

Economics

Advanced Subsidiary GCE

Unit **F581**: Markets in Action

Mark Scheme for January 2011

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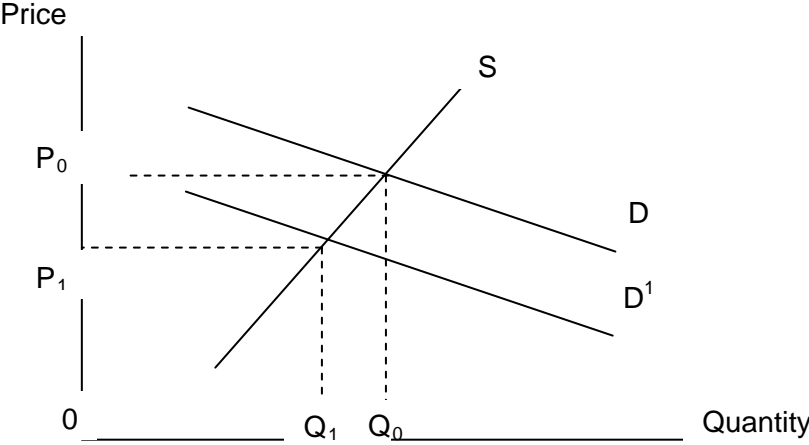
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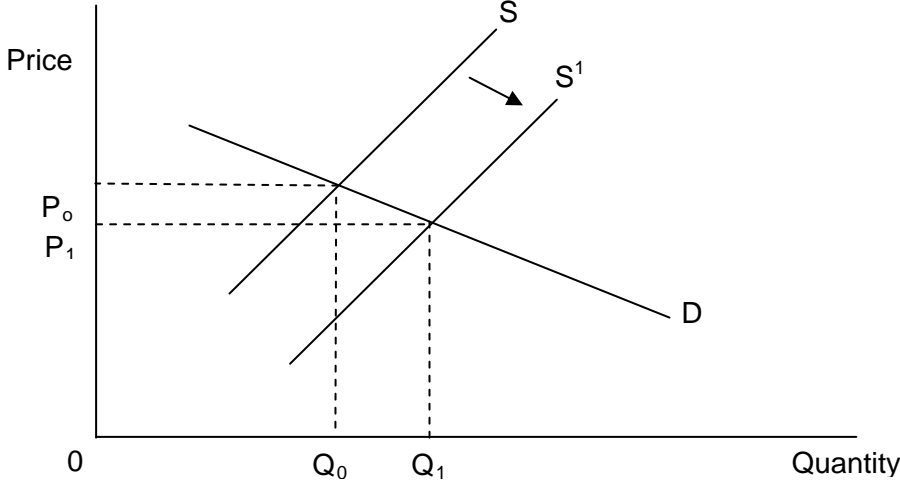
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Question	Expected Answer	Mark	Rationale/Additional Guidance
1	<p>Define the 'economic problem' and explain how it can be applied to a family deciding whether to take a holiday in the Maldives.</p> <p>Up to two marks The 'economic problem' can be described in terms of scarcity (1) and choice (1); or scarce resources and unlimited wants (2); alternatively, how to allocate scarce resources among alternative uses (2).</p> <p>Up to two marks The application is in terms of whether the family has sufficient income (1) what alternative holiday destinations might be possible (1) or whether they should go on a holiday at all, in which case resources could be used for something else (1) Any two.</p>	[4]	<p>For Questions 1-6 use one ✓ per mark awarded.</p> <p>Do not credit "needs". Only credit "wants".</p> <p>Scarcity must be related to the family and not to anything else.</p>
2	<p>(a) What is meant by a market?</p> <p>Up to two marks Bringing buyers and sellers into contact (1) for the purpose of trading or exchanging goods or purchasing goods and services (1). A system by which price is determined (1).</p>	[2]	<p>Do not reward examples – answer must be theoretical. Accept consumers and producers as an alternative to buyers and sellers.</p>
2	<p>(b) How is the market price of holidays in the Maldives determined?</p> <p>Up to two marks Where demand and supply are equal (2); where the market clears (2). Award 1 mark only for a statement of demand and supply only without reference to them being equal or clearing.</p>	[2]	<p>A diagram is acceptable showing at least supply, demand and equilibrium price. Price mechanism insufficient (0)</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
3 (a)	<p>Using a demand and supply diagram, show the effects on the market for holidays in the Maldives of the fall in British visitors in early 2009.</p>  <p>Up to four marks Award 1 mark for each of</p> <ul style="list-style-type: none"> - correct labelling of D and S - downward/left shift of D - old equilibrium price and quantity - new equilibrium price and quantity 	[4]	<p>If curves are not labelled or are incorrectly labelled, no marks to be awarded. Accept E1 and E2 for equilibrium even if no links to axes.</p>

Question		Expected Answer	Mark	Rationale/Additional Guidance
3	(b)	<p>Explain two likely determinants of this fall in demand for holidays in the Maldives taken by British tourists.</p> <p>Likely reasons for the <u>fall</u> in demand are:</p> <ul style="list-style-type: none"> - fall in income – lower real/disposable income due to recession - price or availability of substitutes incl. holidays in the UK - fashion and taste – negative publicity in the media following the comments climate change (fashion/taste) - complements – increased price of air travel to the Maldives <p>Award a mark for a valid determinant of the fall in demand, 1 mark for its elaboration and 1 mark for how this will lead to a fall in demand. (2x3)</p>	[6]	<p>Do not accept change in price as this is not a determinant of demand.</p> <p>Do not accept seasonal variation as a determinant of demand</p> <p>Credit advertising as an explanation of the taste and fashion determinant.</p> <p>Credit as explanation low consumer confidence, weak expectations as macro determinants with an impact on the demand for holidays.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
4	<p>Assume that the policy of the Maldives' President to construct more hotels and guest houses goes ahead. Using a demand and supply diagram, comment on how this might affect the market for holidays in the Maldives.</p>  <p>Up to eight marks Up to 3 marks for a diagram - shift to right of S (1) - old equilibrium (1) - new equilibrium (1)</p> <p>Up to 2 marks for an analysis in terms of, for example, an increase in quantity traded or an increase in quantity from Q1 to Q2 or an increase in quantity demanded and supplied from Q1 to Q2 (1) and a fall in price (1).</p> <p>Up to 3 marks for comments such as - it depends on the extent of the increase in supply - the increase in supply will take time - it depends on the slope of D/price elasticity of demand - consumer surplus increases One comment which is well elaborated can get all 3 marks.</p>	<p>[8]</p>	<p>Incorrectly labelled axes – no marks for diagram. Accept E1 and E2 for equilibrium even if no links to axes. No credit for “increase in quantity” alone or for extension of demand. Do not accept externalities or macro comments.</p>

Question		Expected Answer	Mark	Rationale/Additional Guidance
5	(a)	<p>Define the term ‘cross elasticity of demand’.</p> <p>Up to two marks 2 marks for a definition such as ‘the responsiveness of quantity demanded for one product in relation to a change in the price of another product’; or 2 marks for a correct formula.</p> <p>Award 1 mark for a general understanding that two products are involved.</p>	[2]	<p>Candidates need to refer to change in both quantity of Good A and price of Good B for 2 marks.</p>
5	(b)	<p>Using the information in Fig 1, comment on whether the Maldives is likely to attract tourists who are considering taking holidays in Goa. (Your answer must include calculations of cross elasticity of demand).</p> <p>Up to 3 marks for calculating the cross elasticity of demand for holidays to Goa due to a fall in price of holidays to the Maldives. From Fig 1, these estimates are 0.5, 1.1 and 1.33.</p> <p>Up to 2 marks for an explanation of what these estimates mean:</p> <ul style="list-style-type: none"> • holidays to Maldives are substitutes (1) • decrease in price of Maldives holiday causes fall in demand for holidays in Goa (1) • stating 0.5 = inelastic (not close/weak substitute) (1) or 1.1 = elastic (close/strong substitute) (1) or 1.3 = elastic (close/strong substitute) (1) • explaining cross-elastic or cross-inelastic (1). <p>Up to 3 marks for comments such as</p> <ul style="list-style-type: none"> - a 30% fall in holiday prices in the Maldives is most likely to meet the President’s objective (see example on right) - the data are estimates (1) and could change over time (1) - it assumes no change in holiday prices in Goa - the degree of substitutability depends on the extent of price cut - it assumes a price change is the only reason why tourists might switch from Goa to the Maldives. <p>One comment which is well elaborated can get all 3 marks.</p>	[8]	<p>Correct calculations: -5%/-10% = 0.5 -22% / -20% = 1.1 -40% / -30% = 1.33 allow 1.3</p> <p>No marks for calculations of XED with ‘%’ in final figure (eg 0.5%). No marks for price elasticity. Negative elasticities are incorrect – no marks.</p> <p>No marks for numerical examples – figures already given in table.</p> <p>Example of 3-mark comment: “There would have to be a significant fall in price of holidays in the Maldives (1) of at least 20% (1) but a 30% fall would be more likely to achieve the President’s objective (1)” .</p> <p>Show mark allocation as (3 + 2 + 3).</p>

Question		Expected Answer	Mark	Rationale/Additional Guidance
6	(a)	<p>Give two characteristics of a public good.</p> <p>One mark for each of two characteristics identified. Non-excludability (1) Non-rivalry (1) Non-rejectability (1) zero MC (1) encourages free riders (1) Accept a description of each as an alternative way of awarding marks.</p>	[2]	<p>Non-rejectability: the good is provided for all regardless of whether they wish it (eg defence). Accept non diminishable for non rivalrous. Examples gain no marks.</p>
6	(b)	<p>Explain whether a sandy beach such as those in the Maldives is a public good.</p> <p>Up to three marks: Explanation of non-excludability (1) Explanation of non-rivalry (1) Application of either characteristic to beaches (2x1) A beach could be a private good if a charge is made (1).</p> <p>Reserve final mark for taking an explained position: A sandy beach is a public good because it has both characteristics (1) or A sandy beach is not a public good, or is a quasi public good, because it lacks one or more characteristics (1).</p>	[4]	<p>Examples of characteristics: Non-excludability: anyone can use it Excludability: Beaches may be fenced off Non-rivalry: beaches have plenty of space Rivalry: when a beach becomes congested not everyone who wants to is able to use it.</p> <p>Do not accept argument that because beaches are free they are public goods.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
7	<p>Discuss whether regulation is the most effective way of correcting market failure such as those arising from increasing carbon emissions.</p> <p>Although the stem refers to the context of the article, this is a more general question on the merits of regulations as a means of correcting market failure where there are negative externalities.</p> <p>Regulations (standards and legal controls) can take many forms. In this context, relevant ideas would include:</p> <ul style="list-style-type: none"> • legislation relating to the maximum levels of carbon emissions from transport, power generation or industry • market failure arises where demand and supply are not equal (or the marginal social cost of an activity exceeds the marginal private cost) • the purpose of legislation is rather blunt but aims to result in an optimum scale of use • by passing regulations, it is clear what the level of control is. • Regulations are widely used and have brought considerable benefits in many varied contexts as regulations are backed by law. <p>Against regulation: Many arguments including:</p> <ul style="list-style-type: none"> - cost and problems of enforcement - how to set appropriate standards - no incentive for improvement once standards have been set - obtaining international agreement - policy may not raise revenue - may lead to a black market - government failure. 		<p>Do not accept Pollution Permits as a form of regulation – treat as an alternative method.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
7	<p>Continued</p> <p>L4 For a discussion of the case for and against regulations as a means of correcting market failure (13–18)</p> <p>(17-18) Final judgement on the extent to which regulations are effective when compared with other methods to correct market failure. Stated judgement (16)</p> <p>(13-15) Discussion of: Pros & Cons of Regulation or Regulations compared with other methods of correcting market failure</p> <p>All answers at this level must be underpinned with appropriate analysis of how regulation corrects market failure, ie to access L4 requires 11-12 marks to have been awarded.</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured using appropriate terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p>		<p>Use L1 L2 L3 L4 and EE when marking this question.</p> <p>Use L4 when awarding 13-15 marks at Level 4 and EE when judgement made.</p> <p>A stated judgement can be simple and brief, eg “Regulation is more effective than tradable permits”.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
7	<p>Continued</p> <p>L3 For an analysis of market failure and the use of regulation for correcting market failure (9–12)</p> <p>Band 2 (11-12) Analysis of how regulations correct market failure by reducing quantity produced/consumed (text or diagram of Q2 ←Q1)</p> <p>Band 1 (9-10) Analysis:</p> <ul style="list-style-type: none"> • of Market Failure and/or • Methods for correcting market failure and/or • Simple analysis of regulation and/or • Drawbacks of regulation <p>Relatively straight forward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.</p>		<p>This can be achieved by use of text on the reduction of quantity produced/consumed or a diagram showing a fall from Q2 to Q1</p> <p>Award 9-10 marks for: Analysis of market failure</p> <ul style="list-style-type: none"> • positive externalities • negative externalities • merit goods • demerit goods • information failure. <p>or Analysis of methods to correct this other than regulation (eg tradable permits).</p> <p>or Simple analysis of regulation (eg how the regulatory system operates) without explaining how this corrects market failure.</p> <p>An unexplained diagram would fall in Level 2.</p>

Question	Expected Answer	Mark	Rationale/Additional Guidance
	<p>Continued</p> <p>L2 For an application of knowledge of market failure or of how regulations are used to correct market failure (5–8)</p> <p>Application</p> <ul style="list-style-type: none"> • of market failure and/or • methods of correction of market failure and/or • how regulations are used/applied in practice <p>For stating that regulation limits quantity – 5 marks</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p>		<p>Examples of material gaining L2:</p> <ul style="list-style-type: none"> • Illustrations of market failure • Descriptions of a method of correction of market failure in operation • Relevant diagrams presented but without being used in analytical explanation

Question	Expected Answer	Mark	Rationale/Additional Guidance
7	<p>Continued</p> <p>L1 For a knowledge and understanding of regulations and market failure (1–4)</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may lack legibility.</p>	<p>[18]</p>	<p>Brief definitions of regulation or of market failure gain L1</p>

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