



General Certificate of Education

Economics 5141

ECN3 Markets at Work

Mark Scheme

2006 examination – January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Advanced Subsidiary Economics

January 2006

ECN3

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 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 (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 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 10 marks*Mid-Point: 9 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.

11 to 13 marks*Mid-Point: 12 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.

14 to 15 marks*Mid-Point: 15 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 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 'equilibrium price' (Extract A , line 15).	<i>(3 marks)</i>
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For an acceptable definition (e.g. a market price at which quantity supplied equals quantity demanded; or a market price at which there is no excess/ shortage of supply or demand). **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

notion of a market price **1 mark**

quantity supplied = quantity demanded **1 mark**

balance between buyers and sellers **1 mark**

market is cleared **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

1 (b) Use the concept of income elasticity of demand to explain why people's earnings are an important influence on the UK housing market.	<i>(4 marks)</i>
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Definition/ description of income elasticity of demand **1 mark**

House buyers are responsive to income changes, to buy or trade up. **1 mark**
 (high and positive YED for houses) **high = 1 mark**
positive = 1 mark

because houses are generally bought using mortgages **1 mark**

which are loaned on the basis of income **up to 2 marks**

MAXIMUM FOR PART (b) 4 MARKS

1 (c) **Extract A** (lines 18-20) suggests that ‘long run changes in rents’ are a good indicator of realistic levels of underlying house prices. Explain why the market for rented accommodation is linked to the market for owner-occupied houses. (8 marks)

Examples of points for which examiners can give credit:

- Renting is a substitute for buying
- In the long run, rents are likely to reflect underlying price changes
 - ...because landlords can sell as an alternative to renting out
- An imbalance between supply and demand will change prices (as suggested in the extract)
 - ...and hence change rents
- ‘Overvaluation’ as a concept (the extract suggests that rents are a better indicator of this variable than price/ earnings ratios)

Give credit (up to 3 marks) for use of a suitable diagram (axes =1, shift =1, change along price axis =1).

up to 4 marks per point made (1) and elaborated (3)

MAXIMUM FOR PART (c) 8 MARKS

1 (d) The extracts suggest that lower house prices would reduce GDP growth. With the help of an aggregate demand and aggregate supply (AD/AS) diagram, analyse how interest rates could help restore growth. (10 marks)

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

Anticipated approach:

Lower house prices might reduce economic growth (negative wealth effect; negative equity; lower consumer confidence):

Lower interest rates might counteract these tendencies (shifting AD to the right), e.g. through wealth effects or through other effects, e.g. (multipliers)

Up to 3 marks for description of diagram

Up to 4 marks for analysis beyond basic description

Max. 7 marks for written explanation

(Max. 6 marks if no diagram)

For a relevant diagram:

4 marks

Diagram break-down:

Axes labelled (1) - Accept: Price level/output or O or Real Output
or Y or GDP (not Q or Qty)

Shift in appropriate direction (1)

2 equilibrium points (1)

Either Change in price level }
OR Change in real output } (1)

MAXIMUM FOR PART (d) 10 MARKS

1 (e) Should the government leave house prices to market forces, or actively intervene to prevent a house price crash? Justify your answer. *(15 marks)*

Relevant points that could be raised include:

- The distinction between an absolute fall in house prices and a reduction in the rate of house price inflation
- Recognition of unevenness in the housing market: there are regional differences
- ‘Overvaluation’ and ‘correction’
- Costs of a house price crash, e.g. negative wealth effects, re-possession
- Benefits of a house price crash, e.g. policy response (lower interest rates), improved affordability
- Rationale for government intervention
 - Balance of above social costs and benefits
 - Market failure
 - Housing as a merit good
 - Macroeconomic goals
 - Equity/ distribution arguments
- Arguments against government intervention
 - Free markets/ efficiency
 - Possibility of government failure

Evaluation is likely to come from a consideration of market forces/ market failure versus government action/ government failure.

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

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (e) 15 MARKS

OPTION 2: THE ENVIRONMENT

Total for this question: 40 marks

2

2 (a) Define the term ‘social costs’ (Extract C , line 21).	(3 marks)
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For an acceptable general definition of social costs, e.g. the total of internal costs and external costs/negative externalities **3 marks**

If the definition is incomplete, marks may be broken down, for example:

A notion of internal/ private costs **1 mark**

A notion of external costs/ negative externalities **1 mark**

An example of a negative externality **1 mark**

Notion of social costs as a sum total **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

2 (b) Use the concept of elasticity of demand to explain why the ‘affordability’ (Extract C , line 9) of 4x4s is likely to be an important influence on the sales figures in Extract D . (4 marks)

Definition/ description of price elasticity of demand **1 mark**

Definition/description of income elasticity of demand **1 mark**

Affordability depends at least partly on price **1 mark**

Affordability depends also on income **1 mark**

Sales appear to be rising rapidly **1 mark**

Therefore we could deduce that prices are falling and consumers are responding **up to 2 marks**

We can also assume that SVVs are income elastic. **up to 2 marks**

MAXIMUM FOR PART (b) 4 MARKS

2 (c) Paris city council is planning to ban 4x4s whilst the French government is planning to tax them heavily (**Extract C**). Explain the likely economic effects of the **two** policies. (8 marks)

Examples of points for which examiners can give credit:

- Paris council policy is an example of ‘command and control’ policy
 - It won’t produce revenues
 - There will be a cost in policing
- French government policy is an example of ‘market based’ policy (‘polluter pays’)
 - It will raise revenue
 - ..but this depends on price elasticity of demand
 - Extract claims that there’s no overall cost to exchequer
 - ‘Polluter pays’ might result in polluters choosing to pay and continuing to pollute
- A ban can work quickly; taxes take longer

up to 4 marks per point made (1) and elaborated (3)

MAXIMUM FOR PART (c) 8 MARKS

2 (d) With the help of an aggregate demand and aggregate supply (AD/AS) diagram, analyse how government action against 4x4s, as described in the data, could affect the economy of a country which exports cars. (10 marks)

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

Anticipated approach:

Exports are a component of aggregate demand

Effects of the tax or ban (shifting AD to the left, consequences of the shift)

Up to 3 marks for description of diagram

Up to 4 marks for analysis beyond basic description

Max. 7 marks for written explanation

(Max. 6 marks if no diagram)

For a relevant diagram:

4 marks

Diagram break-down:

Axes labelled (1) – Accept: Price level/output or O or Real Output
or Y or GDP (not Q or Qty)

Shift in appropriate direction (1)

2 equilibrium points (1)

Either change in price level
OR change in real output } (1)

MAXIMUM FOR PART (d) 10 MARKS

2 (e) Should governments leave car prices to market forces, or actively intervene to influence the demand for and supply of cars which may be damaging the environment? Justify your answer. *(15 marks)*

Points that could be raised include:

- Reasons for intervention
 - External costs – consumers not paying full costs of consumption
 - Market failure
 - Encouragement of sustainability for future generations
 - Short term versus long term considerations
- Arguments against intervention
 - Possibility of government failure
 - Consumer sovereignty/ nanny state arguments
 - Employment / environment trade-offs
 - Free trade arguments
 - Efficiency versus equity

Evaluation is likely to come from a consideration of market forces/ market failure versus government action/ government failure.

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

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (e) 15 MARKS

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

3

3 (a) Define the term ‘entrepreneurship’ (**Extract F**, line 5). *(3 marks)*

For an acceptable definition, e.g. the factor of production that brings together all the other factors to produce an output **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

Reference to functions of the entrepreneur **1 mark**

Explicit or implicit discussion of

- ...ownership **1 mark**
- ... control **1 mark**
- ...decision-making **1 mark**
- ... risk-taking **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

3 (b) Use the concept of cross elasticity of demand to explain how the market for surfing is affected by ‘developments in advanced and affordable wetsuit technology’ (**Extract E**, line 6). *(4 marks)*

Definition/ description of cross elasticity of demand **1 mark**

The items mentioned are close ‘complements’ to the activity of surfing **1 mark**

... therefore surfing has negative cross elasticity (1) and a relatively large CED (1) coefficient with respect to changes in price of these items **up to 2 marks**

... and if their prices fall, or if their quality improves, demand for surfing will rise **1 mark**

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Explain how ‘encouraging the growth of tourism and services’, such as surf-related activities, can ‘boost the economy of an area that used to be dependent on heavy industry and manufacturing’ (**Extract F**, lines 11-12). (8 marks)

Examples of points for which examiners can give credit:

- The relevance of the distinction between primary, secondary and tertiary industry
- High and positive YED for services/ tourism
- Observation that as economies develop there is a switch towards services, away from extraction and manufacturing
- Tourism can result in low-wage, unskilled seasonal jobs
 - ...however the extracts suggest that surf-related activities involve training and skills, and that technology reduces the seasonal factor
 - ...so possibly a higher ‘value added’ than some other services
 - ...and a new ‘invisible’ export
- Education and training multiplier spin-offs (surf schools, HE programmes)

up to 4 marks per point made (1) and elaborated (3)

MAXIMUM FOR PART (c) 8 MARKS

3 (d) With the help of an aggregate demand and aggregate supply (AD/AS) diagram, analyse how the trends shown in **Extract G** could affect the economy of the UK. (10 marks)

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

Anticipated approach:

An expanding surf industry will add to aggregate demand through domestic consumption and/ or export earnings:

The effects of the trend (shifting AD to the right, consequences of the shift):

Alternatively, candidates might comment on the focus on education and training in the extracts, and argue along ‘supply-side’ lines for a rightward shift in LRAS

Adopt this approach up to **3 marks** for description of diagram

Up to 4 marks for analysis beyond basic description

Max. 7 marks for written explanation

(Max. 6 marks if no diagram)

(Cont.....)

For a relevant diagram:

4 marks

Diagram break-down:

Axes labelled (1) – Accept: Price level/output or O or Real Output
or Y or GDP (not Q or Qty)

Shift in appropriate direction (1)

2 equilibrium points (1)

Either change in price level }
OR change in real output } (1)

MAXIMUM FOR PART (d) 10 MARKS

3 (e) Should the government and public bodies such as local councils and universities encourage the growth of activities such as surfing? Justify your answer. *(15 marks)*

Relevant points that could be raised include:

- Reasons for public sector involvement:
 - demand side
 - job creation
 - multiplier effects
 - supply side
 - education and training
 - economic re-structuring (trend towards services)
 - social benefits
 - employment opportunities
 - wish to re-structure the economy towards services
 - ‘picking winners’
 - regional policy
- Arguments against public sector involvement
 - ‘Markets know best’: if the economic returns are truly so attractive, why shouldn’t the whole industry be left to the private sector?
 - Possibility of government failure, e.g. by picking false winners
 - Encouragement of alleged ‘Mickey Mouse’ HE programmes
- Environmental/social cost issues.

Candidates might write generally about the ‘public sector’, or might treat each of the institutions mentioned individually, or focus on one in depth. Each approach is acceptable.

Evaluation is likely to come from a consideration of market forces/ market failure versus government action/ government failure.

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

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (e) 15 MARKS