Mark Scheme (Pre-Standardisation)
Summer 2008

GCE Economics (6352/01)

A PEARSON COMPANY

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.

Question Number	Answer	Mark
1(a)	Private benefits: those accruing to an individual or firm who is part of the transaction/activity; (2 marks); or a benefit that is internal to an exchange (1 mark). If there is no reference to transaction or market then award 1 mark. Examples: posting/receiving letters; pensions; wages to employees; revenue to post office from transactions; subsidy from the government (1 mark for example and 1 further mark for explanation or use of data from extract or 2 marks for 2 separate examples) External benefits: Spill over effects accruing to third parties who are not part of the transaction/activity (2 marks); or a benefit that is external to an exchange (1 mark). If answer only states MSB is greater than MPB then give 1 mark. Examples: extra business to local shops; savings in costs to local business (1 mark for example and 1 further mark for explanation or use of data from extract or 2 marks for 2 separate examples) Knowledge (definitions 2 x 2 marks); Application: (2 x 2 marks)	(8)

• Question • Number	• Answer	• Mark
• 1(b)(i)	• Illustrating your answer with a diagram, distinguish between the free • market and socially efficient numbers of Post Offices. •	• •

Costs/benefits

MPB

X   Y

- (5)

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    - 3 marks for fully labelled diagram [1 mark of which for identifying free market level of provision (X) and socially efficient level of provision (Y) which could be on diagram or in written explanation]
  - Accept price or £ sign on the vertical axis.
  - Up to 2 marks for explanation e.g. under a free market there would be under provision of YX or for explanation for welfare loss area.
  - Maximum 4 marks if no reference to post office.
  - Context reference inadmissable for incorrect diagram.

Question Number	Answer	Mark
1(b)(ii)	Difficulty of identifying and valuing external and/or social benefits Difficulty of identifying and valuing external and/or social costs Any valid point worth 2 marks	(2)

Question Number	Answer	Mark
1(c)(i)	Royal Mail had 100% market share (or was sole supplier) with regard to the delivery of letters until 1 January 2006. (2 marks) Now Royal Mail must compete with other firms to provide this service. (1 mark). Must be in context of letter delivery otherwise 1 mark maximum. If monopoly is defined only in terms of 25% maximum 1 mark for definition. Candidate could get second mark for reference to competition. Similarly if reference to 'market dominance' 1 mark for definition.	(3)

Question	Answer	Mark

Number		
1(c)(ii)	Barriers to entry could include: • Economies of scale e.g. sorting technology; network of delivery and distribution centres. 2 different economies of scale could count as 2 separate points. • Royal Mail has strong brand name reinforced by advertising • Information gaps/costs • High start up costs • Limit pricing Candidate should explain how each of above acts as a barrier to entry *Evaluative points could include:* • *Relative importance of barriers identified* • *Barriers less significant to a new entrant with an established brand name* • *Regulatory authority could reduce barriers e.g. by providing information about the market* 2 marks for identification; 2 for application e.g. use of data in extract 1; 2 for analysis and 2 for any one evaluative point	(8)

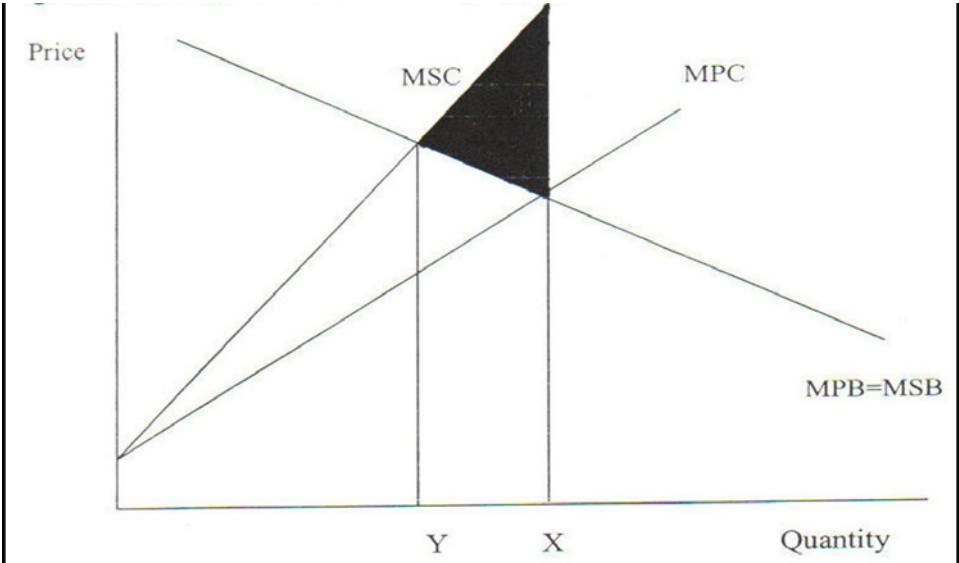| Question Number	Answer	Mark
1(d)(i)	When intervention in the market by the government (1 mark) results in a net welfare loss/increase in inefficiency/movement further away from socially optimum level of output (1 mark) Maximum 1 mark if answer refers to government intervention making the situation worse	(2)

Question Number	Answer	Mark
1(d)(ii)	Benefits of competition include: • Greater choice for customers • Better service e.g. earlier delivery times • Possibility of lower prices (and increased consumer surplus) • Incentive for Royal Mail to increase efficiency Disadvantages include: • New providers will 'cherry pick' most profitable deliveries e.g. in and between large cities causing Royal Mail to make losses • Customers in rural and sparsely populated communities might face reduced services and/or higher prices for deliveries • Competition might be inefficient (natural monopoly argument) 1 mark for knowledge; 1 for application, 4 for analysis	

	and 6 for any two evaluation points developed well or 3 points developed less well. A candidate could score full marks with a discussion of at least 2 advantages and 2 disadvantages of competition in the delivery of mail. Maximum of 11 out of 12 if no reference to context.	(12)

Question Number	Answer	Mark
2(a)(i)	Failure of the market to allocate resources efficiently; where social marginal benefits ≠ social marginal costs; where the free market does not result in a socially optimum level of output. Any definition for both marks.	(2)

Question Number	Answer	Mark
2(a)(ii)	Recognition of magnitude of market failure (1 mark) Climate change a classic case of negative externalities Recognition of negative externalities (1 mark); Definition of negative externalities: Where social costs exceed private costs or costs to third parties who are not part of the transaction; (1 mark) Also reward answers which approach question in terms of information gaps e.g. difficulty of knowing precisely the effects of climate change (up to 3 marks, depending on quality of explanation) Also reward answers which refer to absence of property rights and regulations (up to 3 marks, depending on quality of explanation) Examples of negative externalities: hurricanes, floods, fall in global output (1 mark for appropriate example) Maximum 3 marks if no reference to magnitude of market failure.	(4)

Question Number	Answer	Mark
2(b)	Possible reasons include: Faster rate of economic growth in China rather than USA Faster rate of growth of population in China rather than USA Impact of environmental pressure groups greater in USA than China Rapid industrialisation in China (contrast with deindustrialisation in US) Rapid increase in car ownership in China (contrast with use of more fuel efficient cars in US) Rapid increase in real incomes and consumer spending in China with associated increase in energy consumption Evaluation could include: • Change in environmental policies in the future • Impact of future international agreements • Criticism of data e.g. accuracy of forecasts 2 marks for identification; 2 for application (specific data references relating to change in greenhouse gas emissions). If general comment only then 1 mark. 2 marks for analysis 2 for evaluation(could gain all 2 marks for one good evaluative comment)	(8)

Question Number	Answer	Mark
2(c)	3 marks for fully labelled diagram [1 mark of which for identifying free market level of provision (X) and socially efficient level of provision (Y) which could be on diagram or in written explanation] Accept price or £ sign on the vertical axis. Up to 2 marks for explanation e.g. under a free market there would be over provision of YX or for explanation for welfare loss area or explanation that carbon dioxide emissions are a negative externality and would lead to over production. Maximum 4 marks if no reference to electricity generation from fossil fuels. Context reference inadmissable for incorrect diagram.	(5)

Question Number	Answer	Mark
2(d)	Reasons mentioned: Uncertainty: difficulty of estimating external costs of climate change with reason e.g. identifying and quantifying external costs; information gaps; forecasting problems Crosses generations: problem that production and consumption now will affect people in future generations. Consideration of how to account for this; myopia; lack of incentive for current generations to deal with the problem Crosses national boundaries: problem that production and consumption by people in one country can affect livelihood of people in other countries with reason e.g. absence of property rights; problems of achieving and enforcing international agreements For each of the above give credit to candidates providing examples 3 x 3 marks …. 3 marks for identification; 6 for application	(9)

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Question Number	Answer	Mark
2 (e)	Discussion of green taxes e.g. tax on flights. Analysis is likely to include supply and demand diagram with an upward shift in the supply curve to show the impact of the green tax. Evaluation: effect on quantity will depend on price elasticity of demand as will the proportion of the tax burden on consumers and producers. Also incentive for firms to reduce emissions. Discussion of carbon trading scheme. Analysis is likely to include reference to trade in permits and implications for producers e.g. higher costs, incentives to employ new technology Evaluation: problem of determining number of permits to be allocated; unless price of permits is high, there might be insufficient incentive for firms to introduce new technology Also incentive for firms to reduce emissions. Discussion of regulation. Consideration of how such regulations might be applied. Evaluation: problem and costs of enforcement; difficulty of determining socially efficient level of regulation 1 mark for knowledge; 1 for application, 4 for analysis and 6 for any two evaluation points developed well or 3 points developed less well.	(12)

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Section	Knowledge	Application	Analysis	Evaluation	Total
Question 1					
(a)	4	4			8
(b)(i)	2	1	2		5
(b)(ii)	1	1			2
(c)(i)		3			3
(c)(ii)	2	2	2	2	8
(d)(i)	2				2
(d)(ii)	1	1	4	6	12
Total	12	12	8	8	40
OR					
Question 2					
(a)(i)	2				2
(a)(ii)	2	2			4
(b)	2	2	2	2	8
(c)	2	1	2		5
(d)	3	6			9

| (e) | 1 | 1 | 4 | 6 | 12 |
| Total | 12 | 12 | 8 | 8 | 40 |