2004 January 2004 Mark Scheme

Q1 B Q2 C Q3 D Q4 D
Q5 C Q6 B Q7 D Q8 A

Note A: If the candidate selects the incorrect key a maximum of 2 marks can be achieved.
Note B: If the candidate clearly explains why two or more of the incorrect options are wrong, up to 2 marks can be achieved.
Note C: If the candidate just repeats correct key in the explanation, no marks are available.

Question 1 Answer B
Correct definition of opportunity cost (the next best alternative foregone) (2)
Explanation of how the factor inputs could be switched from building a motorway to building a hospital (labour, land, capital) (2)
If a reference to `money' rather than `resources' (1).

Question 2 Answer C
Explanation of how advertising may create a brand image to develop customer loyalty. Candidates may give a real world example here (1).
Definition of price elasticity of demand or explanation of term `less price elastic' (2).
Link between a price increase and an increase in total revenue (2).
Diagram of demand curve becoming less elastic (1).

Question 3 Answer D
Correct definition of a production possibility frontier (maximum output combinations of two goods for an economy when all the resources are fully employed) (2).
Accept correct definition of opportunity cost as an alternative answer (2).
Explanation of the concave nature of the production possibility curve. This may involve annotation of the diagram to show how opportunity cost for producing additional quantities of agricultural goods increase in terms of output of fish foregone (2)

Question 4 Answer D
Correct definition of price elasticity of supply or the formula (2).
Application to the supply of new housing (more inputs become variable over time, for example land for building on, skilled building workers and more construction machinery) (2).
Also award explanation of supply becoming `more elastic' or a diagram depicting the supply curve becoming more elastic (1).

Question 5 Answer C
Correct definition of cross elasticity of demand or formula (2).
Explanation of complementary goods in terms of petrol & cars being in joint demand (2).

Question 6 Answer B
An indirect tax acts to increase production costs (1) and shifts the supply curve vertically upwards by the amount of tax (1).
Price will rise by less than the tax because producers absorb

some of the tax themselves. The tax incidence will fall on both consumers & producers (2).
Also award candidates who show the tax imposition by diagram, depicting both the consumer and producer tax areas (2).

Question 7 Answer D
A lack of essential rainfall will reduce the production of tea and so the supply curves decreases/shifts to the left to S2 (2).
A successful advertising campaign to promote coffee drinking will cause a reduction in demand for tea and so the demand curve decreases/shifts to the left to D2 (2).
To award full marks candidates must state explicitly the reasons for the shift in each curve.
If the candidate selects correct key but has incorrect reasons, then up to 2 marks can be achieved in the explanation.

8 Answer A
Correct definition of consumer surplus (the difference between the price consumers are willing to pay for a good and the actual market price) (2).
A numerical example (1).
An extension of the explanation of consumer surplus, for example: the area under the demand curve but above the price line (1).
Annotation of the diagram (1).

Question 9 Coffee Bean prices

(a) Falling coffee bean prices are forcing hundreds of Indonesian farmers to abandon their plantations'. Is this a positive or normative statement? Justify your answer (4).

The statement is positive (1) since the author is asserting a fact (1) which can be tested as true or false (1).
Application to falling coffee prices (1).
It is not a normative statement since this expresses a value judgement which cannot be tested as true or false. Normative statements cannot be falsified (2).
Note: If candidate does not state the answer is positive, award a maximum of 2 marks.

(b) Outline one disadvantage for Indonesia of specialising in coffee bean production. (3)
Understanding of the term `specialisation'. (1)
Outline of one disadvantage of specialisation (up to 3 marks) for example:
Danger of over-dependency on one commodity and hence over-dependency on export markets.
Coffee beans are prone to severe price fluctuations leading to significant fluctuations in producer incomes, employment & output.
Danger of coffee bean crop failure due to poor weather or pests.
To achieve full marks candidates must apply their answer to coffee beans, otherwise award a maximum of 2 marks.

(c) With reference to the passage, analyse how movements in coffee prices provide changing incentives to producers. (5)

Falling coffee prices (to a 35 *year low - line* 6) mean less incentives for farmers to produce coffee beans and some have abandoned their plantations *(line 2)*.
Falling coffee prices mean less revenue/profit for coffee farmers.
In some cases the falling revenues are below production costs, leading to losses, unemployment, poverty.
Some farmers have switched to producing other commodities, such as rice.
The production of rice may be more profitable since its price is relatively stable / leading to stable revenue/profit.
Farmers may hold back stock if price of coffee falls.
Any two points, well developed 2+2 marks, plus 1 mark for application.
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(d) With reference to a supply and demand diagram, examine how a frost in Brazil might be expected to affect the price of a jar of coffee purchased in a supermarket in:
(i) the short run
(ii) the long run
There is considerable scope in this question for candidates to develop a variety of alternative valid answers. Flexibility in marking is required: Some key pointers are:
A correct diagram which shows a decrease in supply and increase in price of coffee (2)
(i) Short run
If candidate argues there is no effect, with suitable explanation and evaluation (4).

Alternatively, a candidate may argue prices might rise
.
(ii) Long run
The cost of coffee for supermarkets will increase (4).
Alternatively, a candidate might argue the price of coffee will decrease if more farmers are encouraged to produce more coffee (4).

Evaluation
The decision of a supermarket to raise the price of coffee could depend on:
The price elasticity of demand for coffee. The actions of rival supermarkets.
Existing stocks of coffee supplies held by the supermarket (which were not affected by the frost). Consideration could also be made to the size and availability of the overall coffee stockpile *(line 7)*.
The relative importance of the cost of coffee as a proportion of the total cost of a a jar of coffee to the supermarket.
Supermarket policy towards customers - does it want to profiteer from the coffee bean frost?
The price elasticity of supply of coffee.
(Note an evaluation of any two points could merit 4 marks).
Consideration of both the short run and long run must be made, otherwise a maximum of 4 marks.
If no diagram used then award up to 6 marks.
If no reference is made to the price of a jar of coffee or supermarket, award a maximum of 4 marks.

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Question 10

(a) Outline how resource allocation differs between a free market economy and a centrally planned economy. (5)

Resources are allocated by the price mechanism in a free market economy (1) and there is only a very limited/no role for the government (1).
Resources are allocated by the government in a centrally planned economy (1) and there is only a very limited/no role for the price mechanism (1).
The final mark may be gained by the candidate extending on the above points, for example: Ownership of resources; role of profit; role of competition; using a demand & supply diagram (1).

Explain two advantages of a free market economy. (4)

Advantages include
Financial incentives: Higher wages for labour and higher profits for firms *(Line 6 refers to an entrepreneurial spirit created during transition).*
Increase in economic efficiency due to competition. Also the price mechanism can eliminate surpluses and shortages in individual markets.
Increase in consumer choice and therefore utility in consumer expenditure
Low taxes
Increase in living standards/GDP as free market economies outperform centrally planned economies *(Line 4 refers to higher economic growth during transition)*
Less bureaucracy.
(2 marks for identifying two points and 2 marks for explanation).

(c) With reference to Figures 1 and 2, examine why inflation and unemployment were problems for economies in transition from central planning. (6)

A range of different points could be examined by candidates and some flexibility is required in marking. Candidates may focus on why inflation and unemployment increased during economic transition and/or the problems these caused.
Reference to Figures 1 & 2 (1).
Causes of high & unstable unemployment in a transition economy might include:
Newly privatised firms cut staff to increase efficiency, especially due to previous overmanning under central planning.
Cuts in government spending meant many employees lost their jobs.
Many new business managers had little idea of how to run a firm for profit.
Exposure to competition led to business failures. D Failure to attract investment.
Increase in corruption.

Problems created by high & unstable unemployment include:
An increase in poverty and inequality *(lines 12-14 refer to a national divide).*
Public safety is questioned in *line 15.*

A loss of potential output as resources remain idle.
Growth of the black/hidden economy and exploitation of labour.

Causes of high & unstable inflation include:
Prices were fixed at artificially low levels under central planning and so their removal led to a massive increase in price of many goods & services.
Government trading surpluses fell as industries were privatised but government spending was still high in certain areas, for example, education, healthcare, national security and coal mining.
Profiteering was widespread as some entrepreneurs tried to exploit consumers in some markets.
Problems caused by high & unstable inflation include: Ineffective price mechanism for resource allocation. Discouragement of investment, especially from overseas.
Increase in inequality & poverty.
(Note, candidates must examine at least one inflation issue and one unemployment issue to achieve full marks, otherwise a maximum of 4 marks is available)
(2 marks are for analysing the problems of inflation & 2 marks for unemployment and 2 marks for evaluation.

(d) Examine whether greater international trade would benefit the Polish economy (5).

Arguments in favour include:
Increase specialisation should lead to greater output and living standards via gains from comparative advantage.
Increased consumer choice.
Increased competition & efficiency for firms, leading to lower prices & greater consumer surplus.
Increased market potential for firms (note Poland is due to join the EU in 2004).
Increased inward investment. Increased mobility of resources.
Arguments against include:
Danger of over specialisation and dependency on foreign markets.
Inefficient industries will be unable to compete, so leading to falling output & rising unemployment.
International trade may increase inequality in Poland (rural urban divide).
Candidates may analyse one or more of these points (2 marks) and then evaluate (3 marks). `Evaluation' may take the form of critically questioning the benefits of international trade to Poland.