



ASSESSMENT and
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GCE

Economics

Unit ECN3

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Unit 3: Markets at Work

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) and (b) of the data response 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 at the end of this general introduction.
- (ii) **A 'levels' approach.** This approach is used for marking part (c) 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 below. 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 below. 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 (c) 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 recognised. 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 (c) 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 appropriate form 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**Total for this question: 50 marks**

1 (a) What is meant by the phrase ‘booming economy’ (Extract A, line 13)?	(4 marks)
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For an acceptable definition e.g. a time when income, output and expenditure are all rising

4 marks

If a breakdown is required - reference to:

‘an upswing in’ or ‘increasing’;

1 mark

or ‘high levels’ of demand;

1 mark

employment;

1 mark

output;

1 mark

income/wages;

1 mark

aggregates/totals/national levels.

1 mark**MAXIMUM FOR 1 (a) = 4 MARKS**

1 (b) Explain why continued rapid rises in house prices could ‘sow the seeds of London’s economic decline’ (Extract A, line 14).	(6 marks)
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Possible points to be explained include:

- high prices affect affordability;
- high incomes become necessary to obtain a mortgage;
- average house price in London is shown in data as nearly £150 000; mortgage lenders would require an income of about £50 000;
- many workers (e.g. in the public services, and in the private sector) have relatively low incomes;
- high wage earners depend on these relatively lowly paid workers for essential services;
- essential workers might be attracted to less congested, cheaper areas;
- high house prices adversely affect mobility of labour;
- possible exodus from the capital, not being replaced by new incomers;
- without these essential workers London’s economy cannot function;
- rising house prices leading to higher business costs;
- negative equity.

1 mark per point mentioned, and up to 2 marks for further discussion/elaboration.**Max of 3 marks for a mere list.****MAXIMUM FOR 1 (b) = 6 MARKS**

1 (c) Explain possible reasons why house prices vary more than the prices of other goods. (10 marks)

Possible points for explanation include:

Costs

- The author of the second extract stresses the importance of ‘costs’. In particular he focuses on transport costs. Transport costs do not affect the price of houses where local materials are used. Better candidates might be able to argue that:
 - some housing materials in fact do need to be transported (e.g. appliances, central heating boilers);
 - with ‘other items’ such as oil, it is possible that producers/distributors are absorbing transport costs and deliberately equalising prices.

Demand

- Demand is clearly more influential than supply in the housing market. Better candidates might:
 - distinguish between short run and long run;
 - argue that supply is important in the long run;
 - give reasons for constantly rising demand for owner occupation.

Other factors, e.g. competition:

- perhaps the housing market is less competitive than the markets for other products;
- perhaps consumers have less information about the housing product;
- housebuyers have to live where their work is, so often have limited options – hence higher demand in South East;
- regional markets versus national markets.

Accept reasoned arguments about variations over time as well as geographical variation.

**For identifying a reason: 1 mark, for elaboration/discussion: up to 3 marks.
(Give up to 3 marks for a suitable diagram, if included).**

Maximum of 5 marks if there is no reference to the prices of other goods.

MAXIMUM FOR 1 (c) = 10 MARKS

1 (d) With the help of a supply and demand diagram, analyse the possible effects of a foot and mouth crisis on house prices (**Extract A**, lines 3 - 4). *(10 marks)*

For an appropriate written analysis: a reason for a shift of demand, e.g. foot and mouth affects ‘tastes’/ puts people off idea of living in countryside/ restricts access to the countryside/ househunters less able to look around/ damages rural incomes/ hits consumer confidence (1); shifts demand to the left (1); prices fall (1); quantity supplied contracts (1); the size of the market reduces (1); excess D/S (1).

Maximum of 3 marks out of the 6 available, if the shift is not properly explained e.g. if there is no link shown between Foot & Mouth Disease and behaviour (“because of FMD demand falls”).

If a candidate states similar to “because of FMD fewer people go to the countryside, therefore demand falls” 3+ marks.

Max 6 marks for written explanation

(Max 5 marks if no diagram)

For relevant diagrams

Max 5 marks

Diagram breakdown:

Axes, labelled (1)

S and D lines (1)

appropriate shift (1)

new price (1)

and quantity (1)

MAXIMUM FOR 1 (d) = 10 MARKS

1 (e) Identify **and** evaluate steps that could be taken by national and local government to reduce the regional variations in house prices that are indicated in the data. (20 marks)

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

Give credit for candidates who point out that whether high house prices are ‘good’ or ‘bad’ depends on a point of view, e.g. whether you are on the housing ladder or not. To enter the top level, candidates must consider both ‘national’ and ‘local’ (which might be interpreted as ‘regional’) issues.

Possible points for discussion include:

- National Government:
 - Take steps to equalise incomes across nation (regional policy).
 - Improve access/communications to remote areas.
 - Encourage building of affordable houses in prosperous areas (e.g. tax concessions, subsidies).
 - Provide finance for social housing.
 - Any other plausible policy (n.b. do not reward ‘one size fits all’ policies such as interest rates unless candidates comment on the fact that such policies can work against interests of the regions).
- Local Government:
 - Adjust planning policies to encourage house-building where needed.
 - Build social housing.
 - Schemes to make owner-occupation more affordable (e.g. part mortgage part rent schemes).
 - Housing subsidies/tied housing for key workers.
 - Attract new employers to their area (also pertinent to central government).

Maximum of 13 marks if there is no attempt at evaluation.

Use the Levels mark scheme described earlier

MAXIMUM FOR 1 (e) = 20 MARKS

Option 2: The Environment**Total for this question: 50 marks**

2 (a) What is meant by the term ‘gross domestic product’ (Extract E, line 15)?	(4 marks)
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For an acceptable definition e.g. a measure of national income, output and expenditure or national income over time.

4 marks

If a breakdown is required – reference to:

total value of goods;

1 mark

and services;

1 mark

produced;

1 mark

or income or expenditure;

1 mark

in an economy/country;

1 mark

over a year/other time period.

1 mark**MAXIMUM FOR 2 (a) = 4 MARKS**

2 (b) Explain why energy efficiency is important for protecting the environment.	(6 marks)
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Possible points for explanation include:

- mention of externalities;
- distinction between non-renewable and renewable resources;
- distinction between internal and external costs;
- efficiency reduces internal costs;
- efficiency also reduces external costs such as emissions;
- fossil fuels have strong external costs e.g. acid rain;
- non-renewable resources need to be conserved;
- all forms of energy create heat/CO₂ emissions;
- efficiency therefore reduces global warming.

1 mark per point mentioned, and 2 marks for further discussion/elaboration.

Max 3 marks for a mere list.

MAXIMUM FOR 2 (b) = 6 MARKS

2 (c) Is the energy consumption of richer countries more likely to harm the environment than that of poorer countries? Use the data to help justify your answer. *(10 marks)*

For suitable arguments/examples include:

- the USA (developed) is both energy-hungry and energy-inefficient;
- however, the same can be said of China (less developed);
- some types of energy use are more damaging than others (e.g. USA uses a lot of energy in air transport, which damages the upper atmosphere);
- the first chart shows total energy use (not per capita) so tends to include larger economies;
- industrialised countries can afford cleaner technology;
- energy needs partly depend on climate (demand for household heating and lighting), as opposed to industrial demands;
- however industry tends to use more energy than households;
- give credit for candidates who point out that the source has presented the second table in a misleading way, the USA is in fact much lower than 16th.

Credit should be given for use of figures.

For identifying a reason: 1 mark, for elaboration/discussion: up to 3 marks.

Max of 5 marks if no reference to the data.

MAXIMUM FOR 2 (c) = 10 MARKS

2 (d) Many consumer goods depend on oil-based fuel for transport to market, or use oil as a raw material in production. With the help of a supply and demand diagram, analyse the possible long term effects on consumer prices of our dependence on oil. *(10 marks)*

For an appropriate written analysis e.g. there will be higher costs of production (1) and so supply shifts to the left (1); prices rise (1); oil prices increase other costs (1); other consumer prices rise (1); an example of an appropriate product (1) = **5 marks**.

Alternatively, candidates could start with a rightward shift of demand pulling up oil prices and stimulating supply through exploration/reaching more difficult reserves. Credit for excess D/S (1).

Oil prices must be linked to consumer prices for more than 3 marks in the written explanation.

Max 6 marks for written explanation
(Max 5 marks if no diagram)

For relevant diagrams

Max 5 marks

Diagram breakdown:

axes labelled (1)

S and D lines (1)

appropriate shift (1)

new price (1)

and quantity (1)

The diagram can refer either to an oil-related product or to oil itself.

Candidates can also achieve full marks for using appropriate AD/AS analysis.

MAXIMUM FOR 2 (d) =10 MARKS

2 (e) Identify and evaluate policies that governments could use to encourage energy efficiency. (20 marks)

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

Possible points for discussion include:

- Command and control methods, e.g.:
 - regulations on home insulation;
 - tougher efficiency/emission standards for vehicles;
 - reduce speed limits;
 - enforce multiple car occupancy;
 - set targets for renewable energy sources;
 - extension of property rights.

- Market orientated policies, e.g.:
 - road pricing;
 - taxes on inefficient energy use;
 - taxes on petrol;
 - subsidies for efficient energy use;
 - encourage research and development into new technology;
 - reduce prices of public transport journeys;
 - provide mass transit systems as an alternative to the motor car;
 - tradable pollution permit.

Give credit for candidates who compare the utility of individual policies and/or for evaluation of categories of policy (command and control versus market-based).

Possible evaluation includes government failure, need for international action.

Maximum of 13 marks if there is no attempt at evaluation.

Use the Levels mark scheme described earlier

MAXIMUM FOR 2 (e) = 20 MARKS

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

3 (a) What is meant by the term ‘price mechanism’ (Extract F, line 13)?	(4 marks)
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For an acceptable definition e.g. the use of prices to allocate scarce resources. **4 marks**

If a breakdown is required - reference to:

the use of prices to allocate (or ration);	2 marks
scarce resources (or goods and services);	2 marks
supply;	1 mark
and demand determining prices.	1 mark
incentive;	1 mark
signaling;	1 mark
equilibrium.	1 mark

MAXIMUM FOR 3 (a) = 4 MARKS

3 (b) Extract F predicts an increase in tourist trips. Explain the economic conditions that may bring about an expansion in tourism.	(6 marks)
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Possible points for explanation include:

- higher incomes;
- lower unemployment;
- leisure is income elastic;
- more leisure time;
- consumer confidence;
- lower prices;
- changed tastes;
- society more internationalised;
- exchange rates.

Accept ‘determinants’ (such as publicity/advertising/more awareness of holiday destinations/government promotion of tourism) as well as ‘conditions’. Give credit for mention of external shocks that might thwart the prediction.

1 mark per point mentioned, and up to 2 marks for further discussion/elaboration.

Max 3 marks for a mere list.

MAXIMUM FOR 3 (b) = 6 MARKS

3 (c) Explain why “there is no incentive for conservation” if entry prices are too cheap (**Extract F**, line 25).
(10 marks)

Possible points for explanation include:

- low prices mean low profits and less incentive to maintain attraction;
- low earnings mean locals don't value the attraction;
- low revenues mean less funds for maintenance;
- low prices mean more visitors and more damage;
- low prices might affect government's view of attraction;
- low prices might be subsidised as a loss leader.

For identifying a reason: 1 mark, for elaboration/discussion: up to 3 marks.

MAXIMUM FOR 3 (c) = 10 MARKS

3 (d) The article (**Extract F**, line 6) mentions a price increase of 6000%. Using a demand diagram and the idea of ‘elasticity’, analyse the possible effects of increasing prices by such a large amount. (10 marks)

For an appropriate written analysis e.g. demand is price inelastic (1) because people have travelled a long way to see a famous attraction (1) the increased price reduces quantity demanded by a small amount (1), (less than proportionately = 2); total revenue increases (2) = **up to 5 marks**.

If the candidate assumes that demand is elastic then a case must be made, otherwise a **maximum of 3 marks** can be awarded for written explanation.

In all other cases, there must be a mention of revenues/earnings for more than 3 marks to be awarded for the written explanation.

Max 6 marks for written explanation
(Max 5 marks if no diagram)

For relevant diagrams

Max 5 marks

Diagram breakdown:

axes labelled (1)

D line (1)

the starting price in the lower half of the D line (1)

appropriate movement along (1)

new quantity (1)

change in total revenue, (alternatively a price change and a quantity change of very different magnitudes) (1)

Give credit for reasons for inelasticity e.g. still small % of total costs, no substitute.

MAXIMUM FOR 3 (d) = 10 MARKS

3 (e) The UK government has enabled national museums and galleries to re-introduce free admission. Identify possible reasons for this policy and evaluate its effects. (20 marks)

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

Possible points for discussion include:

Reasons for the policy

- Positive externalities, e.g.
 - Educational/culture.
 - Social (keeps children off the streets).
 - Economic (creates jobs in the leisure industry).
 - Culture is an important driver of economic development.

Effects

- Disadvantages, e.g.
 - Costs to taxpayer.
 - Opportunity costs (money could be spent on other priorities).
 - Without price rationing, attractions might be overcrowded, reducing enjoyment for everyone, even degrading the attraction.
 - Alternative rationing mechanisms (e.g. the queue) might be necessary.
 - Equity arguments (who benefits? why free museums? etc.)
- Advantages
 - Increased number of customers (data appears to suggest that, on the whole, cheaper attractions have more visitors).
 - Customers will spend money on other things (in the café, in the gift shop).
 - Multiplier effects: visitors to one attraction will spend money in other locations in the city/region.

Give credit for candidates who pick up on the theme raised in the data, i.e. the effects of a ‘tax on culture’.

Maximum of 13 marks if there is no attempt at evaluation.

Use the Levels mark scheme described earlier

MAXIMUM FOR 3 (e) = 20 MARKS