



General Certificate of Education

Economics

ECN3: Markets at Work

Mark Scheme

2007 examination - June 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.

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Set and published by the Assessment and Qualifications Alliance.

Advanced Subsidiary Economics

June 2007

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 (a) Define the term 'economic growth' (Extract A , line 7).	<i>(3 marks)</i>
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For an acceptable definition (e.g. an increase in productive capacity OR an increase in (real) GDP) **3 marks**

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

Description/ definition of GDP **1 mark**

...or description/ definition of **real** GDP **Up to 2 marks**

Distinction between capacity (potential) and GDP (actual) growth **Up to 2 marks**

Use / description of shift of production possibility frontier **Up to 2 marks**

Reference to 'trend growth'/ output gap **Up to 2 marks**

MAXIMUM FOR PART (a) 3 MARKS

1 (b) Explain how the decision to purchase a first home may be influenced by both price and income.	<i>(4 marks)</i>
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A suitable line of argument, eg:

The affordability of any product depends on both price and income **Up to 2 marks**

A statement of the law of demand **1 mark**

Houses are the most expensive purchase that most families make **1 mark**

They are generally purchased using borrowed money (a mortgage) **1 mark**

Mortgages are calculated and granted on the basis of income **Up to 2 marks**

Other relevant marks : size of deposits required, level of interest rates **1 mark each**

In the case of a relevant diagram **Up to 2 marks**

MAXIMUM FOR PART (b) 4 MARKS

1 (c) Use the concept of cross elasticity of demand to explain the likely relationship between the demand for houses and the demand for furniture. (8 marks)

For a definition/ description of cross elasticity of demand (**not** a written version of the formula) **Up to 2 marks**

Formula **2 marks**

Explanation

The two items are complements: **1 mark**

They are in joint/derived demand: **1 mark**

They tend to be bought together: **1 mark**

Consideration of the likely degree of complementarity, eg the magnitude of the C.E.D. coefficient: **Up to 3 marks**

The C.E.D. coefficient is negative: **1 mark**

Other relevant points/ use of suitable diagram: **Up to 3 marks**

MAXIMUM FOR PART (c) 8 MARKS

1 (d) Assume that the short run supply curve for houses is vertical. Explain why this assumption might be made **and**, using a supply and demand diagram to help you, analyse the likely effects of an expansion of prefabricated house-building (as described in **Extract B**) on the housing market in 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:

The increased building will add to the supply of houses. The supply curve shifts to the right, prices fall, quantity demanded extends.

Diagram break-down:

Axes labelled (1). Do not reward price **level** or output

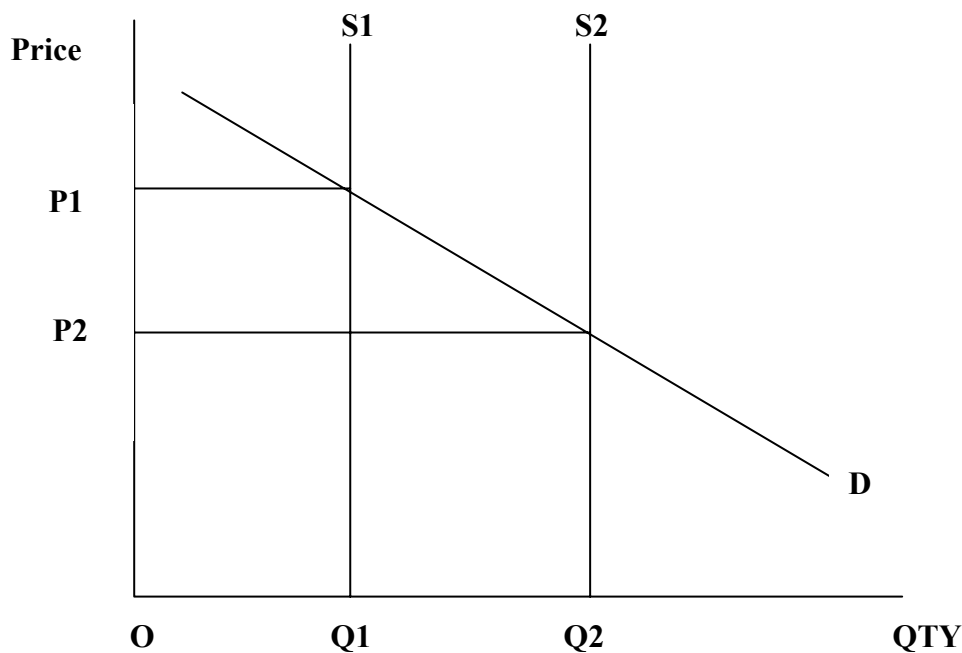
S & D curves correct (1). First S curve must be vertical. Do not reward AD/AS

Shift in appropriate direction (1)

Change in price clearly shown and labelled (1)

For a relevant diagram (example below)

up to 4 marks



(Price and quantity of houses)

Anticipated approach to written response:

For explaining the assumption: it is a short run assumption, illustrating 'fixed' supply (it takes time to build houses) due to the need to organise resources. **up to 3 marks**

For describing the diagram: reasons for and direction of shift; change in price and quantity **up to 3 marks**

For some advanced analysis, eg consideration of the possibility of regional differences, or any other interesting discussion of the case, beyond basic description of the diagram. For example, it could well be argued that the numbers of houses being built by IKEA are tiny compared with the whole market, so that there will be little or no overall effect. A massive move towards pre-fabrication would be necessary for a significant effect. A distinction could be made between the flow of new houses and the stock of existing houses (the stock is large in relation to the flow). **up to 3 marks**

For written explanation **up to 8 marks**

MAXIMUM FOR PART (d) 10 MARKS

1 (e) Should the government build houses itself, encourage the private sector to build more houses, or play no part in the housing market at all? Justify your answer.
(15 marks)

Relevant points that could be raised include:

- House building by the government
 - Not very likely in the current climate of privatisation
 - Implications for public finances
 - Macro effects: demand and employment
- Encourage the private sector
 - Demands from house-builders for planning law relaxation
 - Externalities/ environmental impacts: green belt
 - Possibility of government failure: wrong targets in wrong areas
 - Private and public priorities might differ, eg:
 - Executive housing more profitable than 1-person units
 - Different areas/ regions less attractive to private sector
- Against intervention in the market
 - Implications for mobility of labour
 - 'Markets know best'
 - Government failure
- For intervention
 - Houses as merit goods
 - Need to 'predict and provide', can't be achieved by market forces
 - Non-affordability affecting key workers; cities with high property prices can't function without public services
 - Special needs of first time buyers
 - Macro issues
- Evaluation could come from, eg:
 - Micro:
 - Possible mismatch between demand and supply for amount of housing, or type of housing (e.g. for single-person households)
 - Macro:
 - Housing 'booms' can have knock-on benefits (e.g. employment) and costs (eg inflation and its policy responses)
 - Candidates could question whether there is an actual need for more houses, or whether government policy in fact represents a shift of population from less prosperous to more prosperous areas
 - Renovation of existing housing might be an alternative to new build
 - General discussion of role of government, versus markets
- As always, give credit for sensible use of the data

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

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS

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

2 (a) Define the term 'supply-side policy' (Extract E , line 1).	<i>(3 marks)</i>
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For an acceptable definition (eg policies involving output/efficiency/productivity) **3 marks**

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

Micro-economic notion of supply **1 mark**

An indication that candidate realises that aggregate supply is a macro concept **1 mark**

Example of a supply-side policy **1 mark**

Understanding that supply side policies aim at improving macro performance through micro means **Up to 2 marks**

Use of an AS curve **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

2 (b) Explain how any two of the trends shown in Extract D may create negative externalities.	<i>(4 marks)</i>
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Definition/description of 'negative externalities': **up to 2 marks**

Identification of trends (1 mark each), eg:

cars cheaper to run, more two-car households, fewer cyclists, more traffic **up to 2 marks**

Negative externalities (1 mark each), eg:

air pollution, congestion, noise, health effects **up to 2 marks**

MAXIMUM FOR PART (b) 4 MARKS

2 (c) Use the concept of cross elasticity of demand to explain the likely relationship between the demand for car journeys to school and the demand for bus journeys to school (**Extract D**).
(8 marks)

For a definition/ description of cross elasticity of demand (not a written version of the formula)	Up to 2 marks
Formula	2 marks
Explanation	
The two items are substitutes:	2 marks
They tend to be bought in place of each other:	1 mark
Cross elasticity of demand is positive:	1 mark
Consideration of the likely degree of substitution, eg the <u>magnitude</u> of the C.E.D. coefficient:	Up to 3 marks
Other relevant points/ use of suitable diagram:	Up to 3 marks

MAXIMUM FOR PART (c) 8 MARKS

2 (d) Assume that the short run supply curve for road space is vertical. Explain why this assumption might be made **and**, using a supply and demand diagram to help you, analyse the likely effects on road pricing (as described in **Extract E**) of a large increase in new road building. (10 marks)

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

Anticipated approach:

Road building will shift the supply curve for road space to the right. As with any other scarce resource, the price will fall. Quantity demanded extends.

Diagram break-down:

Axes labelled (1). Do not reward price **level** or output

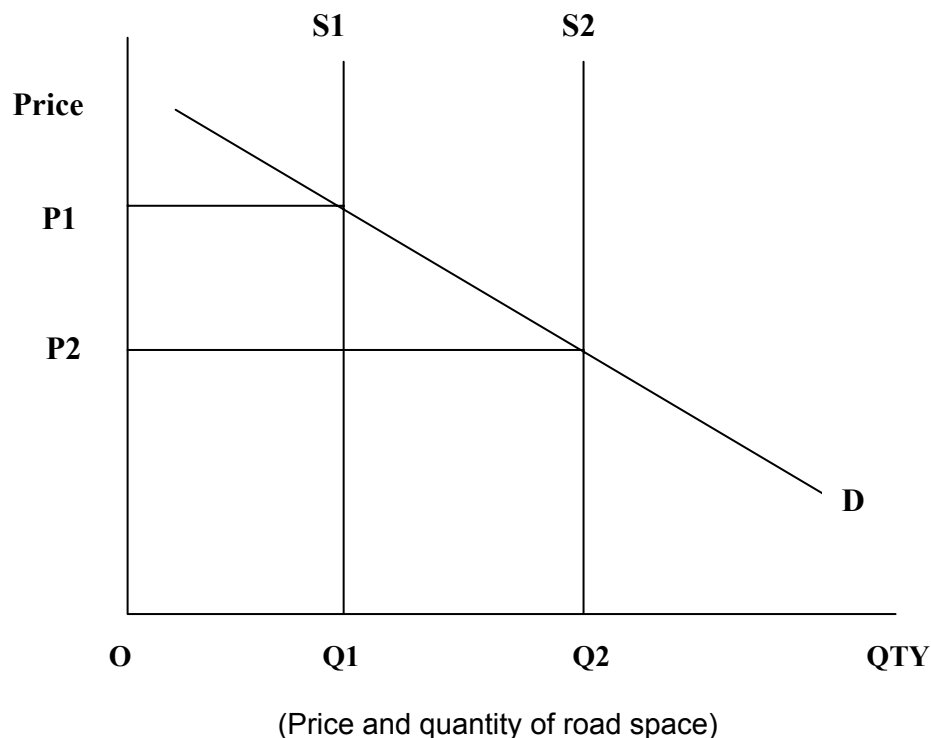
S & D curves correct (1). First S curve must be vertical. Do not reward AD or AS

Shift in appropriate direction (1)

Change in price clearly shown and labelled (1)

For a relevant diagram (example below)

up to 4 marks



Anticipated approach to written response:

For explaining the assumption: it is a short run assumption, illustrating 'fixed' supply (it takes time to build roads due to the need to organise resources.) **up to 3 marks**

For describing the diagram: reasons for and direction of shift; change in price and quantity **up to 3 marks**

For some advanced analysis, or any interesting discussion of the case, beyond basic description of the diagram. For example, it could be argued that the results depend on price elasticity of demand, which in turn depends on alternatives, e.g public transport. A diagram showing excess demand from zero pricing is not expected, but should be fully rewarded if used appropriately. It could also be argued that increased road space will encourage further demand making the effect on price indeterminate. **up to 3 marks**

For written explanation **up to 8 marks**

MAXIMUM FOR PART (d) 10 MARKS

2 (e) Over the next 10 years, should the government make greater or lesser use of measures such as road pricing or taxes on fuel to reduce road use? Justify your answer. (15 marks)

Relevant points that could be raised include:

- Tolls put a price directly on the scarce resource (road space.)
- Taxes are less direct; they increase the price of an activity associated with using road space. (using petrol) rather than pricing the activity itself.
- Tolls require huge investment in technology, taxes don't.
- Because of this initial expense tolls take time to be introduced.
 - Or it might be that politicians are afraid of the electoral consequences of introducing them.
 - Although the longer the delay the more sophisticated the available technology will become.
 - Given the technology, tolls can be fine tuned, so that, eg rural or off-peak users pay less than urban/on-peak users.
- Taxes are more of a blunt instrument.
- Success of either policy will depend on the price elasticity of demand for road space, which in turn depends on substitutes, eg public transport. The more that the government uses toll/tax receipts to finance better transport, the more successful the policy is likely to be
- If PED is low, the tax/toll acts as a revenue raiser, rather than a deterrent to use.
- Other methods: could include road building (increase supply) or other methods of rationing, e.g. car-free zones, bus lanes etc.
- Evaluation could come from, eg:
 - Micro versus macro effects (implications for demand and employment)
 - Criticism of 'stealth taxes'
 - Competitiveness
 - Discussion of proper role of government
- As always, give credit for sensible use of the data.

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

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS

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

3 (a) Define the term 'aggregate demand' (Extract H , line 7).	<i>(3 marks)</i>
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For an acceptable definition (eg total amount of goods and services demanded in an economy) **3 marks**

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

Notion of 'total' **1 mark**

Micro idea of demand **1 mark**

Indication that candidate is aware that AD is a macro concept **1 mark**

Description/ use of AD curve **Up to 2 marks**

$AD = C + I + G + (X - M)$ **3 marks**

Description/ discussion of any 2 components (C, I, G, (X-M)), **1 mark** each, **Up to 2 marks**

MAXIMUM FOR PART (a) 3 MARKS

3(b) Explain how 'genuine fans' may be 'missing out' due to the activities of ticket touts (Extract G , line 18).	<i>(4 marks)</i>
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Among the points that can be raised include:

- official prices are below market price
- some tickets end up with people who do not really want them
- touts are willing to run the risks of selling illegally
- some non 'genuine fans' have high spending power
- the problem arises because the original rationing system is imperfect.

Up to 2 marks for any sensible point.

Because of the risks, tout prices will be high **1 mark**

...and might be too high for 'genuine' fans. **1 mark**

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Use the concept of cross elasticity of demand to explain the likely relationship between the demand for 'suncream and binoculars' on the one hand and the demand for 'entertainment events' on the other (**Extract G**, lines 1-2). (8 marks)

For a definition/ description of cross elasticity of demand (not a written version of the formula)	Up to 2 marks
Formula	2 marks
Explanation	
The two items are complements:	1 mark
They are in joint/derived demand:	1 mark
They tend to be bought together:	1 mark
Cross elasticity of demand is negative:	1 mark
Consideration of the likely degree of complementarity, eg the <u>magnitude</u> of the C.E.D. coefficient:	Up to 3 marks
Other relevant points/ use of suitable diagram:	Up to 3 marks

MAXIMUM FOR PART (c) 8 MARKS

- 3 (d) A promoter has hired a stadium for a rock concert. Explain why the short run supply curve for seats in the concert stadium is vertical **and**, using a supply and demand diagram to help you, analyse the likely effects on this concert if the local council were to stage a similar event in a nearby park with no entry charge.
(10 marks)

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

Anticipated approach:

Customers are attracted away from the stadium, to the alternative free event, or deterred from travelling to the city because of the possibility of large crowds (the tourist/ retail industries have been known to claim a downturn during a big event such as an international match or the Olympics). The diagrammatic approach below assumes this approach. Demand shifts left, price falls.

Alternative approach:

It can be argued that the free event draws people in and has a knock-on effect. Demand shifts right, price increases (give diagram marks appropriately; maximum marks can be achieved).

Diagram break-down (anticipated approach):

Axes labelled (1). Do not reward prices **level** or output.

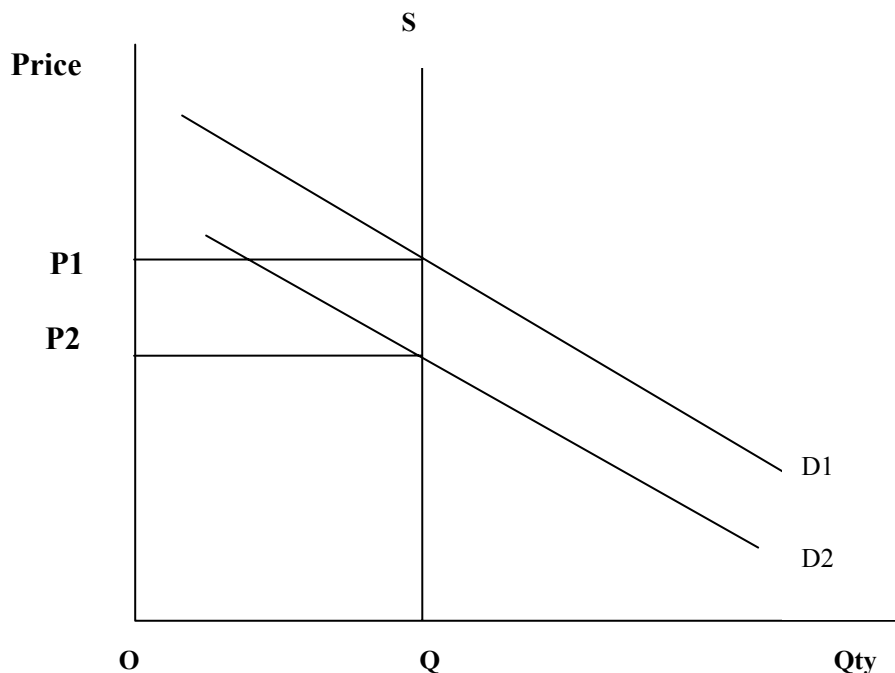
S & D curves correct (1). S curve must be vertical. Do not reward AD or AS

Shift in appropriate direction (1)

Change in price clearly shown and labelled (1)

For a relevant diagram (see below)

up to 4 marks



(Price and quantity of tickets for stadium seats)

Anticipated approach to written response:

For explaining the assumption: it is a short run assumption, illustrating 'fixed' supply (it takes time to build a bigger stadium) **up to 3 marks**

For describing the diagram: reasons for and direction of shift; change in price and quantity **up to 3 marks**

For some advanced analysis, or any interesting discussion of the case, beyond basic description of the diagram. For example, it could be argued that it depends on how similar the two events are or there could be a mention of the alternative approach (see above). Candidates might also comment that in practice official ticket prices might be 'administered' or 'fixed' (a 'price ceiling' diagram is not expected, but should be fully rewarded if used appropriately). **up to 3 marks**

For written explanation **up to 8 marks**

MAXIMUM FOR PART (d) 10 MARKS

3 (e) Should national and local governments intervene in the markets for sporting and entertainment events, for example by making bids for big events or passing laws about ticket sales, or should they play no part in these markets at all? Justify your answer. (15 marks)

Candidates may focus on either or both specific types of intervention mentioned (anti-touting measures, bidding public money for big events), or might discuss government intervention in general terms, using the data for examples. Any of these approaches can achieve full marks.

Relevant points that could be raised include:

- Identification of interventions, eg:
 - Making touting illegal
 - Making touts pay taxes
 - Bidding for a big event (The Tour, Olympics)
- Results of such interventions
 - Micro, eg:
 - Effects on prices
 - Macro, eg:
 - Multiplier effects,
 - Employment
- Possible costs, eg:
 - Costs to taxpayer
 - Externalities, environmental costs
- Possible government failure
- 'Markets know best' arguments, eg:
 - Tour de France / Olympics are profit making industries – why should they get a government 'subsidy'?
 - It can be argued that ticket touts are correcting a misallocation of resources, i.e. putting people who have tickets but don't want them into a market with people who want tickets and are willing to pay for them. Therefore they increase human welfare (this line of argument goes beyond AS specifications, and should **not** be expected, but should be rewarded if it appears).
- Evaluation could come from, eg:
 - Employment/ unemployment issues
 - Costs versus benefits of government action, multipliers versus externalities.
- As always, give credit for sensible use of the data

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

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS