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Mark Scheme (Results)
January 2007

GCE

GCE Economics 6351 (Unit 1)

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Unit 1 MARK SCHEME – 6351 JANUARY 2007

SECTION A

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

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

Question 1
Answer: B **(1)**

- Explanation of how prices ration scarce goods – interaction of supply and demand **(2)**
- Supply and demand diagram to show equilibrium price **(1)** plus a further mark **(1)** for showing a change in equilibrium price **(2)**
- Correct identification of other features of free market economy, e.g., private ownership of resources - up to 2 marks **(2)**

Also allow credit for:

- Definition of price mechanism **(1)**
- Definition of scarcity **(1)**

Question 2
Answer: B **(1)**

- Definition of PPF: **(2)**
  PPF refers to the outputs that can be produced from combinations of two goods assuming that all resources are fully employed.
  OR
  The maximum obtainable output from combination of two goods.
- Correct annotation of diagram **(2)**
- Explanation that increased production of capital goods will result in fewer consumer goods being produced in the short run **(1)**
- Application of opportunity cost **(1)**
- Rightward shift in PPF in long run **(1)**
- Enabling living standards to be increased in long run **(1)**

Maximum of 3 out of 4 if long run not implied or referred to **(1)**

Question 3
Answer: C **(1)**

- Definition of subsidy, e.g., a grant given by a government to firms **(1)** leading to a reduction in costs **(1)** **(2)**
- S & D diagram showing rightward shift in supply of rice or explanation **(2)**

Also award credit for:

- Demand for Senegalese rice will fall, causing demand curve to shift to the left…… (explanation or diagram) **(2)**
- Cross elasticity of demand between USA and Senegalese rice is positive **(1)**

Question 4
Answer: D **(1)**

- Definition of indirect tax, e.g., a tax on expenditure or causes an increase in costs of production/leftward shift in supply curve **(1)**
- Unit value tax is vertical distance between S_1 and S_2 **(1)** which is £20 **(1)** **(2)**
- New quantity = 12,000 **(1)**
- Tax revenue to the government = £20 x 12,000 = £240,000 **(2)**

Also award credit for:

- Correct annotation or shading of tax revenue in diagram **(2)**

Question 5
Answer: B **(1)**

- Correct definition of price elasticity of demand **(1)** OR price inelastic demand **(2)** **(2)**
- Reference to data **(1)**
- If demand is inelastic then a fall in price will cause a fall in expenditure on cocoa imports **(2)**

Question 6
Answer: A **(1)**

- Correct definition of producer surplus i.e. the difference between the market price and the price that producers are willing to supply the tomatoes to the market. **(1)**
- Correct definition of consumer surplus i.e. the difference between the amount consumers are willing to pay and the market price. **(1)**
- Annotation of diagram to show increased producer and consumer surplus **(2)** or explanation **(2)**. **(2)**
- Original consumer surplus P_1zx **(1)**
- New consumer surplus P_2vw **(1)**
- Original producer surplus P_1xt **(1)**
- New producer surplus P_2wt **(1)**

Question 7
Answer: C **(1)**

- Diagram to show supply rising faster than demand **(2)**
- with supporting explanation, e.g.,
  shift in both demand and supply curves to the right **(1)** but with supply rising by a greater amount than demand **(1)**
  OR
  Analysis relating to excess supply **(up to 2 marks)** **(2)**

Also award for:

- understanding that demand has risen **(1)** with diagram **(1)** **(2)**
- supply has risen **(1)** with diagram **(1)** **(2)**

Question 8
Answer: A **(1)**

- Definition of income elasticity of demand **(2)**
- Correct numerical calculation **(2)**
- Potatoes are an inferior good **(1)**
- A rise in incomes will cause a fall in demand **(1)**

SECTION B

QUESTION 9

a)(i) What is meant by cross elasticity of demand?

The responsiveness of demand in Good X to a change in the price of Good Y.
OR: formula for calculating cross elasticity of demand:

$$\frac{\%\text{ change in demand for Good X}}{\%\text{ change in price of Good Y}}$$

(2)

(a)(ii) Using the concept of cross elasticity of demand, analyse the likely effect of the rise in the price of the almonds on the demand for hazelnuts.

Almonds and hazelnuts: Substitutes (1); positive cross elasticity of demand (1); demand for hazelnuts would rise (1)

(3)

(b)(i) With the aid of a supply and demand diagram, explain the likely effect of the spread of the varroa mite on the price of almonds.

Reference to decrease in supply of almonds (1);
Correctly labelled diagram illustrating leftward shift in supply curve leading to increase in equilibrium price (2)
If no reference to almonds in either diagram or text then max. 1 mark

(3)

(b)(ii) With the aid of a supply and demand diagram, examine the likely effect of 'cheaper imported honey' (line 12) on the market for Californian honey.

EITHER
Decrease in demand for Californian honey because imported honey is a substitute (1) and correctly labelled diagram illustrating leftward shift in demand curve leading to decrease in equilibrium price (1)
OR
Increase in supply of honey (1) and correctly labelled diagram (1)

Evaluation: Extent of price decrease depends on

- *how much demand or supply curve shift*
- *elasticity of supply / elasticity of demand*

Award up to 2 marks for any one evaluative comment.

(4)

(c)(i) What is meant by a mixed economy?

An economy in which there is both a private sector (in which resources are allocated by the price mechanism) and a public sector (in which resource allocation is determined by the state)
Accept definitions relating to ownership and control

(2)

(c)(ii) Assess **two** implications of state subsidies being given to Californian beekeepers.

Subsidies will reduce cost of beekeeping and help to reduce the price of Honey and therefore increase supply.
Lower price of honey.
State intervention of this nature might help to save the crops.
Distortion of resource allocation.
Environmental implication.

Explanation and/or diagram 2 marks.

Evaluation points:

- *Impact depends on amount of subsidy*
- *Subsidy might be ineffective if bees are wiped out by mites*
- *Cost of subsidies might imply higher taxes*
- *Opportunity cost of state subsidies*
- *Distinction between short run and long run effects*

Up to 4 marks for any two evaluation points (2+2; or1+3 or 3+1).

(6)

QUESTION 10

(a) Outline **one** advantage and **one** disadvantage for the Baltic countries of specialisation in the production of timber.

Advantages:

- Countries have a comparative advantage in timber production
- Exports can be used to purchase imports of other goods
- Increased export earnings because timber prices are rising

Disadvantages:

- Dependence on other countries for other goods
- Timber resources could be exhausted if not managed efficiently
- Danger of overdependence on timber

2 x 2 marks to be allocated as follows:
1 mark for identification and 1 mark for brief explanation

(4)

(b) With the aid of a supply and demand diagram, assess the significance of the factors which have caused the rise in the price of timber since 2004.

Explanation (2): as follows:
Decreased supply: resulting from increased red tape and timber conservation measures.(1) Also: increased demand resulting from increased use in China and for wood-burning power stations in UK.(1)

Correctly labelled diagram illustrating leftward shift in supply curve and rightward shift of demand curve leading to increase in equilibrium price (2)
If diagram with only one curve shifted and explanation then max. 2 out of 4

Evaluation: Extent of price increase depends on

- *how much S & D curves shift*
- *elasticities of demand and supply (including explanation of significance)*

Award up to 2 marks for any one evaluative comment.

(6)

(c) Evaluate the likely impact of rising timber prices on the price of houses.

Timber is a raw material used in house building (1). Therefore, cost of houses would increase(1).
OR
Diagram showing leftward shift in supply curve (2).

Evaluation: 2 marks for any one point e.g.

- *timber only a small part of cost of houses;*
- *other factors far more important e.g. cost of land*
- *impact also depends on price elasticity of demand*

(4)

(d)(i) How is elasticity of supply measured?

PES = $\frac{\%\text{ change in quantity supplied}}{\%\text{ change in price}}$

(2)

(d)(ii) What might be deduced about the price elasticity of supply of timber in both the short run and long run? Justify your answer.

Supply inelastic in short run (1) because of the long growing period (40 years for spruce) (1).
Supply elastic in long run (1) because new forests are planted in response to price rise (1).

If there is only a clear understanding of inelastic and elastic supply then award 1 mark.

Also award up to 2 marks for any of the following evaluative points:

- *supply might be elastic in short run if stocks of timber are available or if there is……*
- *spare capacity (trees ready for harvest) enabling increased demand to be met quickly*
- *supply might be inelastic in the long run if more restrictive conservation measures are introduced*

(4)

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Section	Knowledge	Application	Analysis	Evaluation	Total
A					
Q1	3	2			5
Q2	2	2	1		5
Q3	2	2	1		5
Q4	1	1	1	2	5
Q5	1	1	1	2	5
Q6	2	3			5
Q7	3	2			5
Q8	2	3			5
Total	**16/2 = 8**	**16/2 = 8**	**4/2 = 2**	**4/2 = 2**	**40/2 = 20**
Section B					
Q9					
(a)(i)	2				2
(a)(ii)		1	2		3
(b)(i)		2	1		3
(b)(ii)		1	1	2	4
(c)	2				2
(d)			2	4	6
Total	**4**	**4**	**6**	**6**	20
OR					
Q10					
(a)	2	2			4
(b)		2	2	2	6
(c)			2	2	4
(d)(i)	2				2
(d)			2	2	4
Total	**4**	**4**	**6**	**6**	**20**
Total A +B	**12**	**12**	**8**	**8**	**40**