

Mark Scheme (Results) January 2008

GCE Level

GCE Economics (6352) Paper 1

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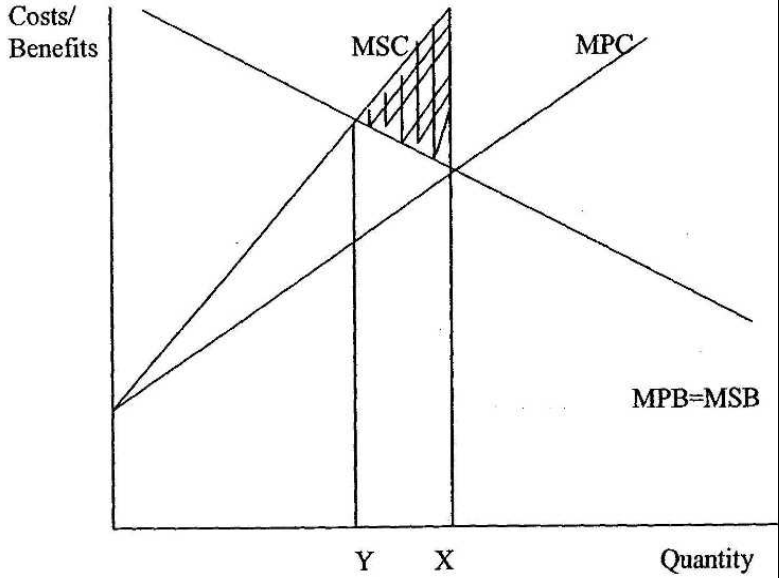
General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

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Question Number	Answer	Mark
1(a) (i)	<p>Private costs are those internal to the exchange; paid for directly by firms/consumers only (2).</p> <p>Any relevant examples of private costs such as: building the venues; redeveloping the Lower Lea valley; VAT; raw materials; payments to project managers; purchase of land; residential property taxes; cost of improving city's transport system (1+1)</p>	(4)

Question Number	Answer	Mark
1(a) (ii)	<ul style="list-style-type: none"> • Higher land prices • Extra costs for regeneration • Security costs • VAT • Rising raw material costs • Extra payments to project managers <p>2 marks for identification of 2 reasons; 2 for application/development related specifically to the problems of estimating the costs of the 2012 Olympics (one application mark may be awarded for specific reference to rising costs of Olympics, quoting figures)</p>	(4)

Question Number	Answer	Mark
1(b)	<p>Definition of external costs: costs to third parties not involved in the transaction; difference between social costs and private costs. (2) If defined as costs to society maximum 1 mark.</p> <p>Possible external costs include:</p> <ul style="list-style-type: none"> • Rise in council tax on Londoners • Diversion of National Lottery Funds from other "good causes" • Adverse environmental impact on those living in proximity to the site • Tourists staying away from London <p><i>Evaluation:</i></p> <ul style="list-style-type: none"> • <i>Short run/ long run effects e.g. external costs of regeneration will only be short term but others could be long term e.g. increased congestion in areas where new houses are built</i> • <i>Prioritisation of factors</i> • <i>If GDP increases there might be extra tax revenue to deal with external costs</i> • <i>Londoners would benefit from increased facilities</i> • <i>Difficulty of measuring external costs</i> • <i>External costs may be offset by external benefits</i>  <p>External costs diagram 2 marks. Third mark for identifying free market and socially optimal positions on diagram or in text. 2 marks for definition of external costs; 3 for application (outline of 2 external costs arising from Olympics); 4 for any two evaluative comments (2+2; 3+1; 1+3).</p>	(12)

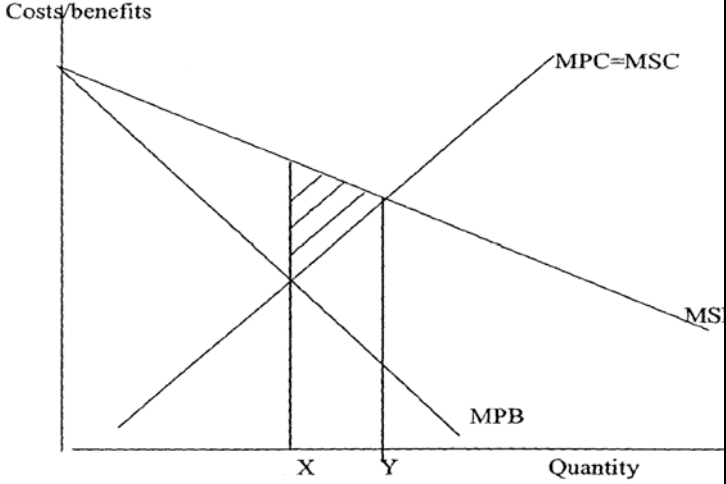
Question Number	Answer	Mark
1(c) (i)	<p>Private benefits: benefits to consumers and producers who are internal to the exchange/part of the transaction.</p> <p>Includes:</p> <ul style="list-style-type: none"> • Employment opportunities • Better sports facilities • New housing availability <p>External benefits: those benefiting third parties not part of the transaction; difference between social benefits and private benefits.</p> <p>They include:</p> <ul style="list-style-type: none"> • Regeneration of wasteland in East London: benefit to third parties e.g. increased value of homes; • Benefits to businesses around the country for raw materials; revenue from sports facilities • Benefits from increased tourism to hotels, tourist venues • Increased tax revenue which the government might use to improve public services <p>2 marks for distinction between private and external benefits; 2 for application i.e. an example of private benefits and an example of external benefits; 2 for analysis/development</p>	(6)

Question Number	Answer	Mark
1(c) (ii)	<p>Reasons could include:</p> <ul style="list-style-type: none"> • Difficulty of estimating impact of tourism: more visitors to watch the Games but others might stay away "to avoid the crowds" • Increased revenues from taxation but very difficult to assess these in advance - much depends on how much tourists spend when they come to the Olympics • Difficult to give precise estimates of "legacy" benefits e.g. housing; sports facilities • Difficulty of measuring intangibles e.g. feelgood factor • Evaluation could include: <ul style="list-style-type: none"> • Consideration of short run and long run potential benefits • Prioritisation <p>2 marks for identification; 2 for application to context; 2 for analysis and 2 for any one evaluative point Or 2 x 4 marks</p>	(8)

Question Number	Answer	Mark
1(d)	<p>Geographical impact: Clear indication that London will benefit most e.g. homeowners living close to Olympic site (already with the highest GDP per capita)</p> <p><i>But evidence that benefits will be spread beyond London e.g. cities hoping to host advance training camps; building materials from other parts of the country</i></p> <p>Businesses in London might benefit from improvements to infrastructure</p> <p><i>But: increased congestion during the Olympics</i></p> <p>Tourists and business people (often from higher income groups) might benefit most.</p> <p><i>But: the unemployed might secure jobs associated with the Olympics</i></p> <p>Evaluation could also include discussion of:</p> <ul style="list-style-type: none"> • <i>Difference in short run and long run effects</i> • <i>Magnitude of effect on income distribution</i> <p>2 marks for identification; 1 for application; 1 for analysis; 2 for any evaluative comment.</p> <p>Any one effect, explained well, could achieve five marks.</p>	(6)

Question Number	Answer	Mark
2 (a)	<p>Health care would be provided by the state (funded by taxpayers) as the sole provider (2 marks). If no reference to context, 1 mark.</p> <p>If monopoly is defined as 25% of healthcare market only, 0 marks.</p>	(2)

Question Number	Answer	Mark
2(b) (i)	<p>Reasons include:</p> <ul style="list-style-type: none"> • Inequality of income and wealth: state provision ensures low income earners have access to healthcare • Asymmetric information: doctors have more information than patients about their illnesses • Information Gaps: people do not know when or how much health care they will require • Economies of scale: rationalisation of specialist health care can result in significant reductions in long run average costs. In turn this could result in ... • Monopoly provision in a local area which could result in exploitation of consumers • Merit goods argument (but not valid if related to external benefits) <p>Under a system of private health insurance there further problems:</p> <ul style="list-style-type: none"> • Moral hazard: over-consumption of health care by consumers; over-treatment by doctors • Adverse selection: if premiums are set at an average risk level, they may be too expensive for low risk consumers who may choose not to buy health insurance. <p>3 x 3 marks. 3 marks for knowledge; 3 for application to health care and 3 for analysis.</p>	(9)

Question Number	Answer	Mark
2(b) (ii)	<p>Private benefits: benefits to consumers and producers who are internal to the exchange/part of the transaction. Include:</p> <ul style="list-style-type: none"> • Good health; better quality of life • Ability to gain and keep employment; income from employment <p>External benefits include: those accruing to third parties not part of a transaction; difference between social benefits and private benefits. These include:</p> <ul style="list-style-type: none"> • More productive workforce leading to higher growth, benefiting all in economy; benefit to government in the form of higher tax revenues; benefit to firms (higher profits) • Prevention of spread of diseases e.g. resulting from vaccinations benefiting other people <p>N.B. third party benefit should be made explicit.</p> <div style="text-align: center;">  </div> <p><i>Evaluation:</i></p> <ul style="list-style-type: none"> • <i>Relative magnitude of private and external benefits</i> • <i>Difficulty of quantifying external benefits</i> • <i>Short run/long run effects e.g. external benefits might be spread over a longer time scale</i> • <i>Prioritisation of factors</i> • <i>Relative balance between private and external benefits</i> • <i>benefits may be offset by costs</i> <p>External benefits diagram 2 marks. Third mark for identifying free market and socially optimal positions on diagram or in text. 2 marks for distinction between private and external benefits; 3 for application (i.e. consideration of at least one private and one external benefit); 4 for any two evaluative comments (2+2; 3+1; 1+3)</p>	(12)

Question Number	Answer	Mark
2 (c)	<p>Factors include:</p> <ul style="list-style-type: none"> • Ageing population - elderly require more health care: both in terms of drugs and time spent in hospital • <i>Given the increase in life expectancy, ageing population is a very significant factor</i> • Expensive new medical technology e.g. scanners • <i>Significant because they are linked to new methods of treatment</i> • New drugs to treat existing diseases - often very expensive • Rising real incomes the demand for health care is income elastic • <i>Significant because as living standards rise, people expect better quality health care - rising expectations.</i> • Increase in National Minimum Wage • <i>Significant because many workers in health service are on low wages.</i> • Increase in wage costs • <i>Significant because NHS is very labour intensive</i> • Desire to increase the quality of the healthcare service <p><i>Evaluation marks could also be achieved through:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation of factors</i> • <i>Comment that extra expenditure was necessary because of previous under funding</i> <p>2 for identification; 2 for application (could be for two relevant data references or for relevant application to NHS) and 2 for analysis and 2 for any one evaluative comment. Or 2 x 4 marks</p>	(8)

Question Number	Answer	Mark
2(d) (i)	<p>Possible reasons:</p> <ul style="list-style-type: none"> • Problem of measuring productivity • Issue of how much work is done and quality of provision • Targets only give a partial view of performance. <p>2 for knowledge and 1 for application to the health service.</p>	(3)

Question Number	Answer	Mark
2(d)(ii)	<p>Definition of government failure: intervention by the government leading to a net welfare loss/greater misallocation of resources (2 marks). If answer implies that intervention 'makes the situation worse' 1 mark only.</p> <p>Evidence could include:</p> <ul style="list-style-type: none"> • 'no evidence of improved NHS performance' e.g. deaths from strokes are nearly 100% higher in the UK than in six other countries • Losses being made • Disproportionate increase in administrators/managers • Significant increase in state funding not matched by equivalent rise in quality of service • Inappropriate/incomplete target setting • Distortion of resource allocation to meet specific targets <p>Evaluation could include:</p> <ul style="list-style-type: none"> • <i>Targets in certain areas being met</i> • <i>Problem of rising costs of drugs and medical equipment</i> • <i>Increase in number of treatments as day patients.</i> • <i>Information provided is inadequate because it only covers a limited time period.</i> <p>2 for definition of government failure; 2 for application (must use evidence from information provided) and 2 for any one evaluative comment.</p>	(6)

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