

**Economics**

Advanced Subsidiary GCE

Unit **F581**: Markets in Action

**Mark Scheme for June 2012**

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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.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.















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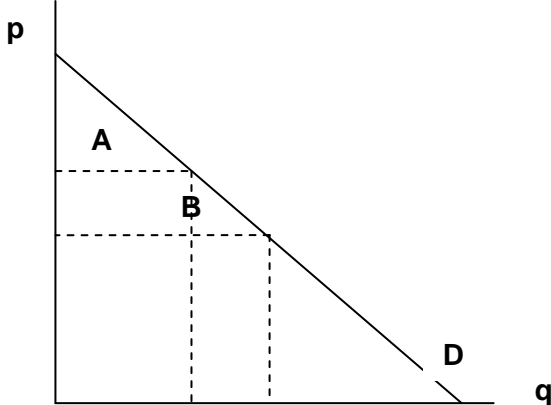
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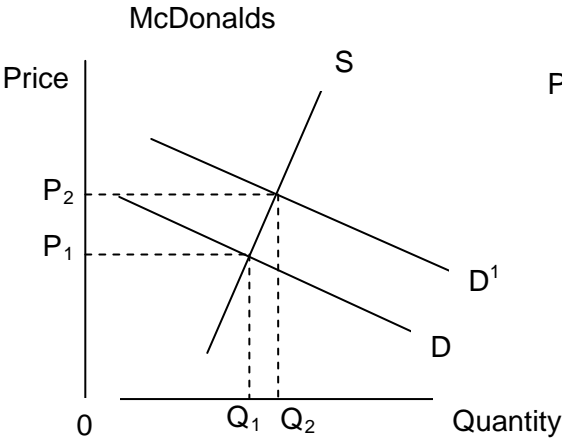
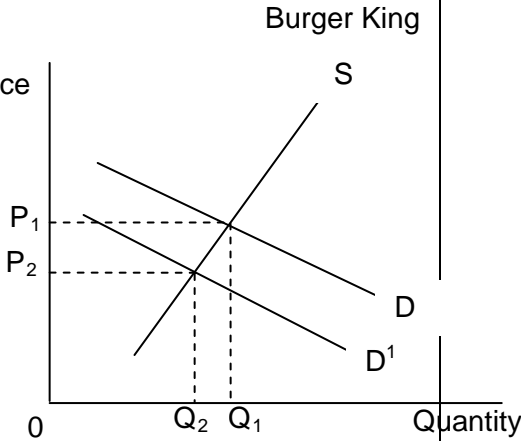

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Annotation	Meaning
	Tick
	Cross
	Comment
	Benefit of Doubt
	Level 1
	Level 2
	Level 3
	Level 4
	Effective Evaluation
	Omission
	Not answered question
	Noted but no credit given
	Too Vague
	Own figure rule

Question	Answer	Marks	Guidance
1	<p>The most likely explanations of factors of production are:</p> <ul style="list-style-type: none"> <li>• Land – the site for a fast-food outlet; ingredients for fast-food</li> <li>• Labour – staff to prepare fast-food and sell it</li> <li>• Capital – building, items of equipment to cook the food, tills</li> <li>• Entrepreneurship – someone prepared to take a risk and organise a fast-food business</li> </ul>	6	<p>For each factor, award identification (1) plus precise application, related to the sale of fast food (1)</p> <p>Do <b>not</b> allow the buildings used as land. Do <b>not</b> allow 'money' for capital</p>
2	<p>(a)</p> <p>For a correct definition such as</p> <ul style="list-style-type: none"> <li>• the extra amount a consumer is willing to pay for a product above the price that is actually paid</li> <li>• the difference between the price the consumer is willing to pay and the market price</li> </ul>	2	<p>Award (1) for recognition of a difference between two prices.</p> <p>Allow "the value that consumers gain from consuming a good or service over and above the price paid"</p>
	<p>(b)</p>  <p><b>Marks the diagram:</b> Demand curve, p, q (1)</p> <p><b>Marks from the diagram labelled or referred to in explanation:</b> Old consumer surplus (1) New consumer surplus (1) Addition to consumer surplus.</p> <p><b>Up to (2) further marks for explanation:</b> Consumer surplus will increase (1) by area B (1) <b>or</b> from A to A+B (1); increase is because the price difference has widened/increased (1)</p>	4	<p><b>If no diagram, award (0) marks</b></p> <p><b>If the Demand curve, p, q (1) mark is not awarded, give 0 for whole answer.</b></p> <p><b>If 'Price level' on axis 0 for whole answer</b></p> <p>Labelled or shaded areas as long as candidate makes clear exactly what they are identifying:  <b>A</b> – Original Consumer Surplus  <b>A+B</b> – New Consumer Surplus  <b>B</b> – Additional Consumer Surplus</p>

Question	Answer	Marks	Guidance
3 (a)	<p>Award marks as follows:            For <b>identification</b> of a determinant of demand (1)            for <b>application of knowledge</b> to the situation eg recession, other use of case study (1)            for <b>explanation</b> of why 'demand increases' (1)</p> <p>Allow only (1) application mark for special meal deals if analysed in terms of a fall in price <b>Do not credit</b> "a fall in price".</p> <p>Do <b>not</b> award a mark for statements that demand increases as this is contained in the question.</p> <p>Only credit each determinant of demand once, but allow 3 marks for taste and fashion (non-Advertising) and an additional application mark for Advertising.</p> <p>Examples of three-mark answers:</p> <p>Income falls during a recession (1 identification). Since burgers are an inferior good (1 application) as income falls consumption of burgers increases in accordance with YED (1 explanation)</p> <p>Taste and fashion (1 identification). Fast-food has become more socially acceptable (1 application) therefore new types of customers will start buying fast food (1 explanation)</p>	6	<p>Various possibilities including</p> <ul style="list-style-type: none"> <li>• a fall in income</li> <li>• increase in price of substitutes such as restaurant meals</li> <li>• increase in population</li> <li>• Changing taste/fashion/consumer preference including               <ul style="list-style-type: none"> <li>○ special meal deals</li> <li>○ improved quality of burgers</li> <li>○ rebranding</li> <li>○ redesign of stores</li> <li>○ impact of advertising</li> <li>○ attractiveness of product</li> </ul> </li> </ul> <p>Do not award Macro-economic factors the determinants of demand mark, but application and explanation marks may be given</p>

Question	Answer	Marks	Guidance
(b)	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p>McDonalds</p> <p>(Total sales increase)</p> </div> <div style="text-align: center;">  <p>Burger King</p> <p>(Fall in total sales)</p> </div> </div> <p>Award up to (4) marks for correct diagrams:  Shifts of D – McDonalds to right (1) Burger King to left (1)  correct new equilibrium (1) + (1)</p> <p>Award up to (3) marks for each well developed relevant comment.  Two slightly developed comments may gain 4 marks</p>	8	<p>Possible <b>Comment</b> marks:</p> <ul style="list-style-type: none"> <li>• McDonalds increase its advertising budget while Burger King cut back</li> <li>• Burger King customers seem to be less loyal than McDonalds customers</li> <li>• McDonalds and Burger King are substitutes so one firm's gain is another's loss</li> <li>• Positive XED</li> <li>• Different brand loyalty</li> <li>• Burger King made an incorrect decision on value meals, losing additional revenue</li> </ul> <p>Magnitude of effects will depend on actual size of shift in D (1) and on PES (1)</p> <p>Use annotation  for each comment mark</p>

Question		Answer	Marks	Guidance
4	(a)	<p>For a correct definition such as ‘the responsiveness of demand to a change in income’ (2) <b>or</b> ‘the extent to which demand changes as a result of a change in income’ (2) or ‘a measure of the sensitivity of quantity demanded to a change in consumer incomes’ (2)</p> <p>Or <math>\frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}</math> (2)</p>	2	<p>Award only (1) mark if formula does not specify <b>quantity</b> demanded.</p> <p>For “the responsiveness of a percentage change...” only (1) mark.</p>
	(b)	<p>Award for each for correct result:</p> <p>YED USA <b>0</b> (0 / -2.0) = 0 (1)  YED Japan <b>+ 2.0</b> (-2.0 / -1.0) (1)</p> <p>Award up to (2) marks for development:</p> <ul style="list-style-type: none"> <li>• In the USA there is no clear relationship (1)</li> <li>• YED is inelastic in the USA/Demand in USA is income-inelastic (2)</li> <li>• Positive YED indicates normal good (1)</li> <li>• Fast-food is a normal /luxury/superior good in Japan (1)</li> <li>• YED is elastic in Japan/Demand in Japan is income-elastic (2)</li> <li>• Fast-food is more income elastic in Japan than in the USA (1)</li> </ul>	4	<p>Up to one OFR mark for a correct statement based on an incorrect calculation or YED figure expressed as a percentage %</p>

Question	Answer	Marks	Guidance
(c)	<p>Award up to (3) marks for each well developed relevant comment. Two slightly developed comments may gain 4 marks</p> <ul style="list-style-type: none"> <li>• The zero estimate for the USA indicates that fast-food demand has not been particularly affected by recession</li> <li>• in Japan if recession persists then this will be <b>bad</b> for the fast-food businesses or <b>better</b> if the economy moves out of recession</li> <li>• Japanese firms may cut back on employment (1) causing unemployment (1)</li> <li>• Ceteris paribus is assumed so there are other factors that may affect the estimates</li> <li>• <b>Max 1 mark</b> for any comments relating to the reliability of data /data are estimates</li> </ul>	4	<p>Use annotation  for each comment mark</p>



Question		Answer	Marks	Guidance
5	(a)	<p>Award (2) marks for a definition of demerit goods such as</p> <ul style="list-style-type: none"> <li>• a good whose consumption is more harmful than consumers actually realise</li> <li>• A good that brings less private benefit / less benefit to consumers than they expect, such that too much will be consumed by individuals in a free market</li> <li>• a good which is over-consumed (1) in a free market(1)</li> </ul> <p><i>Standard definitions relate only to a gap between actual and perceived PRIVATE benefit. Negative externalities MAY ARISE FROM the consumption of demerit goods</i></p>	2	In uncertain cases judge whether the response is addressing the private rather than the social effects – credit private

Question	Answer	Marks	Guidance
(b)	<p>Up to (4) marks for an explanation of why fast-food is a demerit good.</p> <p>One mark for identifying a reason/problem            One mark for how this fails to impact on the consumer            Up to two marks for explanation of the failure of this to impact on the consumer. (or of negative externalities caused by consumption of the demerit good). Candidates receive credit for one or the other of these pathways.</p> <p>If no example of a problem is given = 0 marks for whole question</p> <p><b>Examples of problems:</b>            Obesity / Fatness / growing waistlines            Heart attack            Hospitalisation</p> <p><b>Examples of impact failure:</b>            Consumers are unaware of the risks/ consumers ignore the risks            Consumers fail to take in info</p> <p><b>Examples of explanation marks:</b></p> <p>Fast food causes obesity. Consumers do not realise this consequence. <b>There is a problem of information failure because companies do not communicate calorie and other info clearly</b></p> <p>Fast food causes obesity. Consumers do not receive sufficient information on menus. <b>The heart disease arising causes treatment costs for the NHS which create a welfare loss to society.</b></p>	4	<p>This question requires answers which identify a problem which creates a demerit for the consumer. These responses will then explain how the consumer fails to recognise or factor in the demerit.</p> <p>However, credit can be given (max 2 marks) for explanations of negative externalities arising from the consumption of demerit goods.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
6		<p>This question <b>requires</b> a discussion of the arguments for and against regulation as a means of changing the eating habits of US consumers. It <b>may include</b> discussion of alternative policies.</p> <p>This may be from the point of view of producers or consumers and can be shown by a shift of supply and demand.</p> <p>The use of regulation referred to in the extract includes:</p> <ul style="list-style-type: none"> <li>• “The law requiring outlets to put the calorie content... on the menu.”</li> <li>• California banning McDonalds from including plastic toys in happy meals.</li> </ul> <p>Arguments for the effectiveness of regulation could include:</p> <ul style="list-style-type: none"> <li>• Easy and cheap to impose</li> <li>• Sets a clear standard</li> <li>• Has an instant effect</li> <li>• Can be backed up by fines or other incentives to comply</li> </ul> <p>Arguments against the effectiveness of regulation could include:</p> <ul style="list-style-type: none"> <li>• Cost of enforcement</li> <li>• Could be wrongly set by governments</li> <li>• Consumers may ignore calorie information required to be displayed</li> <li>• Banning toys in meals may not reduce fast-food consumption</li> <li>• Regulation is a crude instrument</li> </ul>	18		

Question			Answer	Marks	Content	Guidance
						Levels of response
			<p>EE cannot be awarded where there is no mention of regulation in the conclusion.</p> <p><b>Candidates must attain 11 or 12 (L3) marks in order to progress through to L4.</b></p> <p>NB Discussion based on weak analysis of regulation and weak analysis of alternative policies is capped at 13 marks even where a judgement is stated.</p>			<p><b>Level 4 (13 – 18 marks):</b> For a discussion of the effectiveness of regulation in correcting this problem of market failure which may include comparison with other policies.</p> <p><b>(16 – 18) EE</b> For a discussion that makes a final assessment of whether regulation is likely to be the most effective option based upon analytical underpinning. <b>Stated judgement based on preceding discussion and analysis (16)</b>, elaborated with further reasons or consequences (17-18).</p> <p><b>(13 – 15) L4</b> For a discussion of the pros and cons of regulation or the relative merits of regulation as against other remedies.</p> <p>All answers at this level must be underpinned with appropriate analysis.</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>

Question		Answer	Marks	Guidance	
				Content	Levels of response
		<p><b>Band 2 can only be awarded to candidates who have achieved Band 1</b></p> <p>Typical examples of responses in Level 3 Band 2: For 11-12 Marks: Deeper analysis of the explanation already credited with Band 1 or Explanation of how a contrasting policy achieves a reduction in quantity demanded and supplied</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Explanation of a vertical supply curve</li> <li>• Explanation of why supply falls, e.g. increased costs reflected in supply curve</li> <li>• Explanation of why demand falls, e.g. consumers made aware of harmful effects of consuming fast-food</li> <li>• Development of how the fall from <math>Q_e</math> to <math>Q_1</math> corrects the market failure in the fast-food industry</li> </ul> <p>Typical examples of responses in Level 3 Band 1: For 10 Marks: A diagram showing a shift of D or S to the left and an explanation that this reduced quantity from <math>Q_e</math> to <math>Q_1</math>.</p> <p>For 9 Marks: Basic explanation that regulation will fix supply or set quantity produced and consumed at socially optimal level.</p>			<p><b>Level 3 (9 – 12 marks):</b> For an analysis of how <b>regulation</b> can be used to correct the market failure (<b>required</b>) associated with the sales of fast food. This may or may not be supported by analysis of alternative methods</p> <p><b>(11-12) Band 2</b> For developed analysis explaining <b>how</b> the form of regulation influences producers and/or consumers or <b>how</b> the move from <math>Q_1</math> to <math>Q_2</math> achieves correction of the market failure <b>OR</b> For analysis of how <b>another method</b> to reduce the production and consumption of fast-food would operate.</p> <p><b>(9-10) Band 1</b> Analysis of how <b>regulation</b> reduces the quantity of fast-food produced and consumed.</p> <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>

Question		Answer	Marks	Guidance	
				Content	Levels of response
		<p><b>Answers not displaying analysis of the effects of regulation cannot progress beyond Level 2</b></p> <p>For 8 marks, at least one well developed point relating to regulation of fast food.            For 7 marks more than one applied point relating to regulation of fast food.            For 6 marks, one applied point relating to regulation of fast food.            For 5 marks, an example of regulation applied to fast food.</p> <p><b>NB – No Application Marks to be given for policies other than regulation.</b></p> <p>For 4 marks the candidate must show knowledge and understanding of regulation.</p> <p>Typical examples of responses at L1 are:</p> <ul style="list-style-type: none"> <li>• Definition of market failure</li> <li>• Diagram showing market failure</li> <li>• Diagram or statements of needing to change quantity or shift curves <b>without reference to regulation.</b></li> <li>• Examples of regulation not applied to fast food.</li> </ul> <p><b>NB Where candidates assert that an alternative method for correcting market failure (e.g. taxation, subsidy, information provision) IS REGULATION award no credit to this point.</b></p>			<p><b>Level 2 (5 – 8 marks):</b>            For an application of knowledge of the effects of regulation on the sales of fast-food</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><b>Level 1 (1 – 4 marks)</b>            For a knowledge and understanding of regulation or market failure.</p> <p>Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may lack legibility.</p>

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