



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme January 2004

GCE

Economics

Unit ECN3

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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 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 on page 5 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 five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. 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 shown on page 5. 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 may be poor. There is little use of economic terminology.

0 to 3 marks*Mid-Point: 2 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 may be some attempt to present alternative points of view but any attempt at evaluation is superficial. 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.

4 to 6 marks*Mid-Point: 5 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. There will be some attempt to present alternative views and to evaluate the issues, arguments and/or data. There is 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.

7 to 9 marks*Mid-Point: 8 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.

10 to 12 marks*Mid-Point: 11 marks***Level 5**

Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help answer the question. Clear understanding of alternative points of view is shown. Good 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 clearly expressed. Appropriate use is made of relevant economic terminology.

13 to 15 marks*Mid-Point: 14 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: 40 marks****1**

1 (a) Define the term “house price index” (Extract A , line 7).	<i>(3 marks)</i>
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For an acceptable definition. e.g., it shows the average price of all houses, and compares them to a base year where the index was computed at 100. **3 marks**

If definition is not sufficient for full marks, then break down as follows:

notion of an ‘average house price’; **1 mark**

notion of a base year; **1 mark**

notion of an index comparing other years with the base year; **1 mark**

an example of how such a calculation might be performed. **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

1 (b) Give an example of why people rent, rather than buy, a house, and describe one way in which the availability of rented accommodation can affect the local economy.	<i>(4 marks)</i>
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For a suitable example, e.g. people might be low paid, students, footloose workers, people afraid of falling house prices (negative equity). **1 mark**

If the example given is dubious withhold the mark, but the candidate can still reach full marks from the rest of the answer. (If no example is offered at all, max. mark for (b) is 3).

For a description linking the example to the local economy (e.g. key workers in the public services are essential if the commercial activities of big cities are to operate effectively); students bring money to university cities. If unavailable leads to labour shortages. Social costs of homelessness. Can drive up price of rented accommodation and increase housing costs. **Up to 3 marks**

Credit for negative effects, e.g. transient workers. **1 mark**

MAXIMUM FOR PART (b) 4 MARKS

1 (c) Distinguish between “money costs” (**Extract A**, line 13) and ‘opportunity costs’, and explain how opportunity costs can affect the housing market. *(8 marks)*

For defining ‘money costs’ (e.g. in terms of outgoings): **1 mark**

For defining ‘opportunity costs’ (e.g. in terms of alternatives foregone): **1 mark**

For an example of ‘costs’ (e.g. furnishing, house maintenance, interest on loans): **1 mark**

For an example of ‘opportunity cost’ (e.g. alternative investments with higher rates of return; alternative uses for the money borrowed): **1 mark**

For explaining the importance of opportunity costs, e.g. by saying that opportunity cost draws attention to real resources (as opposed to monetary resources): **Up to 3 marks**

For linking opportunity costs to the housing market, e.g. by saying that making a house available to rent reduces the number available to buy (or vice versa): **Up to 3 marks**

MAXIMUM FOR PART (c) 8 MARKS

1 (d) With the help of a supply and demand diagram, explain why rents are ‘collapsing’, as shown in **Extract B**. *(10 marks)*

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

For identifying a demand condition (1) (e.g. falling stock market; fewer internationally footloose tenants, (1), commenting on a consequence, e.g. reduced ‘wealth effect’(1) then explaining how this reduces demand (1) shifting D to left (1); reducing ‘prices’ (rents) (1) and quantity offered for rent (1).

The extract stresses decreased demand but also hints at over-supply so be open to answers describing increased supply.

Max. 6 marks for written explanation

(Max. 5 marks if no diagram)

For relevant diagram **5 marks**

Diagram Breakdown:

Axes labelled (1)

Shift in appropriate direction (1)

2 equilibrium points (1)

Change in price (1)

Change in quantity (1)

MAXIMUM FOR PART (d) 10 MARKS

1 (e) Assess the economic **advantages** and **disadvantages** of ‘soaring’ house prices occurring together with ‘collapsing’ rents. (15 marks)

Relevant points that could be raised include:

Soaring house prices

- Advantages:
 - Increased asset values for householders;
 - Wealth effect;
 - Increased AD;
 - Upward multiplier;
 - House building stimulated.
- Disadvantages:
 - Key workers priced out of cities;
 - Inflationary pressure;
 - Policy response: high interest rates;
 - Consequences for exchange rate;
 - Consequences for sectors (manufacturing exporters);
 - Consequences for regions.

Collapsing rents

- Advantages:
 - Obviously welcome to tenants;
 - Students, single people, and others who need rented accommodation benefit from cheaper rent;
 - Counter-inflationary.
- Disadvantages:
 - Supply of private rented accommodation might dry up;
 - Bad debts;

Give credit for candidates who look at different people’s point of view, e.g. tenant, landlord, owner-occupier; also reward more sophisticated points, e.g. landlords who suffer from lower rents might benefit if they sell the property. Evaluation does not have to be treated separately. Evaluation is likely to come from a consideration of the ‘good’ points versus the ‘bad’ points. There is some scope for challenging the data, e.g. the way the rent trend has been calculated (in the graph) is rather odd. Must deal with both ‘soaring’ and ‘collapsing’ to reach top band.

Maximum of 7 marks if there is no attempt to evaluate the significance of the various costs and benefits identified.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (e) 15 MARKS

OPTION 2: THE ENVIRONMENT**2****Total for this question: 40 marks**

2 (a) Define the term “economic resources” (Extract C , line 22).	<i>(3 marks)</i>
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For an acceptable definition, e.g. resources that can be used in production and are finite. **3 marks**

If definition is not sufficient for full marks, then break down as follows:

notion of resource/ factor of production; **1 mark**

list of factors: land, labour, capital enterprise (all four for 2 marks, any 3 for 1 mark); **Up to 2 marks**

notion of ‘finiteness’ (this word need not be used); **1 mark**

idea that economic resources have opportunity costs. **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

2 (b) Extract C refers to multinational firms (large firms operating in more than one country). Give an example of an actual multinational, and describe one way in which its “awesome power” (Extract C , line 12) might affect the environment. <i>(4 marks)</i>

For naming a specific multinational (obvious examples such as Ford, Sony, McDonalds); **1 mark**

If the example given is dubious, (e.g. a company with an obscure name) withhold the mark, but the candidate can still reach full marks from the rest of the answer. (If no example is offered at all, max. mark for (b) is 3).

For referring to its ‘awesome power’ in a basic way, e.g. by saying that McDonald’s has branches everywhere/ Union Carbide has plant in more than one country/ Nike sells trainers in USA but makes them elsewhere: **1 mark**

For describing the ‘awesome power’ in some detail, linking it to the environment, e.g. the alleged clearing of forests to graze cattle for beef burgers/ the exporting of external costs represented by the Bhopal disaster/ low wages and a working environment below western health and safety standards might be part of the true cost of sportswear: **Up to 3 marks**

MAXIMUM FOR PART (b) 4 MARKS

2 (c) **Extract C** assumes that environmental problems are closely linked to problems of poverty and unequal incomes. Explain why this might be so. (8 marks)

Points that could be raised include the following:

- poverty as a cause of environmental problems, e.g. poor people cannot afford clean technology or facilities, e.g. can't pay for clean water;
- poverty as a result of environmental problems, e.g. ill health due to harmful environment removes the breadwinner from families;
- climate change kills crops;
- links between unequal income and environment: rich countries have command over goods and services; use their economic power wastefully;
- attitudes of rich countries towards the environment;
- attitudes of poor countries towards the environment.

1 mark per issue raised; **up to further 3** for issue developed.

MAXIMUM FOR PART (c) 8 MARKS

2 (d) With the help of a supply and demand diagram, predict how the market for fish (**Extract C**, lines 19-20) is likely to be affected by pollution. (10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

Anticipated approaches:

Either

Depleted stocks due to pollution (1) shifts supply to the left (1) prices rise (1) demand contracts (1), leads to lower quantities (1) depends on demand elasticity (1).

Or

Knowledge that fish suffer from pollution affects tastes (1) shifting demand to the left (1) prices fall (1) supply contracts (1) leads to lower quantities (1) depends on supply elasticity (1).

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

For relevant diagram

5 marks

Diagram Breakdown:

- Axes labelled (1)
- Shift in appropriate direction (1)
- 2 equilibrium points (1)
- Change in price (1)
- Change in quantity (1)

MAXIMUM FOR PART (d) 10 MARKS

- 2 (e) **Extract C**, line 16, suggests that “cold, hard laws are the only way to save the planet”. Evaluate policies, including stricter laws, that economists might recommend to tackle problems discussed in the data. (15 marks)

Points that could be raised include:

Differences between ‘command and control’ and ‘market based’ methods

Examples of each method, e.g. congestion charging (m.b.); fish quotas (c & c)

Command and control

- Advantages, e.g.:
 - Possibility of quick, targeted results;
 - Goes right to heart of problem – the damaging activity itself is stopped, not some secondary activity;
 - Any fines collected raise revenue for the government.
- Disadvantages:
 - Policing required, or evasion possible;
 - International agreement needed;
 - Higher industrial costs, higher prices (not normally referred to as ‘polluter pays’, but this is an indirect effect).

Market based policies

- Advantages:
 - Have been proved effective in some cases (e.g. petrol/ diesel price differential);
 - Polluter pays and can make a choice;
 - Tax revenue to government;
 - Difficult to avoid, on a national basis at least.
- Disadvantages:
 - Lack of international agreement might limit potential (e.g. aviation fuel untaxed);
 - Polluter might choose to pay and carry on with activity;
 - Polluter might not have a real choice (e.g. public versus private transport in UK);
 - No sign of market-created problems (e.g. ozone hole, fish stocks) being solved by markets; compulsion might therefore be necessary.

Candidates may discuss the broad sweep of problems, or discuss policies for one or two problems in detail. Either approach is acceptable. Evaluation does not have to be treated separately. Evaluation could come from weighing advantages and disadvantages of policy types, or assessing relative effectiveness of individual policies.

Maximum of 7 marks if there is no attempt to evaluate the policies identified.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (e) 15 MARKS

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE**3****Total for this question: 40 marks**

3 (a) Define the term “Gross Domestic Product (GDP)” (Extract E , line 17). (3 marks)
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For an acceptable definition, e.g. total value of goods and services produced in one country over a year/ period of time: **3 marks**

If definition is not sufficient for full marks, then break down as follows:

notion of output; **1 mark**

notion of domestic/ national; **1 mark**

notion of a time period; **1 mark**

notion of ‘gross’ (not in specification, but give credit if it appears). **1 mark**

For relating to income (1) or expenditure (1): **2 marks**

MAXIMUM FOR PART (a) 3 MARKS

3 (b) Using the data, suggest one example of how a <i>multiplier effect</i> might result from hosting the World Cup, and describe its possible impact on the economy. (4 marks)

For a suitable example, e.g. the effect of the construction of a stadium: **1 mark**

If the example given is dubious withhold the mark, but the candidate can still reach full marks from the rest of the answer. (If no example is offered at all, max. mark for (b) is 3).

For description of the effect, e.g. the project creates jobs (1); jobs create incomes (1); incomes get spent (1); spending creates further jobs (1). Reward suitably if done with a diagram: **Up to 4 marks**

Give equal credit for any example of a ‘downward’ effect.

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Explain how the economic impact of a business boom on sectors such as leisure and sportswear (**Extract E**, line 26) depends, at least partly, on *income elasticity of demand*. (8 marks)

Definition of income elasticity of demand or formula: **2 marks**

A suitable diagram: **Up to 2 marks**

Definition/ description of ‘boom’ in terms of higher spending: **1 mark**

For making a connection between a business boom and higher incomes (e.g. through improved employment prospects): **Up to 3 marks**

It is probable that leisure and sportswear are likely to have relatively high income elasticities, and therefore will be among the industrial sectors most likely to benefit from the boom. For making this argument: **Up to 3 marks**

For picking up on possible differences between leisure and sportswear, or for picking up on the word ‘partly’ and other possible factors (such as price elasticity): **Up to 3 marks**

In rare cases candidates might argue that leisure/ sportswear have low income elasticities (e.g. Coop ‘pumps’ versus Gucci ‘running shoes’): **Up to 3 marks**

MAXIMUM FOR PART (c) 8 MARKS

3 (d) With the help of an aggregate demand and supply diagram (AD/AS), explain why there might be “an economic stimulus...if high-saving Japan wins the World Cup” (**Extract E**, lines 16-17). (10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

Anticipated approach is to argue that the win boosts consumer confidence (1) and reduces saving (1) so that AD is increased (1) by higher consumption spending (1). There is a stimulus to economic growth/ higher GDP (1), but prices might rise (1).

Credit for: this might eventually lead to higher interest rates (1) to dampen down demand once again (1); investment spending (facilities, infrastructure) (1).

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

For relevant diagram **5 marks**

Diagram Breakdown:

Axes labelled (1)

Shift in appropriate direction (1)

2 equilibrium points (1)

Change in price level (1)

Change in output (1)

Accept price on the vertical axis but not quantity on the horizontal.

For a ‘hybrid’ micro/macro diagram, reward the macro elements individually.

MAXIMUM FOR PART (d) 10 MARKS

- 3 (e) Evaluate the arguments **for** and **against** the view that major sports events are good for the economy. *(15 marks)*

Points that could be raised include:

Demand-side factors

- Positive:
 - Tourism;
 - Publicity/advertising;
 - Country’s image overseas;
 - Trade (one country’s success boosts others also, e.g. demand from Japan).
- Negative:
 - Diversion of visitors (French example in data);
 - Contrary to popular belief, not everyone likes football;
 - In the UK economy success for ‘England’ is not necessarily celebrated everywhere;
 - Higher consumer spending leads to policy response – higher interest rates.

Supply-side factors

- Positive:
 - Investment in facilities, infrastructure;
 - Employment effects.
- Negative:
 - Absenteeism, productivity;
 - Real effects of stock market fluctuations.

Evaluation does not have to be treated separately. Evaluation is likely to come largely from positive versus negative effects. More sophisticated answers could discuss any of the following considerations: demand side versus supply side, long term versus short term, market effects versus policy response. market failure versus government failure. There is also the possibility of challenging the data, e.g. the assumption that the graphs show cause and effect rather than coincidence.

Maximum of 7 marks if there is no attempt to evaluate the arguments.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (e) 15 MARKS