



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme January 2002

GCE

Economics

Unit ECN3

January 2002

ECN3

AQA Advanced Subsidiary Economics

MARK SCHEME

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme for the data response questions:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) to (d) of the questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 24 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for marking part (e) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the four Mark Band Descriptors or Levels of Skill included in the mark scheme. The Mark Band Descriptors are set out on page 23. When using a levels mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is also shown on page 24. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

APPLYING THE ‘LEVELS’ MARK SCHEME**Levels of Response Mark Band Descriptors**

In part (e) of the data response questions approximately half the marks are available to award to candidates who demonstrate that they can ‘evaluate economic arguments and evidence, and make informed judgements’. It is not necessary that the candidate identifies a wide range of issues. As indicated below the Quality of Written Communication used should be taken into account when awarding the marks.

Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar are likely to be poor. There is little use of economic terminology.

0 to 5 marks**Level 2**

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate’s explanation may become confused. There will be some attempt to present alternative points of view. The answer is likely to be poorly organised and is unlikely to have a clear structure. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

6 to 10 marks**Level 3**

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated. The candidate will present alternative points of view and there will be some attempt to evaluate the issues, arguments and/or data. Some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.

11 to 15 marks**Level 4**

Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology.

16 to 20 marks

THE KEY TO BE USED WHEN USING THE ‘LEVELS’ MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing part (e) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme examiners must take into account the following when deciding how many marks to award for development:

- (i) use of an appropriate format and style of writing to organise relevant information clearly and coherently;
- (ii) use of specialist vocabulary, where appropriate;
- (iii) legibility of handwriting;
- (iv) accuracy of spelling, punctuation and grammar.

Option 1: The Housing Market**1****Total for this question: 50 marks**

(a)(i) What is meant by a ‘mortgage’ (Extract A, line 1)?	(4 marks)
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A loan.	1 mark
Used to buy land/property.	1 mark
With the land/property used as security/collateral.	2 marks
Any other relevant feature e.g. it is related to income.	1 mark
	Up to 4 marks

(a)(ii) Distinguish between ‘economic growth’ (Extract A, line 18) and ‘house-price growth’ (Extract B, line 6).	(6 marks)
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For a definition of economic growth in terms of GNP or an associated concept.	Up to 3 marks
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For a definition of house price growth, e.g. rate of change of <u>average</u> (1 mark), house prices over a <u>time</u> period (1 mark), usually expressed as a <u>percentage</u> (1 mark).	Up to 3 marks
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For making an explicit distinction, e.g. between ‘real’ and ‘monetary’ growth.	Up to 2 marks
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For linking the two concepts, e.g. by saying that economic growth and house price growth might tend to move together.	Up to 2 marks
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For a simple statement that house price growth measures one thing; economic growth measures lots of items.	1 mark
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Maximum of 5 marks for 2 good separate definitions without a distinction.**Maximum 6 marks**

(b) Explain why ‘runaway housing prices are likely to set alarm bells ringing at the MPC’ (Extract A, line 15).	(6 marks)
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Points that could be mentioned include:

- the MPC has a duty to implement anti-inflation policy;
- house price inflation is a component of general inflation;
- higher house prices can create a ‘wealth effect’;
- impact on AD (e.g. through re-mortgaging);
- therefore rising house prices might result in action by the MPC, e.g. higher interest rates.

1 mark per point mentioned, up to 2 further marks per point elaborated.	Up to 6 marks
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Maximum 6 marks

1

- (c) The chart in **Extract A** shows a period of time (1990-95) when house prices were actually falling. Would this have been good news or bad news for the people involved in the housing market at that time? Justify your answer. *(6 marks)*

Candidates can score full marks by arguing either the ‘good’ or ‘bad’ case, provided this is justified.

1 mark per reason given, up to 2 further marks per reason elaborated.

Reasons for considering falling prices as good news include:

- houses more affordable;
- lower inflation;
- lower interest rates;
- less house-building likely (less pressure on environment).

Reasons for considering falling prices as bad news include:

- recessionary effects of slump in housing market;
- ‘poverty effect’ (as opposed to wealth effect);
- lower prices could be indicators of regional disparities.

Give full credit to candidates who point out that whether it’s good news or bad news depends on who you are (e.g. existing house-owner, first-time buyer, seller, builder) and who consider both points of view.

Up to 6 marks

Maximum 6 marks

- (d) With the help of a supply and demand diagram, explain how higher interest rates are likely to affect house sales, as mentioned in **Extract A** line 16. *(8 marks)*

For identifying interest rates as a relevant demand condition;

Up to 2 marks

For explaining why they affect demand and hence prices and quantities (sales);

Up to 3 marks

For linking sales to profits;

1 mark

For relevant diagram: axes (1 mark); supply and demand lines (1 mark);

appropriate shift (1 mark); new price and quantity (1 mark).

Up to 4 marks

Maximum 2 marks for diagram if it does not correctly show the effect of the higher interest rate.

Maximum 4 marks without diagram

Maximum 8 marks

1

- (e) The data show that house prices move differently in the various regions of the UK, reflecting the state of the local economy. Identify and evaluate the possible problems that might be caused in the regions when the MPC uses national house prices as an indicator when setting interest rates. *(20 marks)*

Using the symbols indicated in the mark scheme, indicate where issues are raised, evaluation occurs, etc., and then mark part (e) holistically.

Relevant points that could be raised include:

- the different ‘volatility’ mentioned in the text;
- possible reasons for this different volatility;
- examples of regional differences that might be related to house prices, e.g.
 - employment,
 - incomes,
 - accessibility,
 - impact of regeneration on an area (e.g. Docklands),
 - impact of holiday/second homes;
- problems of MPC using house prices as an indicator, e.g.
 - unemployment in the north being regarded as a ‘price worth paying’,
 - effects of ‘one size fits all’ interest rates on, e.g.
 - consumer confidence,
 - consumer spending,
 - manufacturers/exporters,
 - manufacturers/exporters affected differently from financial/service sectors.

Reserve highest marks for those candidates who distinguish between the effects of changes in the housing market, and the effects of policy spurred by these changes. Give credit for any comments to the effect that house prices can differ within regions as well as between regions.

USE THE LEVELS MARK SCHEME FOR 20 MARKS

Maximum of 13 marks if there is no attempt at evaluating the problems.

Maximum 20 marks

Option 2: The Environment**Total for this question: 50 marks****2**(a)(i) What is meant by an 'environmental levy' (**Extract D**, line 18)? (4 marks)

A levy is a tax (1 mark); indirect tax (1 mark) imposed by a government (1 mark). **Up to 2 marks**
 Initially impacting either on consumers or producers. **Up to 2 marks**
 Aimed at reducing some environmentally damaging activity. **Up to 2 marks**
 For one relevant example. **1 mark**

Maximum 4 marks(a)(ii) Distinguish between 'renewable' and 'non-renewable' resources (**Extract C**, line 9). (6 marks)Definitions expected in terms of resources which **can** or **cannot** be replaced or regenerated.

For defining each type of resource, making the distinction implicitly (2 x 1 mark). **2 marks**

For explicitly making the distinction, e.g. by mentioning the different environmental impact of using each type of resource. **3 marks**

For example of each (2 x 1 mark). **2 marks**

Maximum of 5 marks for 2 good definitions without a distinction.**Maximum 6 marks**(b) What economic changes are likely to have caused airline travel to have doubled every eight years, on average, since 1960 (**Extract D**, line 24)? (6 marks)

Points that could be mentioned include:

- airline travel is closely related to economic development and economic activity;
- air transport has replaced sea transport for business travel;
- rising living standards lead to greater demand for holidays overseas;
- air travel has become more affordable;
- tastes and attitudes have changed - society more internationalised.

1 mark per point mentioned, plus up to 2 further marks per point elaborated.**Maximum 6 marks**

2

(c) The chart in **Extract C** shows that the USA is the single largest CO₂ polluter. Does this necessarily mean that large polluters such as the USA are ‘dirty’ countries with inefficient industries? Justify your answer. (6 marks)

Candidates can score full marks by arguing either the case *for* or *against* the dirty/inefficient proposition, provided this is justified.

1 mark per reason given, a further mark per reason elaborated.

Reasons **for** include:

- American love-affair with the motor car;
- cheap petrol;
- resistance to taxation;
- reluctance of USA to accept environmental targets;
- its size enables USA to impose its will and ‘get away’ with pollution.

Reasons **against** include:

- America is simply the world’s largest economy and therefore, in aggregate, the largest polluter;
- this does not necessarily mean its individual activities are particularly polluting or inefficient;
- economies of scale may enable America to afford more modern and therefore less polluting equipment;
- consumer power in America is very strong and may resist polluting activities.

Give full credit to candidates who consider both points of view; also give credit for comments on other aspects of the bar-chart (e.g. that some former Soviet Bloc countries will be allowed to actually increase CO₂ emissions under Kyoto targets).

Maximum 6 marks

(d) With the help of a supply and demand diagram, explain how a tax on airline fuel would be likely to affect air travel. (8 marks)

Marginal analysis is **NOT** required.

- For identifying the tax as a cost of supplying air transport; **1 mark**
- this cost is a supply condition; **2 marks**
- for explaining that this reduces effective supply, hence price of air transport rises and quantity demanded falls; **Up to 3 marks**
- for linking quantity to pollution levels. **1 mark**

For relevant diagram: axes (1 mark); supply and demand lines (1 mark); appropriate shift (1 mark); new price and quantity (1 mark).

Up to 4 marks
Maximum 4 marks without diagram

Maximum of 2 marks for diagram if it does not correctly show the effects of the tax.

Maximum 8 marks

2

- (e) The data suggest that international agreement would be necessary to implement an international tax on airline fuel. Identify and evaluate alternative policies that could be used in order to reduce global warming caused by air travel. *(20 marks)*

Using the symbols indicated in the mark scheme, indicate where issues are raised, evaluation occurs, etc., and then mark part (e) holistically.

Relevant points that could be raised include:

reasons why international agreement is necessary, e.g.;

- the possibility of evasion by free-rider countries (or arguments to this effect);
- aircraft can re-fuel in non-taxed countries then cause pollution over taxed countries;
- many major airlines are government owned, or have importance for national employment/international prestige therefore governments are unwilling to act against them;
- taxes are unpopular (the slogan 'tax on holidays' is mentioned in the text).

Alternative policies, e.g.;

'command and control' policies:

- tighter emissions controls on jet engines;
- fewer flights;
- rationing of airport landing slots.

Market-based policies, e.g.;

taxes other than kerosene taxes, such as on:

- air tickets themselves;
- landing/exit taxes at airports.

Policies/developments that reduce the demand for air travel in the first place, e.g.;

- using fast trains for short-haul business trips;
- teleconferencing/internet;
- holidays in home country.

Reserve highest marks for those candidates who make some attempt to group policies together and hence distinguish between the generic types of policy.

USE THE LEVELS MARK SCHEME FOR 20 MARKS

Maximum of 13 marks if there is no attempt at evaluating the policies.

Maximum 20 marks

Option 3: The Economics of Sport and Leisure**3****Total for this question: 50 marks**

(a)(i) What is meant by 'public money' (Extract E , line 8)?	(4 marks)
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Money spent by the government. **Up to 2 marks**

From public sources such as taxation. **Up to 2 marks**

It can be argued that Lottery money is also a form of taxation/public funding. **Up to 2 marks**

Maximum 4 marks

(a)(ii) Using the concept of the multiplier, distinguish between the 'direct jobs' created by the business park at the Millennium Dome and the 'indirect jobs' which will flow from the extra spending (Extract F , line 20).	(6 marks)
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Direct = jobs created on site. **1 mark**

Indirect = 'spin-off jobs' (or similar terminology). **1 mark**

For an example of a spin-off job (e.g. supplier). **2 marks**

For explicitly explaining how direct jobs can lead to indirect jobs (the phrase 'multiplier effect' need not be used, but give credit if it appears in context), e.g. by saying something to the effect that economic activity at the Dome creates demand elsewhere, therefore the number of jobs created is 'multiplied'. **Up to 3 marks**

Maximum of 5 marks for 2 definitions without any discussion of the multiplier **effect**.

Maximum 6 marks

- (b) It appears that under Legacy's plans, the Dome area would support jobs in 'technology' rather than in 'leisure'. Explain **one** advantage and **one** disadvantage of this change. (6 marks)

Points that could be mentioned include:

Advantages of technology over leisure, e.g.

- technology jobs less seasonal;
- more skilled;
- more highly paid;
- a high growth sector with large 'value added';
- growth;
- efficiency.

1 mark for an advantage mentioned plus 2 for elaboration.

Disadvantages, e.g.

- possibly fewer jobs (less labour intensive);
- technologies change so redundancy possible;
- leisure is also a high growth sector (although arguably less 'value-added' than technology).

1 mark for a disadvantage mentioned plus 2 for elaboration.

It is not necessary to assess advantages versus disadvantages, but give credit (1 mark) if attempted.

Maximum 4 marks if confined to either advantages or disadvantages

Maximum 6 marks

3

- (c) **Figure 1** suggests that visitor numbers were only half of those expected. If ticket prices had been halved, would this necessarily have led to the Dome achieving its visitor targets? Justify your answer. *(6 marks)*

Candidates can score full marks by arguing either the case for the change leading to targets **or** the case against **or** both possibilities, provided this is well argued.

1 mark per point made, plus up to 2 further marks per point further argued/elaborated.

Points that could be made include:

- reaction to price changes depend on price elasticity of demand;
- halving prices may or may not double sales (depending on elasticity);
- higher sales may or may not increase revenue (again depending on elasticity).

Give credit for examples given involving hypothetical elasticities (such as coefficients of 1 or 2).

Also give credit for discussing the possibility of free entry, with lost revenues at least compensated by merchandising, sponsorship, subsidy, etc. - as at attractions like the Tate Modern.

Entrance price was not the only factor; visitors had expenses in actually reaching the site.

Effect of drop in price might have been nullified by adverse publicity/poor image.

(The contents of the Dome might have been unattractive at any price).

Give credit for suitable diagrams.

Up to 2 marks

Maximum 6 marks

- (d) With the help of a supply and demand diagram, explain how a successful advertising campaign might have transformed the Dome's fortunes. *(8 marks)*

For identifying advertising as something which affects demand.

Up to 2 marks

For explaining how successful advertising affects demand and hence quantities (sales).

Up to 3 marks

Give credit for recognising that advertising is a cost, which may need to be re-couped through a higher price.

For linking sales to profits.

1 mark

For relevant diagram: axes (1 mark); supply and demand lines (1 mark); appropriate shift (1 mark); new price and quantity (1 mark).

Up to 4 marks

Maximum 4 marks without diagram

Maximum of 2 marks for diagram if it does not correctly show the effects of the advertising campaign.

Maximum 8 marks

3

- (e) In recent times the UK government has involved itself in several large sport and leisure projects, such as the Millennium Dome, the replacement of Wembley Stadium, and bids to stage large events including the Olympics and World Cup. Identify and evaluate economic arguments *for and against* government involvement. (20 marks)

Using the symbols indicated in the mark scheme, indicate where issues are raised, evaluation occurs, etc, and then mark part (e) holistically.

Relevant points that could be raised include:

Arguments for government involvement, e.g.:

- projects are often used to spearhead economic regeneration;
- these are large scale projects, needing massive funding;
- national prestige is often involved;
- and they have national consequences, e.g. for employment;
- with the private sector unable/unwilling to take the risks alone.

These projects often have spin-off effects for the public sector, e.g.:

- implications for transport facilities;
- policing;
- environment.

Arguments against government involvement, e.g.:

- governments have short-term aims, while projects are often long term;
- politicians are not business-people and are out of touch with what people actually want from leisure facilities;
- market forces are more appropriate than political considerations;
- politicians tend to over-estimate revenues and under-estimate costs;
- politicians can fall back on public funds, hence lack market disciplines.

Reserve highest marks for those candidates who illustrate some of these points with evidence from the data (and/or their own knowledge of similar projects).

USE THE LEVELS MARK SCHEME FOR 20 MARKS

Maximum of 13 marks if there is no attempt at evaluating government involvement.

Maximum 20 marks