

Oxford Cambridge and RSA Examinations



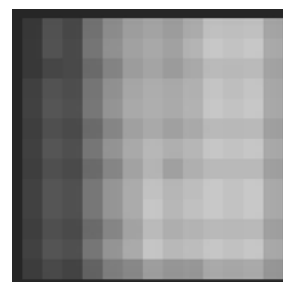
**ADVANCED GCE
ADVANCED SUBSIDIARY GCE**

**A2 7812
AS 3812**

ECONOMICS

**COMBINED MARK SCHEME
AND REPORT FOR THE UNITS
JANUARY 2005**

AS/A2



3812/7812/MS/R/05J

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The mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by Examiners. It does not indicate the details of the discussions which took place at an Examiners' meeting before marking commenced.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

The report on the Examination provides information on the performance of candidates which it is hoped will be useful to teachers in their preparation of candidates for future examinations. It is intended to be constructive and informative and to promote better understanding of the syllabus content, of the operation of the scheme of assessment and of the application of assessment criteria.

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Any enquiries about publications should be addressed to:

OCR Publications
PO Box 5050
Annersley
NOTTINGHAM
NG15 0DL

Telephone: 0870 870 6622
Facsimile: 0870 870 6621
E-mail: publications@ocr.org.uk

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RECOGNISING ACHIEVEMENT

Mark Scheme 2881
January 2005

- 1 (a) Using the extract, state two different factors of production used by flybe and give an example of each. [4]

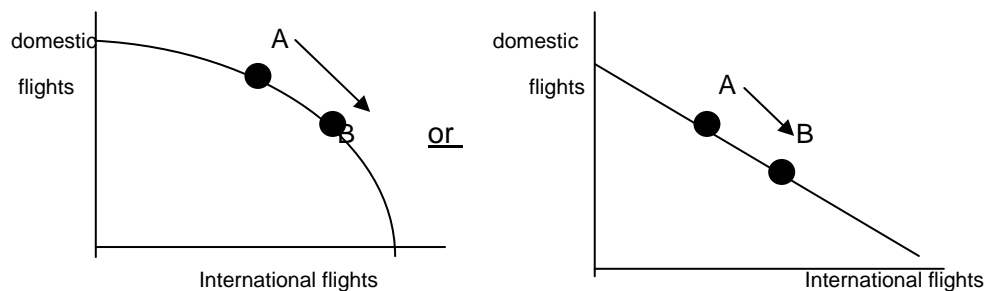
The three factors of production that are explicitly stated in the second paragraph are:

- capital (physical assets, not money)
- enterprise (including Chief Executive's contribution)
- labour (Chief Exec, Pilots)

Award 1 mark for each plus 1 further mark for application.

Take a liberal interpretation; examples must relate to an airline.

- (b) Using a production possibility curve, explain the choices available to flybe in the use of its aircraft. (Assume all aircraft will be used.) [5]



Award 3 marks for a correct PPC diagram plus a 3 further marks for an explanation as to how it can be applied to show the choices that are available to the company.

For the diagram – correct axis (1), different product combinations (1), one or two points on line (1).

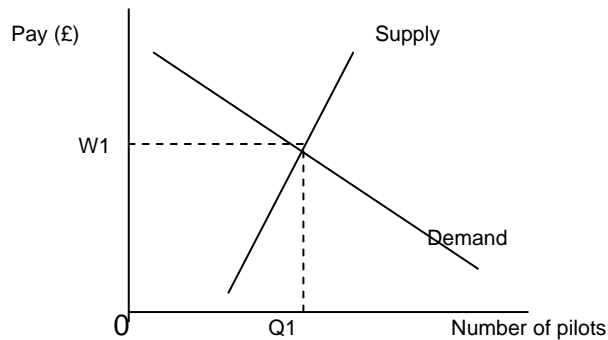
The 3 marks for application are

- 1 mark for a static representation of choice (e.g. A) – diagram or text
- 1 mark for a reallocation of resources (eg A to B)
- 1 mark for reference to opportunity cost/factor mobility

If wrong diagram, give 1 mark for a correct definition of PPC.

NB: if axes are labelled Good A and Good B, 2 marks max for the diagram unless it is clear that these refer to domestic and international flights.

- (c) (i) Draw a diagram to show how the equilibrium pay of pilots is determined. [4]



1 mark for correctly labelled axes (Wage rate/Number of hours - price/quantity are also acceptable)

1 mark for supply curve

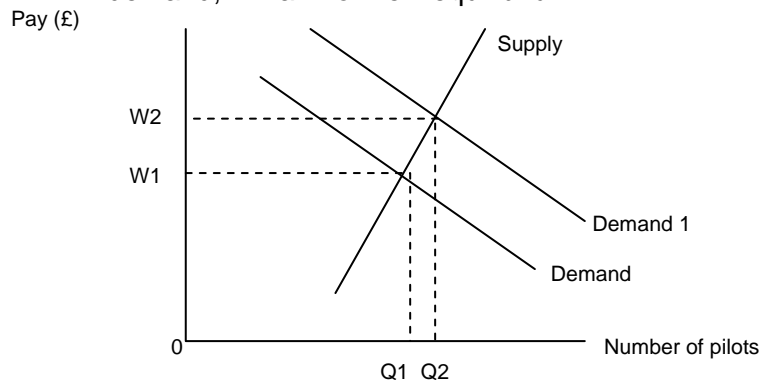
1 mark for demand curve

1 mark for equilibrium position (Q1 is not needed)

Ignore shift in demand or supply curves if shown.

- (ii) With the aid of a diagram, analyse how the market for pilots will be affected by an increase in demand for their services. [4]

The diagram could be used for this purpose - up to 2 marks. Equally, a written explanation can get up to 2 marks. For diagram, 1 mark for shift of demand, 1 mark for new equilibrium.



Demand curve will shift to the right as a consequence of an increase in demand (1). Equilibrium wage rate will increase (1). The extent of increase will depend on the elasticity of supply (1).

Expansion along supply curve (1).

Credit answers where short and long term supply is referred to.

(d) (i) Define price elasticity of demand.**[2]**

Award 2 marks for a correct definition such as 'the responsiveness of the quantity demanded to a change in price' or formula

e.g.
$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

Award 1 mark for an incomplete definition where some aspect of change is recognised or formula lacking %s.

(ii) Explain two factors that might determine the price elasticity of demand for flights between Birmingham and Glasgow. [4]

1. Existence of substitutes. The closer the substitutes, the greater will be the PED.
2. Relative expense of the product. More elastic where a greater proportion of income.
3. Relative necessity of product. More necessary it is, more price inelastic.
4. Time for adjustment of purchases. The longer any price change persists, the greater the PED.
5. Brand loyalty and advertising can make a product more price inelastic.
6. Fashion/taste. If a destination is becoming more attractive then it is likely to be more price inelastic.

Watch out for answers that are written in terms of the determinants of demand.

(iii) Discuss the business significance to flybe of the price elasticity of demand estimates given above.

[6]

Up to 3 marks for an analysis of the two estimates:

- elastic/inelastic (1);
- change in price on Milan route will result in less change in demand compared to Glasgow route (2) .

Up to 3 marks for business significance:

Up to 3 marks for how a price change can affect the company's revenue and its operation response.

1 mark for some additional comment e.g. price is the main reason why travellers use a low fare airline, convenience of flights from Birmingham or PED could be different for flybe compared to industry.

Up to 3 marks for reference to accuracy of PED estimates is relevant.

3 marks can be awarded if answer covers only one route.

e) (i) From the data, give one example of a fixed cost and one example of a variable cost. Justify each of your answers.

[4]

- Fixed costs
- purchase/lease of aircraft
 - marketing and administration
 - pay (but must justify)
 - insurance
 - normal profit

- Variable costs -
- pay (but must justify)
 - fuel
 - maintenance of aircraft
 - landing charges

1 mark for identification (x2).

1 mark for correct justification (x2) eg for link with number of passengers carried (output).

No marks for general definitions. Answer must be applied.

(e) (ii) Using the data, discuss the extent to which flybe should be concerned about a rise in pilots' pay. [12]

Possible examples for levels 1 – 4

Level 1 (1 – 2 marks)

Description. For a description / understanding of the general effects of a rise in pilot's pay.

Examples:

- A rise in pilot's pay increases total costs
- This rise is likely to lead to an increase in fares
- It is also likely to mean a reduction in profits

Level 2 (3 – 4 marks)

Application. This should come with reference to the table of data and/or the last paragraph of text.

Examples:

- Pay comprises 30% of total costs. Any rise in pilot's pay will substantially increase total costs
- Profits are likely to fall at a time when flybe is seeking to reduce costs (lines 11-12)
- The company's costs are already higher than those of their rivals

Level 3 (5 – 6 marks)

Analysis. This would be achieved through an explanation using economic analysis.

Examples:

- Pay comprises 30% of total costs. This is the largest single item therefore any increase will impact upon total cost
- Some other costs could be reduced e.g. marketing and administration. Other cost items like fuel and pilot's pay are essential to the operation and cannot be cut
- An increase in costs shifts the supply curve to the left and alters the equilibrium position. A diagram could be used
- The effect of an increase in pilot's pay on air fares and demand will be of more concern on domestic routes where demand is price elastic (ref part d)

Level 4 (7 – 12 marks)

Discussion. Some discussion of issues, possibly weighing up the issues involved and looking at alternative possibilities for flybe.

Examples:

- An increase in pilot's pay will also apply to flybe's competitors, increasing their costs in line with the increase in flybe's costs
- flybe could make even greater losses if demand for its services falls
- flybe's cost are already higher than those of its competitor's – this should be a clear cause for concern
- Less finance could be available for the purchase of new aircraft
- The degree of concern will depend upon the scale of the increase in pilot's pay
- The increase in wages could attract good pilots from other airlines

- flybe would be struggling to compete in an oligopolistic market
- Benefits for economies of scale could accrue to offset the increase in costs.

A very good L4 answer should clearly address 'the extent' aspect of the question.

	(a)	(b)	(c)(i)	(c)(ii)	(d)(i)	(d)(ii)	(d)(iii)	(e)(i)	(e)(ii)	Total
AO1 Target 13-14	2	2	4		2				2	12
AO2 Target 13-14	2	3				4		4	2	15
AO3 Target 9				4			3		2	9
AO4 Target 9							3		6	9
Total	4	5	4	4	2	4	6	4	12	45
Subject Content Reference	5.1.1	5.1.1	5.1.2	5.1.2	5.1.2	5.1.2	5.1.2	5.1.3	5.1.3	



RECOGNISING ACHIEVEMENT

Mark Scheme 2882
January 2005

Subject-specific Instructions

- 1 The paper is to be marked to AS standard
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 4 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 5 The quality of written communication will be assessed in the answer to the final part question.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

(3 marks representing the appropriate level of written communication are embedded in this level of response.)

Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

(2 marks representing the appropriate level of written communication are embedded in these levels of response).

Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

(1 mark representing the above level of written communication is embedded in this level of response.)

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only.

No additional QWC marks can be awarded if the initial mark is zero.

- (a) (i) **Define the term 'external benefits' (line 7). (2)**

Where social benefit exceeds private benefit (2 marks).

Where a third party benefits (1 mark) from a production or consumption decision (1 mark).

A positive externality (1 mark).

A relevant example (1 mark).

A spillover effect (1 mark)

- (ii) **State and explain one possible external benefit to a local area that might arise from a beach having 'blue flag' status (line 5). (3)**

1 mark for identifying any relevant benefit such as increased economic growth (1 mark), reduced unemployment (1 mark) and increased tourism (1 mark).

Accept any relevant example, no need for application to case study.

1 mark for simple explanation that this is something which makes others better off. Up to 2 marks for an explanation which includes explicit economics, ie it is a benefit to a third party or it arises where social benefit exceeds private benefit.

Candidates who provide a relevant example with some elaboration will gain 2 marks quite easily. The third mark requires explicit use of economics.

If candidates fail to provide an accurate example they can still gain marks for relevant explanation.

- (b) (i) **State two characteristics of a 'public good'. (2)**

1 mark for non rivalry (or non diminishability).

1 mark for non excludability.

1 mark for non rejectability.

Award accurate **descriptions** of these characteristics.

- (ii) **Discuss the extent to which beaches can be considered to be public goods. (5)**

Up to 2 marks for the application of principles of non-rivalry and non-excludability:

1 mark for stating that beaches will be non rival (unless they are full and then become rival) and 1 mark for stating that they are non excludable (unless they are fenced off or private beaches when they are clearly excludable).

Up to 2 marks for analysis:

1 mark for analysis of non-rivalry, namely that beaches are non rival because the use of beaches by one extra person does not limit/stop others using it (unless it becomes full).

1 mark for analysis of non-excludability, for example, beaches are non excludable because unless a beach is fenced off it is impossible to stop non payers from using it.

1 mark for comment or discussion which could suggest that they are not public goods –

- Beaches are better described as quasi-public goods.
- If beaches are full then they can be seen to be rival and therefore are not public goods because consumption by one person will limit the amount available to others.
- If the beach is privately owned then it will be a private good rather than a public good.

(c) Two approaches to controlling pollution are :

- **regulations backed up by fines;**
- **taxes on the level of pollution created.**

(i) The extract states that firms breaking the law can be fined up to £100,000 per day (line 19). Comment upon the effectiveness of using such regulation to control the problem of water pollution. (4)

Up to 2 marks for a relevant statement of how regulation would be effective:

The fact that firms could be fined will lead to a rise in their costs (1 mark), therefore providing an incentive for firms to clean up their act / reduce their output (1 mark). Fines act as a deterrent (1 mark).

Alternatively, an answer may explain how regulation could be applied, for example: the government would introduce minimum standards for water quality (1 mark) and any firm which is found to be polluting more than this level would be prosecuted (1 mark). This may also involve the introduction of a regulatory body to oversee that firms are not breaking the law (1 mark).

(NB do not reward simple statements lacking elaboration such as 'regulation has the backing of law' or 'it leads to firms being fined' as these are given).

Up to 2 marks for any relevant evaluation or criticism of regulation. One statement which is elaborated can gain 2 marks. 1 mark for a vague statement which lacks clear development. Possibilities include:

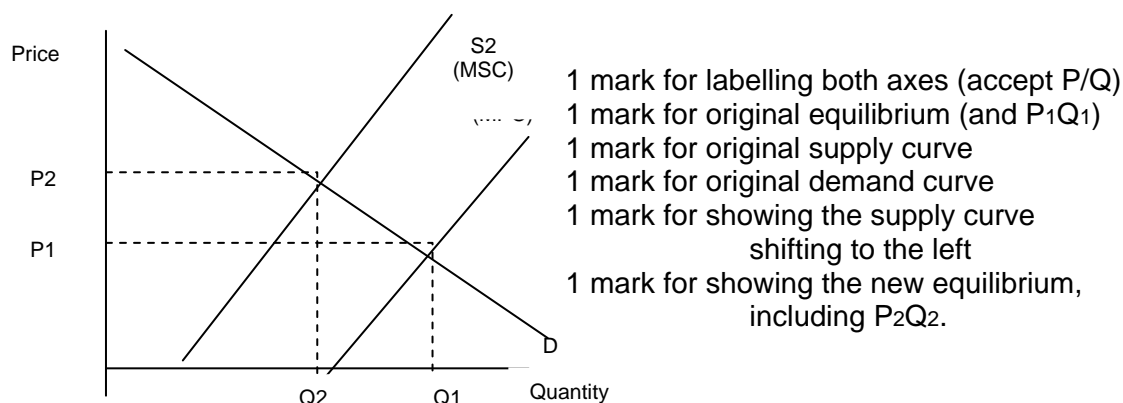
- Regulation will be difficult and costly to enforce for the government.
- What level of emissions should be allowed? How does the government decide what the best level of emissions would be?

- The effectiveness depends upon the level of fines compared to the pollution cost. It should be greater than the pollution cost/ external cost so that it is cheaper to clean up their act rather than pollute.
- If a flat rate fine is imposed (as the article suggests) then larger polluters will be fined the same as firms which pollute less. This may encourage firms to pollute more as they will still face the same fines.
- The effectiveness depends upon the size of firm involved – a larger firm may simply ignore a fine of £100,000 ie a blunt instrument.
- It is not effective as it is not a market based solution.

(c) (ii) With the aid of a diagram, explain how a tax on firms in the water industry could be used to correct market failure.

(10)

Up to 6 marks for a basic diagram showing the supply curve shifting to the left. Accept either traditional supply and demand diagram or MSC/MPC approach, showing MPC shifting to the left following the introduction of the tax.



Note: if a supply and demand diagram is drawn which lacks any reference to costs and benefits, then vertical axis must be labelled price and not cost.

For horizontal axis, accept reference to quantity or output.

Up to 6 marks for the explanation which could include:

The tax will increase the firm's costs of production (1 mark) and therefore shifts the supply curve (1 mark).

This leads to a higher price (1 mark) and a lower quantity output / lower demand (1 mark). (If diagram shows a leftwards shift in the demand curve, then do not reward reference to lower demand.)

The tax should be equal to the external costs of production (1 mark). (Or the tax will internalize any negative externality (1 mark).)

With the correct tax, the new level of output will be allocatively efficient (1 mark). The tax will correct the misallocation of resources (1 mark).

The problem of overproduction has been solved (1 mark).

Maximum overall mark = 10.

(iii) State and explain two arguments against using taxation to solve market failure. (4)

The first mark is for identifying the problem and the second mark is for basic explanation of it. Possible drawbacks could include:

- Taxes may be passed on to consumers in the form of higher prices ie water bills may rise (in other words the polluter will not pay).
- Taxes which lead to higher prices will be inflationary.
- Taxes will lead to firms being less internationally competitive.
- Taxes reduce growth and may therefore raise unemployment.
- To be effective the tax must equal the level of external costs and these could prove to be extremely difficult to measure.
- Firms may simply move to other countries which have lower taxation and continue polluting.
- If there is inelastic demand then the tax will not reduce output.
- Taxes on necessities (eg water) may be regressive.
- What size should the tax be?

Up to 2 marks for each argument well elaborated. 2 marks maximum if only one argument considered.

(d) (i) Local water suppliers are regional monopolies. Outline the way in which government competition policy tries to tackle the problems caused by market dominance. (3)

Up to 3 marks for basic knowledge of competition policy:

The O.F.T.(1 mark) is charged with protecting consumers (1 mark) and co-ordinates competition policy. It can request that the Competition Commission (1 mark) investigates firms suspected of exploiting consumers through increased prices (1 mark) or restricted output (1 mark) and judges whether firms are acting the 'public interest'. A firm has legal monopoly status if it has 25% or more market share (1 mark) and has dominant firm status if it exceeds 40% market share (1 mark).

Up to 3 marks for basic knowledge of what can be done:

The government can introduce regulations (1 mark), it can break up monopolies (1 mark) or it can block mergers (1 mark). The government can introduce price controls (1 mark). It can fine firms (1 mark) up to 10% of their turnover (1 mark), could negotiate a voluntary agreement with producers (1 mark), could force a firm to sell off assets (1 mark), remove barriers to entry/make markets more contestable (1 mark) or could jail individuals found responsible for anti-competitive behaviour (1 mark). Ultimately, nationalisation/state control could be used (1 mark).

Do not accept simple statement such as 'they stop consumers being exploited' which lacks development in terms of higher prices etc.

- * (ii) **Discuss the extent to which an increase in competition always leads to an increase in economic efficiency.** (12)

It is usually assumed that perfectly competitive markets lead to greater economic efficiency. Hence the more competition, the more efficient a market is assumed to be.

Competition leads to an increase in allocative efficiency because firms have to use their scarce resources to produce those goods which consumers want. If not, there will be no demand for their products and eventually the firm will go bankrupt. In other words in a competitive market, as consumers are sovereign, there will be allocative efficiency. Productive efficiency occurs in a competitive market because in order to remain price competitive, firms have to produce at the lowest point on their average cost curve. In addition to this, potential problems of X-inefficiency (which monopoly may face) are avoided because firms have many rivals competing against them.

In order to reach level 4, reference is needed as to why greater competition may not increase efficiency. For example, possible loss of economies of scale (the natural monopoly argument) will lead to productive inefficiency as average costs are not be minimised.

Furthermore, monopoly may well create an incentive for firms to invest and produce more innovative products which consumers want. Monopolies may therefore invest in higher levels of R & D which promote greater dynamic efficiency gains in the long term.

Alternatively, if competition does not take the form of price competition (ie non price competition is used) then this will not necessarily lead to productive efficiency being achieved if average costs are not minimised.

Level 4	Discussion of why greater competition does not always generate greater economic efficiency.	7-12 marks
Level 3 marks	Analysis of why competition increases allocative and/or productive efficiency. A one sided argument.	5-6
Level 2	Basic application of knowledge of allocative and / or productive efficiency not linked to <u>increased</u> competition. OR a basic explanation of why increased competition raises efficiency in general terms.	3-4 marks
Level 1	Basic knowledge or statement about what economic efficiency is or how important it is.	1-2

Specification Grid

	a(i)	a(ii)	b(i)	b(ii)	c(i)	c(ii)	c(iii)	d(i)	d(ii)	
AO1 13-14	2	1	2			2	2	3	2	14
AO2 13-14		2		2	1	6			2	13
AO3 9				2	1	2	2		2	9
AO4 9				1	2				6	9
Spec	5.2.2	5.2.2	5.2.2	5.2.2	5.2.3	5.2.3	5.2.3	5.2.3	5.2.1	



RECOGNISING ACHIEVEMENT

Mark Scheme 2883
January 2005

Subject-specific Instructions

- 1 The paper is to be marked to AS standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Where this marking approach is employed, candidates should be regarded as achieving the highest level of response, which accurately describes their answer. They do not necessarily pass through all lower levels of response, but it is usually expected that higher level answers will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 The mark scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 The quality of written communication will be assessed in the answer to part (e).

As a level of response mark scheme is used here, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more content-specific levels of response shown in the individual mark schemes for each appropriate question.

Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be a few, if any errors of spelling, punctuation and grammar. (3 marks representing the appropriate level of written communication are embedded in this level of response.)

Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

(2 marks representing the appropriate level of written communication are embedded in these levels of response).

Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

(1 mark representing the above level of written communication is embedded in this level of response.)

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate questions, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to Levels of Response mark scheme only.

No additional QWC marks can be awarded if the initial mark is zero.

(a) (i) Define aggregate demand (lines 2-3). [2]

2 marks for $AD=C+I+G+(X-M)$
 1 mark for any component of AD.
 1 mark for total spending/demand.
 1 mark for reference to domestically produced products.
 1 mark for reference at a given price level.

(ii) Define unemployment (line 6). [2]

1 mark for identifying a situation where people are without jobs.
 1 mark for a further, relevant elaboration e.g. people willing and able to work but unable to find a job, people actively seeking employment.
 1 mark for reference to ILO or Claimant Court measure.
 1 mark for excess supply of labour.

(b) (i) Identify one of the three ways of measuring Gross Domestic Product (GDP). [1]

Income, expenditure, output.

(ii) Identify, from the passage, two ways of increasing GDP. [2]

1 mark each for any two out of interest rate reduction, increased government spending and cut in tax rates, boost AD.

(iii) With reference to Table 1, discuss the extent to which the bold policy changes (line 10) have been effective in raising the rate of economic growth. [6]

1 mark for effect appears to vary between the countries.
 1 mark for policy changes seem to have a positive effect in all three countries.
 1 mark for turned USA from a recession to positive growth/improved.
 1 mark for reduced size of Japanese recession/improved.
 1 mark for turned UK recession into positive growth/improved.
 1 mark for largest impact appears to have been on the USA.
 1 mark for the policy changes did not prevent Japan from experiencing a recession.
 1 mark for noting that the figures are estimated figures.
 1 mark for smallest impact/least favourable on Japan.

(c) (i) Explain two economic costs of unemployment. [4]

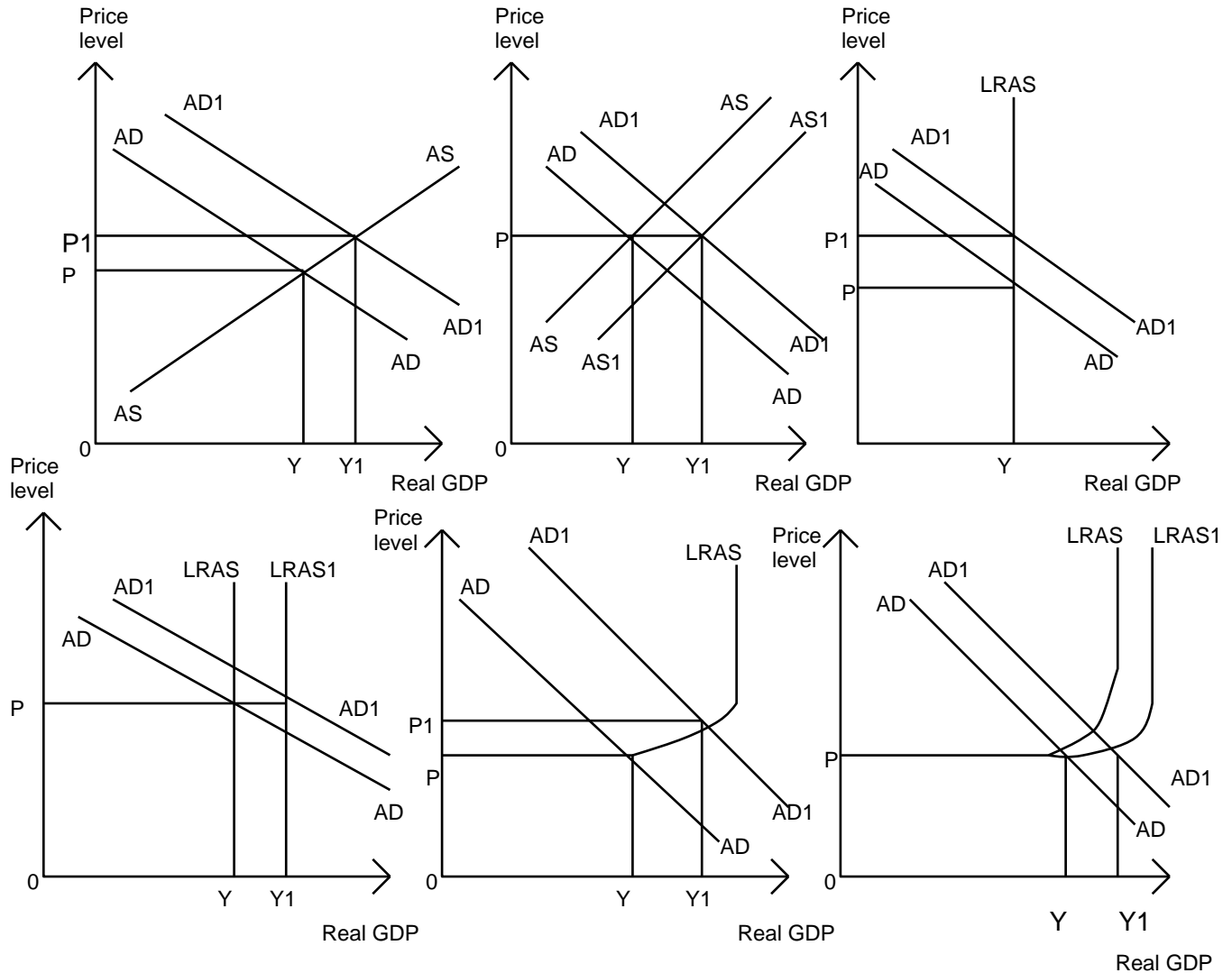
1 mark each for two costs identified e.g. lost output, lower tax revenue, higher government spending.
 1 mark for each explanation e.g. higher unemployment increases government spending on unemployment related benefits, income tax revenue will be lower with fewer people in work, indirect taxes will be lower due to reduced spending.

(ii) With the aid of a diagram, analyse the effects of a cut in interest rates on an economy. [10]

Up to 6 marks for the diagram.
 1 mark for axes correctly labelled.
 1 mark for AS curve/s correctly labelled.

- 1 mark for AD curve/s correctly labelled.
- 1 mark for AD curve shifting to the right.
- 1 mark for AS curve shifting to the right.
- 1 mark for the original equilibrium.
- 1 mark for the new equilibrium.

(c) (ii)



Up to 5 marks for explanation.

- 1 mark for further developments on AD e.g. reference to effect on consumption or investment or net exports.
- 1 mark for effect on economy will depend on the initial position.
- 1 mark for price level may rise.
- 1 mark for output may increase.
- 1 mark for employment may rise.
- 1 mark for impact will depend on the size of the shift in AD/multiplier effect.
- 1 mark for explaining how a lower interest rate may increase AS.
- 1 mark for effect on balance of payments.
- 1 mark for effect on money supply.

(d) Explain two policy measures a government could use to reduce a current account deficit on the balance of payments. [6]

1 mark each for two relevant policy measures e.g. lower exchange rate, import restrictions, higher taxes, supply-side policies.

1 mark for each of two basic explanations e.g. a lower exchange rate will reduce the price of exports and raise import prices and so change demand, import restrictions will discourage the purchase of imports, higher taxes will reduce spending on imports and supply-side policies will increase AS.

1 mark for each of the two further elaborations e.g. a lower exchange rate may increase export revenue and reduce import expenditure, tariffs raise the price of imported products and so make domestic products more competitive, higher taxes reduce disposable income and so consumers' ability to buy imports, supply-side policies may increase the international competitiveness of domestic products.

(e) Discuss the effectiveness of supply-side policies in reducing unemployment. [12]

Comments may include the effect on improving the quality of the labour force, the long-term nature of the policies, the cost of some policies, the uncertain effect on employment of some policies e.g. privatisation, the inappropriateness of such policies to tackle cyclical unemployment.

Level 4	For a discussion of the effectiveness of supply-side policies in reducing unemployment with some evaluation.	(7-12)
Level 3	For an analysis of supply-side policies and how they might reduce unemployment.	(5-6)
Level 2	For an understanding of some supply-side policies and the link to reducing unemployment.	(3-4)
Level 1	For a description of supply-side policies.	(1-2)

Specification Grid

	(a)(i)	(a)(ii)	(b)(i)	(b)(ii)	(b)(iii)	(c)(i)	(c)(ii)	(d)	(e)	Total
AO1 Target 13-14	2	2	1			2	2	2	2	13
AO2 Target 13-14				2	2		6	2	2	14
AO3 Target 9					2	2	2	2	2	10
AO4 Target 9					2				6	8
Total	2	2	1	2	6	4	10	6	12	45
Subject Content Reference	5.3.2	5.3.2	5.3.1	5.3.3	5.3.3	5.3.1	5.3.2	5.3.3	5.3.3 5.3.1	



RECOGNISING ACHIEVEMENT

Mark Scheme 2884
January 2005

Subject-specific Instructions

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response, which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidate might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed in the Section B essay.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of

spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Level of Response mark scheme only as in Section B of all A2 optional units.

Section A

- 1 (a) **Using Extract 1, compare how overseas tourism contributed to the balance of payments of France and the UK during the period 1998-2000.** [3]

1 mark for using (Receipts-Spending) as the contribution to the balance of Payment, whether surplus or deficit. [This can be implicit.]

1 mark for identifying positive contribution for France, negative for UK. [This must be explicit.]

1 mark for any other valid comparative statement (e.g. bigger growth in France's revenues).

- (b) **Using Extract 1, account for the differences between the number of tourist arrivals and receipts from overseas tourism in Italy and the UK during the period 1998 – 2000.** [5]

2 marks for identifying that number of tourist arrivals increased, but receipts decreased, for Italy, between 1998 and 2000 - whereas arrivals fell and receipts increased for UK.

1 mark for recognising that the relationship between receipts and number of tourist arrivals reflects spending per tourist. [This can be implicit.]

2 marks for explanation of growth in spending per visitor in UK, but fall in Italy. [Alternatively, these 2 marks can be gained for a valid explanation of any other recognised difference – eg more tourists to Italy.]

- (c) **The UK package holiday industry suffered a severe slump at the end of 2001. Comment on the likely effectiveness of the responses made by firms within the industry to this slump.** [4]

2 marks for explanation of possible responses by firms (only 1 mark if response(s) only identified): slump means fall in demand, causing fall in profits, so response is likely to be to attempt to boost demand (price cuts or otherwise) and/or to reduce costs.

2 marks for valid comment on likely effectiveness. This could relate to firms in the industry as a whole (e.g. likely inevitability of fall in profit if demand falls, or tendency towards merger activity), or to individual firms within the industry (e.g. more difficult for My Travel because of previous policy of increasing capacity).

(d) The UK package holiday industry has oligopolistic characteristics.

(i) Identify two characteristics of an oligopoly. [2]

1 mark for each of two valid characteristics - small number of firms, interdependence, barriers to entry, etc. [Any valid characteristic is ok – eg price maker, differentiated products, possibility of collusion.]

(ii) Discuss the possible consequences for the consumer of reduced competition within the UK package holiday. [6]

Reduced competition is likely to result from either mergers between existing firms, or from at least one existing firm failing to survive. Could result in disadvantages to consumers — higher prices, less choice, less incentive for efficiency of firms. On the other hand, surviving firms may be more efficient and/or larger (economies of scale), which may benefit consumers.

L2 For evaluative discussion. (3 – 6)

L1 For explanation of at least one possible consequence. (1 – 2)

NB - Maximum of 4 marks if one-sided only.
- Needs some application for full 6 (or 4).

Section B

- 2 It has become increasingly common for employees in the UK, and in other countries, to take fewer days holiday than the number to which they are entitled.**

- (a) Using economic theory, explain how the number of hours worked by an employee is likely to change when the hourly wage rate increases. [10]**

The hourly wage-rate is the opportunity cost of an hour of leisure to any employee.

Hence an increase in the hourly wage-rate has, in theory, two effects – an income effect, the employee choosing more of all goods, including leisure, because his/her real income is greater; and a substitution effect, the employee choosing less leisure because its relative ‘price’ has increased. The overall effect on hours worked by an individual employee depends on his/her valuation of these two countervailing effects; various outcomes are possible.

- L3 For an explanation, of both effects and of the different resulting possibilities.
[Must consider relative sizes of the two effects for more than 7.] (7-10)
- L2 For understanding, perhaps focusing only on one effect (named or not).
[Maximum of 4 if explanation is valid, but no reference to either effect in practice.] (4 – 6)
- L1 For knowledge, eg descriptive points on hours worked only.
[This is likely to be mere description of backward-bending S curve.] (1 – 3)

- (b) Discuss the possible reasons for reduced take-up of holiday entitlement. [15]**

Understanding of reduced take-up of holiday entitlement, and implication that workers are choosing to work more hours in total. This may mean that a growing number of workers are regarding the substitution effect of higher wage rates as predominant. However, there may be other reasons –for example, expectations of requirements of employers /promotion prospects, demonstration effects, quantity v quality of holidays, expectations re growth of material living standards, etc.

- L4 Evaluative discussion, weighing more than one valid, explained reason. (9 –15)
- L3 Analysis of at least one valid reason. This is likely to be linked to the predominance of the substitution effect (from (a)). (6 – 8)
- L2 Application of knowledge only to issue of holiday entitlement take-up. (3 – 5)
- L1 A few descriptive points only. (1 – 2)

3 The minimum wage has now been achieved in the UK. The next objective could be legislation to establish a legal maximum wage.

(a) Explain how the achievement of a legal minimum wage has reduced income inequality in the UK. [10]

Explanation of 'legal minimum wage' (at, above or below the current equilibrium), and of the consequences on wages and employment, dependent on elasticities and on employers' responses. Explanation of 'income inequality in the UK'. Consequences for distribution of income of the introduction of the minimum wage, including consideration of the extent to which income inequality might be reduced. This depends on how much unemployment might actually result, or possible effect of efforts to maintain differentials.

L3 For an explanation covering a range of possible consequences. (7– 10)

L2 For understanding, focusing only on the basic effect on reducing income inequality. [Maximum of 4 marks if no reference to income inequality.] (4 – 6)

L1 For knowledge, e.g. descriptive points only on minimum wages, or on meaning of income inequality.

[NB: No credit for other methods of reducing income inequality.] (1 – 3)

(b) One suggestion made by social reformers is that the maximum wage permitted in every firm should be multiple - say 10 – of the lowest wage it pays. Discuss the possible consequences of this suggestion for the UK labour market. [15]

Clarification of the policy proposed and of its possible effects for firms whose current ratio between highest and lowest wage is greater than 10:1, either raising the lowest wage or reducing the highest (or a combination of both). Explanation of possible consequences, linked to the labour market in the UK e.g. attraction of workers if lowest wages are increased but may be reduced demand for them; move overseas/other employers more attractive?; more equal distribution of income; possible effects on motivation, and/or productivity, for lower earners and/or higher earners etc.

L4 Evaluative discussion, weighing at least two possible consequences, one positive and one negative. [Maximum of 12 marks if only one-sided.] (9– 15)

L3 Analysis of at least one possible consequence. (6 – 8)

L2 Application of knowledge in terms of interpretation of the policy. (3 – 5)

L1 A few descriptive points only. (1 – 2)

4 The more investment there is in human capital, the greater will be the elasticities of supply of labour and the more efficient the functioning of the UK labour market.

(a) Explain the factors which determine the elasticity of supply of labour to an occupation in the short-run and the long-run. [10]

Meaning and measurement of elasticity of supply of labour. Identification and explanation of factors influencing the extent of response of amount of labour supplied in an occupation to a change in wage – skills and qualifications, wages in other occupations, non-monetary net advantages, leisure/work preferences, etc. – to include consideration of differing extent, according to the time period being considered.

L3 For an explanation, with a range of influencing factors including time period. (7–10)

L2 For understanding only, with no consideration of time. Answer may tend to concentrate on size of supply, rather than of elasticity. (4 – 6)

L1 For knowledge e.g. descriptive or definitional points only. (1 – 3)

(b) Discuss the view that greater investment in human capital is the best method of improving the efficiency of the UK labour market. [15]

Meaning of ‘human capital’, and explanation of the consequences of greater investment in it – improved skills, greater flexibility, etc. Explanation of ‘efficiency of the UK labour market’ and of how it is increased by more investment in human capital e.g. greater occupational mobility. Other methods of identification and explanation linked to efficiency of labour market e.g. improved information provision, regional policies, and trade union policies. Evaluation, focusing on ‘best method’.

L4 Evaluative discussion, focusing on ‘best method’, comparing investment in human capital with other valid methods. (9– 15)

L3 Analysis of how improved human capital investment increases efficiency of UK labour market. (6 – 8)

L2 Application of knowledge in terms of interpretation of ‘efficiency of labour market’. (3 – 5)

L1 A few descriptive points only, on meaning of investment in human capital. (1 – 2)

Assessment Grid

	A	B	C	D (i)	D (ii)	Total		A	B	Total	Total
AO1	1	1		2		4		3	2	5	9
AO2	2	2				4		3	3	6	10
AO3		2	2		2	6		4	3	7	13
AO4			2		4	6			7	7	13
						20				25	45



RECOGNISING ACHIEVEMENT

Mark Scheme 2885
January 2005

Subject-specific Instructions

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed in the Section B essay.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only as in Section B of all A2 optional units.

Section A

- 1 (a) Using Table 1, state two ways in which the provision of freight transport by road in the UK has changed between 1991 and 2001. [2]

1 mark for each relevant change x2

e.g. increase in public
decrease in own account
increase in total
increase in % of public

- (b) (i) Explain why the demand for freight transport by road has grown broadly in line with GDP (lines 1-2). [2]

1 mark for simple explanation e.g. understanding of derived demand or simple statement reflecting this.

2 marks for developed explanation e.g. accurate application of derived demand for logistics services.

- (ii) State and explain two likely reasons why many manufacturers and retailers now contract out their logistics services to companies such as Exel. [4]

1 mark for logical reason x2.

2 marks for explanation (could be a developed explanation for one reason).

Possibilities include:

part of overall package of services
lower costs
greater efficiency
allows concentration on core business
convenience
capacity utilisation

- (c) (i) Give two characteristics of an oligopoly. [2]

1 mark for each characteristic of an oligopoly x2.

e.g. few firms
barriers to entry
interdependency and possible collusion
non-price competition

(ii) Comment on the extent to which the market for logistics services in the UK is contestable.

[4]

Up to 2 marks for explanation of contestable markets e.g. few barriers to entry and exit, threat of entry, potential competition, hit and run, costless exit, few sunk costs.

Plus up to 2 marks for an assessment of whether logistics services are contestable: this could be from data e.g. specialist expertise of niche firms or using own knowledge of logistics services applied to the above points.

Level 2 Evaluation of extent of contestability with the logistics services market. 3-4

Level 1 Explanation of contestability. 1-2

(d) Discuss the likely effects of increased market dominance on efficiency in the UK logistics market.

[6]

Up to 2 marks for an application of how market dominance affects economic efficiency, accept any type of efficiency.

Up to 4 marks for an evaluation of increasing market dominance on economic efficiency within the logistics services market.

Comments could include on the positive side:

There is still competition

Benefits of economies of scale

R & D and innovation due to size

And on the negative side:

Prices may be higher

Collusion between firms e.g. sharing contracts, forcing smaller businesses out

Inability of smaller firms to win largest contracts

Does this mean average costs are minimised and customers get the logistics service they want?

Level 3 Discussion of effects of market dominance on efficiency applied to the UK logistics market. (5-6)

Level 2 Discussion of effects of market dominance on efficiency. (3-4)

Level 1 Explanation of effects of market dominance on efficiency. (1-2)

Section B

- 2 It is estimated that the costs of traffic congestion now exceed £20 billion per annum, yet the government is still reluctant to introduce a national system of road user charging.

- (a) Explain how the costs of traffic congestion might be estimated. [10]

Lost time and the idea that time is money, opportunity costs; increased costs of operating vehicles, cost of increased accidents. Use of shadow pricing. Possible use of simple calculations showing increased costs of adding to traffic flow and how this also impacts on other road users increasing their costs. The need for bigger fleets; possible loss of business.

Level 3 For an explanation of how the costs of congestion might be estimated. 7 -10

Level 2 For an understanding of the costs of congestion. 4 – 6

Level 1 For knowledge of the costs of congestion. 1 - 3

- (b) Discuss how effective the introduction of a national system of road user charging might be in reducing the problem of traffic congestion. [15]

A national system of road user charging would involve more urban schemes and charges on inter-urban routes. Charges would attempt to internalise externalities caused by congestion and therefore reduce demand and hence congestion. Charges would need to be variable to reflect the marginal external cost caused by congestion at different times and on different roads. Diagram would be useful but not essential. Practical problems of estimating costs accurately and implementation of national system e.g. how to charge. Charges may have little impact due to low PED and XED due to few realistic alternatives to road use. Likely to move traffic on to other roads and spread road use. Political problems of perceptions of increasing tax burden

Level 4 For an evaluation of how a national system of road user charging might combat traffic congestion. 9 -15

Level 3 For an analysis of how user charging attempts to reduce traffic congestion. 6 – 8

Level 2 For application of knowledge of how user charging might reduce traffic congestion. 3 - 5

Level 1 For some knowledge of user charging. 1 – 2

3 (a) Explain the relationships between the component parts within the structure of the UK railway industry.

[10]

Infrastructure, in terms of Network Rail; operations in terms of TOCs (passenger) and EWS etc. (freight); franchising and regulation in terms of Dept. of Transport, ORR (reward reference to role of former SRA). Private or public ownership only a small part of the answer. Explanation needed in terms of charging for the use of the infrastructure and passing on in terms of prices to customers, franchising of routes, use of subsidies, role of monitoring standards.

Level 3	For an explanation of how the component parts within the structure of the UK railway industry relate to each other.	7 - 10
Level 2	For an understanding of the structure of the UK railway industry.	4 - 6
Level 1	For knowledge of the structure of the UK railway industry.	1 - 3

(b) Discuss the ways in which economists might assess the efficiency of the UK railway industry.

Accept discussion of any type/types of efficiency. Allocative efficiency ($P=MC$): do rail users, including freight, get the services want?; have the external benefits of rail been realised? Analysis and evaluation of impact required e.g. lack of investment leading to safety issues; greater concern of former SRA regarding safety leading to more delays and hence falling numbers. Productive efficiency (minimum average cost) linked to economies of scale and concept of natural monopoly. Are these benefits being realised and passed on to rail users?

Level 4	For an evaluation of the ways in which the efficiency of the UK railway industry may be measured.	9 - 15
Level 3	For an analysis of the measurement of the efficiency of the UK railway industry.	6 - 8
Level 2	For an application of knowledge of efficiency to the UK railway industry.	3- 5
Level 1	For some knowledge of the issues.	1 - 2

4 There has been much argument in recent years on whether aviation fuel should be taxed in order to reduce pollution caused by air transport.

(a) Explain how the negative externalities associated with air transport cause a misallocation of resources. [10]

Explanation of increased social costs due to the negative externalities (costs imposed on third parties) perhaps with the use of a diagram (but not required) leading to overconsumption of air transport because passengers do not pay the full social costs. Not just air pollution but also possible increased road congestion at airports, noise particularly for night flights, blight, increased chance of accidents.

Level 3 For an explanation of how the negative externalities associated with air transport cause a misallocation of resources. 7 - 10

Level 2 For an understanding of the negative externalities associated with air transport which cause a misallocation of resources. 4 - 6

Level 1 Knowledge of the negative externalities associated with air transport. 1 - 3

(b) Discuss the extent to which a tax on aviation fuel might correct the misallocation of resources associated with air transport. [15]

Impact of tax perhaps with a diagram but not required; internalising the externality therefore increasing price and reducing consumption towards the optimum level. Problems; inelastic nature of demand, calculating correct tax, need for global tax to provide level playing field. Could also deal with other policies to deal with pollution such as regulation. Also could consider the other externalities and that different policies would be required to deal with each of these.

Level 4 For an evaluation of whether a tax on aviation fuel would correct the misallocation of resources associated with air transport. 9 - 15

Level 3 For an analysis of a tax on aviation fuel on resource allocation in air transport. 6 - 8

Level 2 For an application of knowledge of the effects of a tax on aviation fuel on resource allocation in air transport. 3 - 5

Level 1 For some knowledge of the issues. 1 - 2

Specification Grid

	Question 1						Question 2		Question 3		Question 4		TOTAL
	(a)	(b)(i)	(b)(ii)	(c)(i)	(c)(ii)	(d)	(a)	(b)	(a)	(b)	(a)	(b)	
AO1 Target 9			2	2			3	2	3	2	3	2	9
AO2 Target 9	2	2					3	3	3	3	3	3	10
AO3 Target 13-14			2		2	2	4	3	4	3	4	3	13
AO4 Target 13-14					2	4		7		7		7	13
													45
Subject Content Reference	5.5.1	5.5.1	5.5.1	5.5.2	5.5.2	5.5.2	5.5.3 5.5.4		5.5.2		5.5.4		

Quality of Written Communication embedded in Section B mark scheme: see general introduction to the mark scheme



RECOGNISING ACHIEVEMENT

Mark Scheme 2886
January 2005

Subject-specific Instructions

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed in the Section B essay.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only as in Section B of all A2 optional units.

- 1 (a) Explain why data for Latin America does not necessarily give an understanding of an individual economy, such as Argentina. [2]

Individual economies have unique circumstances (1), regional position may hide this or give misleading emphasis (1), example (1).

- (b) (i) Explain what is meant by an international debt crisis (line 1). [3]

Debt from interest or capital of past foreign borrowing (1), inability to repay (1), possibility of default (1) loss of future loans (1), harmful domestic effects (1), harmful international effects (1), example (1). International debt =1, crisis=2.

- (ii) Use Table 1 to show how the debt crisis in Latin America has affected its economic growth. [3]

Growth rate fell (1), recession/negative growth possible (1), years to recover (1), poorer performance than Far East (1), use of supporting data (1). Behaviour 2 max, data 1.

- (iii) With reference to the information provided, compare the extent to which the economies of Latin America and the Far East are able to manage their external debt. [6]

Latin America weaker (in crisis) (1), debt larger (1), debt ratios worse (1), particularly to exports (1), position worsening for LA (1), weaker economic growth (1), each point can score additional mark for supporting data/explanation. Three detailed points gain full marks.

May be viewed from Latin American or Far Eastern angle.

- (c) Discuss the ability of developing economies to overcome any one of the weaknesses identified by the IMF (lines 10 to 13). [6]

The problems are weak trade links, unstable macro policies and domestic financial underdevelopment.

Application: cause/significance of weakness/policy detail up to 2 marks

weak trade links: poor export performance, trade barriers – so little foreign exchange and need to borrow;

unstable macro policies: short termism, non economic influences – so little FDI and weak planning ability;

low saving rate: weak banking, low incomes – so low investment (domestic and FDI).

Discussion: criteria and evaluation of ability to solve problem up to 4 marks.

The ability to overcome these raises issues such as the availability of resources, economic competence, corruption, availability of external support, external obstacles, scale of problems, ability to break vicious circles etc.

These vary between the problems and the countries, eg weak trade links: may try to raise efficiency but lacks expertise and funds and may be long term (2), may seek removal of tariffs but opposition and lack of influence (2).

Any conclusion acceptable if supported by argument.

Application 2, discussion of ability to resolve 4.

2 (a) Explain the meaning of the statement that economic growth is a necessary but not sufficient condition for economic development. [10]

Growth involves material progress while development concerns wider quality of life issues.

Rising GDP per head (growth) may provide the resources to promote development. The rise in GDP per head raises the HDI index suggesting development. The use to which the extra resources are allocated will determine the extent of development e.g. education and healthcare raise the quality of life and HDI. Some externalities or greater/weaker inequality associated with growth may work against development. Reallocation may allow development without growth.

L3 For explanation of the different outcomes. (7-10)

L2 For understanding of the effects of growth. (4-6)

L1 For knowledge of the concepts. (1-3)

(b) Discuss whether developed economies are those which have reached the take-off stage in Rostow's model of growth. [15]

Developed economies enjoy high standards of living in material and non-material terms. Rostow's model suggested a five-stage model of growth. Developing economies were in the traditional and transitional stages, while the developed were in the drive to maturity and mass consumption stages. The take-off stage was the dividing stage. Developed status requires passing the take-off stage in which sufficient investment is generated to accelerate growth. This contradicts the assertion. Passing the take-off stage may not guarantee development. Economies may not yet have spread the growth to all sectors of the economy and it may not yet be self-sustaining. OECD countries might be considered to be in the final stage, while some transitional and Asian economies may be caught at the take-off stage. Criticisms may be made of Rostow's model as a basis for judging development. Higher level 4 answers may employ examples to support their argument.

L4 For a discussion of the different possibilities. (9-15)

L3 For an analysis of the link to development levels. (6-8)

L2 For application of Rostow's model. (3-5)

L1 For knowledge of take-off or Rostow's model. (1-2)

3 (a) Explain why countries have achieved different levels of economic development. [10]

Factors, which affect development, include the quality and quantity of factors of production, efficiency in economic management, international economic arrangements, cultural and historic influences. These vary between economies and change over time. Candidates may approach the task through individual examples and comparisons, which should be rewarded. A theoretical approach is acceptable but not necessary.

L3 For an explanation of contrasting outcomes. (7-10)

L2 For understanding of various influences. (4-6)

L1 For knowledge of the influences. (1-3)

(b) Discuss the view that economic development is impossible without a significant element of state planning. [15]

State planning involves government intervention, government bodies, the use of resources to plan and the over-ruling of the market mechanism, It is argued that this is inefficient, stifles enterprise, is subject to corruption and has failed in many countries in eastern Europe and Africa. The World Bank encourages a free market approach. Benefits include correction of market failure and the promotion of equity. Market failure may occur in developing economies because of the lack of supporting institutions, information failures, distorted prices and international disadvantages. This suggests that there is a role for government in correcting these failings. NICs gave a significant role to the state in achieving competitiveness, rapid economic growth and a fast rate of development. A strong level 4 will make clear the specifically developmental aspects.

L4 For a discussion of the impact of state planning. (9-15)

L3 For an analysis of the effects in developing economies. (6-8)

L2 For an application of knowledge to developing economies. (3-5)

L1 For knowledge of state planning. (1-2)

4 (a) Explain the economic factors which contribute to the relatively low literacy and health levels in developing economies. [10]

Lack of schools and hospitals may be the result of low school and hospital expenditure by governments resulting from inadequate tax revenue and alternative priorities. Opportunity cost is relevant here. There may be a lack of qualified teachers, nurses and doctors. Emigration of skilled professionals may be an issue. These affect supply. Low take up of education and limited access to healthcare may also contribute to the problem. These may be the result of inadequate family incomes, the need to work, cultural attitudes and problems such as transport. These affect demand.

L3 For an explanation of demand and supply factors. (7-10)

L2 For understanding of demand and/or supply factors. (4-6)

L1 For knowledge of the influences on literacy and health. (1-3)

(b) Discuss whether significant increases in expenditure on education and healthcare are necessarily beneficial to a developing economy. [15]

The population should be better educated and healthier. Benefits should include a more productive and mobile labour force, a point of attraction for FDI and more individual development. This should be reflected in a higher HDI value. Against this is the opportunity cost of 'significant increases in expenditure', qualification inflation, the inability to absorb more highly trained labour and the possibility of emigration. The outcome may depend on the form the expenditure takes. The social return on primary schooling has outweighed that on higher education. Expenditure on basic medicines and nurse training also yields high returns. This may depend on the stage of development of the particular economy. Stronger level 4 answers may consider the outcomes of different types of education and health spending.

L4 For discussion of the overall impact of increasing expenditure. (9-15)

L3 For analysis of the education and health impacts on development. (6-8)

L2 For application of knowledge to the position of developing economies. (3-5)

L1 For knowledge of the effect of education and health spending. (1-2)

Specification Grid

	Question 1					Question 2		Question 3		Question 4		TOTAL
	(a)	(b)(i)	(b)(ii)	(b)(iii)	(c)	(a)	(b)	(a)	(b)	(a)	(b)	
AO1 Target: 9	2	2				3	2	3	2	3	2	9
AO2 Target: 9			1		2	3	3	3	3	3	3	9
AO3 Target 13-14		1	2	3		4	3	4	3	4	3	13
AO4 Target: 13-14				3	4		7		7		7	14
												45
Subject content reference	5.6.2	5.6.4	5.6.4	5.6.5	5.6.4	5.6.1	5.6.3	5.6.2	5.6.5	5.6.4	5.6.5	

Quality of Written Communication embedded in Section B mark scheme: see general introduction to mark scheme.



RECOGNISING ACHIEVEMENT

Mark Scheme 2887
January 2005

Subject-specific Instructions

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed in the Section B essay.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only as in Section B of all A2 optional units.

Section A

- 1 (a) (i) Explain what is meant by the term ‘real rate of interest’ (line 11).

[2]

Real rate of interest is the nominal rate of interest after an adjustment has been made for inflation. It is actually nominal interest rate minus the rate of inflation.

- 1 mark for interest rate = price of money (or similar)
 or 1 mark for basic statement of real = inflation adjustment.
 2 marks for nominal interest rate adjusted for inflation.
 or 2 marks for nominal interest rate minus the rate of inflation.

- (ii) Refer to Table 1. Explain for both the UK and the USA whether, in May 2003, the real rate of interest was positive or negative.

[4]

Britain – real rate of interest = $3.63 - 3.0 = +0.63\%$ (or nominal interest greater than inflation).

USA – real rate of interest = $1.21 - 2.1 = -0.89\%$ (or nominal interest less than inflation).

2 marks x 2

1 for correct calculation or for statement (i.e. positive or negative) plus 1 for explanation.

- (b) With reference to Table 1, explain one effect on the UK’s economy of the difference in interest rates between the UK and the eurozone countries. [4]

Candidates can choose a range of possible effects but will probably look at the effect on the balance of payments flow of funds (financial) account. Britain has higher interest rate than Eurozone countries and you would expect funds to flow into the UK but inflation rates are different and so adjustment should be made to compare real rates (do NOT expect this from candidates but reward it if you get it). Candidates could also refer to the current account and look at the effect of different interest rates via effect on imports via increased demand. Other effects may look at differential levels of investment via cheaper borrowing leading to higher AD and falls in employment. Accept any effect on economy provided it is well explained.

1 mark for stating effect or for recognising R in UK greater than R in Eurozone.

Up to 3 marks for explanation (only one effect required).

Up to 3 marks in total if consider more than one effect but each done superficially – reward best answered effect.

- (c) Comment on the extent to which deflation in the USA “could have a potentially devastating effect” on the UK (Line 15). [4]

Deflation will have a devastating effect on the UK if caused by fall in demand in USA as this will lead to fall in demand for UK exports and worsen the balance of payments. If deflation caused by productivity rises then this will make imports cheaper and with inelastic demand for imports will improve the balance of payments BUT will make exports less competitive. Thus it depends. Might also consider effect on AD, output and employment.

Up to 2 marks for analysis to explain effects.

Up to 2 marks for an evaluative judgement.

- (d) Discuss which of the two policies presented (lines 20-21) is more likely to prevent the UK from plunging into recession. [6]**

Candidates are expected to present analysis to explain their choice of policy and give an evaluative discussion to explain why the alternative is not suitable.

Up to 2 marks for relevant analysis.

Up to 4 marks for judgement and reasons why alternatives are dismissed as being less suitable.

Up to 4 marks in total if judgement is implicit rather than explicit i.e. related to individual policies rather than comparison between the two policies.

Section B

- 2 (a) Using a diagram, explain the factors that determine the exchange rate of the pound sterling. [10]

The exchange rate (Xrate) is determined by the interaction of the supply and demand for a currency (the pound sterling). The demand for sterling is affected by the demand for UK exports (and in turn its determinants) and the demand for funds to finance capital inflows (and its determinants). The supply of sterling is affected by the demand for UK imports (and in turn its determinants) and the supply of funds to finance capital outflows (and its determinants). Speculation may also play a role.

- L3 For explanation of the determination of the value of the exchange rate. (7-10)
- L2 For understanding i.e. application of theory that is not explained – correct diagram without analysis to explain the exchange rate determination or explanation without a diagram. (4-6)
- L1 For knowledge of the determinants of the exchange rate or an unexplained list of causes. (1-3)

- (b) Discuss whether a depreciation of the pound sterling will always have a positive impact on the UK economy. [15]

The economic impact can be on a number of target variables: e.g. unemployment, inflation, balance of payments and economic growth. A depreciation will make exports relatively cheaper and imports more expensive. The effect on the B of P depends on the elasticities of demand for imports and exports (Marshall-Lerner condition). An improvement in the B of P will increase AD with effects on U and inflation. Demand led growth may occur but this will only be short term. Depreciation may increase the rate of inflation via, for example, higher raw material costs. Thus, if ML holds, there might be a positive impact on the balance of payments on current account, employment and growth (short run) but negative impacts on inflation.

- L4 Discussion of the impact on the UK's economy. 9-15
- L3 Analysis that supports the impact of depreciation. 6-8
- L2 Application of knowledge of depreciation on the performance of the economy, in context, that is not supported by analysis. 3-5
- L1 Knowledge of economic performance and/or effect of depreciation. 1-2

3 (a) Explain the main factors that affect the rate of economic growth. [10]

Candidates should explain that economic growth is a percentage rise in the OUTPUT of an economy. This may either be short term – a move onto a PPF caused by an increase in AD or long term a move of the PPF (or shift in AS). The main factors of influences on the former will be increase in C, G, I, X-M and of the latter anything that improves productivity of labour or capital. Increases in the quantity of resources will also affect a shift in PPF.

- L3 For explanation of the influences on growth which must include long-term growth (i.e. based on PPF and/or shifts in AS curves) 7-10
- L2 For understanding of the factors to economic growth or for explanation based solely on AD shift. 4-6
- L1 For knowledge of the meaning of economic growth or list of causes. 1-3

(b) Discuss the extent to which it is possible for the UK economy to maintain a high rate of economic growth over a 10 year period. [15]

Discussion applying knowledge of the determinants of economic growth to the current state of the UK economy. Candidates should examine the UK's potential to improve productivity and sustain growth over a 10-year period – i.e. in the long term. Thus for Level 4 marks the discussion must be based on shifts in PPF. Discussion will concentrate on labour productivity and improvements in education/skills whilst for capital productivity the candidates should look at interest rates and whether the conditions are appropriate to encourage investment and R/D expenditure etc. Demand lead growth will only have short term benefits and may lead to inflation and worsening of the BoP whilst long-run growth may improve standards of living but lead to depletion of scarce resources, cause pollution and excessive hours worked. Candidates may also refer to increases in resources e.g. the quantity or quality of any factor of production.

- L4 Discussion of short-term versus long-term growth. 9-15
- L3 Analysis of potential for growth. 6-8
- L2 Application of knowledge to the current state of the UK and possibilities for future. 3-5
- L1 Knowledge of conditions for growth. 1-2

4 (a) Explain how the economic performance of an economy can be compared over time. [10]

Key performance indicators (KPIs) include unemployment, inflation, balance of payments and economic growth. Candidates can use these factors to explain whether economic performance changes over time. A decline in unemployment and the rate of inflation indicates improvements in economic performance, as does an increase in (sustainable) growth or movement towards equilibrium in the balance of payments. An alternative approach may be to look at changes in economic welfare as measured by real gdp per capita or other measures such as MEW.

L3 For explanation of how economic performance can be compared over time. At least two done well. 7-10

L2 For understanding of how these KPIs explain performance or how they are measured. 4-6

L1 For knowledge of performance indicators i.e. a list 1-3

(b) Discuss whether the UK's economic performance has improved or worsened over the last 10 years. [15]

Candidates are expected to show knowledge of the UK's economic performance over the last 10 years i.e. since 1995. It is expected that candidates will refer to a decline in inflation and unemployment with recent years showing remarkable stability in these target variables. Economic growth has also been steady although recent increases in demand for housing have been causing worries. In contrast the balance of payments on current account continues in deficit. Any relevant evaluative comment backed by knowledge or reasoned argument should be rewarded.

L4 Discussion of the UK's economic performance. 9-15

L3 Analysis of the view that economic performance has either improved OR worsened (one sided approach). 6-8

L2 Application of knowledge of a range of KPIs to the UK economy. 3-5

L1 Knowledge of some of the key performance indicators expressed in general terms with errors and with poor or irrelevant application to the UK economy. 1-2



RECOGNISING ACHIEVEMENT

Mark Scheme 2888
January 2005

Subject-specific Instructions

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed throughout this paper.

A set number of marks for written communication is not a requirement. However, where levels of response mark schemes are used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication across this paper as a whole if the general standard attained falls outside the embedded criteria for the Quality of Written Communication stated above.

1 (a) Summarise the data on the European steel industry shown in Extract 1. [6]

Synoptic knowledge

This question is designed to test candidates' ability to handle economic data on market supply and the structure of international transactions. As such, it links to the following sections of the specification.

5.1.2 Competitive markets and how they work

5.3.4 Structure and essential determinants of international transactions

There are a number of points candidates can raise in their summary, including:

- *the EU is the second largest producer of steel;*
- *the EU and CEE account for over a fifth of the world production;*
- *EU imports of steel have risen by 15.5 % between 1999 and 2002;*
- *EU imports of steel rose by 25.5% 1999 to 2001, falling by 8% 2001 to 2002;*
- *EU exports of steel rose by 15.5% between 1999 – 2002;*
- *EU exports declined in only one year, 2000 –2001;*
- *EU exported more steel than it imported in three of the four years 1999-2002;*
- *EU imported more steel than it exported in only one year, 2001;*
- *the balance of trade in steel was in greatest surplus in 2002;*
- *EU steel output rose over the whole period by 3%*
- *EU steel output fell in 2000 – 2001 by 2.2%*

1 mark for each of the points above, up to a maximum of 6 marks.
Accept summaries such as fluctuated (exports, EU market supply).

NB: Year by year description = 0 marks

Overall change = 1 mark

Data manipulation = 1 mark

(b) Using Extract 2, analyse the microeconomic and macroeconomic determinants of the demand for steel in the European Union (EU). [9]

Synoptic knowledge

This question is designed to test candidates' ability to analyse the determinants of demand in product markets. In particular the derived nature of the demand for steel should be recognised. The importance of the macroeconomy needs to be recognised and analysed in terms of the impact of changes in AD on the market for steel and the determinants of international transactions. In this way the question allows candidates to make use of the following synoptic knowledge:

Section 5.1.2 Competitive markets and how they work

Section 5.2.3 Aggregate demand and supply: the determinants of output, employment and prices

Section 5.2.1 Structure and essential determinants of international transactions

Candidates should recognise, apply and analyse the determinants of demand to the demand for steel, the key discriminator being the extent to which candidates use economic concepts in their analysis.

L3 For an analysis of microeconomic and macroeconomic determinants of the demand for steel in the EU. **[7-9]**

L2 For an application of knowledge of microeconomic and macroeconomic determinants of the demand for steel in the EU. **[4-6]**

L1 For an identification of the microeconomic and macroeconomic determinants of the demand for steel in the EU. **[1-3]**

Micro or macro only = bottom of each level.

Question refers to demand for steel **in** the EU, therefore ER factors only relevant in terms of demand for **imported** steel, eg determinants of demand for European steel exports **not** relevant to this question.

- 2 Comment on the extent to which tariffs imposed by the United States (US) on its steel imports may impact upon the international competitiveness of the European steel industry. [10]**

Synoptic knowledge

Clearly rooted in knowledge and understanding of the impacts of tariffs, this question calls for an evaluation of the extent to which tariffs can erode competitiveness in international markets. The question, therefore, develops the diagrammatic introduction to the impact of tariffs at AS in the context of a market, firm behaviour within a market (mergers) and other factors determining competitiveness introduced at AS and developed at A2 (exchange rates, labour productivity etc).

Synoptic knowledge can be drawn from:

Section 5.1.2 Competitive markets and how they work

Section 5.1.3 Firms and how they operate

Section 5.2.1 Economic efficiency within competitive markets

Section 5.3.3 Application of macroeconomic policy instruments

Section 5.2.4 Structure and essential determinants of international transactions

Section 5.4.2 and 5.5.2 Market Structures

L4 For a commentary on the extent to which tariffs may impact on international competitiveness. **[8-10]**

L3 For an analysis of how tariffs may impact on international competitiveness. **[5-7]**

L2 For application of knowledge of the impact of tariffs on international competitiveness. **[3-4]**

L1 For an identification of the impact of tariffs on international competitiveness. **[1-2]**

Commentary **must** be focused on the international competitiveness aspect rather than general issues related to tariffs (eg retaliation).

Issues related to non-price competitiveness should be rewarded with a Level 4 mark.

- 3 Comment upon the implications for the Central and Eastern European (CEE) steel industry, and for society as a whole, of the measures taken to prepare the industry for transition to free market competition. [15]**

Synoptic knowledge

The question is rooted in the specification for unit 2888, in its focus on the problems and prospects of integration of transition economies with the EU. The question directs candidates' attention to the problems of integration for a particular industry, which is of major importance within many transition economies. It clearly draws on candidates' knowledge and understanding of: costs (both short and long run); productive efficiency; the role of subsidies; supply side policies and productivity. Candidates are expected to analyse the measures in the context of a single market for steel within the enlarged EU and make explicit commentary on the measures in terms of employment /unemployment, social costs market structure etc.

The synoptic knowledge which candidates could employ in their responses could be drawn from:

Section 5.1.2 Competitive markets and how they work

Section 5.1.3 Firms and how they operate

Section 5.2.1 Economic efficiency within competitive markets

Section 5.2.3 Making choices and the impact of government intervention on market outcomes and economic efficiency

Section 5.4.2 and 5.5.2 Market Structures

Section 5.8.1 The 'New Europe'

Section 5.8.2 The Single European Market

Section 5.8.3 The Transition economies of Europe

L4 For a commentary on the implications of the measures. **[10-15]**

L3 For an analysis of the implications of the measures. **[5-9]**

L2 For an application of knowledge of the implications of the measures. **[3-4]**

L1 For an identification of the implication(s) of the measures. **[1-2]**

No mention of EU markets, then bottom of each level only.

- 4 Discuss the case for intervention by the European Commission in the European steel market. [20]

Synoptic Knowledge

This question requires candidates to take a critical view of government intervention in markets, such as that for steel. A balanced answer would examine the situations in which government intervention can be justified and can be expected to raise economic efficiency and those situations, which either the case for intervention is suspect or where government failure would result in a reduction in economic efficiency. The stimulus material contains a number of such cases: negative externalities; market power; anti-competitive behaviour; state-aid and subsidy.

The question most obviously links to unit 2882 and the following sections of this unit:

Section 5.2.1 Economic efficiency within competitive markets

Section 5.2.2 Why markets may not work efficiently

Section 5.2.3 Making choices and the impact of government intervention on market outcomes and economic efficiency

- L4 For a discussion of the case for government intervention in markets. [12-20]
- L3 For an analysis of the case for government intervention in markets. [5-11]
- L2 For an application of the case for government intervention in markets. [3-4]
- L1 For an identification of the reason(s) for government intervention in markets. [1-2]

Maximum mark = mid mark of each level where only **one** case for intervention is considered.

Specification Grid

	Question 1		Question 2	Question 3	Question 4	Total
	(a)	(b)				
AO1	3	3	2	2	2	12
AO2	3	3	2	2	2	12
AO3		3	3	5	7	18
AO4			3	6	9	18
TOTAL	6	9	10	15	20	60



RECOGNISING ACHIEVEMENT

REPORT ON THE UNITS
January 2005

Chief Examiner's Report

General Comments

The following general comments can be made with respect to candidate performance this session.

- (i) The overall performance of candidates in the three AS examinations was broadly in line with that of January 2004. The outcome for most re-sit candidates, as might be expected, was normally above their performance in earlier sittings. Although there were fewer weak scripts on 2881 and 2883, Principal Examiners wish to advise teachers to
 - remind candidates to read the questions carefully
 - advise candidates to think about the precise form of the wording they use in answers to questions where a definition is required. This particularly applies to 2883.
- (ii) At A2, the number of candidates entered for 2887, The UK Economy, was up by around 25% on January 2004. There was an improvement in the general quality of scripts, with more candidates writing answers that were appropriate for the level, particularly from an analytical standpoint.
- (iii) On the other hand, A2 Principal Examiners remain concerned about the inability of some candidates to write well structured essays in their responses to Section B questions. More specifically, as the following reports indicate, some candidates' answers lacked focus with respect to the point of the question. The final part of the data response questions caused problems for some candidates who wrote answers that were over-long and lacked application.
- (iv) Although variable in quality, within and between Centres, performance on 2888 remains positive, with clear evidence that many candidates had been well prepared for this unit. At the other extreme, there appeared to be a lack of commitment from some weaker candidates. It was also noticeable that many better candidates lacked confidence in summarising and handling data. Too many answers consisted of no more than data regurgitation and, therefore, gained no or few marks on part (a) of the first question.

2881: The Market System

General Comments

This was the fourth sitting of this unit as a one hour examination with a structured answer booklet. It was sat by around 4900 candidates, a 10% increase on January 2004.

Overall, this was a relatively straight forward question paper that posed few problems for the many candidates who had acquired the basic knowledge of the subject content of this introductory unit. In particular, parts (a) – (c), (d) (i) and (e) (i) should have allowed candidates to pick up marks quickly. This was the case for many candidates whose final mark was approximately in the range of 25 – 33 marks out of the 45 that were available. The remaining parts were much more challenging, although all were topics that had been asked on earlier AS question papers.

The context of the examination originated from an article which was in the business section of the Daily Telegraph. The data on the cost structure of operating a low cost airline came from an unpublished case study on a low cost US airline.

The use of the answer booklet again worked well. In retrospect, a little more space could have been allocated for responses to (d) (iii). There were no apparent problems of timing, except for a small number of candidates who wrote a relatively short answer to (e) (ii). In the case of weaker candidates, this was probably due to a lack of understanding rather than a lack of time.

As reported in June 2004, it is very clear that the majority of candidates are now better prepared for this examination. This is pleasing.

As in all previous examinations, the marks awarded on (e) (ii), and to a lesser extent (d) (ii) and (d) (iii), provided the principal basis for discriminating between candidates. A good grade can normally be assured for candidates whose answer reaches Level 4 on (e) (ii), through incorporating a discussion; in this case of the extent to which flybe should have been concerned about the rise in pay for its pilots. Various approaches were possible and in many cases, answers contained mature economic analysis to underpin the discussion.

A small minority of candidates struggled to gain marks on parts (a) – (c). In most cases, this was due to their inability to draw relevant and in some cases, accurate diagrams. In other instances, it was purely a consequence of a lack of knowledge.

The quality of written communication was in general what is to be expected at this level. For some candidates, often where their first language appeared not to be English, the quality of their answers was sometimes let down by an inability to express the concepts involved in an accurate written manner. Particularly in this first unit, some precision is needed in answering questions where definition of terms or an elaboration of a concept is required in the answer.

Comments on Individual Questions

- (a) On the surface, this should have been an easy opening question on what is normally 'Week 1, lesson 1' material. The skill required was to identify the factors of production which were contained in the second and third paragraphs of the introductory case material. Labour and enterprise (or entrepreneurship) were the most common responses; in most cases a relevant example followed. Where candidates gave capital as their answer, in some cases the example was money or financial capital rather than capital goods. Land was not accepted as a correct answer as there was no reference to it as a factor of production in the extract. Around one in four candidates did not know what was meant by a factor of production.
- (b) There were some good answers to this question. These contained a correctly labelled diagram (domestic flights and international flights on the axes) and some reference to how the PPC could be used to show the choices that were available to flybe. For full marks, some explicit or implicit explanation of opportunity cost in context was required. A minority of candidates drew diagrams with wrongly labelled axes (e.g. price/quantity, cost/demand, capital goods/consumer goods) or diagrams that were incomplete in so far as they did not include at least one point on the PPC. A straight line or convex curved PPC was equally acceptable.
- (c) (i) Most candidates gained full marks here for the most basic of knowledge of the market. Those not gaining four marks either labelled the axes incorrectly or got the supply and demand curves going the wrong way round. The examiners took a lenient view on cases where the vertical axis was labelled 'price' rather than 'wages' or 'pay'. A good number of candidates reproduced the same diagram as was required for (c) (ii). These cases usually gained full marks.
- (ii) Another well answered question, with many candidates gaining four marks. Those not gaining full marks made fundamental errors either in their diagrams (e.g. showing an unexplained shift of S) or not identifying the correct new equilibrium position. On occasions, candidates who drew a diagram incorporating a shift of D to the right failed to give an explanation of how the increase in demand for pilots had led to this shift. A small number of candidates failed to say that pilots' pay had increased. Answers which referred to the short and long term effects of a shift in S were also accepted as a correct interpretation of the question.
- (d) (i) An old chestnut, with a very high percentage of candidates gaining full marks for an accurate answer in either words or by using a formula. A less than accurate definition gained one mark. A small number of candidates got the relationship the wrong round and, therefore, scored zero.
- (ii) This question was not well answered. A common error was to write about the determinants of demand rather than the determinants of the price elasticity of demand. In a good number of cases, candidates were able to identify a correct factor but were then unable to relate this adequately to price elasticity of demand. Such answers tended to get one out of two marks on each part. At the other extreme, there were some very clearly explained answers within context. A small number of candidates did not attempt this question.

- (iii) Answers to this question were of mixed quality. As a starting point, most candidates were able to identify the price elasticity of demand estimates correctly as elastic and inelastic. The contrast in terms of demand due to a price change was usually, but not always, fully understood. Consequently, many candidates gained two or three marks on this first stage. As in previous examinations, the relationship between a change in price and the resulting change in revenue was not always made, let alone correctly understood for the two situations. Some candidates confused revenue with profit; others did not go beyond what was required at the first stage. Better answers suggested how flybe could reduce its prices on the price elastic route and increase prices on the inelastic Milan route. For full marks, the answer needed to go beyond this to make some comment on the usefulness or otherwise of data of this nature. Some weaker candidates confused elastic and inelastic. Three or four marks out of six was typical. This type of question has been set on a good number of past examination papers. Teachers are urged to remind candidates of the business significance of all elasticity of demand estimates.
- (e) (i) This question was generally well answered, with candidates correctly identifying an example from the information provided. Fuel was understandably the most quoted example of a variable cost. Insurance and aircraft purchase/leasing cost were the most common examples provided for fixed costs. Where pay was given as the example, provided the answer contained an adequate explanation, then this was accepted as either a variable or fixed cost.
- (ii) There were some very good Level 4 answers which included wide ranging discussion of the data and in some cases, information provided in the preamble. The published mark scheme contains an elaboration of possible examples and the levels of response.

As a starting point, it was necessary to recognise pay as the largest cost item. (Note the data refers to pay and not pilot's pay.) From here, many candidates looked at how savings could be made with respect to other cost items as there seemed little opportunity for flybe other than to accept the increase in pilot's pay. Where these alternatives were analysed without discussion, the answer gained marks in the Level 3 band.

The best Level 4 answers considered the fact that flybe was operating in an oligopolistic market and that all similar airlines would have to pay the increase in pay to pilots. There was also some good discussion of flybe's costs relative to that of competitors and the implications for flybe having less profits to re-invest in the business. Discussion of how the benefits from economies of scale could be realised was also incorporated in some answers, as was a development of the elasticity issues first raised in (d) (iii).

Not all candidates understood the question. For example, some candidates included seemingly rote learned material on alternative business objectives, monopoly versus oligopoly and marketing.

To end on a light-hearted note, one candidate suggested that pilots could be replaced by an autopilot, whilst another suggested that flybe could cut back on the number of pilots employed by having just one on each flight and that if required, one of the cabin crew could always double-up in case of an emergency!

2882: Market Failure and Government Intervention

General Comments

The overall performance of candidates was very pleasing with few scripts failing to reach double figures. For the first time, the examination paper required knowledge of competition policy and it was pleasing to see that many candidates were well prepared for this aspect. In addition, the vast majority of scripts contained very sound knowledge of basic economic principles, with candidates well versed in a wide range of economic terms.

Furthermore, it is evident that candidates are being well prepared to look out for key words in questions with many writing excellent evaluation on questions c (i) and d (ii). Centres are to be congratulated for this and are well advised to continue with this approach in the future: for example, recognition of what the word 'discuss' means can make a very significant difference to a candidate's grade.

Comments on Individual Questions

- (a) (i) The vast majority of candidates received at least one mark for this question. Unfortunately, some confused costs with benefits so received no marks, but most were able to explain the idea of a third party effect, although fewer accurately elaborated upon this for a second mark. Candidates would be well advised to concentrate upon learning clear definitions as these marks can be picked up very quickly, especially where they are working against the clock. The quickest route to gaining both marks here was to state that an external benefit arises where social benefits exceed private benefits.
- (a) (ii) Whilst a large majority of responses gained two marks, a sizeable minority of candidates made the mistake of explaining a private benefit such as the possibility of being able to swim in clean water. Such responses were clearly unable to receive any marks. At the same time, many very good answers failed to gain the third mark as they did not introduce any economics, for example stating that the benefit of increased tourism was a third party benefit or that it would lead to social benefits exceeding private benefits.
- (b) (i) The vast majority of responses were awarded two marks with candidates clearly knowing the twin characteristics of public goods. A few responses simply explained the characteristics, but where this was done accurately both marks were still given.
- (b) (ii) The responses to this question were most pleasing with a very large number of answers receiving full marks for excellent responses. That said, whilst many answers were able to identify beaches as being quasi-public goods, one common mistake was to incorrectly apply non rivalry with a significant number of candidates discussing rivalry or competition between different beaches themselves rather than consumers competing for the use of the beach. In addition, several candidates clearly confused rivalry and excludability in their answers. Nevertheless, there were some excellent, textbook answers given to this question.

- (c) (i) Whilst regulation has been a popular question on previous 2882 papers, once again it proved to be badly answered with very few candidates failing to gain full marks. It is worthwhile stressing that when the question asks for a comment as to the effectiveness of a particular policy, candidates should look at both sides of the issue. Therefore, whilst some responses looked at how fines could work and would be effective, others simply looked at why they were ineffective. Either response could only gain a maximum of two marks.

A further common mistake was to write about taxes. The distinction between regulations backed up by fines and taxation as different solutions to negative externalities is very important for candidates to understand and it would be worthwhile Centres reinforcing this distinction.

- (c) (ii) A large majority of responses gained the maximum six marks for an accurate diagram showing how taxes would affect the market. Fewer went on to gain four marks for the explanation, with many answers describing the new equilibrium rather than explaining how the tax would change it. For example, a response which simply stated that 'price will be P_2 ' would gain no credit, whereas one which stated that 'the tax will lead to a higher price at P_2 ' would gain a mark.

A very important piece of advice for candidates sitting the examination paper in the future is where an explanation is required then this must be provided rather than a simple description of equilibrium before and after changes.

- (c) (iii) Whilst there were some excellent answers to this question from good candidates, it was surprising that many failed to correctly identify the problems of introducing taxes to solve negative externalities. The question clearly asked for two arguments and it was, therefore, disappointing that some answers only identified one.

- (d) (i) On the whole, this question was well answered; although a significant minority of candidates had no knowledge whatsoever of competition policy. Better answers explained what the legislative framework for competition policy is and then went on to look at what action the government could take for example through removing barriers to entry, fining firms, or by forcing firms to sell off some of their assets.

- (d) (ii) This was the first time that a question had asked candidates to discuss whether or not competition raises the levels of efficiency in markets. Two common problems were noticeable from candidate performance. First of all, a large number of candidates still failed to recognise the importance attached to the word 'discuss' in flagging up the importance of evaluation. Where candidates simply provided economic analysis of why greater competition raises economic efficiency, they could only gain a maximum of six marks, no matter how good their economic efficiency analysis was. Thus, many candidates introduced a ceiling on their mark for this question, despite often writing excellent analysis.

The second problem which emerged was that many candidates saw this as an opportunity to describe how efficient are different market structures. Therefore, by describing monopoly as being inefficient and how increased competition would lead to greater efficiency in perfect competition, they once again limited themselves to a maximum of six marks.

These two points aside, there were some outstanding answers to this question, which

discriminated well between candidates. Some candidates wrote in length about how the dynamic efficiency gains to monopolists would benefit from greater investment in R & D. More popular, but equally valid, was the approach of many candidates who said that monopolies would enjoy greater productive efficiency due to economies of scale. A few candidates went further and looked at the possibility of a free market equilibrium being allocatively inefficient due to the existence of negative externalities and demerit goods. Such answers were clearly awarded Level 4 marks.

Overall, candidates would be wise to heed three key pieces of advice in preparing for future 2882 examination papers.

1. Learn definitions of key terms thoroughly.
2. Continue to look closely at the wording of the question. The command words *discuss*, *comment upon* or *to what extent* require candidates to look at both sides of the issue and to introduce clear evaluation.
3. Where asked to explain changes from a diagram, be careful to explain the changes rather than simply describing the new equilibrium.

2883 - The national and International Economy

General Comments

The paper elicited a range of responses. As in previous sessions, there were some excellent scripts produced. These displayed a thorough knowledge of macroeconomics, strong application of relevant economic concepts and a well developed ability to analyse and evaluate economic issues.

There were few very weak scripts but a number of candidates gained low marks due to a combination of reasons. These were:

- not following instructions
- use of micro, as opposed to macro, analysis
- imprecise definitions
- poor data handling
- confusion over the meaning of economic terms, in particular a current account deficit and supply-side policies.

Even some of the better performing candidates seemed to 'throw away' marks through a rather careless approach to the earlier questions.

Comments on individual questions

(a) (i) A high number of candidates were able to define aggregate demand in terms of its components. There were, however, some rather vague definitions with some candidates, in effect, defining total domestic expenditure.

(a) (ii) The main problem with answers to this question was some candidates' confusion over economically active and economically inactive people. A disappointingly high number of candidates seem to think that the unemployed are economically inactive and a number defined unemployment in a way that would include the retired, disabled and homemakers.

(b) (i) There was a pleasingly high number of correct answers to this question, given that this is an area that had not been previously tested. A few candidates, however, came up with some surprising answers, most commonly the Retail Prices Index and the Human Development Index.

(b) (ii) The vast majority of candidates were able to identify two ways. Unfortunately a few candidates ignored the reference in the question to 'from the passage' and as a result failed to pick up any marks.

(b) (iii) Again, some candidates did not appear to pay sufficient attention to the wording of the question. Some ignored the instruction to make reference to Table 1 and discussed, in general terms, the factors influencing economic growth. Others did not pay attention to the words 'to what extent' and took a very pedestrian approach. They stated what the growth rates were before the policy changes and what they were afterwards, without any interpretation, analysis or evaluation. Yet others misinterpreted the figures and wrote, for example, that with the policy changes, Japan experienced an increase in GDP.

(c) (i) This was a generally well answered question with many candidates gaining full marks. The main reason why candidates dropped marks was a failure to go beyond identifying costs into explanation.

(c) (ii) This question discriminated well. As in previous sessions some candidates drew micro diagrams. Others made mistakes in labelling and some drew the AD curve shifting to the left. In their written explanation some candidates provided micro explanations. Others revealed a confusion between investment and saving. A number of candidates were able to discuss what would be likely to happen to consumption and investment but did not go beyond that to explain the effects of higher AD on the macroeconomy in terms of real GDP, inflation, employment and balance of payments. There were also some very strong answers with clear and accurate diagrams and lucid explanations.

The most common diagram drawn was, as expected, an AD and AS diagram. A few candidates drew circular flow and liquidity preference diagrams and these were marked on their merit.

(d) This question also discriminated well. There were some lucid answers with good analysis, developing each measure in a logical manner. These identified a relevant policy measure and explained well how the measure would be expected to raise export revenue and/or reduce import expenditure. Others, however, confused a current account deficit with a budget deficit. Some candidates failed to identify a policy measure and discussed in general terms the benefits of, for example, lower inflation on the current account. A small number even confused imports and exports.

(e) A pleasing number of candidates answered this question very well. They defined supply-side policies, explained the way in which a number of supply-side policies may reduce unemployment and assessed, in some depth, factors influencing their success or otherwise.

Some candidates analysed well but did not go on to evaluate. Others produced vague answers, failing to explain any specific supply-side policies or discussed the effects of supply-side policies on inflation without any reference to unemployment. A few confused supply-side policies with demand-side policies; in particular, for some reason, interest rate changes.

Recommendations

The main recommendations arising from this examination for future candidates are:

- learn key definitions well
- read and follow the directive words carefully
- use macroeconomic and not microeconomic analysis
- do not just describe numerical data – interpret it, e.g. look for trends, make comparisons and be very careful to distinguish between yearly changes which show an increase, albeit at a declining rate, and a change which shows a decrease.

2884 Economics of Work and Leisure

General Comments

The entry was increased from previous sessions, and the general standard of scripts was very encouraging. The overall quality of written communication was sound, much as in the recent past - though "of" instead of "have" and a variety of spellings of "accommodation" were common! There was no evidence that the examination paper could not be tackled in the time available; although there were a few candidates who ignored the rubric and gave answers to all three essay questions in Section B. The following statements extracted from Assistant Examiners' reports give an accurate indication of the overall performance of candidates: "a significant number of competent, well-prepared candidates"; "the overall impression was of hard work and good teaching"; "I was impressed with the standard of preparation for the essay section"; "fewer candidates than usual who were unfamiliar with economic theory".

The data for Question 1 was a mixture of numerical information (on overseas tourism) and a prose extract, which clearly did not cause problems of comprehension for candidates. Four of the five part-questions required fairly extensive answers, and virtually all candidates realised this. The question discriminated quite effectively, and there were some answers of high quality, which demonstrated both excellent data analysis skills and impressive ability to use economic understanding and to apply it effectively in a particular context (tourism and the package holiday market). Among scripts of lesser quality, the main weakness was a failure to respond appropriately to the variety of command words used - "compare", "account for", "comment on", "identify" and "discuss".

The three essay questions all attracted quite large numbers of answers, Question 2 being the most popular and Question 3 the least. The part (b) questions were challenging, in that they all required candidates to apply their understanding of the specification's subject matter to slightly unusual economic issues, after a relatively straightforward and related part (a). It was the quality of answers to these questions by the majority of candidates which particularly encouraged the Examiners.

Comments on Individual Questions

- 1) (a) It is important, when a question requires a candidate to make a comparison, that this is done explicitly. Thus the best answers identified that, in both 1998 and 2000, the UK showed a deficit on tourism in its balance of payments, whereas in France, tourism contributed as a surplus. Many answers did this, and also made reference to the growth in the surplus in France, contrasting with the greater deficit in UK, in 2000 compared with 1998. There were, though, many weaker answers which tended to compare only receipts between the two countries, or the number of tourist arrivals, with no reference to the balance between inflows and outflows.
- (b) The main problem was the failure of many candidates to correctly interpret the requirement to 'account for'. Most answers correctly identified that Italy had had an increase in tourist arrivals in 2000 compared with 1998, but a fall in receipts, and the UK quite the reverse. However, some went no further than this. What was required was to go on to suggest possible reasons - and many candidates did, explaining different average spending per tourist patterns via price changes, or changes in exchange rates, most frequently.

- (c) Almost all candidates correctly identified, from the text, the responses typically made by firms within the industry, and most attempted to explain how these addressed a fall in demand. However, there was a much wider variation in efforts to comment on effectiveness. Some candidates simply failed to do so, whereas others were inclined merely to repeat their explanation of how a response might be expected to work. The best answers though, showed an impressive grasp of the problem, and an ability to assess the likelihood that responses were, in effect, merely making the best of a bad job.
- (d) Almost all candidates were able to identify correctly two characteristics of oligopoly in (i), and there were some excellent answers to (ii), even though there was also considerable variation in quality. The best showed a most encouraging grasp of the UK package holiday industry, and gave a considered, two-sided discussion of the possible consequences of a reduction in competition within it. There were two fairly common weaknesses, though: (i) some showed a good theoretical understanding, but failed to apply it at all to the industry; (ii) others only looked at likely disadvantages for consumers, without even considering the possibility of countervailing benefits.
- 2) (a) Most answers recognised the need to explain the backward-bending supply curve of an employee, showing hours of work offered at different hourly wage-rates. The weakest answers tended merely to describe such a curve, without any attempt to give reasons for it. Better were those which recognised the difference between substitution and income effects - whether named or not (they usually were, though not always correctly). The best, though, went further, explaining that each employee with an ability to vary the number of hours worked had a set of preferences as between income and leisure, and that the different sizes of the two effects depended on these preferences.
- (b) This part elicited a wide range of answers, as was expected. Inevitably some candidates tended just to describe a few possible reasons, impressionistically, but there were many which were much more analytical than this, pleasingly. The better answers tended to refer back to the concepts they had used in (a), and to relate them to the issue of non-taking-up of full holiday entitlement, go on to consider further possible reasons, and then attempt some form of evaluation. This sometimes took the form of assessing the relative importance of different reasons, and sometimes of questioning how significant was the phenomenon at all.
- 3) (a) Almost all candidates were able to explain the basic operation of the minimum wage, and most to draw sensible conclusions about its simple impact on income inequality. Some went no further than this, but the better ones also considered either the possibility of reduced employment, or wage increases at higher levels on comparability grounds, or the UK's actual experience in recent years, and its income distribution consequences.
- (b) Examiners were impressed by the general quality of answers to this part of the question, given that most candidates clearly had to answer from first principles. Particularly pleasing was the structure of the responses of most

candidates; they outlined what they saw as the nature of the suggested policy, explained its potential benefits and disadvantages for the operation of the UK labour market, and concluded with an attempt to weigh the two sides. Most candidates tended to concentrate on explaining the likely problems which were expected to result from the policy, which was understandable, and only a few gave any consideration to possible consequences if the policy were to result in major increases in wages at the lower end - but these are minor quibbles. In general, answers demonstrated an ability to apply economic analysis in a relatively unusual context which, in the opinion of the Examiners, reflects very well on the quality of the teaching for this unit.

- 4) (a) The quality of answers to this question was rather more variable than for the other two essay questions. Quite a few answers failed to make clear that the concept of elasticity of supply was understood, which was disappointing; it is surely a fundamental point of examination technique that technical economic terms should be clarified before they are used. A more common error, though, was to explain determinants of the size of the supply of labour to an occupation, rather than of its elasticity. A few answers, too, failed to address the short-run/long-run issue, even though it was explicitly mentioned in the question. Of course, there were also answers which had none of these weaknesses, and which addressed the question fully, with a range of relevant factors both identified and accurately explained.
- (b) Equally, this part of the question also generated some answers of high quality, usually of the form: what the investment involves; what the improved efficiency involves; to what extent does the investment generate the improved efficiency? alternative methods available; evaluative conclusion. However, there were quite a number of answers which had serious weaknesses. The worst seemed merely to latch on to the word 'efficiency,' and to take the opportunity to explain the nature of productive and allocative efficiency in a perfectly competitive product market! More common, though, was, in effect, to ignore the issue of efficiency-improvement altogether, and to concentrate just on explaining the effects of increased investment in human capital. It was also quite common for 'efficiency' to be interpreted as 'productivity,' and hence answers to relate to investment in physical capital.

2885: Transport Economics

General Comments

The question paper was appropriate to the candidates for whom it was intended and was of a similar standard to previous 2885 papers. Overall the standard of the performance of the candidates was good with the mean raw mark similar to previous examinations. Scores on Section A were good although the main failing of candidates was their inability to apply economic concepts such as contestability and efficiency to the logistics market.

Most candidates had been adequately prepared for the examination although, as in previous sessions, there was disparity in such preparation between Centres.

There were more examples of rubric error (mainly answering all of Section B), although the vast majority of candidates divided their time usefully. Unfortunately, very few candidates opted for Question 3 in Section B although those that did scored well. The majority of candidates (approximately 75%) answered Question 2 in Section B.

Again it is pleasing to note that a good number of candidates used appropriate diagrams to support their understanding of theory, although candidates should be reminded that diagrams should only be used if they add to the written answer, are incorporated in the text, and if the candidates are sure of their accuracy.

One common problem was that candidates did not focus on the command word in the question. Explain was frequently interpreted as discuss, particularly in Question 2) (a).

Comments on Individual Questions

- 1) Generally well answered, but there were a number of candidates who did not understand what 'haulage' meant and referred to 'output' or 'goods produced' throughout the answer. Candidates must remember to apply their knowledge to transport contexts, and in particular, when specifically requested to do so, e.g. in sub-section (d).
 - (a) The vast majority of candidates were able to state two ways in which the provision of freight transport by road in the UK had changed, although many wrote at length when simple statements were sufficient.
 - (b) (i) Most candidates made the link between GDP, increasing economic output and the need to transport more goods and services to the market. Some candidates explicitly referred to derived demand, but many obtained both marks by clearly showing that they understood the concept in context.

- (b) (ii) This question discriminated well. Most candidates were able to offer some explanation of why manufacturers and retailers contract out their logistic services in terms of lower prices, capacity utilisation, specialisation, and efficiency. Better answers developed points, for example in terms of economies of scale. A number of candidates misunderstood the question and wrote about why Exel might be chosen rather than one of the other companies. Such answers were given a maximum of two marks.
 - (c) (i) The vast majority of candidates were able to give two characteristics of oligopoly. The weaker candidates tended to be vague, making general comments such as abnormal profits.
 - (c) (ii) There was a clear differentiation between Centres on this question. Often candidates were unsure of the term 'contestable markets', with frequent confusion between 'contestable' with 'competitive'. Again, some failed to give credit to the command words, and did not discuss the logistics services market adequately. However, there were some excellent responses commenting on both points of view. It could be regarded as not very contestable if one considered the need to purchase lorries, drivers and appropriately sized warehouses; on the other hand, it could be regarded as contestable as such resources could be hired rather than bought and there were a number of small niche firms in the market which were able to compete on the basis of their specialist expertise. Relevant concepts such as sunk costs and the threat of competition were much in evidence.
 - (d) This proved to be a rather difficult question for some candidates to answer. There were a number of rather vague and general answers which did not focus on the concept of efficiency and/or understand the idea of market dominance. However, the question discriminated well. Most candidates were able to explain at least one aspect of efficiency and better answers were able to discuss possible links between market dominance and efficiency. A significant number of candidates moved beyond productive and allocative efficiency to develop the concept of dynamic efficiency. A substantial majority of candidates lost at least two marks because they did not put their answer in the context of the logistics services market.
- 2) (a) The vast majority of candidates attempted to distinguish between the private and external costs. Although this distinction was not always accurate, most candidates were able to explain the costs associated with road traffic congestion and consequently achieved Level 2. The main failing was the candidates' inability to show how these costs might be estimated, for example by using a simple numerical example of increased costs, explaining how shadow prices or the 'willingness to pay approach' might be used. Whenever this was attempted a Level 3 mark was given. Many stated at length that such costs were difficult to calculate, but this was not required. Candidates should also be reminded that the costs associated with pollution from traffic are not caused by, but exacerbated by, congestion.

- (b) A lot of good answers here with appropriate diagrams showing the level of charge required and incorporating such concepts as PED, XED, alternatives and equity into their discussion. The main weakness was that candidates tended to focus on London as an example of congestion charging when the question was directed to the effectiveness of a national system of road user charge. Many candidates often wrote an essay about the advantages and disadvantages of road user charging, rather than its effectiveness. Therefore, comments were frequently made on the unfairness of it on low-income groups as a disadvantage, not a comment on its effectiveness. On the other hand, if it was expressed, 'that it was more effective amongst lower income groups because,' it would have been an appropriate response.

Candidates would also be better advised to initially explain how road user charging works, and then discuss its effectiveness. This will then underpin relevant evaluative comment with appropriate analysis and gain a Level 4 response.

- 3) (a) The handful of candidates who attempted this question understood or were able to explain the link between the component parts of the UK railway industry.
- (b) Candidates must have considered this a difficult question as so few answered it. Some answers lacked theoretical underpinning with vague application about punctuality, number of passengers and the price of tickets. However, stronger candidates recognised that there were a number of different ways in which the efficiency of the UK railway industry could be measured and many of them demonstrated a good knowledge of recent developments on the railways.

All Examiners were surprised so few candidates attempted this question.

- 4) (a) Most candidates were able to explain the concept of external costs, but the main failing was that there was insufficient application to air transport, other than pollution from aviation fuel. Opportunities to explain effects of noise pollution or congestion on third parties living near airports were only taken by a minority of candidates. However, most were able to achieve Level 3 by explaining how such external costs resulted in overprovision of air transport, normally with the use of an accurate diagram.
- (b) This question discriminated well. Most candidates were able to analyse the impact of a tax on aviation fuel on the air passenger (and freight) industry. Some excellent diagrams were produced and the vast majority could show the impact of the tax and surmised with logical reasoning that PED was inelastic. Evaluative discussion considered the effect on the UK's international competitiveness if the UK alone introduced the aviation fuel tax and/or analysed the differing impact on sub-markets within the aviation industry, e.g. short haul, long haul. The best answers commented that such a policy could only effectively correct misallocation of resources caused by air pollution, and other policies would be needed to deal with externalities associated with noise, etc.

2886: Economics of Development

General Comments

Candidates allocated their time effectively and wrote, for the most part, at an appropriate length. Infringements of rubric were minimal. Very weak answers have become extremely rare, reflecting properly prepared candidates.

While some candidates are able to produce well structured, relevant and concise answers, others need to give more thought to organisation and presentation of their responses. Areas to be considered include:

- the need to set ideas in the development context, e.g. in discussing the state versus market approach, Cuba is more relevant than the former USSR
- the avoidance of the tendency to assert (sometimes dubious) points without supporting explanation or assumptions, e.g. the linking of economic growth to a stronger balance of payments
- the unnecessary excess of detail when a single point is being made, e.g. the use of Lorenz curves and Gini coefficients whenever inequality is mentioned
- the importance of care in interpreting data and text, e.g. the confusion of the level of GDP with its rate of change
- the need for precision, e.g. writing about improvement or worsening rather than change and deficit rather than negative value
- the correct use of models, e.g. Rostow and Harrod-Domar models are often offered as policies to boost development rather than for their correct purpose
- the reliance on using data from one part of the examination to inspire answers to other parts, e.g. using the debt crisis to explain whatever problems of developing economies were being considered.

Possibly the most worrying aspect of some answers is that they describe the correct data or concepts but fail to make explicit their significance or relevance. This suggests that the consideration of the purpose of the question needs to be more thorough. While the quality of written communication is generally satisfactory and appropriate terminology is used, the structure of some answers needs to be more organised. The most successful answers usually start with a demonstration of an understanding of the central ideas before moving on to apply, analyse or discuss them as necessary. The handwriting of a small minority remains an issue and these candidates need to understand that there is a danger that they may risk penalising themselves through the illegibility even of single words.

Comments on Individual Questions

- 1) The data response was centred on the international debt crisis and the ability of developing economies to respond to it.
 - (a) Candidates understood the problem of aggregation of data. The stronger answers were precise enough to bring out the uniqueness of individual economies.

- (b) (i) There was sound recognition of the inability to repay debts owed to developed economies and international institutions. Better answers went on to elaborate on the 'crisis' element with reference to default, to future borrowing potential or to domestic side effects. It was not necessary to explain how the debt arose since only the meaning was asked for. Some confused the debt crisis with a balance of payments crisis.
 - (b) (ii) Most candidates realised that growth was harmed by the debt crisis. The low growth rate and the descent into recession were usually identified. An impressive comparison was sometimes made to the performance of Far Eastern economies. There was some confusion between a decline in the level of GDP and a decline in the growth rate of GDP. Reference to the 2003 figures was not always dealt with relevantly.
 - (b) (iii) The more direct answers compared the two regions aspect by aspect rather than offering two separate descriptions of their performances. Virtually all concluded that Latin America would manage its debt less successfully. While most candidates were able to identify data that supported this conclusion, only the stronger clarified its significance. The negative and positive values in Table 2 were a stumbling block to some, who believed the figures related to the level of debt. Figure 1 was the least used part of the data and its significance was rarely examined.
 - (c) This was a disappointing section, where relatively few candidates wrote precisely to the wording of the question. A small number infringed the rubric by considering all three weaknesses rather than one. Macro-economic policy instability was usually read as macro-economic instability (not the same thing), although this was the least popular selection. The importance of the phrase 'ability to overcome' was often overlooked and substituted by a general review of the problems of the particular area of difficulty. The highest scoring responses clarified the criteria (such as resource availability, cost, opposition, etc), which would influence success or failure in tackling the weakness and examined them from the position of developing economies.
- 2) The essay examined the relationship between growth and development and explored the link to Rostow's model of growth.
- (a) Most candidates were able to differentiate between growth and development. Some, however, took for granted the meaning of growth and how it was necessary to promote development. In explaining how it might be insufficient the issue of unequal distribution of benefits was commonly cited. Only better answers looked beyond this to aspects such as the pattern of spending and externalities. A misinterpretation of the question by some caused them to explain the meaning of the question rather than to answer it.
 - (b) There were some very thoughtful answers to what turned out to be a difficult part. The majority of candidates displayed good knowledge of Rostow's model and detailed the features of the take-off stage. The usual approach was to take the features of developed economies and consider the extent to which they matched the different characteristics of the stages of the model. Discrimination was achieved by the quality of this application. The better responses referred to developing economies, newly industrialised economies and the more developed economies. The general consensus, not surprisingly, was that the more developed had passed the take-off stage and were at the stage of high mass consumption. There was some imprecision in the attribution of economic

features to the different stages, but only a very small number did not know the basic model. Many candidates believe that all developed economies have permanently high saving ratios. The use of examples enhanced the better responses, although some continue to view Japan as a newly industrialised economy.

- 3 The question concerned the influences on levels of development and the role of the state in promoting development. This was the least popular question.
- (a) Direct answers to the question explained influences such as factor endowment, government competence and attitudes towards economic activity. The best answers made extensive use of examples to support their case. Less direct answers described features of developing economies without going back to the underlying factors, which caused them. Colonial history was well understood as an important issue for both countries involved.
 - (b) Past essays, which have concerned state planning or free market systems, have induced responses which either supply a standard argument more appropriate to theoretical market system/market failure specifications or immediately assume that the question is about balanced and unbalanced growth approaches. This examination was no exception. Clearly these treatments cover relevant elements but their focus is not clearly on the set question. In the first case, the factors which impact on developing economies need to be highlighted and in the second, it is not as much what is done as how it is done. Those candidates who drew out the state actions, such as government price fixing and trade restrictions, found significantly in developing economies, produced the most relevant answers. Some wrote at length on market systems with little consideration of state actions. Even some of the stronger candidates simply identified what the state should do rather than why it should do it.
- 4 The question required an explanation of the levels of literacy and healthcare found in developing economies and an assessment of expenditure on their provision.
- (a) The strongest answers considered influences from the provision side and the consumption side. While some answers applied economic thinking to the problem others were very general commenting on the lack of teachers and doctors and the poor environments for living and working. High marks required explanation of the economic position of families and governments and their priorities.
 - (b) There were some impressive, balanced responses to this part. The links to labour supply and productivity and their importance for economic growth and foreign direct investment were investigated. A good link to the HDI and level of development was quite frequently made. Problems of opportunity cost, international migration and sustainability were discussed. It was noticeable that improved education was often equated with training and improved skills, no doubt in sympathy with current thinking. The concept of 'qualification inflation', which has been common in previous years, was rare this session. Given that this topic probably occupies little time in formal teaching, the responses were encouraging in the way that candidates thought their way around the issues and came up with some of the less obvious consequences.

2887 – UK Economy

Overall Comments

The examination attracted an entry of approximately 900 candidates. There were a number of excellent scripts, with some Centres producing high quality responses from all of their candidates. Furthermore, and in general terms, candidates were sufficiently prepared to be able to make a good attempt at this examination paper and there were very few scripts where the level of response was so 'thin' that Examiners questioned why candidates had been entered at this stage. Almost without exception candidates allocated their time in an appropriate manner between the questions, although there was one candidate who attempted all three essay questions!

The data response question discriminated well, although in answering part (c), insufficient candidates gave evaluative comments. The command words "Comment on the extent..." is inviting evaluation for which two marks were awarded.

There was a wide range of answers to the essay questions which led to the full range of marks (from single figures to 25) being used. Questions 2 and 3 discriminated particularly well and, following on from June 2004, candidates are continuing to give analysis and sound evaluative comments to these questions. In some cases these evaluative comments appear to have been memorised rather than applied to the question set. In contrast Question 4 attracted descriptive rather than analytical answers. The economist's toolkit, including AS/AD diagrams, can be used to support explanations and evaluative discussions.

Comments on Individual Questions

- 1) A large number of candidates achieved over 15 marks for this question and they are all to be congratulated. In contrast a relatively small number of candidates scored less than 10 marks overall. This suggests that this question was accessible to the vast majority of the candidates. The main reason for loss of marks was once again a lack of depth of explanation or a failure to add evaluative comments in parts (c) and (d).
- (a) (i) Almost all candidates were awarded full marks for their answers to this question. There were a small number who argued one of the following: that real interest rates are given by inflation minus interest rates; that they are interest rates with inflation included; or that it is the rate of interest actually charged by the bank. Interestingly some of these candidates who got the definition wrong went on to tackle (a) (ii) successfully, showing that the principle was understood.
- (ii) Again the vast majority achieved full marks, although some candidates were only awarded two marks as they correctly identified whether real interest rates were positive or negative without explaining why. A small number of candidates were unable to give an appropriate answer or explanation. The calculation of the US negative rate proved difficult for some but others chose not to attempt the calculation and gained full marks by correctly indicating that the rate of inflation was higher than the rate of interest.

- b) There were a variety of equally acceptable approaches to this question with very good analysis to support them. The most common was to argue that higher interest rates in the UK attract hot money inflows which, in turn, will lead to a depreciation of the UK currency. This results in a balance of payments deficit as exports will fall and imports will rise in value with a consequent fall in aggregate demand and employment. Answers that only achieved two marks stopped at the depreciation of the currency and did not continue to explain the effect on the UK economy.

Some highly sophisticated answers compared real interest rates between the UK and eurozone countries in an appropriate way. A small number of candidates appeared to misread or misinterpret the question and compared the rates of inflation rather than the rates of interest.

- c) The majority of candidates achieved two marks for their answers to this part of the question because they did not address the "Comment on the extent to which" part of the question. Thus these types of answer were one sided or lacked appropriate evaluative judgement. This said, a significant number of candidates gave good evaluation, arguing that the impact may have some positive effects as imports will be cheaper thus reducing inflationary pressures, or that the impact may not be devastating as the UK has a large proportion of its trade with eurozone countries.
- d) Significant numbers achieved five or six marks for answers that explained both policies and gave good and appropriate explicit and evaluative comparisons of the two policies. The evaluation was usually based on the view that interest rate reductions are better because increasing the money supply only leads to increased inflation, whilst decreasing interest rates will increase both AD and AS through investment rises. A large number of candidates, however, gained four marks by explaining the two policies as comparisons were, at best, implicit rather than explicit. Some candidates simply explained both policies with no attempt at explaining which was the most likely to prevent recession as required by the question.

All three essay questions attracted some good answers with Question 2 being quite clearly the most popular and Question 4 the least popular in terms of numbers of answers. Candidates are increasingly willing to use appropriate analysis and evaluative comments within their answers. In particular, good use was made of appropriate diagrams in answers to both Questions 2 and 3. In contrast answers to Question 4 were more descriptive and, in the majority of cases, lacked both analysis and evaluation.

- 2) This was by far and away the most popular of the essay questions. It also discriminated very well and there were some excellent responses to both parts of the question. There were some commonly repeated errors and shortfalls in the diagrams presented and some of the explanations given which worryingly appeared to show that candidates were confused between economic concepts. This is explained in more depth below.
- (a) A pleasingly large number of candidates reached Level 3 marks for this part of the question. There were some good and well-labelled diagrams, but responses tended to be focused on the demand side and on 'hot money' flows in particular. The very best candidates referred to financial flows, the effect of exports and

import demand and on potential government intervention on both the demand and supply of currency.

Several candidates did not present a diagram. The best answers showed how factors that influenced the exchange rate caused shifts in the D and S curves and thus in the equilibrium rate of exchange. Some diagrams were poorly labelled with candidates simply putting price on one axis and quantity on the other without indicating the price of what or quantity of what. Candidates should label the diagram with the price of sterling on the vertical axis (or \$ per £) and quantity of sterling on the horizontal axis.

The most common misconception was to show the supply curve as vertical and labelling the horizontal axis as money – thus confusing the concept of the supply of currency with the supply and demand for money, i.e. with a liquidity preference diagram.

- (b) Candidates gave a rich variety of approaches to this part of the question with the best answers making excellent analytical use of AD/AS diagrams and the Marshall-Lerner, (M-L), condition to show the potential impact on a range of KPIs of a depreciation of the currency. The evaluative comments were based on a discussion of whether the M-L condition would be met in the long run (with use of J curve diagrams) and whether all KPIs would show an improvement. In several cases these answers were rewarded with the full 15 marks which were available.

Mid-range answers did not refer to M-L nor did they use appropriate diagrams but gave descriptive and general answers on the potential impact of depreciation on a small number of KPIs (sometimes one).

A surprisingly significant number of candidates were unable to distinguish between cause and effect.

- 3) It was a popular question but appeared to be Centre-specific with candidates from some Centres exclusively answering this question. Once again it is pleasing to report that there were some truly excellent answers to this essay question. That said, it continues to be disappointment that the vast majority of candidates continue to have a blinkered view of what is meant by economic growth and concentrated almost exclusively on 'actual' growth without any reference to 'potential' growth.

- (a) Very few candidates defined economic growth, but those who did went on to produce some excellent Level 3 answers. The vast majority of candidates, however, limited themselves to Level 2 marks by only referring to shifts in AD curves. These candidates tended to consider factors that influenced changes in aggregate demand and NOT changes in real GDP or growth.

Those candidates who used PPF diagrams or referred to AS shifts in addition to AD shifts tended to examine the impact of short and long run factors on real GDP and on the rate of growth. Generally these candidates achieved nine or ten marks for this part of the question.

- (b) The answers to this part of the question, not surprisingly but not exclusively, tended to follow on from the answers to part (a). Those candidates who only identified growth as being driven by changes in AD factors focused on the potential to maintain an increase in AD over a 10 year period. Despite this approach, surprisingly few candidates used the potential risk of inflation as the economy

approached full employment as a constraint on sustained growth. Those who did were able to achieve the lower end of Level 3 marks for some use of analysis.

The very best answers used appropriate evaluative comments based on the limits to both actual and potential growth. This was in terms of the inflation constraint for actual growth and the problems caused by limits to potential growth through exhaustion of resources, long hours worked, environmental constraints such as pollution and so on. These answers gained up to 15 marks.

There were some candidates that compartmentalised the question and referred to actual growth in part (a) and then to the long run supply side factors in part (b).

- 4) Although there were some excellent answers that were rewarded with over 20 marks, most answers to this question were descriptive and lacked both analysis and evaluative judgements.
- (a) Whilst some candidates gave in-depth explanations of key performance indicators, KPIs, and how they measured, most candidates gained only Level 2 marks because they did not explain how performance is compared over time. These answers showed an understanding of KPIs but there was minimal, if any, development of how these could be compared over time. Weak answers, gaining Level 1 marks, simply stated the KPIs without explaining them.
 - (b) The majority of candidates made largely unsupported statements about the performance of the UK economy. These statements were presented in general terms, e.g. unemployment has fallen and so has inflation but the balance of payments continues to rise. There was little attempt to use appropriate tools of analysis to explain these conclusions.

In contrast, it is good to see that candidates from certain Centres follow the advice given in INSET meetings and make good and appropriate use of AD/AS diagrams to explain their conclusions. Thus the good answers referred to changes in the UK's KPIs with reasoned arguments to explain whether, overall, there had been an improvement or worsening in economic performance. These arguments were based within an analytical framework and used AS/AD diagrams and an analysis of potential trade-offs to draw evaluative judgements about the performance of the UK economy.

Unit 2888 - Economics in a European Context

General comments

The total entry for this paper, at 691 candidates, was slightly higher than in January 2004. The rate of increase in entries has slowed markedly, as Centres have established a pattern of assessment with which they are comfortable. In comparison to previous sessions, including those in January, the quality of the responses seen was much more variable. In past January sessions this has been predominantly variation between Centres. It was notable in this session that there was much more variation in the performance of candidates within each Centre. It is impossible to determine the reasons for this, but there is some feeling amongst Examiners that the degree of preparation given to candidates varies between Centres and the extent to which Centres 'select' their January entrants from their total cohort differs. Performance appears to be strongest and most consistent amongst those Centres where the whole cohort is not sitting the January paper.

It is clear that the move to a common format of paper in each session, the increasing availability of learning resources and the continued provision of unit specific INSET is leading to a generally better outcome for candidates.

Nevertheless, there are areas where candidates continue to under-perform and these are not confined to the more challenging evaluative questions on the examination paper. Data handling skills still give some cause for concern. Indeed, in this session, such skills compare unfavourably with those displayed, on average, in previous sessions. Candidates appeared to be unsure as to what was expected by the directive to summarise. Describing what happens to the value of exports in each year as given in the table is clearly not a summary: a quantified overall change is. More so than in previous sessions candidates struggled to focus on the specific requirements of the question set. INSET has sought to warn against the dangers of question-spotting and to encourage the identification of underlying concepts which can be brought to bear on the pre-issued stimulus material. This lack of focus was most evident in all questions beyond Question 1(a). In Question 1(b) some candidates analysed the **economic performance** of the EU economy. In Question 2 many were able to analyse the impact of a tariff, but not comment on the implications for **international competitiveness**. In Question 3, some candidates wrote historically about the nature of transition in the early 1990s and not on the **future** of the Central and Eastern European steel industry within the EU's Single Market. In Question 4, many took for granted or ignored the **case for** intervention and wrote instead about the pros and cons of tariffs. The examination paper was a fair test of synoptic skills and candidates need to develop such skills by learning to apply the economist's toolkit of concepts to contexts they have not necessarily encountered in the classroom.

Comments on individual questions

- 1) (a) Perhaps more so than in previous sessions the opening question on the examination paper proved more difficult for many candidates to score full marks. The requirements of a summary of economic data seemed not to be fully understood. Weaker candidates did not confine themselves to the European steel industry when summarising Chart 1. The strongest candidates recognised that the EU was the world's second largest producer in 2002 and that the 2004 enlargement of the EU probably made it the world's largest producer. There was much year by year regurgitation of the data in Table 1: this scored no marks. Effective summaries looked at the overall change in the value of exports, imports and total EU supply and the best quantified the changes. Few candidates showed strengths in data manipulation, but those who did were able to derive the value of EU production and/or balance of trade in steel.
- (b) This question on the microeconomic and macroeconomic determinants of the demand for steel in the EU, was generally well answered. The derived nature of the demand for steel was usually understood, if not always stated explicitly. Better candidates made effective use of concepts such as income elasticity to explain the large percentage changes in production of motor vehicles and domestic appliances, gaining analytical insights into the microeconomic nature of the demand for steel. Beyond this, the more general microeconomic determinants of demand such as price, quality and price and availability of substitutes were less often applied. Macroeconomic determinants were generally less well handled. The weakest responses simply analysed the macroeconomic situation in the EU without linking this to the demand for steel. Unfortunately, such analysis of the performance of the EU economy and of macroeconomic policies was beyond the scope of the question and scored few marks. Better responses were able to show how a range of macroeconomic factors would determine the ability of consumers to purchase more cars and white goods. Many candidates identified the euro-dollar exchange rate as an important determinant of the demand for steel. Few candidates focused on the requirement to analyse the demand for steel in the EU. However, whilst appreciation of the euro against the dollar is likely to have reduced the demand for EU steel in the US, few candidates analysed the impact on the nature of demand in the EU in terms of the balance between demand for domestically produced and imported steel.
- 2) A question on tariffs had clearly been anticipated by many candidates and Centres. Consequently, diagrammatic analysis of the market impact of tariffs featured in many answers and was generally accurate and well explained. Whilst this allowed candidates to show how the US tariff on foreign steel would raise the price of imported EU steel, many answers were not developed beyond this point. It was not uncommon for some of these to make no explicit reference whatsoever to the international competitiveness of the European steel industry. Weaker candidates confused competitiveness with competition, wrote at length about the problems of retaliation or wrote in very general terms about the case for and against tariffs. Only the very best responses pointed out that the impact on the international competitiveness of the European steel industry depended on factors such as the significance of trade with the US, the price elasticity of demand for steel in the US and the extent to which EU producers were able to reduce cost and price to reduce the impact of the tariff. Issues related to non-price competitiveness were mentioned by very few candidates. Commentary, even amongst these better responses, tended to lack full development and depth opting instead for a list of evaluative

points. The evaluative requirement of this question in the paper is not onerous and full marks can be awarded to responses which choose a single point of evaluation but develop it well.

- 3) A small number of candidates saw this question as an opportunity to write about transition economies, gaining some marks along the way, but with very little real focus on the steel industry. These responses had good knowledge about the need for price liberalisation, privatisation and tight fiscal and monetary policy during the transition to a market-based economy. Their ability to analyse and evaluate the measures taken to prepare the Central and Eastern European steel industry for transition to free market competition was however limited. Better responses were clear what these measures were in the context of Extract 5: transitional arrangements for state aid, restructuring, privatisation, measures to improve labour market flexibility and compliance with environmental regulations. Better candidates went beyond an application of the Extract material and engaged in an economic analysis of the issues. Such candidates, on the whole, tended to be stronger on the industrial implication with the best able to analyse the impact on prices, costs, productive efficiency and productivity. There was much good analysis of the benefits of privatisation and foreign direct investment on the industry. The impact on society was less well analysed, though the best candidates were able to make much of the likely rise in unemployment, its regional and structural characteristics and wider impacts. The best candidates were well versed in evaluative comments on these effects. At the bottom end of Level 4 of the mark scheme, candidates drew a simple comparison between the long term benefits for industry and society and the short term costs. Those accessing the higher marks in Level 4 did so by adding depth and development to their comments in terms of the need for greater geographical and occupational labour mobility to reduce the costs in the short term and greater competitiveness to increase the extent of the benefits in the long term.
- 4) Despite the many references to intervention in the Extract material as a whole, most candidates confined themselves to just one case. In the main this was the issue of market concentration, collusive oligopoly and mergers. In order to differentiate between these responses and those that took a broader view of the 'case for intervention', the first group were limited to the mid mark in the relevant level of the mark scheme. So an analysis of the case for intervention in terms of collusive oligopoly could achieve a maximum mark of eight and an evaluation of this case a maximum of 16 marks. Whilst many candidates accessed Level 4 of the mark scheme, it was not always apparent that they had analysed the case for intervention. Such responses tended to take this case for granted, with much of their answer dedicated to explanation of the case against. This resulted in a lack of balance which limited their mark to the lower end of Level 4. It is difficult to discuss the case for intervention effectively unless that case is explicitly analysed. Indeed many did not see the 'case for' in terms of market failure and they discussed examples of intervention instead. This was particularly true of those responses which focused on tariffs where an inability to provide an analysis of any case for such intervention was the norm. In general, the level of analysis provided was often variable, with some poorly drawn diagrams in the case of market power. There is increasing evidence of formulaic evaluation by candidates in some Centres. Whilst this enables candidates to access Level 4 of the mark scheme, it does not always allow them to progress far within that level. Rather than read several single sentences beginning "the extent to which this is true depends upon ...", Examiners prefer to see real depth and development of a smaller range of issues.

Advanced Subsidiary (3812) and Advanced (7812) GCE Economics

January 2005 Assessment Session

Unit Threshold Marks

Unit		Maximum Mark	a	b	c	d	e	u
2881	Raw	45	36	32	28	24	20	0
	UMS	90	72	63	54	45	36	0
2882	Raw	45	32	28	24	21	18	0
	UMS	90	72	63	54	45	36	0
2883	Raw	45	36	32	28	25	22	0
	UMS	120	96	84	72	60	48	0
2884	Raw	45	33	30	27	24	21	0
	UMS	90	72	63	54	45	36	0
2885	Raw	45	32	29	26	23	21	0
	UMS	90	72	63	54	45	36	0
2886	Raw	45	31	28	25	22	20	0
	UMS	90	72	63	54	45	36	0
2887	Raw	45	33	29	26	23	20	0
	UMS	90	72	63	54	45	36	0
2888	Raw	60	43	38	33	29	25	0
	UMS	120	96	84	72	60	48	0

Specification Aggregation Results

Overall threshold marks in UMS (i.e. after conversion of raw marks to uniform marks)

	Maximum Mark	A	B	C	D	E	U
3812	300	240	210	180	150	120	0
7812	600	480	420	360	300	240	0

The cumulative percentage of candidates awarded each grade was as follows:

	A	B	C	D	E	U	Total Number of Candidates
3812	21.2	40.6	67.3	82.5	96.3	100.0	232
7812	12.1	56.1	81.8	92.4	100.0	100.0	71

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Information Bureau

(General Qualifications)

Telephone: 01223 553998

Facsimile: 01223 552627

Email: helpdesk@ocr.org.uk

www.ocr.org.uk

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