2003 June Unit 1 Mark Scheme

Section A Key to answers

1 C 2 C 3 B 4 C 5 C 6 D 7 D 8 D

1. If incorrect option is selected, a maximum of 2 marks is available for explanation. 2. Up to 2 marks for candidates explaining two incorrect options.

Q1 Answer C

A movement from L to M means a reduction in the availability of consumer goods (JK) (1) and so current living standards are likely to fall (1).
A movement from L to M means an increase in the production of capital goods (SR) (1) which are used to increase the future availability of consumer goods. This means future living standards are likely to increase (1).
Also award appropriate annotation of diagram which explains an outward shift in the production possibility frontier (up to 2).
Definition of opportunity cost (1)
A production possibility frontier refers to the maximum output combinations of two goods an economy can achieve when all its resources are fully employed (2).

Q2 Answer C

An increase in wages will cause an increase in production costs (2) and so cause the supply curve to shift to the left (1).
A demand & supply diagram showing a shift of the supply curve to the left with the price increase (2).

Q3 Answer B

Foreign holidays may be classed as a luxury good or a normal good (1), and tend to have a higher income elasticity of demand (1).
Bread may be an essential good (1) and so have a low income elasticity of demand (1). Recognition that foreign holidays and/or bread appear to have positive income elasticities of demand (1).
If candidate decides to use a numerical explanation, award up to 4 marks.
Definition or formula for income elasticity of demand (2).
Diagrammatic illustration of the different income elasticities of demand for foreign holidays and bread (2) plus explanation (2).
Income Level and Demand for Bread
Demand for Foreign Holidays Quantity Demand for Foreign holidays & Bread

Q4 Answer C

Consumer surplus is the difference between the price consumers are prepared to pay for a good and market price (2).
Original consumer surplus is MPX (1).
New consumer surplus is MSY (1).
Annotation of diagram to show the additional consumer surplus (1).

Q5 Answer C

Producer tax per unit is XW (or PV), multiplied by the quantity

2003 June Unit 1 Mark Scheme

WV or (XP) (2).
The vertical distance between the two supply curves is the tax (1)
Correct annotation of diagram to show producer tax area (1).
Candidates may refer to the total area as VQYW (1) and point out the consumer tax area PQYX (1) in their explanation.
Recognition that the tax must be an indirect tax or specific tax or expenditure tax (1). Explanation of incidence of tax (1)

Q6 Answer D
Interpretation of data (i.e.) price falling (1)
Definition of price elasticity of demand (1)
Explanation of the fall in total expenditure due to demand being inelastic (3). Candidates cannot just repeat key.
Correct diagram showing the change in total expenditure with explanation (4).

Q7 Answer D
No country has a comparative advantage (1) since each country has an identical opportunity cost ratio (2) or use of the graph (2).
Correct definition of comparative advantage in terms of lower opportunity cost (2)
Explanation of opportunity cost as `the next best alternative foregone' (1).
Explanation of a `production possibility frontier' (1).
Explanation of absolute advantage (1).

Q8 Answer B
The building of the factory employing 3,000 workers will cause an increase rise in demand for housing in the region to D1 (2).
An outward shift of the demand curve for housing (or a shift to the right) is also acceptable.
The fall in the cost of building materials will cause an increase rise in supply of housing to S1 (2).
An outward shift of the supply curve for housing (or a shift to the right) is also acceptable.
If candidate does not explicitly state the reasons for the changes in the demand and supply curves but has the correct answer award. (2)

2003 June Unit 1 Mark Scheme

Question 9 Precious Metals

a) What is meant by 'cross-price elasticity of demand'? (2)

`The responsiveness in demand for one good due to a change in the price of another good' (2)
Also accept a correct formula (2)

$$\frac{\%\ \text{change in demand for -good B}}{\%\ \text{change in the price of good A}}$$

(aii) Comment on the cross-price elasticity of demand between platinum and gold. (2)

Platinum and gold are substitutes (1) and so have a positive cross-price elasticity of demand (1); a rise in the price of gold will cause an increase in demand for platinum or vice-versa (1)

(b) With reference to the passage, assess the likely impact on one group of consumers of platinum of the 50% rise in its price. (3)

Candidates may choose jewellery manufacturers, dentist or motor manufacturers. The consumers of platinum may respond by reducing demand for platinum (1). Reference to price elasticity of demand (1) plus its development (1), for example, availability of substitutes or the proportion of total costs the metal comprises. The consumers of platinum will experience an increase in production costs (1) and a fall in profits (1); they may reduce output of the goods made with platinum (1) and/or raise the prices of finished goods for their own customers, for example, platinum jewellery, dental fillings and motor vehicles. (1) Accept arguments related to final consumers (e.g.) purchases of jewellery.

(c) The Russian government is the dominant supplier of palladium. Using supply and demand diagrams, examine the likely impact on the price of palladium of.

i. The Russian government `holding back stocks' (4).

ii. Increased use of palladium by motor manufacturers (4).

(ci)
A correct diagram showing the supply of palladium shifting to the left (decrease) and an increase in the equilibrium price (2). If price rise is not shown on the diagram (1 mark).
Two marks are available for examination: The extent of the price increase will depend upon the quantity of stock held back (2) and the price-elasticity of demand for palladium (2)

A correct diagram showing the demand for palladium shifting to the right (increase) and an increase in the equilibrium price (2). If price rise is not shown on the diagram (1 mark)
An increase in the use of palladium by motor manufacturers will cause an increase in price (1). The extent of the price increase will depend upon the size of the increase in demand (2) and/or how responsive is the supply of palladium (2).

The candidate may use one diagram to illustrate the decrease in

supply & increase in demand for palladium, and, the consequent rise in price. This is valid for 4 marks (2+2) as long as the original and new equilibrium price levels are shown.

(d) What might be deduced about the price-elasticity of supply of palladium in both the short-run and long-run? J ustify your answer. (5).

Definition or formula of price elasticity of supply (1).
The short-run supply of palladium might be regarded as price inelastic (1) due to:
The deliberate manipulation of stocks by the main producer - the Russian government (1) and development of the answer (1).
It takes time to explore and develop new sources of the metal (2).
There are high start-up costs in developing more extraction facilities and the funds may take time to raise (2)
The long-run supply of palladium might be more price elastic (1) since
The passage indicates a high price will encourage greater production in Canada and South Africa (1).
The high price of palladium will also encourage more exploration of the mineral (1).
Firms have more time to set up production facilities. (1)
Improvements in technology may also lead to more elastic supply (1)
If the above points are developed award (1) extra mark.
If candidate suggests supply is inelastic in the long-run due to a finite amount of palladium resources - this is a valid response and award 2.

An understanding of the terms short-run and long-run as used in economics (1)
A diagram may be used to show supply moving from inelastic to elastic over time (1)
The mark breakdown for short-run and long-run can be (3+2 or 2+3)
If candidate only considers one time period then a maximum of 3 marks can be achieved.

2003 June Unit 1 Mark Scheme

Question 10 The Housing Market

a) Using a supply and demand diagram, explain why house prices in the UK were rising rapidly in 2001. (4).

House prices have risen due to consumer confidence (1) remaining positive despite the downturn in the global economy and interest rates at their lowest level for 30 years leading to cheap mortgages (1). It is easier for people to service larger debts.
Accept other demand factors (up to 2).
Correctly labelled diagram showing an increase in demand and the original & new price equilibrium positions (2).

b) Outline the likely impact of rapidly rising house prices on first-time buyers. (3 marks).
First time buyers are finding it increasingly hard to borrow enough money to get on to the property ladder (1). An additional comment is required to gain further marks, for example:
Reference to mortgage lending usually being 3.5 times yearly earnings for an individual yet in London the average house price is more than 5 times the average salary (2).
First-time buyers including many Public sector workers may have relatively low salaries and so cannot borrow as much as required to get on to the property ladder (2).
An alternative argument is that first-time buyers in London will struggle more than first-time buyers elsewhere in the UK (due to much higher average house prices in London) (2).
Accept valid arguments for the impact on first-time buyers (2).

c) Examine the likely impact of rapidly rising house prices on the market for privately rented accommodation. (5).
Owner occupied housing and private rented accommodation are substitutes (1) and are likely to have a positive cross elasticity of demand (1). An increase in house prices may cause an increase in demand for private rented accommodation and or an increase in rent (1). This may be shown by a demand & supply diagram of the rental market (1).
Rental profits of landlords might increase (1).
Candidates may refer to the growing popularity of buy to let' schemes, following increasing house prices. Here, the property owners may regards buy to let' as a long-term investment.

(d) Examine the likely significance of two factors that might result in a slowing down in the rate of increase of house prices (8).
Identifying two relevant factors (2).
Factors from the extract include:
A downturn in the global economy
A fall in consumer confidence
House prices rising at an unsustainable rate
An increase in interest rates
First-time buyers unable to get on to the property ladder
An increase in unemployment
A sharp reversal in Britain's growth prospects
Some of these points overlap considerably and may be difficult to develop separate arguments depending upon the two selected candidates.

2003 June Unit 1 Mark Scheme

Factors outside of the extract can also be accepted, for example: -
Higher taxation
Greater restrictions on bank lending
Demographic trends such as falling population
Increase in substitutes for owner-occupied housing
An explanation of the fall in the rate of growth of house prices (1).
Examples of analysis and evaluation marks are as follows:
Higher Interest rates:
An increase in interest rates will tend to push up monthly mortgage repayments making it harder for households to meet them (1), but people with fixed rate mortgages may not suffer in the short term (2).
People may not borrow so much in the future and think twice about moving into more expensive property (1).
People with fixed rate mortgages may not suffer in the short-term from increasing interest rates (2).
A small rise in interest rates may have little impact on reducing house price inflation (2).

A rise in interest rates might not have much effect on reducing the growth in house prices if people are still confident of further large increases in house prices (2).

Consumer confidence
Consumer confidence may be undermined by various factors, such as the global slowdown, unemployment and even a fall in incomes, making it harder to sustain the rate of increase in house prices. (1).
Consumers may become more cautious about taking on larger mortgages and so house prices may rise more slowly (up to 2).
Consumer confidence may be fragile that there may be speculation of falling house prices (2).
For the two factors 4+4 or 5+3 marks.