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Edexcel GCE

Economics

Unit no. 6351

June 2006

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Mark Scheme (Results)

Edexcel GCE

Economics

6351

June 2006

Unit 1 MARK SCHEME – 6351

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

Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation

Note 2. Up to 2 marks are available for candidates explaining two incorrect options.

Q1

(a) Answer: B **(b) Explanation:** Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation Note 2. Up to 2 marks are available for candidates explaining two incorrect options. • Correct definition of PPF - combinations of 2 products which could be produced (i.e. potential output) if all resources are fully employed. (Only 1 mark if last phrase is omitted.) • Explanation leading to a loss of resources; destruction of capital equipment • Diagram showing PPF	**(1 mark)** **(2 Marks)** **(2 Marks)** **(1 Mark)**
	(Max marks 5)

Q2

(a) Answer: B **(b) Explanation:** Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation Note 2. Up to 2 marks are available for candidates explaining two incorrect options. • Definition of specialisation **(1)** • Correct definition of law of comparative advantage to include reference to lower opportunity cost **(2)** • Understanding that specialisation and trade can lead to higher world output **(1)** • Understanding of comparative advantage and/or differences in opportunity cost ratios **(1)** • Diagrammatical approaches **(2)** • Application to context **(1)**	**(1 Mark)** **(1 Mark)** **(2 Marks)** **(1 Mark)** **(1 Mark)** **(2 Marks)** **(1 Mark)**
	(Max marks 5)

Q3

(a) Answer: D **(b) Explanation:** Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation Note 2. Up to 2 marks are available for candidates explaining two incorrect options. • Correct definition of mixed economy (if free market only then 1 mark) • Explanation of why inequality occurs under a free market economy • How government intervenes e.g. taxes; transfer payments	**(1 Mark)** **(2 Marks)** **(2 Marks)** **(up to 2 Marks)**
	(Max marks 5)

Q4

(a) Answer: D **(b)Explanation:** Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation Note 2. Up to 2 marks are available for candidates explaining two incorrect options. • Definition or formula for income elasticity of demand; or • Numerical calculation of YED **(1)** or written explanation i.e. increase in real income leads to a less than proportionate increase in demand **(1)** • Recognition that food is a normal good with low YED **(1)** • Reason why YED for food is low for food **(1)**	**(1 Mark)** **(2 Marks)** **(1 Marks)** **(1 Mark)** **(1 Mark)** **(1 Mark)**
	(Max marks 5)

Q5

(a) Answer B **(b) Explanation:** Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation Note 2. Up to 2 marks are available for candidates explaining two incorrect options. • Numerical calculation correctly done in last column showing correct equilibrium price(shown above) • Diagrammatic illustration of tax showing correct equilibrium price • Understanding that the tax will cause a leftward shift of the supply curve with reason • Diagram showing decrease in supply • Supply will decrease and increase market price **(1 mark)** so eliminating option D **(1 mark)**	**(1 Mark)** **(4 Marks)** **(4 Marks)** **(2 Marks)** **(up to 2 Marks)** **(up to 2 Marks)**
	(Max marks 5)

Q6

(a) Answer C **(b) Explanation:** Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation Note 2. Up to 2 marks are available for candidates explaining two incorrect options. • Definition of opportunity cost as 'the next best alternative foregone' • Application to context	**(1 Mark)** **(2 Marks)** **(2 Marks)**
	(Max marks 5)

Q7

(a) Answer A **(b) Explanation:** Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation Note 2. Up to 2 marks are available for candidates explaining two incorrect options. • Consumer surplus is the difference between the price consumers are willing to pay and the market price **(2)** or area under D curve but above price **(2)** or shading area W **(1)** • Application to diagram: area W – consumers who value BBC services at more than licence fee**;** • Application to diagram: area Z – consumers who value BBC services at less than the licence fee	**(1 Mark)** **(2 Marks)** **(1 Marks)** **(1 Marks)**
	(Max marks 5)

Q8

(a) Answer D **(b) Explanation:** Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation Note 2. Up to 2 marks are available for candidates explaining two incorrect options. • The increased demand for electricians will cause a movement from E to A • The fall in number of school leavers training to be electricians will cause a movement from A to D • If candidate does not explicitly state the reasons for changes in demand and supply curves but has correct answer, award	**(1 Mark)** **(2 Marks)** **(2 Marks)** **(2 Marks)**
	(Max marks 5)

SECTION B

QUESTION 9:

(a)(i) Explain the term ***price elasticity of supply*****.**

The responsiveness of quantity supplied to a change in price. Also accept a correct formula for calculating PES PES = $\frac{\text{\% change in quantity in supply supplied}}{\text{\% change in price}}$	
	(Max Marks 2)

(a)(ii) What might be inferred from the passage about the price elasticity of supply for iron ore? Explain your answer.

Supply of iron ore price inelastic **(1)** or PES between 0 and 1 or **(I mark)** for correct definition of inelastic supply. **Explanation (2)** One point required e.g.: • Reference to last paragraph either first or second sentence. • Explanation of time needed to open up new mines.	**(1 Mark - must be linked to correct explanation)** **(2 Marks)**
	(Max marks 3)

(b) **With the aid of a diagram, examine why car prices are likely to increase.**
Correctly labelled supply and demand diagram showing leftward shift in supply curve **(1)** with original and new equilibrium price levels shown **(1);** explanation for reason for shift in supply curve of cars i.e. increase in steel prices; increase in energy costs; Nissan stopping car production **(1).**

Evaluation (2).
One point required: eg

- PED for cars
- Extent of shift in supply curve

(5 marks)

(c) **What can be inferred from the passage about the price elasticity of demand for a particular make of car? Explain your answer.**
Definition of PED **(1);** demand likely to be price elastic, i.e. a price change will lead to a more than proportionate change in quantity demanded **(1).**

Explanation (2)

- Reference to text 'competitiveness of market' implying close substitutes **(2)**

(4 marks)

(d) **Examine two factors, other than price, that affect the demand for cars.**
Possible factors:

- Incomes
- Reliability/availability of other forms of transport
- Price of rail fares
- Price of petrol
- Population size/age structure
- Interest rates
- Availability of credit

Identification of 2 factors **(2)**

Evaluation (4) – up to 4 marks for any one evaluation point (or 2+2, 1+3)

- Discussion of relative importance of factors
- Magnitude of demand changes
- Short run/ long run effects

(6 marks)

QUESTION 10

(a)(i) Explain the term *cross elasticity of demand*.

Responsiveness of quantity demanded of one product to a change in price of another product.

Also accept a correct formula for calculating XED. **(2 marks)**

(a)(ii) Discuss the likely impact of an increase in the price of gold on the price of silver.

Gold and silver are substitutes so an increase in the price of gold will cause a rise in the demand and price of silver. **(2)**

Therefore, XED will be positive **(1);** or diagrammatic analysis **(1)**

Evaluation (2)

- Comment on degree of substitutability between gold and silver

(5 marks)

(b) How might an increased demand for diamonds affect the producer surplus of diamond mining companies?

• Definition of producer surplus **-** difference between market price and cost of production ; or difference between market and supply price • Increase in price of diamonds would, therefore, increase producer surplus • Could show diagrammatically	**(1 mark)** **(2 marks)** **(2 marks)**
	(Max marks 4)

(c) With reference to the first paragraph, distinguish between positive and normative economic statements. Explain your answer.

First sentence: normative**;** second sentence positive **Explanation:** • First statement is based on a value judgement - allow subjective judgement but not "opinion" • Whereas second sentence is a fact and can be tested as true or false	**(1 Mark)** **(1 Mark)** **(1 Mark)**
	(Max marks 3)

(d) With the aid of a diagram, assess the reasons why the price of gold increased in 2004.

A correctly labelled diagram showing decrease in supply and increase in demand with original and new equilibrium prices**.** Explanation for shift of either curve: e.g. decreased production; increased demand for gold jewellery. **(2)** Could get 2 marks for shifting either S or D curve with explanation and up to 2 marks for evaluation.

Evaluation (up to 4 marks for any one point, or 2+2, 1+3)

- Extent of price increase depends on PED/PES
- How much S & D curves shift
- Relative significance of reasons identified
- Difference between short run and long run effects. Max 4/6 if only 1 curve shifted **(6 marks)**

Unit 1 Assessment Objectives Grid June 2006

Section	Knowledge	Application	Analysis	Evaluation	Total
A					
Q1	2	3			5
Q2	2	1	1	1	5
Q3	3	2			5
Q4	1	2	1	1	5
Q5	1	1	1	2	5
Q6	2	3			5
Q7	3	2			5
Q8	2	2	1		5
Total	**16/2 = 8**	**16/2 = 8**	**4/2 = 2**	**4/2 = 2**	**40/2 = 20**
Section B					
9(a)(i)	2				2
9(a)(ii)	1	1	1		3
9(b)		1	2	2	5
9(c)	1	2	1		4
9(d)			2	4	6
Total	**4**	**4**	**6**	**6**	20
10(a)(i)	2				2
10(a)(ii)		1	2	2	5
10(b)	1	2	1		4
10(c)	1	1	1		3
10(d)			2	4	6
Total	**4**	**4**	**6**	**6**	**20**
Total A +B	**12**	**12**	**8**	**8**	**40**