobs. (1)</p> <p>Inward migration from the EU (1) has increased supply more in some sectors than in others, some of these are in low wage jobs. (1)</p> <p>Use of diagram or otherwise to explain why these will push down the equilibrium wage. (up to 2)</p> <p><b>Demand is relatively low (max 6 including diagram):</b></p> <p>Demand for some jobs is falling (1) because workers are being replaced by technology (supermarket checkout operators etc.). (1)</p> <p>UK recession has caused falling demand for goods and services (1) reducing the derived demand for labour. (1)</p> <p>Demand for some jobs is highly elastic. (1) Because markets are highly competitive/workers are easily substitutable,(1) which prevents the equilibrium wage from being high.(1)</p> <p>Use of diagram or otherwise to explain why these will push down the equilibrium wage. (up to 2)</p> <p><b>Minimum wage factors (max 2)</b></p> <p>Minimum wage has been rising in recent years (1) much faster than inflation since it was first introduced in 1999 from £3.60/hour. (1)</p> <p><b>Black market factors (max 3)</b></p> <p>Illegal immigrants are unable to work within the normal employment market (1) they are unprotected by the law (1) therefore they can be exploited by employers. (1)</p> <p><b>Weak trade unions (max 2)</b></p>	8	AO1 3 AO2 3 AO3 2



Question	Answer	Mark allocation	Assessment objective
2 2	<p><b>Discuss the view that the UK national minimum wage of £6.31 per hour is too low.</b></p> <p><b>NMW is too low (up to 8)</b></p> <p>Low minimum wage provides little incentive to look for work (1) therefore restricting the supply of workers to firms. (1)</p> <p>Minimum wage has not kept up with the cost of living in recent years (1) therefore reducing living standards for the most vulnerable members of society. (1)</p> <p>Minimum wage is too low relative to benefits levels (1) therefore unemployment/poverty trap, high benefits payments etc. (1)</p> <p>Higher minimum wage increases firms costs meaning they have to become more productive (1) therefore firms may be more likely to train/invest.(1)</p> <p>Higher minimum wage might lead to an increase in incomes for low paid workers (1) therefore leading to an increase in AD. (1)</p> <p>Too low in some areas such as the southeast (1) where the cost of living is very high (1) - might be too high in more depressed areas such as the northeast. (1)</p> <p>Only affects a relatively small number of workers (1) hence it is not really doing the job that it was designed to do. (1)</p> <p><b>NMW is not too low (up to 8)</b></p> <p>Minimum wage at this level reduces the demand for labour because firms' costs are too high (1) therefore causing job losses (1) integrated diagram to illustrate increase in unemployment. (1-2)</p> <p>Minimum wage drives up firms costs forcing firms to increase prices (1) hence leading to an increase in inflation (1) and damaging international competitiveness. (1)</p> <p>Rising costs may erode profits (1) therefore leading to a reduction in investment by firms. (1)</p> <p>May have knock on effects on other jobs as workers try to maintain differentials. (1)</p> <p>UK wage levels have attracted migrant workers from abroad (1) hence the wage is clearly attractive within the European labour market, so it's high enough. (1)</p> <p><b>However this depends (up to 4)</b></p> <p>Maybe too high in some areas and too low in others (1) meaning that a regional minimum wage might be more sensible. (1)</p> <p>On elasticity of demand and supply for labour. If demand is highly wage elastic then the impact on unemployment will be much greater (1) this is quite likely when the economy is in recession/growing slowly because firms are unable to afford the increase. (1)</p> <p>On minimum wages in other countries (1) UK minimum wage is already quite high by the standards of some other EU countries. (1)</p> <p>Maximum 8 with no evaluation.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
<p><b>3 1</b></p>	<p><b>Explain the role of profit and price in a market economy.</b></p> <p>8 marks for a clear explanation of how prices and profits work to allocate resources in a free market economy:</p> <p><b>Possible example:</b></p> <p>Suppose demand rises for a particular good. This will create a shortage in the market. (1)  At the original price there will now be excess demand (1)  Consequently prices will begin to rise. (1)  As a result of this, new producers will be encouraged into the market because the higher prices will encourage supply/cover higher marginal costs. (1)  Therefore allowing firms to make more profits. (1)  The higher price will allow resources to be taken away from less profitable activities. (1)  Therefore ensuring that resources are optimally allocated. (1)</p> <p>At the same time, rising prices will cause demand to contract. (1)  Allocating resources to those consumers who (in principle) most want the good or service. (1)</p> <p>Supply and demand diagram to support this (1-2 if used).</p> <p><b>Other approaches (profit and prices treated separately)</b></p> <p><b>Profits (up to 4)</b></p> <p>Profits are important because they are the reward for risk (1) hence they encourage entrepreneurial activity/investment. (1)  Profits are a source of low-cost investment (1) therefore allowing reinvestment into product and process (1) helping to create potential growth.(1)  Profits are a source of revenue for the government via corporation tax. (1)  Profits allow dividends to be paid (1) supporting pensions/pension funds. (1)  Profits help to draw resources towards sectors making high profits where demand is high (1) helping to make resource allocation more efficient. (1)</p> <p><b>Prices (up to 4)</b></p> <p>Prices are important for bringing supply and demand into equilibrium (1) if there is excess demand prices will rise (1) causing a contraction in demand and extension in supply (1) diagram. (1-2)</p> <p>Prices have an allocative, signalling, rationing role in a market economy. (1) Explained. (3)</p>	<p><b>8</b></p>	<p><b>AO1 3</b>  <b>AO2 3</b>  <b>AO3 2</b></p>

Question	Answer	Mark allocation	Assessment objective
3 2	<p><b>Discuss the view that education and health are best provided by the free market.</b></p> <p><b>Yes:</b></p> <p><b>Up to 8 marks:</b>  Free markets allocate resources efficiently (1) the market for education and health will be in equilibrium at a price which ensures demand equals supply. (1)  If education and health are supplied free they will be undervalued and overused (1) hence creating excess demand, waiting lists in hospitals etc. (1)  Free health and education is expensive for countries via the taxpayer (1) leading to high government spending, high taxes and borrowing.(1)</p> <p>Competition between providers will be good for consumers (1) as quality will be increased as providers compete for custom (1) <b>but</b> risk of race to the bottom as costs are cut and quality is sacrificed.(1)  Free markets provide consumers of education and health with more choice. (1)  Charging for education may encourage students to think more carefully about their course choices and reduce drop-out rates (1) making the whole system more effective (1).  Free at point of consumption health creates the problem of moral hazard (1) explained.(1)</p> <p><b>No:</b></p> <p><b>Up to 8 marks:</b>  Education and health provide significant external benefits from consumption (1) therefore they will be under consumed in the free market (1) i.e. productivity via skills (1) and health with a positive impact on GDP; A country has a more efficient and healthier workforce. (1)  Therefore provision through the free market will lead to a misallocation of resources because health/education will be under-consumed (1) resulting in a welfare loss (1) welfare loss diagram. (1-2)</p> <p>Free health and education help to promote social mobility (1) therefore reducing income inequalities. (1)  Free health and education and compulsory consumption overcome information gaps (1) and retrospective regret. (1) Market provision of health care allows providers to exploit asymmetry of information when treating patients.(1)</p> <p>Health care is a basic need/right (1) therefore it is unfair to make people pay for it (1) and inequalities will be driven up/regressive. (1)</p> <p>Max 8 with no evaluation.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
4 1	<p><b>Explain why governments may need to intervene in the market for fish to prevent market failure.</b></p> <p><b>Understanding of market failure (2 max):</b>            Good understanding of market failure: Forces of supply and demand misallocate resources so that the equilibrium output is too high in some markets but too low in others/misallocation of resources results in a welfare loss/fails to maximise community surplus. (2)            Resources are misallocated (1)            market causes a welfare loss (1)            Resources are over-used (1)</p> <p><b>Relation to the context of fish (6 max)</b>            Understanding of private property rights (1) there is an absence of clearly defined property rights in this case (1) because fish are effectively non-excludable in the open sea/anyone can go and fish in a free market (1) but they are diminishable - there are finite stocks. (1)</p> <p>Therefore fish will be over-exploited/there will be a tragedy of the commons (1) because firms are only interested in private profit. (1)</p> <p>Improvements in technology (sonar etc.) make over-exploitation even easier. (1)</p> <p>Therefore governments have to intervene to restrict supply/access (1) otherwise fish will become extinct meaning that the resource has been over-exploited. (1)</p>	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
4 2	<p><b>With reference to relevant economic theory, evaluate the policies that could be used to preserve fish stocks in the North Sea.</b></p> <p><b>Up to 5 for:</b> Fishing quotas can be imposed to protect fish stocks (1) limits on catches by weight otherwise fines are imposed (1), <b>but</b> surplus fish are discarded to avoid fines (1) which might be seen as an example of government failure (1) because there has been a worse misallocation of resources (1) difficult and expensive to police so a waste of resources (1) because of the numbers of boats and nationalities involved. (1)</p> <p><b>Up to 4 for:</b> Tax endangered fish to reduce quantity demanded (1) price rises and quantity demanded falls (1) creating an incentive to eat/catch less endangered species (1) <b>but</b> demand may be price inelastic because of custom/tastes (cod?). (1) There is a need for international agreement to have any major impact. (1)</p> <p><b>Up to 4 for:</b> Limit access to fishing grounds: limit time on sea/close fishing areas(1) this will allow fish to breed/stocks to recover (1) <b>but</b> cost of policing may be very high because of the large areas involved (1), may have to compensate fishing communities/pay fishing boats not to fish. (1)</p> <p><b>Up to 4 for:</b> Fish farms: subsidies can be given to set up fish farms (1) hence increasing the supply of fish (1) <b>but</b> costly (1) disease spreads quickly (1) escapes from farms can affect the gene pool. (1)</p> <p><b>Up to 4 for:</b> Regulate fishing techniques (1) outlawing certain techniques (explosives, bottom trawling)/imposing regulations such as wider mesh nets (1) reduces size and amount of fish caught (1) <b>but</b> cost of policing due to the number of boats/wide areas involved. (1)</p> <p><b>Up to 2 for:</b> Advertising campaigns to promote non-endangered varieties (1) therefore reducing demand for endangered species. (1)</p> <p><b>General evaluation.</b></p> <p>North Sea is accessible to fishing boats from many different EU nations (1) therefore will need EU agreement to be effective. (1) Candidates should be rewarded for appropriate reference to the EU Common Fisheries Policy.</p> <p>Max 3 for undeveloped policies Award marks to best 4 policies Max 8 for explanation of policies with no limitations/evaluation. Avoid double-crediting evaluation (cost of policing etc.). Relevant diagram to support any piece of analysis above is worth up to (2).</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

## Section C

Question	Answer	Mark allocation	Assessment objective
<b>5 1</b>	<p><b>Explain why it may be difficult for a government to achieve all its macroeconomic objectives at the same time.</b></p> <p>Understanding of key macroeconomic objectives: high/full employment, low stable inflation, economic growth, current account balance, accept also deficit reduction or sustainability reducing depletion/degradation or reducing inequality etc. (2 max)</p> <p>Rising growth/falling unemployment may push the economy closer to full employment (1) as a result resources begin to run short/competition is lower in product markets. (1) Therefore costs of production begin to rise/it is easier to increase prices. (1) Therefore inflation may occur. (1) Illustrated with diagram. (1) (4 max)</p> <p>Rising growth/falling unemployment will increase the disposable incomes of households. (1) As a result of which consumption will rise, some of which will be likely to be spent on imports. (1) Rising consumption may increase inflation, damaging UK firms' competitiveness. (1) Hence the trade balance/current account deficit will be liable to deteriorate. (1) (4 max)</p> <p>Cost-push inflation will drive up UK firms' costs pushing up prices. (1) Therefore AD is likely to contract, damaging growth. (1) Falling growth may also increase unemployment. (1) Rising prices may damage competitiveness, damaging the trade balance/current account balance (1) illustrated with diagram. (1) (4 max)</p> <p>Rising growth will require more and more resources to be able to sustain (1) therefore resources may be depleted and the environment damaged. (1) (2 max)</p> <p>Rising growth is likely to benefit those in jobs/business owners (1) therefore inequalities in income and wealth are likely to rise. (1) (2 max)</p> <p>It may be difficult to achieve policy objectives, but not impossible because SSPs might work, but these take a long time to implement etc. (2)</p> <p>Increased economic growth might cost jobs if it is driven by technological change. (up to 2)</p>	<b>8</b>	<b>AO1 3</b> <b>AO2 3</b> <b>AO3 2</b>

Question	Answer	Mark allocation	Assessment objective
5 2	<p><b>Evaluate the policies a government could introduce to reduce its budget deficit.</b></p> <p><b>Rising taxes (Max 8 from rising taxes)</b></p> <p><b>Higher income taxes</b>  May mean that the existing population will now have to pay more of their income. (1) As a result the government's tax revenue should rise, reducing the deficit. (1) Illustrated by Laffer curve. (1)</p> <p><b>But</b></p> <p>May create disincentives to work (1) tax avoidance/emigration (1) illustrated by Laffer curve (1) may reduce AD further, reducing VAT receipts (1) and increasing unemployment therefore increasing benefit payments. (1)</p> <p><b>Higher corporation tax</b>  In principle corporations will have to pay a higher proportion of their profits to the government (1) therefore raising tax revenue and reducing the deficit. (1)</p> <p><b>But</b></p> <p>Corporation tax is easy to avoid for some corporations (Amazon/Starbucks etc). (1) May deter FDI, resulting in lower tax receipts in the longer term. (1) Corporation tax is a relatively small proportion of the overall tax base. (1)</p> <p><b>Higher indirect taxes</b>  Increased VAT and excise duties will mean that goods and services have more tax on them (1) therefore the government's tax revenue should rise, reducing the deficit (1) this may work well on demerit goods where demand may all be relatively price inelastic (1) also has the advantage that it may tackle market failure. (1)</p> <p><b>But</b></p> <p>Risk that too large a rise may push the economy back into recession (1) meaning that benefits spending may increase. (1) Indirect taxes tend to be regressive (1) because low income groups spend a higher proportion of their income. (1) Rising indirect taxes may have a direct impact on inflation (1) damaging growth and jobs illustrated with diagram. (1)</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
	<p><b>Cutting government spending (Max 8 from cutting G)</b></p> <p><b>Cutting capital spending</b></p> <p>Cuts on major infrastructure projects will reduce government's outgoings (1) meaning that the gap between G and T is smaller. (1) May also mean lower maintenance costs in the future. (1)</p> <p><b>But</b></p> <p>May damage potential growth. (1) May not be easy to cut for practical (already half-built) reasons. (1) May reduce AD, causing losses and therefore increasing benefit payments (1) and reducing income tax/VAT payments. (1)</p> <p><b>Cutting current spending</b></p> <p>Cuts in regular payments for public sector salaries and other running costs cut the government's outgoings (1) reducing the gap between G and T (1). Current spending forms the majority of the government's outgoings. (1)</p> <p><b>But</b></p> <p>Difficult to reduce because of the need to maintain essential services. (1) May damage merit goods (1) and therefore increase inequalities. (1) May reduce AD, causing losses and therefore increasing benefit payments (1) and reducing income tax/VAT payments (1) cuts in education/training may damage future productivity. (1)</p> <p><b>Cutting transfer payments (benefits/pensions)</b></p> <p>Social protection is a big area of government spending, so cutting it will save money (1) therefore reducing the gap between G and T (1) may also create incentives to work (1) helping to increase the government's tax base. (1)</p> <p><b>But</b></p> <p>May be very unfair on low income groups (1) reducing welfare/increasing inequality. (1)</p> <p><b>Keynesian stimulus (Max 6)</b></p> <p>QE/cutting interest rates may increase AD (1) explained. (1) As a result tax base may rise via income tax and VAT (1) and government spending may fall as a result of reduced benefit payments.(1)</p> <p><b>But</b></p> <p>Monetary stimulus may not be very effective because of liquidity trap (1) and low confidence levels. (1)</p> <p>Allow other valid points which are plausible answers to the question.</p> <p>Max 8 without evaluation.</p>		



Question	Answer	Mark allocation	Assessment objective
6 1	<p><b>What factors determine the level of consumption in the economy?</b></p> <p>Real income levels/economic growth (1): Rising GDP levels will reduce unemployment and increase incomes (1) therefore consumers have higher disposable incomes and will spend more, increasing consumption (1) consumption is a function of current income/marginal propensity to consume. (1)</p> <p>Interest rates(1): Falling interest rates create a disincentive to save/incentive to borrow (1) also reduce mortgage repayments, increasing discretionary income (1) falling interest rates may cut incomes of savers, reducing consumption.</p> <p>House/Asset prices (1): Rising house/asset prices can increase confidence/wealth effect (1) also this may allow equity withdrawal. (1)</p> <p>Tax cuts (1): Cuts in income tax increase disposable income (1) cuts in VAT reduce price levels, increasing consumption. (1)</p> <p>Changes to benefits/NMW (1) increase disposable income (1) and thus increase consumption.</p> <p>Availability of credit (1): If banks don't have funds available then consumers will be unable to borrow (1) developed with reference to current events in the UK. (1)</p> <p>Confidence (1): If confidence is low, consumers may not wish to borrow/spend. (1)</p> <p>Max 3 for each explained point. Max 2 in total for identifying factors.</p> <p><b>Level 3 responses require at least one fully developed (3 mark) point.</b></p>	8	<b>AO1 3</b> <b>AO2 3</b> <b>AO3 2</b>

Question	Answer	Mark allocation	Assessment objective
6 2	<p><b>With the use of a diagram discuss the extent to which a rise in consumption is good for an economy?</b></p> <p><b>Good for the economy:</b></p> <p>Rising consumption will increase AD (because it is a major component) therefore real GDP will rise, creating economic growth. (2)</p> <p>Rising consumption will create increased demand for UK firms meaning that jobs will be created, reducing unemployment. (2)</p> <p>Rising consumption will increase GDP increasing the government's tax base and reducing benefits spending, improving the budget deficit. (2)</p> <p>Rising consumption will increase firms' profits, increasing investment and boosting productivity. (2)</p> <p>Effective diagram (1) used to support the points made. (1)</p> <p><b>Not so good for the economy:</b></p> <p>If economy is close to capacity then inflation may rise (1) because resources start to run short, easier to increase prices etc. (1)</p> <p>Rising consumer spending may worsen the trade balance (1) because many consumer goods/components etc. come from abroad, increasing imports. (1)</p> <p>It may depend on how the rising consumption is financed (1) falling savings/rising debt may create problems in the longer term. (1)</p> <p>Depends how much consumption rises by (1) if AD rises by no more than potential growth/AS then problems are less likely/if AD rises by more than potential growth, inflation is more likely.(1)</p> <p>Max 8 without evaluation (Reversible). Max 10 without a diagram.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
7 1	<p><b>Using a diagram show how a fall in the value of the pound might be caused by a widening trade deficit and explain how the weaker pound might improve the price competitiveness of UK firms.</b></p> <p><b>Causing a fall in the value of the pound (4):</b></p> <p>Widening trade deficit implies that:</p> <p>Imports are rising which will increase the supply of £s on the forex market (1) As a result there is excess supply of sterling on the forex market at the original exchange rate. (1) Illustrated using an accurate diagram. (2)</p> <p>Exports are falling which will reduce the demand for £s on the forex market.(1) As a result there is excess supply of sterling on the forex market at the original exchange rate. (1) Illustrated using an accurate diagram. (2)</p> <p>Max 2 without a diagram</p> <p><b>Improved price competitiveness (4):</b></p> <p>UK exports look more competitive on world markets. (1) Because UK goods and services are cheaper in terms of foreign currency (or words to that effect). (1)</p> <p>Rising import prices cause UK domestic goods to look more competitive relative to imports. (1) Because the weaker pound means that it costs more to buy a given quantity of imports (or words to that effect)/import prices are higher in sterling terms etc. (1)</p>	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
7 2	<p><b>Discuss whether a sharp fall in the value of the pound will be beneficial for the UK economy.</b></p> <p><b>Beneficial (up to 8):</b></p> <p>Cheaper exports and more expensive imports should lead to a rise in the value of exports and a fall in the value of imports. As a result the trade balance should improve. (2)</p> <p>Lower export prices make UK goods/tourist destinations more price competitive thus raising demand/employment and GDP. (2)</p> <p>Higher import prices reduce imports benefiting home producers in terms of employment/profits/output etc. (2)</p> <p>Buying assets in the UK is cheaper (1) and thus FDI may increase raising AD (1).</p> <p>Profits made overseas by UK firms increase in terms of pounds (1) explained. (1)</p> <p>Well integrated AD/AS diagram on either side. (2)</p> <p><b>Not beneficial (up to 8):</b></p> <p>If the demand for imports is price inelastic, then the value of imports might actually rise, which is quite likely for commodity imports such as oil etc. (2).</p> <p>Likewise, exports might not rise if export markets are in recession etc. (2)</p> <p>Export/Import sales might not respond to lower price in the short term because of pre-existing contracts, loyalty and non-price factors. (2)</p> <p>Max 4 for:</p> <p>Rising import prices may drive up the costs of UK manufacturers and final goods (1) hence causing cost push inflation within the economy (1) and offsetting some of the benefits of the weaker pound (1) causing job losses in import-dependent sectors. (1)</p> <p>Possible risk of demand pull inflation as a result of rising exports (1) but max 2 in total for understanding that inflation will rise through C push or D pull. Up to 2 further marks for understanding why inflation might be undesirable.</p> <p>OR UK firms dealing with overseas travel by UK citizens suffer (1) due to expensive foreign holidays driven by the weaker £ (1).</p> <p>Reversible answer. Maximum 8 without evaluation.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

## SECTIONS B and C

The following levels should be applied to each question.

### Part (a) questions

<b>Level 1</b> <b>1 - 3</b>	Limited knowledge of relevant economic theory. One or two basic points made.
<b>Level 2</b> <b>4 - 6</b>	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
<b>Level 3</b> <b>7 - 8</b>	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

### Part (b) questions

<b>Level 1</b> <b>1 - 4</b>	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. Likely to focus on just one side of the issue. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
<b>Level 2</b> <b>5 - 8</b>	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
<b>Level 3</b> <b>9 - 12</b>	Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.

## **EC3**

### **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**

**MARK SCHEME - SUMMER 2014**

Question	Answer	Mark allocation	Assessment objective
1.	<p><b>Explain two reasons why companies such as Sainsbury may have environmentally friendly policies as a major objective.</b></p> <p>Identification of appropriate reasons with explanation e.g. cutting costs, increasing profits, PR advantages, Government policies e.g. carbon tax, non-price competition in oligopoly, Ethical objectives.</p> <p>(2x2 1 for identification + 1 for explanation)</p>	4	<p><b>AO2 2</b> <b>AO3 2</b></p>
2. (a)	<p><b>Adapt the diagrams to show how the firm's price, output and profits will be affected by an increase in demand in the short-run.</b></p> <p>Illustration of industry price rise resulting in upward shift of individual firm's demand curve (1) resulting in increase in firm's price (1) firm's output (1) and abnormal profits (1)</p> <p>Marks are only awarded for changes to the diagram for the individual firm (right hand side diagram).</p>	4	<p><b>AO1 2</b> <b>AO2 2</b></p>
(b)	<p><b>Explain what will happen to the firm's price, output and profits in the long-run.</b></p> <p>Explanation of new entrants to the industry pushing industry supply curve to the right and reducing price back to OP. (2)</p> <p>Explanation of firm's output returning to OQ and abnormal profits being competed away or return to normal profit. (2)</p>	4	<p><b>AO1 2</b> <b>AO2 2</b></p>
3.	<p><b>A car manufacturer is faced with a large increase in demand for its product. As a result it needs to increase its production.</b></p> <p>Using the diagram explain why its long run costs fall when its output expands from Q1 to Q2.</p> <p>Descriptive explanation of economies of scale with appropriate examples/use of diagram. (2)</p> <p>Explanation of no fixed factors/change of scale in long-run enabling reduction in LAC. (4)</p> <p>Use of diagram does not need to be explicit.</p>	4	<p><b>AO1 2</b> <b>AO2 2</b></p>

Question	Answer	Mark allocation	Assessment objective
4. (a)	<p><b>Explain why companies such as Asahi and Pilkington might form a cartel.</b></p> <p>Identification (1) and explanation (1) of reasons for forming cartel e.g. reduce advertising/marketing costs, charge higher prices because of limited competition, monopoly profits.</p>	2	AO3 2
(b)	<p><b>Explain why the EU might fine companies for taking part in such cartels.</b></p> <p>Reduces competition only/anti competitive only. (1) Explanation/development of how anti competitiveness harms consumers or firms or the economy. (1)</p>	2	AO3 2
5. (a)	<p><b>Explain ONE reason why there may be significant differences in the rate of inflation as measured by the Consumer Prices Index (CPI) and the Retail Prices Index (RPI).</b></p> <p>Identification and explanation of one factor e.g. RPI includes changes in mortgage interest and other housing costs, CPI doesn't. CPI includes highest and lowest income groups, RPI doesn't. CPI assumes consumers adjust spending to price rises, RPI doesn't. CPI calculated using geometric mean, RPI arithmetical mean.</p>	2	AO2 2
(b)	<p><b>In 2010 the Government announced plans to make pensions rise in line with the CPI rather than the RPI as previously. Discuss the possible effects of this decision.</b></p> <p>Possible advantages, e.g. would save Government money fairer because pensioners less likely to have mortgages CPI is more stable normally than RPI. Appropriate disadvantages e.g. would mean lower incomes for pensioners, will widen gap between pensions and wages if real wages rise.</p>	4	AO3 2 AO4 2



Question	Answer	Mark allocation	Assessment objective
6.	<p><b>Discuss the view that ‘a UK exit from the European Union would be "devastating" for the UK economy’.</b></p> <p>Identification and explanation of arguments for statement e.g.</p> <ul style="list-style-type: none"> <li>• EU major trading partner</li> <li>• might discourage FDI from outside EU</li> <li>• loss of benefits of Single European Market (free movement of goods/labour/capital)</li> <li>• loss of EU regional/other financial support</li> <li>• loss of exports, therefore lower AD, lower GDP, higher unemployment.</li> </ul> <p>Identification and explanation of arguments against statement, e.g.</p> <ul style="list-style-type: none"> <li>• costs of EU regulations</li> <li>• still a major trading partner with fastest-growing economies (e.g. BRIC)</li> <li>• reductions in UK budget contributions.</li> </ul> <p>(max 4 for one side only)</p>	6	AO3 2 AO4 4
7.	<p><b>Discuss whether the UK Government was right to increase its spending on development aid whilst cutting its overall spending.</b></p> <p>Identification and explanation of arguments for increased spending on aid, e.g.</p> <ul style="list-style-type: none"> <li>• honouring UN commitment/duty to poorer nations</li> <li>• UK prosperity dependent upon growth in other countries</li> <li>• 0.7% still small percentage of overall Government budget</li> <li>• Aid more stable than FDI as source of income for developing countries.</li> </ul> <p>Identification and explanation of arguments against increased spending on aid, e.g.</p> <ul style="list-style-type: none"> <li>• other Government spending being cut</li> <li>• aid sometimes wasted/ineffective</li> <li>• FDI/trade flows/protectionism far more important</li> <li>• effects upon developing countries</li> <li>• should not be cutting jobs/health spending because of effect on UK economy.</li> </ul> <p>(max 5 for one side only)</p> <p>(max 4 for focusing only on the cut in government spending)</p>	8	AO3 2 AO4 6

**Section B**  
Answer **one** question

**The following level should be applied to each question.**

<b>LEVEL</b>	<b>MARK BAND</b>	<b>DESCRIPTOR</b>
Level 1	1-5	<p>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.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>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.</p> <p>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.</p>
Level 3	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with sound logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>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.</p>
Level 4	16-20	<p>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.</p> <p>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.</p>

Question	Answer	Mark allocation	Assessment objective
8.	<p><b>“The Government should use taxes and subsidies to encourage people to use buses and trains rather than private cars”. Discuss.</b></p> <p>Identification/explanation of potential private and external costs, e.g.</p> <ul style="list-style-type: none"> <li>• fuel</li> <li>• labour</li> <li>• equipment</li> <li>• pollution</li> <li>• noise/explanation of possible taxes and subsidies.</li> </ul> <p>Analysis/evaluation of whether private motorists should pay more, e.g. car manufacturers don't pay for external costs, e.g.</p> <ul style="list-style-type: none"> <li>• poor air quality, global warming.</li> <li>• private road travel creates congestion, pollution emissions, noise, increased taxes and subsidies may reduce these externalities road users will 'internalise' external costs rail and bus travel provide transport for people on low incomes, creation of employment in public transport sector.</li> </ul> <p>Appropriate diagrammatic analysis e.g. <math>MSC &gt; MSB</math> because manufacturers/car owners ignore external costs</p> <p>Definition and explanation of socially optimum output i.e. <math>MSB = MSC</math>, takes into account external costs and benefits</p> <p>Evaluation of case for higher taxes and subsidies e.g.</p> <ul style="list-style-type: none"> <li>• higher taxes would cause job losses/raise prices</li> <li>• taxes may be ineffective if demand for fuel/cars, etc.is inelastic</li> <li>• non-price factors e.g. reliability, convenience may be more important</li> <li>• may increase business costs and therefore prices</li> <li>• unfair to rural residents</li> <li>• cost to Government/taxpayer, opportunity costs of subsidies</li> <li>• other policies e.g. road-pricing, congestion-charging may be more effective.</li> </ul> <p>Application to wider economy e.g. possible effects upon employment, inflation, international competitiveness and growth</p>	20	<p>AO1 4</p> <p>AO2 4</p> <p>AO3 6</p> <p>AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
9.	<p><b>Discuss the view that highly concentrated markets are bad for the UK economy.</b></p> <p>Definition of highly concentrated markets/oligopoly/monopoly e.g. single/dominant producer/existence of entry barriers/no close substitutes</p> <p>Explanation of possible adverse effects of monopoly power with appropriate diagrammatic analysis, e.g.</p> <ul style="list-style-type: none"> <li>• X-inefficiency/higher prices</li> <li>• lower output</li> <li>• anti-competitive practices</li> <li>• may be able to exploit consumers/reduced consumer surplus</li> <li>• monopolies may be contrived/complex</li> <li>• deliberate erection of barriers to entry</li> <li>• productive and allocative inefficiency.</li> </ul> <p>Evaluation of case against monopoly. e.g.</p> <ul style="list-style-type: none"> <li>• monopoly power may lead to scale economies and therefore lower-cost production</li> <li>• may be natural monopoly</li> <li>• monopolies may be large employers</li> <li>• UK firms may need to be large to compete</li> <li>• internationally/may be major exporters</li> <li>• firms grow by satisfying consumers</li> <li>• monopoly power reward for high quality/low prices/low costs/R&amp;D/innovation</li> <li>• new firms can enter if efficient enough.</li> </ul> <p>Attempt to balance these arguments, e.g. explanation of why efficiency may vary between different situations.</p>	20	<p>AO1 4</p> <p>AO2 4</p> <p>AO3 6</p> <p>AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
10.	<p><b>Discuss the view that Government intervention in the market for merit and demerit goods does more harm than good.</b></p> <p>Definition and examples of merit and demerit goods referring to external costs and benefits</p> <p>Explanation of argument against Government intervention, e.g.</p> <ul style="list-style-type: none"> <li>• people made to pay for services they may not want</li> <li>• reduces competition and choice</li> <li>• public services may be less efficient than private producers</li> <li>• merit goods could be provided by private producers (possibly more efficiently)</li> <li>• provision of merit goods implies a value judgment</li> <li>• involves 'rationing' system for merit goods</li> <li>• some taxpayers subsidise others e.g. non-parents pay for education</li> <li>• possible higher taxes</li> <li>• opportunity cost of Government spending.</li> </ul> <p>Evaluation of argument against Government intervention. e.g.</p> <ul style="list-style-type: none"> <li>• provision of merit goods ensures minimum standard of living/fairer to people on low incomes</li> <li>• increases tax burden</li> <li>• increased efficiency if education &amp; health care provided to all</li> <li>• efficient police/defence/governance provides stable economic environment</li> <li>• production can be moved to socially optimum level</li> <li>• <math>MSC=MSB</math></li> <li>• other forms of Government failure</li> </ul> <p>Evaluation referring to wider economic effects/theoretical development, e.g.</p> <ul style="list-style-type: none"> <li>• effects upon macroeconomic variables</li> <li>• reference to different types of merit &amp; demerit goods</li> </ul>	20	AO1 4 AO2 4 AO3 6 AO4 6

## **EC4**

### **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 – EC4**  
**MARK SCHEME -SUMMER 2014**

**Section A**

Question	Answer	Mark allocation	Assessment objective
<b>1. (a)</b>	<p><b>Explain what happened to rail fares between 2004 and 2013.</b></p> <p><b>Level 1</b> Identification of increase for all tickets/season tickets e.g. higher than inflation for 3<sup>rd</sup> successive year rose compared to earnings. <b>1 – 4 marks</b></p> <p><b>Level 2</b> Development e.g. rising in real terms (tickets 57%, earnings 30%) use of figures/percentages differential between ‘all tickets’ and season tickets narrowed after 2012. <b>5 – 8 marks</b></p>	<b>8</b>	<b>AO1 4</b> <b>AO2 4</b>
<b>(b)</b>	<p><b>Explain George Osborne’s argument that the HS2 link would be an “engine of growth for the north of the UK”.</b></p> <p><b>Level 1</b> Identification of possible benefits e.g. faster travel, businesses establish in north orders for construction businesses other multiplier effects reduced need for Government support in north. <b>1 – 4 marks</b></p> <p><b>Level 2</b> Development related to growth e.g. reduction in costs increased international competitiveness increase in AD/AS - Outward movement of PPC - because of improved infrastructure. The wealth moves North. <b>5 – 8 marks</b></p>	<b>8</b>	<b>AO1 4</b> <b>AO2 4</b>
<b>(c)</b>	<p><b>Discuss whether improvements in the rail network should be financed by an increase in fares rather than by increasing subsidies.</b></p> <p><b>Level 1</b> Explanation of possible advantages of policy e.g. reduction in subsidies/tax burden Government spending fairer that passengers should pay more rail passengers better off than average taxpayer better use for tax revenue elsewhere/opportunity cost. <b>1 – 6 marks</b></p>	<b>12</b>	<b>AO3 6</b> <b>AO4 6</b>
	<p><b>Level 2</b> Evaluation of policy e.g. fares already rising in real terms/as proportion of income Government backing required for larger-scale investment might create greater external costs by increasing road travel. <b>7 - 12 marks</b></p>		

Question	Answer	Mark allocation	Assessment objective
<b>(d)</b>	<p><b>Discuss the view that it would be better to spend £33 billion on improving education and health services than on the HS2 link.</b></p> <p><b>Level 1</b> Explanation of case for education and health spending rather than HS2  e.g. benefits would be more widespread  HS2 will widen regional disparities  Education and health merit goods e.g. will make workforce more productive/increase LRAS more efficiently  Might create more employment.  HS2 benefits are very long term.  <b>1 – 6 marks</b></p> <p><b>Level 2</b> Evaluation of case  e.g. HS2 needed to make businesses more efficient/will shift LRAS to right  boost for output. Employment and profit in construction and ancillary industries  regional multiplier effects  will reduce business costs  reduction of traffic congestion and pollution  UK will be more internationally competitive.  <b>7 – 12 marks</b></p>	<b>12</b>	<b>AO3 6 AO4 6</b>
<b>2. (a)</b>	<p><b>Using the data in Figure 1, explain how the output of different sectors of the economy changed between 2008 and 2012.</b></p> <p><b>Level 1</b> Identification of different rates  e.g. services maintained output over period/  fell until 2009 and rose afterwards  industry and construction fell (approximately 13% and 18% respectively)  construction fell most. <b>1 – 4 marks</b></p> <p><b>Level 2</b> Development using data  e.g. construction fluctuated most  Use of percentages e.g. industry and construction fell  (approximately 13% and 18% respectively).  <b>5 – 8 marks</b></p>	<b>8</b>	<b>AO1 4 AO2 4</b>



Question	Answer	Mark allocation	Assessment objective
(b)	<p><b>Explain possible reasons for the changes shown in Figure 1.</b></p> <p><b>Level 1</b> Explanation of possible causes e.g. falling house prices reduce construction output and house-related industries e.g. white goods, furniture, DIY consumers reducing spending on durables may reduce industry output world recession likely to hit industry rather than services service employment supported by high percentage of jobs being in public sector manufacturing and construction more reactive to changes in GDP/income. <b>1 – 4 marks</b></p> <p><b>Level 2</b> Development using figures/percentages/explaining effects of economic variables e.g. income elasticity of demand, wealth effect, multiplier effects on different sectors. Effect of recession/growth. <b>5 – 8 marks</b></p>	<b>8</b>	<b>AO1 4 AO2 4</b>
(c)	<p><b>Discuss the possible effects of the Bank of England “announcing that it plans to keep interest rates low for a long time, at least until mid-2015”.</b></p> <p><b>Level 1</b> Explanation of possible advantages of committing to low interest rates beneficial for housing market and related industries e.g. might encourage people and firms to increase consumption and investment might foster more optimistic expectations may help to keep exchange rate competitive/help to reduce trade deficit. Theoretical development e.g. rising AD/AS. <b>1 – 6 marks</b></p> <p><b>Level 2</b> Evaluation of policy may indicate lack of commitment of controlling inflation low interest rates may discourage saving capital inflows may fall exchange rate may fall and increase inflation effect may be long-term won't work unless consumer and business confidence strong/other factors may be more relevant than interest rates. <b>7 - 12 marks</b></p>	<b>12</b>	<b>AO3 6 AO4 6</b>

Question	Answer	Mark allocation	Assessment objective
(d)	<p><b>Discuss the argument that George Osborne should “relax his grip on the nation’s purse strings and abandon his obsession with cutting the public sector deficit.”</b></p> <p><b>Level 1</b> Explanation of case for abandoning concentration on public sector deficit  e.g. reducing quality of public services  causing job losses and higher social security payments/lower tax revenue  reducing confidence  downward multiplier effects because of public spending cuts  may lead to high interest rates  more important to create growth and employment  lower provision of merit goods e.g. health education may reduce LRAS  alternative is permanent stagnation  lower interest rates not working  could use supply-side policies. <b>1 – 6 marks</b></p> <p><b>Level 2</b> Evaluation of abandoning “austerity”  e.g. may reduce confidence in the economy  possible inflationary effects  may discourage foreign investment/need to maintain confidence of international financial markets  possible effects on exchange rate  might make UK uncompetitive  higher Government spending may lead to higher interest rates/crowding-out/bad effect on housing market  GDP rising again after 2009 so policy must be working. <b>7 – 12 marks</b></p>	12	AO3 6 AO4 6

**Section B**  
Answer **one** question

**The following level should be applied to each question.**

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	<p>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.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>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.</p> <p>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.</p>
Level 3	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with sound logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>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.</p>
Level 4	16-20	<p>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.</p> <p>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.</p>

## Section B

Question	Answer	Mark allocation	Assessment objective
3.	<p><b>Discuss the view that a policy of significant cuts in the rates of all taxes is the best way to create long-term growth.</b></p> <p>Definition of long-term growth e.g. increase in LRAS/outward shift of PPC, distinction between growth and recovery, descriptive explanation of effect of tax cuts.</p> <p>Explanation of how tax cuts may affect growth using appropriate theory e.g. AS/AD analysis            e.g. higher disposable income if personal taxes cut            tax cuts create incentives to effort/enterprise/investment            higher retained profits for investment if corporation taxes reduced            higher potential profitability            cutting excise taxes will lower prices/inflation/create negative externalities            e.g. higher alcohol and tobacco consumption            cutting customs duties may increase imports            will increase aggregate demand            creation of confidence.            May increase tax revenue/Laffer curve.</p> <p>Evaluation            e.g. may have only short-term effects if AS is unresponsive            depends upon level of output            possible inflationary effects            may increase imports/widen trade deficit            need for supply-side policies to accompany fiscal policy if LRAS is to shift.            Other policies better (answers must focus mainly on tax cuts).</p> <p>Level 4 answers should refer to possible effects on other macroeconomic variables/whether policy would work            e.g. inflation, imports, time-lags before policy takes effect.</p>	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
4.	<p><b>“A sudden increase in aggregate demand in the UK would be more likely to increase inflation than to reduce unemployment”. Discuss.</b></p> <p>Identification and explanation of increase in AD/possible causes e.g. higher consumption/investment/Government spending/exports.</p> <p>Explanation of why prices may rise without reducing unemployment  e.g. demand-pull inflation,  prices will rise if AS does not rise in line with AD  if output is static unemployment may not fall  effect depends upon elasticity of supply/shape of LRAS curve  firms may be unwilling to expand output/investment because of lack of confidence that increased AD will last  increased AD may increase imports therefore little effect on output/employment  theoretical explanation e.g. Friedman’s long-run Phillips curve, use of Keynesian X/AS/AD analysis.</p> <p>Evaluation of statement  e.g. If LRAS curve horizontal (e.g. mass unemployment) output and therefore employment may increase without increase in price level  increased AD may increase business confidence and investment therefore shifting LRAS curve to right and reducing/removing possible inflationary effect  theoretical explanation e.g. traditional Phillips curve, use of Keynesian X/AS/AD analysis.</p> <p>Level 4 answers should refer to importance of assumption about LRAS curve and refer to other macroeconomic variable such as growth and trade balance.</p>	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
5.	<p><b>“The protectionist policies of rich industrialised countries are the largest obstacle to the development of poor developing countries”. Discuss.</b></p> <p>Identification and explanation of protectionist measure e.g. tariffs, quotas, exchange controls, licence restrictions, domestic subsidies.</p> <p>Explanation of how protectionism may damage developing countries e.g. generally heavier on goods and services than on commodities large trade blocs e.g. EU/NAFTA often restrict access rich countries subsidise own producers such as farmers effects on developing countries e.g. exports made dearer in richer countries by tariffs/restricted by quotas/subsidies make domestic prices lower.</p> <p>Evaluation of statement e.g. WTO has encouraged dropping of trade barriers Technology transfer is improving LDC productivity Poorer countries have natural resources/lower costs so can compete Other factors such as labour skills, governance, economic policies etc. more important than protectionism some countries such as tigers/BRIC have succeeded.</p> <p>Level 4 answers should refer to specific examples of LDCs and explain why the effects of protectionism may vary between different countries.</p> <p>The answer should focus on protectionism.</p>	20	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>



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