

**Economics**

Advanced Subsidiary GCE

Unit **F581**: Markets in Action

**Mark Scheme for January 2013**

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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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**Annotations**

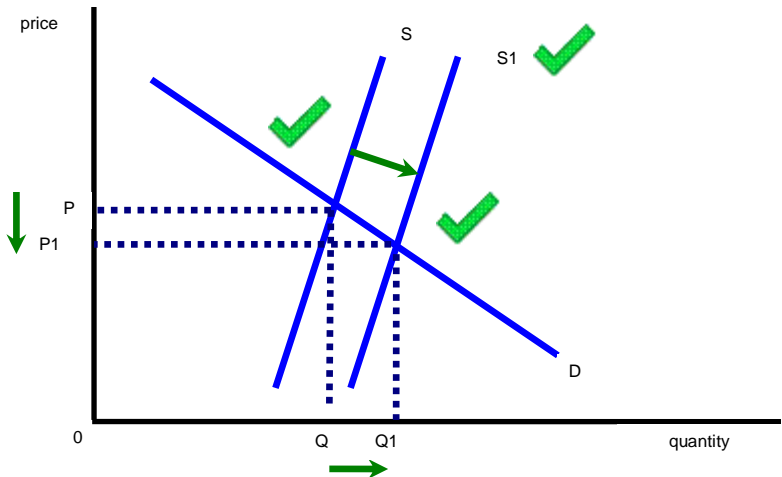
The following annotations are available:

<b>Annotation</b>	<b>Meaning</b>
	Tick
	Cross
	Comment
	Benefit of doubt
	Level 1
	Level 2
	Level 3
	Level 4
	Effective evaluation
	Omission mark
	Not answered question
	Noted but no credit given
	Too vague
	Own figure rule

Question	Answer	Marks	Guidance
1	<p>Up to two marks for explanation of the economic problem:</p> <p>Scarcity (1) and choice (1)            Limited resources (1) and unlimited wants (1)            How to allocate scarce resources among alternative uses (2).            What shall be produced, how and for whom (2)</p> <p>Up to two marks for application:</p> <p>There are insufficient houses (1) to meet (rising) demand (1).            People on low incomes (scarce resource) (1) have to decide whether they can afford to purchase/rent housing (1).            Government has insufficient finance (1) and must choose whether to finance housing or meet the other needs of the population (1).            Shortage of housing (1) against a growing population or growing number of households (1)</p>	4	<p>Wants exceed resources = two marks.</p> <p><b>Do not award</b> a mark for “unlimited demand” or “needs” in definition.</p> <p>Award one mark where candidates use both figures from the case study (125,000 homes built a year, but demand rising by 240,000 a year) without development</p> <p>The number of houses being built is 52% of the number needed. Award one mark for 52%.</p> <p>Do not award answers saying supply is not enough to meet demand.</p>

Question	Answer	Marks	Guidance
2 (a)	<p>Up to two marks for a definition:</p> <p>The (next) best alternative (1) foregone/given up (1)</p>	2	<p>One mark for idea of (benefit) lost.</p> <p><b>Do not award</b> a mark for 'price'</p>
(b)	<div data-bbox="331 363 1164 742" data-label="Figure"> </div> <p><b>Up to four marks</b> for a correct diagram – one mark for each of:</p> <ul style="list-style-type: none"> <li>• correctly labelled axes – maybe as above or funding for building new houses versus providing grants to renovate old properties.</li> <li>• PPC – straight or curved</li> <li>• indication of alternative points on line either through labels (e.g. A, B) on PPF or coordinates to points on PPC or arrow between points</li> <li>• indication of opportunity cost on relevant axis through sequential labels or arrows.</li> </ul> <p><b>Up to two further marks</b> for an explanation of how opportunity cost can be used to explain the choices facing government:</p> <p>Relevant opportunity cost identified (1) with valid reference to the diagram (1).</p>	6	<p>If axes labelled p&amp;q – <b>no marks</b> for diagram.</p> <p>If axes relate to two goods not in context, i.e. good A and good B style answer, <b>axes mark lost</b> but remaining three marks available.</p> <p>Accept on axes old/new houses or anything similar which establishes the context (eg accept 'government grants' for renovating new houses).</p> <p>A diagram and explanation of the opportunity cost of <b>INCREASING</b> production of new houses is equally acceptable.</p> <p><b>Do not credit</b> shaded rectangles as indication of opportunity cost.</p> <p>A simple statement identifying the opportunity cost of renovating old houses in terms of new houses or vice-versa gains the first explanation mark</p> <p>Explanation must be applied to case study to be credited.</p>

Question	Answer	Marks	Guidance
3 (a)	<p><b>Up to two marks</b> for a definition:</p> <p>Where buyers and sellers meet/come into contact (1) for the purpose of trading (1).</p> <p>Where producers and consumers meet (1) to buy and sell goods/exchange/trade (1)</p> <p>A system by which price is determined (1)</p> <p>The interaction of demand and supply or of buyers and sellers or of consumers and producers (1)</p>	2	<p>A correctly labelled demand and supply diagram, showing equilibrium = two marks.</p> <p>Accept 'a set of arrangements that allows transactions to take place' = two marks.</p>
(b)	<p><b>One mark for stating a determinant, one mark for explaining a greater need or willingness/ability to buy houses, one mark for linking the two.</b></p> <p>Determinants of an increase in demand for houses include:</p> <ul style="list-style-type: none"> <li>• rise in income</li> <li>• fall in interest rates/availability of credit</li> <li>• price and availability of substitutes (rented property/houses abroad)</li> <li>• taste &amp; fashion</li> <li>• rising population</li> <li>• change in demographics –more households</li> </ul> <p>The case study also identifies:</p> <ul style="list-style-type: none"> <li>• more people living alone(fashion/demographics)</li> <li>• more people having a second home (fashion).</li> </ul>	6	<p>Accept advertising as an example of taste &amp; fashion.</p> <p><b>Do not accept</b> price or a change in price as this does not shift the demand curve.</p> <p>Accept reference to government policy, if applied appropriately to demand.</p> <p><b>Illustrations of possible responses:</b></p> <p><i>Incomes are rising ✓ which means that couples can afford to a deposit on a house ✓ leading to more people buying a house ✓. (3)</i></p> <p><i>Rise in income. ✓ As houses are a normal good ✓ increasing income leads to higher demand for houses ✓ (3) (standard explanation of normal good)</i></p> <p><i>Higher divorce rates ✓ mean that the number of households is increasing ✓ and so people need to buy an additional house ✓ (3)</i></p> <p><i>Taste and fashion ✓ It has become popular to own a second home ✓ so demand rises (2)</i></p> <p>'Leading to an increase in demand' or 'so demand rises' should NOT normally be rewarded as explanation – reward the cause of this increase in demand. Two exceptions to this rule are that phrases may be credited in standard explanations of the impact of affordability and income elasticity.</p>

Question	Answer	Marks	Guidance
(c)	 <p><b>Award up to three marks for diagram:</b></p> <ul style="list-style-type: none"> <li>original equilibrium (1)</li> <li>right shift of supply curve (1)</li> <li>new equilibrium. (1)</li> </ul> <p><b>One mark for analysis of the impact:</b></p> <ul style="list-style-type: none"> <li>quantity should increase (1)</li> <li>the price may fall (1).</li> </ul> <p><b>Award up to two marks for relevant comment such as:</b></p> <ul style="list-style-type: none"> <li>decrease in price depends upon the extent of supply shift</li> <li>decrease in price depends upon elasticity of demand</li> <li>depends on how much the easing of regulation shifts the supply curve</li> <li>this assumes all other factors remain unchanged.</li> </ul>	6	<p>Three marks – application                  One mark – analysis                  Two marks – evaluation</p> <p>Do not accept 'price level'</p> <p>Equilibria must be shown by lines to the axes and labelled with P/P1, Q/Q1.</p> <p>One developed comment can be awarded two marks.</p> <p>Put <span style="border: 1px solid red; padding: 0 2px;">C</span> annotation in the left margin of line in which comment/development appears. Use two such annotations if awarding both comment marks.</p>

Question	Answer	Marks	Guidance
4 (a)	<p><b>Up to two marks</b> for a clear definition such as:</p> <p>The responsiveness of quantity supplied to a change in the price of a product (2).  A measure of the sensitivity of quantity supplied of a good or service to a change in the price of that good or service (2).</p> <p>Correct formula <math>\frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}}</math> or <math>\frac{\% \Delta QS}{\% \Delta P}</math> (2)</p>	2	<p><b>Award one mark only</b> if the candidate has used 'supply' rather than 'quantity supplied' in the formula.</p> <p>No marks for responsiveness of a CHANGE in quantity supplied.</p> <p><math>\frac{\% \Delta Q}{\% \Delta P}</math> – No Marks</p>
(b)	<p><b>Up to two marks</b> for calculations of PES</p> <p><b>2006</b> = 0.75  <b>2007</b> = 2  <b>2008</b> = 0.79  <b>2009</b> = 2.18  <b>2010</b> = -1.96</p> <p><b>Up to a further two marks</b> for interpretation:</p> <ul style="list-style-type: none"> <li>• which ones are elastic (1) and inelastic (1)</li> <li>• that elasticity varies over the period (1).</li> </ul> <p><b>Up to four marks</b> for relevant comment such as:</p> <ul style="list-style-type: none"> <li>• These data are only estimates (1) we do not know the source/ they may therefore be inaccurate/unreliable (1) <b>MAX 2 on estimates.</b></li> <li>• Negative PES (2010) is unusual/unexpected (1) and therefore (particularly) likely to be wrong (1)</li> <li>• The supply curve is likely to have shifted to the left (1) thus increasing prices but reducing quantity supplied and demanded (1) as 'other things being equal' does not apply (1)</li> <li>• Supply would expected to be inelastic in the short run /usually tends to become price elastic in the long run - it takes time to build more houses.</li> </ul>	8	<p>To 4dp the PES figures are:      As fractions:</p> <p>2006 = 0.7500                      3/4  2007 = 2.0000                      2  2008 = 0.7857                      11/14  2009 = 2.1818                      24/11 or 2 2/11  2010 = -1.9595                      -145/74 or 1 71/74</p> <p>Inelastic 2006, 2008  Elastic 2007, 2009, 2010</p> <p>PES expressed as a percentage e.g. 0.75% - award zero marks  Use <span style="border: 1px solid red; padding: 0 2px;">E</span> for comment marks</p> <p>Interpretation and comment marks can not be awarded if there are no calculations.</p> <p>However OFR marks can be awarded for correct interpretation of incorrect figures/calculations - place OFR annotation.</p>



Question	Answer	Marks	Guidance
5 (a)	<p><b>Award up to three marks</b> as follows:</p> <p><b>Identification of external cost</b> (1) such as:</p> <ul style="list-style-type: none"> <li>• destruction of views</li> <li>• fall in property prices</li> </ul> <p><b>Specifying a third party</b> (1) such as:</p> <ul style="list-style-type: none"> <li>• existing residents/community, wider economy, nature lovers</li> </ul> <p><b>Clearly connecting</b> (1) the identified negative externality with the theory of external cost (falling on a third party)</p>		<p>If answer does not identify an external cost, <b>award 0 marks</b></p> <p>Other acceptable costs should be credited such as:</p> <ul style="list-style-type: none"> <li>• Damaging or ruining countryside.</li> <li>• Noise pollution during building, visual pollution (pollution on its own is not credited).</li> </ul> <p>Accept spillover effect on third party if clearly connected.</p> <p>No mark for stand-alone definitions.</p>
(b)	<p><b>Award up to three marks</b> as follows:</p> <p><b>Identification of external benefit</b>, such as:</p> <ul style="list-style-type: none"> <li>• Higher employment</li> <li>• Improved infrastructure</li> <li>• Improved facilities (new services such as schools and shops)</li> </ul> <p><b>Specifying a third party</b> (1) such as</p> <ul style="list-style-type: none"> <li>• existing residents/community, people who live in the area, local businesses (shops, cafes etc), people not living in a SUE, wider economy.</li> </ul> <p><b>Clearly connecting</b> (1) the identified positive externality with the theory of external benefits falling on a third party).</p>	3	<p>If answer does not identify an external benefit, <b>award 0 marks</b></p> <p>Other acceptable benefits should be credited such as:</p> <ul style="list-style-type: none"> <li>• New roads</li> <li>• Bigger population means more revenue/profit/trade</li> <li>• Reduced pressure on existing services/facilities</li> </ul> <p>Accept spillover effect on third party if clearly connected.</p> <p>No mark for stand-alone definitions.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
6		<p><b>Case for a subsidy with respect to supply could include:</b></p> <ul style="list-style-type: none"> <li>incentive for producers to increase supply</li> <li>lowers the cost of housing - potentially lowering price</li> <li>helps people to get onto the property ladder.</li> </ul> <p><b>Case against a subsidy for could include:</b></p> <ul style="list-style-type: none"> <li>difficult to decide on the quantity of subsidy/government failure</li> <li>opportunity cost to local authorities</li> <li>impact depends on suppliers' reactions</li> <li>other factors influence supply</li> </ul> <p>Alternatives may also be compared with subsidies but do <b>not</b> credit information provision.</p> <p>Typically, in explanation of a diagram, though a diagram is not required:</p>	18	<p><b>Use second <span style="border: 1px solid red; padding: 0 2px;">EE</span> annotation to indicate elaboration.</b></p> <p>18 marks: More thorough justification or elaboration of the statement. 17 marks: Some justification or elaboration of the statement.</p> <p><b>Use one <span style="border: 1px solid red; padding: 0 2px;">EE</span> to show where this statement appears in the answer.</b></p> <p>16 marks: A statement that subsidising housing is or is not the most effective solution based on preceding evaluation. Max. of three <span style="border: 1px solid red; padding: 0 2px;">L4</span> annotations should appear on the script. (Put <span style="border: 1px solid red; padding: 0 2px;">SEEN</span> alongside further discussion points.)</p> <p>15 marks: Three evaluative points with some development.</p> <p>14 marks: Two evaluative points with some development.</p> <p><b>Candidates cannot progress above 13 marks without sufficiently developed analysis to support further evaluation.</b></p> <p>13 marks: One evaluative point with some development <b>OR</b> a number of thin points lacking depth (but still placing one L4 tag by each valid point).</p>	<p><b>Level 4 (13–18)</b> <b>For a discussion of policies which encourage the supply of housing.</b></p> <p>All answers at this level must be underpinned with appropriate theoretical concepts.</p> <p>16–18 marks – There must be a supported judgment based on the preceding analysis and it should reflect the strength of the analysis and the evaluation. This is likely to consider alternative solutions.</p> <p>13–15 marks – There must be a discussion of points for and against producer subsidies or subsidies will have been compared with other methods of correcting market failure.</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>Level 3 Band 2</b> <b>11-12 marks</b></p> <ul style="list-style-type: none"> <li>The subsidy increases quantity (from <math>q</math> to <math>q_1</math>)</li> <li>This solves underproduction of affordable new housing</li> <li>Consumer surplus increases</li> </ul> <p><b>Level 3 Band 1</b> <b>9-10 marks</b></p> <ul style="list-style-type: none"> <li>Supply shifts to the right</li> <li>Subsidies effectively reduce producer costs</li> <li>Price falls (from <math>P</math> to <math>P_1</math>)</li> </ul> <p>Alternatively, max of 9 marks for an answer which identifies the new market equilibrium after a subsidy is provided.</p> <p><b>An answer cannot progress from L3 B1 to L3 B2 without analysing how a subsidy changes the QUANTITY of housing.</b></p>		<p><b>Max. of two <span style="border: 1px solid red; padding: 0 2px;">L3</span> annotations</b> <b>Place second <span style="border: 1px solid red; padding: 0 2px;">L3</span> annotation where L3 B2 is awarded.</b></p> <p>12 marks: Subsidy increases quantity plus one other B2 point.</p> <p>11 marks: Subsidy increases quantity from <math>Q</math> to <math>Q_1</math>.</p> <p><b>Place one <span style="border: 1px solid red; padding: 0 2px;">L3</span> annotation where L3 B1 is awarded.</b></p> <p>10 marks: more than one Band 1 point made.</p> <p>9 marks: one Band 1 point made.</p>	<p><b>Level 3 (9–12 marks)</b> <b>For an analysis of the use of subsidies which encourage the supply of housing.</b></p> <p>This must refer to an analysis of the focus of the actual question posed – not to the question which the candidate would have liked to have been asked. It must also incorporate, towards the top end of Level 3 mark range, width and/or depth of analysis illustrating how subsidies operate in a market.</p> <p>11–12 marks – there are likely to be a number of undeveloped analytical points or a couple of analytical points which are well developed. This should include analysis of how providing a subsidy to suppliers will lead to increased supply through lowering of costs. A diagram is likely but not required.</p> <p>9–10 marks – there are likely to be only one/two undeveloped analytical points, or one analytical point which is somewhat developed. Such as an explanation of a subsidy leading to a fall in price – the impact upon the market is unclear.</p> <p>Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant,</p>

Question			Answer	Marks	Guidance	
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			<p><b>For Level 2</b> marks to be awarded candidate must refer to the housing market.</p> <p>Level 2 responses may offer an unexplained diagram or raise, but not analyse, some of the following:</p> <ul style="list-style-type: none"> <li>• Subsidies will increase supply.....</li> <li>• Paying the developers will lead to a fall in price.</li> <li>• Consumer surplus increases</li> </ul>		<p>8 marks: More than one well developed applied point applied to housing.</p> <p>7 marks: Several applied points <b>OR</b> some development applied to housing.</p> <p>6 marks: Two applied points <b>OR</b> unexplained diagram and one point applied to housing.</p> <p>5 marks: Unexplained subsidy diagram <b>OR</b> one point on subsidy applied to housing.</p> <p>3-4 marks: awareness of pros and cons to subsidies not applied to housing.</p> <p>1-2 marks: knowledge of subsidy.</p> <p>0 marks: no understanding of subsidy shown, even if knowledge of market failure is present.</p>	<p>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><b>Level 2 (5–8 marks)</b> <b>For an application of knowledge and understanding of subsidies.</b></p> <p>This sort of response will include unsupported/unsubstantiated statements as to how subsidies can/cannot be used to solve market failure.</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> <b>For knowledge only of a subsidy and/or the impact on consumers/producers.</b></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 also lack legibility.</p>

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