

OCR ADVANCED SUBSIDIARY GCE IN ECONOMICS (3812)

OCR ADVANCED GCE IN ECONOMICS (7812)

Specimen Question Papers and Mark Schemes

These specimen assessment materials are designed to accompany the OCR Advanced Subsidiary GCE and Advanced GCE specifications in Economics for teaching from September 2000.

Centres are permitted to copy material from this booklet for their own internal use.

The GCE awarding bodies have prepared new specifications to incorporate the range of features required by new GCE and subject criteria. The specimen assessment material accompanying the new specifications is provided to give centres a reasonable idea of the general shape and character of the planned question papers in advance of the first operational examination.

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Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ECONOMICS

THE MARKET SYSTEM

2881

Specimen Paper

Additional materials:

Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Write all your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

Answer **all** questions.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

The total mark for this paper is 45.

Answer all parts of this question

Townley Regional Health Authority

All of us at some time in our lives require the services of doctors, dentists and hospitals. Traditionally, in the UK, these services have been provided by the public sector, free of charge to users. Like any sector of the economy though, there is a genuine problem of how to meet the health care needs of the community from the limited resources available. The problem of health care is a very good illustration of what economists mean by the 'economic problem'.

5

The task of allocating resources for health care is carried out by organisations known as Regional Health Authorities. Due to the nature of their funding, there is a maximum quantity of health care that can be provided at any one time. The regional health authority in Townley is faced with just such a problem.

10 Suppose it has to provide just two services to the community, medical services through local doctors (GPs) and dental services through local dental practices. The Production Possibility Frontier in Figure 1 shows some of the trade-offs facing the Townley Regional Health Authority.

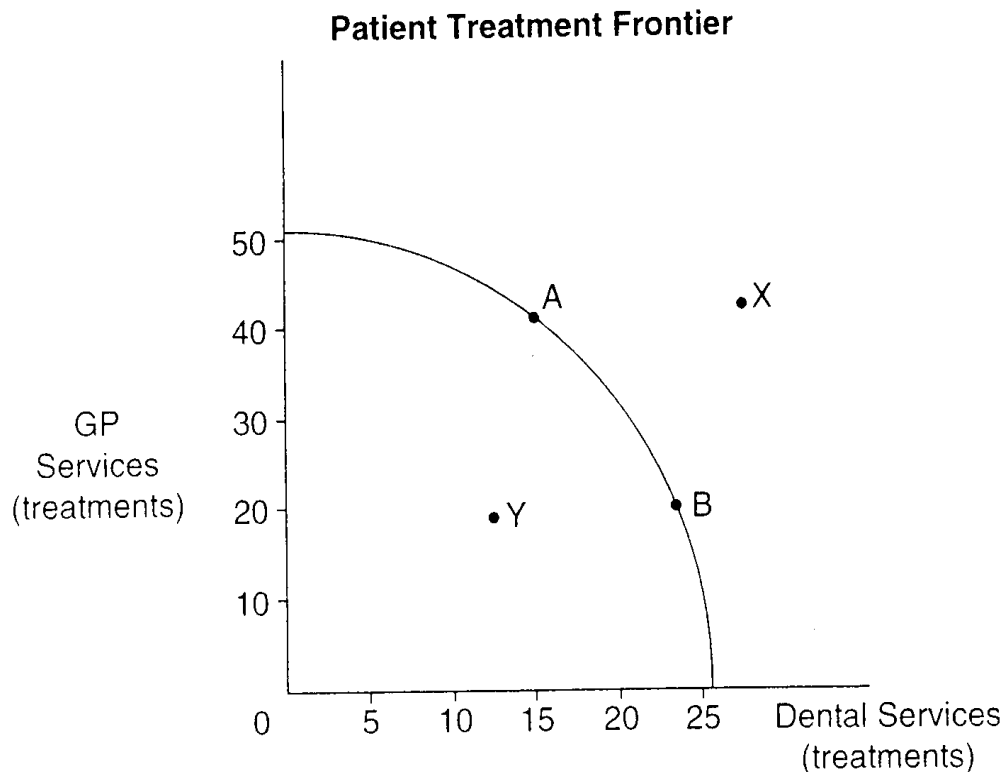


Figure 1

Due to financial pressures and increased demands for its services, the Townley Regional Health Authority is continuously seeking to make a more effective use of its resources

- 15 The Molar Dental Practice, like other dentists in Townley, has recently taken the decision to ‘opt out’ of the control of the Townley Regional Health Authority. It is now one of a large and growing number of private dental practices in the town which treat only private patients who pay the ‘full cost’ for any treatment they receive. Market research undertaken for the practice shows the estimated demand schedule for the services it provides. This information is shown in Table 1 below.

Table 1

Estimated Demand Schedule for Treatment Provided by the Molar Dental Practice

Average Price of Treatment	Quantity of Treatment Demanded per month
40	350
35	375
30	400
25	450
20	500
15	600
10	800

- 20 Other private dentists in Townley do not charge exactly the same price for treatment as the Molar Dental Practice. However, the market is a very competitive one, with businesses seeking to enhance their reputation in order to attract new patients who are seeking private dental treatment. At present, all private dentists are in a situation where they are able to take on any new patients who are willing to pay the charge for the treatment they receive.

- (a) (i) Define the term ‘opportunity cost’. [2]
- (ii) With reference to Figure 1, explain the trade-offs which are facing the Townley Regional Health Authority. [4]
- (iii) How can opportunity cost be used to explain the shape of the production possibility frontier? [2]
- (iv) If the Townley Regional Health Authority makes a more effective use of its resources, how will this affect the production possibility frontier? [2]
- (b) (i) Use the data in the table to sketch the demand curve for services of the Molar Dental Practice and explain the shape of this curve. [4]
- (ii) If the income level of patients falls, use a diagram to explain how this might affect the demand for dental services provided by Molar Dental Practice. [4]
- (c) The ‘full cost’ of providing dental services consists of some costs which are fixed and other costs which are variable (line 17).

- (i) With aid of examples, explain the difference between fixed and variable costs for the Molar Dental Practice. [4]
- (ii) If the wages of dental nurses increase, how might this affect the prices charged by the Molar Dental Practice to its patients? [5]
- (d) With reference to the data shown in Table 1:
- (i) briefly explain how this data might have been collected. [5]
- (ii) comment upon its usefulness to the owners of the Molar Dental Practice. [5]
- (e) An economist would argue that the market for private dental treatment in Townley is an example of monopolistic competition.
- Using the evidence in lines 15-24, discuss the extent to which this market is an example of monopolistic competition. [8]



Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ECONOMICS

THE MARKET SYSTEM

2881

Mark Scheme

General Introduction

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 Levels of Response mark scheme is not used for the marking of this part question so the following Quality of Written Communication Levels are related to the appropriate mark ranges within the mark scheme for the final part as follows:

Quality of Written Communication Level	Embedded Mark	Mark Range
4	3	7-8
2/3	2	3-6
1	1	1-2

These levels of the quality of written communication are defined as follows:

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.]

Specific marking points

- (a) (i) **Define the term ‘opportunity cost’.** [2]

For a clear definition which includes reference to the next best alternative and the idea of a sacrifice (explicit or implicit) (2 marks).

For an understanding of the cost of alternatives which might be forgone and/or examples to illustrate this (1 mark).

- (ii) **With reference to Figure 1, explain the trade-offs which are facing the Townley Regional Health Authority.** [4]

For an understanding of the principle underlying the PPF and the idea of trade-offs (2 marks).

For the application to the provision of GP services and dental services including some reference to points A and B on the PPF (2 marks).

- (iii) **How can opportunity cost be used to explain the shape of the production possibility frontier?** [2]

For application of the concept of diminishing returns/increasing opportunity cost to explain the shape of the PPF (2 marks).

For vague recognition that the PPF is curved because opportunity costs differ (1 mark).

- (iv) **If the Townley Regional Health Authority makes a more effective use of its resources, how will this affect the production possibility frontier?** [2]

For a clear statement or diagram to show that the PPF will shift outwards (2 marks).

- (b) (i) **Use the data in the table to sketch the demand curve for services of the Molar Dental Practice and explain the shape of this curve.** [4]

Up to 2 marks for a correctly sketched diagram
- correctly labelled axes
- for correctly sketched shape i.e. steeply sloping downwards and less steep thereafter.

For an explanation of the downward sloping nature of this curve:

For inverse relationship (1 mark)

For relevant elaboration (1 mark).

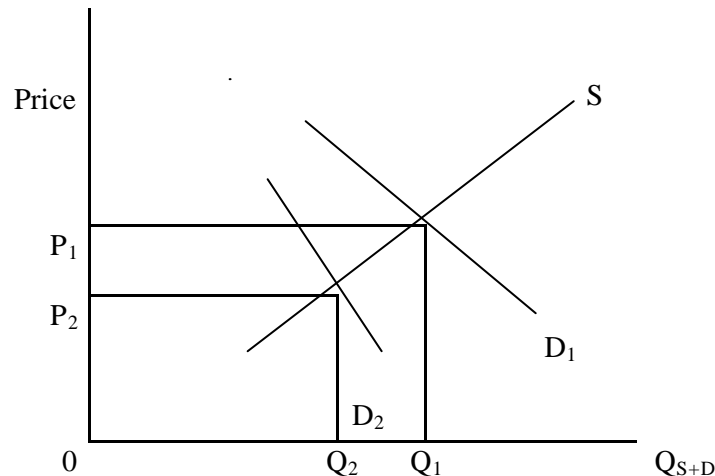
[4]

- (ii) **If the income level of patients falls, use a diagram to explain how this might affect the demand for dental services provided by Molar Dental Practice.**

[4]

For a correctly drawn diagram indicating a shift to the left of the demand curve and a clear deduction that the demand for dental treatment will fall (4 marks).

Diagram only (2 marks).



9. (c) **The ‘full cost’ of providing dental services consists of some costs which are fixed and other costs which are variable (lines 17).**

- (i) **With aid of examples, explain the difference between fixed and variable costs for the Molar Dental Practice.**

[4]

For an explanation of the difference between fixed costs and variable costs (2 marks)

(Award 1 mark only where the difference is not explicitly recognised.)

For examples of

- fixed costs (eg rent, insurance, depreciation, interest, management salaries)
- variable costs (some labour costs, raw materials, other consumables)

4 marks for these in a dental practice context (award 2 marks maximum for general examples).

- (ii) **If the wages of dental nurses increase, how might this affect the prices charged by the Molar Dental Practice to its patients?** [5]

The supply curve for dental services will shift to the left (2 marks).

The extent of the shift will depend on the proportion of wages of dental nurses in total costs (i.e. small) and the price elasticity of demand for dental services of the practice.

- (d) **With reference to the data shown in Table 1:**

- (i) **briefly explain how this data might have been collected.** [5]

For an explanation of how the data might have been collected eg survey of patients, use of practice records, using data from similar dental practices. Up to 5 marks.

- (ii) **comment upon its usefulness to the owners of the Molar Dental Practice.** [5]

For a general understanding of the data's usefulness for pricing decisions (2 marks).

For an elaboration which includes some reference to price elasticity of demand and the implications for practice revenue (up to 3 marks).

- (e) **An economist would argue that the market for private dental treatment in Townley is an example of monopolistic competition.**

Using the evidence in lines 15-24, discuss the extent to which this market is an example of monopolistic competition. [8]

Up to 2 marks for an understanding of the features of monopolistic competition.

Up to 6 marks for a discussion of the extent to which the case material is indicative of monopolistic competition: e.g.

- prices charged by private dentists are not the same
- there are a large number of private dentists in Townley
- product differentiation.

Up to 2 additional marks for alternative evidence of the extent to which other characteristics do not seem to be evidenced in the case material: e.g.

- few barriers to entry (professional qualifications)
- only a local market
- not easy to define a brand image.

Credit recognition of non-price competition, with appropriate elaboration.

Unit 2881: The Market System

	a(i)	a(ii)	a(iii)	a(iv)	b(i)	b(ii)	c(i)	c(ii)	d(i)	d(ii)	e	TOTAL
A01 Target: 13-14	2	2			2	2	2		2		2	14
A02 Target: 30 13-14		2	2	2	2	2	2		2			14
A03 Target: 9								5	1	2		8
A04 Target: 9										3	6	9
												45
Assessment of Subject Core	5.1.1	5.1.1	5.1.1	5.1.1	5.1.2	5.1.2	5.1.3	5.1.3	5.1.2	5.1.2	5.1.3	

Quality of Written Communication embedded in mark scheme for part (e): see general introduction to mark scheme.

Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ECONOMICS

MARKET FAILURE AND GOVERNMENT INTERVENTION **2882**

Specimen Paper

Additional materials:
Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Write all your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

Answer **all** questions.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

The total mark for this paper is 45.

Answer all parts of this question

The Problem of Pollution

Every day, there are innumerable instances where firms and other organisations pollute their local environment, deliberately in the main but sometimes by accident. The extract below, taken from a national newspaper, reports on a particular case whereby the polluter was successfully prosecuted for the environmental problems caused by a spillage of chemicals into a local river.

Water firm is fined over salmon deaths

A water company was fined £175,000 yesterday for poisoning a salmon river. Severn Trent Water admitted leaking chemicals into the Wye, killing 33,000 young salmon - 98 per cent of the stock in the river.

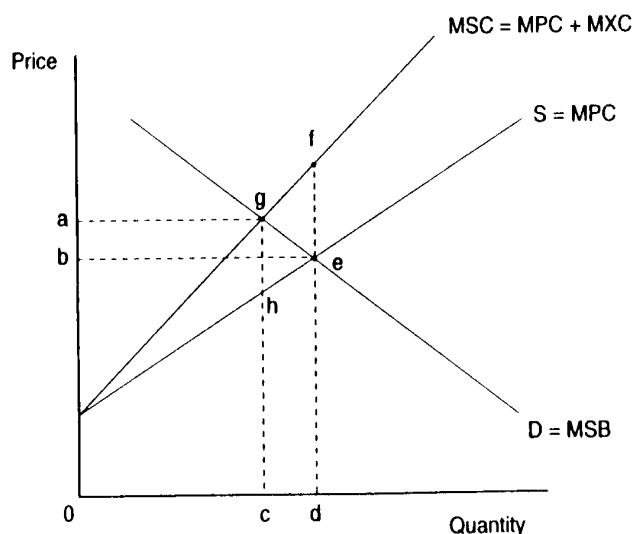
Cardiff Crown Court heard that the leak was the company's 34th conviction since privatisation in 1990. Judge John Prosser criticised the company for its poor record and described its management as 'very slack indeed'. Mark Bailey, prosecuting for the National Rivers Authority, said that pollution from the Elan Valley water treatment works, at Rhayader, Powys, had 'catastrophic consequences for the river'.

'An estimated 33,000 young salmon were exterminated by this leak, which affected eight kilometres of river', he said. 'It is relatively easy to replace adult salmon, but these young salmon need to be replaced with the fish from the same gene pool. Severn Trent caused this catastrophe through a collection of errors, including bad management and inferior maintenance. The area is one of the most significant salmon fishing areas in England and Wales and this is one of the most significant incidents. The sheer number of fish killed is higher than any other incident.'

Judge Prosser told water company executives sitting in the court that the leak was due to design defects, gross mismanagement and inferior maintenance. The company also claimed it was not responsible for the whole of the pollution.

Incidents such as the one described above are the outcome of a situation whereby the market mechanism has failed to produce the best allocation of resources due to negative externalities. Economists can explain the pollution of the River Wye by Severn Trent Water in terms of the diagram shown in Fig. 1.

Figure 1



(MXC = marginal external costs; MPC = marginal private costs; MSC = marginal social costs; MSB = marginal social benefit)

Fig. 1 Private & Social Cost Divergence

[Adaptation: Wilkinson M, Equity, Efficiency and Market Failure, Heineman Educational, 1997 and Daily Telegraph, 6 August 1996]

- (a) (i) Describe what is meant by a negative externality. [2]
- (ii) Use the evidence in the newspaper article to show how negative externalities apply to this particular pollution incident. [6]
- (b) Use Fig. 1 to answer the following questions and, in each case, assume a competitive market operates with no government intervention.
- (i) What would be the market equilibrium price and output? Explain your answer. [4]
- (ii) What would be the price and output at the social optimum? Explain your answer. [4]
- (iii) What are the consequences for the firm and for its consumers of the differences between price and output levels at the market equilibrium and the social optimum? [6]
- (c) (i) Drawing upon the case described in the newspaper article, state the arguments for and against fines as a means of reducing environmental pollution. [6]
- (ii) With the help of Fig. 1, explain how it might be possible to apply a pollution charge or green tax in this particular case. [7]

- (d) Suppose the National Rivers Authority decides to consider closing the present Elan Valley water treatment works and recommend its replacement with a new works in a different site. Discuss how an economist might use the cost-benefit approach to determine whether this action should be taken.

[10]



Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ECONOMICS

MARKET FAILURE AND GOVERNMENT INTERVENTION 2882

Mark Scheme

General Introduction

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 Levels of Response mark scheme is not used for the marking of this part question so the following Quality of Written Communication Levels are related to the appropriate mark ranges within the mark scheme for the final part as follows:

Quality of Written Communication Level	Embedded Mark	Mark Range
4	3	7-8
2/3	2	3-6
1	1	1-2

These levels of the quality of written communication are defined as follows:

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.]

Specific marking points

- (a) (i) **Describe what is meant by a negative externality.** [2]

Up to 2 marks for a clear explanation in terms of a divergence between marginal social costs and marginal private costs.

1 mark for a vague description.

- (ii) **Use the evidence in the newspaper article to show how negative externalities apply to this particular pollution incident.** [6]

Up to 3 marks for the direct extraction of evidence e.g. death of 33,000 young salmon, loss of fishing activity for anglers, deterioration in quality of local environment.

Up to 3 marks for the application of this evidence to economic characteristics of negative externalities.

- (b) **Use Fig. 1 to answer the following questions and, in each case, assume a competitive market operates with no government intervention.**

- (i) **What would be the market equilibrium price and output? Explain your answer.** [4]

b d (1 mark)
plus up to 3 marks for an explanation.

- (ii) **What would be the price and output at the social optimum? Explain your answer.** [4]

a c (1 mark)
plus up to 3 marks for an explanation.

- (iii) **What are the consequences for the firm and for its consumers of the differences between price and output levels at the market equilibrium and the social optimum?** [6]

b is lower than a 1 mark

d is higher than c 1 mark

For elaboration of the above in terms of its implications for the firm and for the consumers of the firm's products. (4 marks)

- (c) (i) **Drawing upon the case described in the newspaper article, state the arguments for and against fines as a means of reducing environmental pollution.** [6]

Up to 4 marks for a description of the advantages and disadvantages of using fines to reduce negative externalities in principle.

Up to 2 marks for an application of the above with specific reference to the case material (e.g. 34th conviction since 1990). Credit reference to the effect on Severn Trent Water's cost structure.

- (ii) **With the help of Fig. 1, explain how it might be possible to apply a pollution charge or green tax in this particular case.** [7]

Up to 5 marks for explanation of theoretical principles behind a pollution charge or green tax.

Up to 2 marks for explicit reference to Fig. 1.

- (d) **Suppose the National Rivers Authority decides to consider closing the present Elan Valley water treatment works and recommend its replacement with a new works in a different site. Discuss how an economist might use the cost-benefit approach to determine whether this action should be taken.** [10]

Up to 2 marks for an appropriate application of the cost-benefit approach.

Up to 8 marks for a discussion of how an economist might use the cost-benefit approach to determine the outcome. This may include reference to case-specific private and external costs and benefits, and reference to the problems of applying this approach in this particular situation.

Unit 2882: Market Failure and Government Intervention

	a(i)	a(ii)	b(i)	b(ii)	b(iii)	c(i)	c(ii)	d	TOTAL
A01 Target: 13-14	2		4	4		4			14
A02 Target: 13-14		6			2	2	2	2	14
A03 Target: 9					4		5		9
A04 Target: 9								8	8
									45
Subject Content Reference	5.2.2	5.2.2	5.2.2	5.2.2	5.2.1	5.2.3	5.2.3	5.2.3	

Quality of Written Communication embedded in mark scheme for part (d): see general introduction to mark scheme.

Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ECONOMICS

THE NATIONAL AND INTERNATIONAL ECONOMY

2883

Specimen Paper

Additional materials:

Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Write all your answers on the separate answer paper provided.

Answer parts (a) to (c) and **either** d(i) **or** d(ii).

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

The total mark for this paper is 60.

Answer parts (a) to (c) and either (d)(i) or (d)(ii)

Japan and the UK - A Tale of Two Economies

Japan used to be seen as a strong economy. It consistently enjoyed steady economic growth, low inflation, low unemployment and a surplus on its current account balance until recent years when it was hit by the 'Asian crisis'. Banks and businesses collapsed. Aggregate demand fell and unemployment started to rise. In 1998, the situation grew worse. Output declined, unemployment rose further and confidence fell to a record low level. In an attempt to stimulate the economy out of recession, the Japanese government increased its spending on capital projects, training schemes for the unemployed and support for the housing market. Monetary policy was also eased with the rate of interest being reduced on several occasions.

The Asian crisis subsequently became a global crisis as it spread to Russia and Latin America. The UK government feared it would result in a recession in the UK. In a bid to avoid this, the Bank of England cut interest rates from 7.5% in September 1998 to 6% in January 1999. The government also eased fiscal policy.

Table 1: Key Indicators of the Japanese Economy 1995-1999

Year	% Change in Real GDP	Unemployment %	Inflation %	Current Account Balance (\$b)
1995	1.4	3.2	-0.5	114
1996	5.2	3.3	0.0	68
1997	1.4	3.4	1.4	94
1998+	-2.9	4.1	0.2	120
1999+	-0.4	4.6	-0.9	150

Table 2: Key Indicators of the UK Economy 1995-99

Year	% Change in Real GDP	Unemployment %	Inflation %	Current Account Balance (\$b)
1995	2.8	8.1	3.4	-3.2
1996	2.6	7.3	2.4	0.1
1997	3.5	5.5	3.1	7.0
1998+	2.5	4.7	3.0	-1.7
1999+	1.0	4.8	1.2	-6.6

Note: + estimates

- (a) The following economic terms are included in the above material:
- (i) Current account balance
 - (ii) Recession
 - (iii) Fiscal policy
- Describe what each means. [6]
- (b) (i) Explain how an economic slowdown in Japan might affect the UK economy. [8]
- (ii) Using the data provided in Tables 1 and 2, compare the economic performance of Japan and the UK for the period shown. [12]
- (c) (i) Describe how the unemployment rate in the UK is calculated. [4]
- (ii) Using the information provided in Tables 1 and 2, comment upon the relationship between changes in the rate of unemployment and changes in the rate of inflation. [10]
- (d) **Either**
- (i) Discuss why growth rates may differ between particular economies. [20]
- or**
- (ii) Discuss alternative government policies for reducing the rate of inflation in an economy. [20]



Oxford Cambridge and RSA Examinations

Advanced Subsidiary GCE

ECONOMICS

THE NATIONAL AND INTERNATIONAL ECONOMY

2883

Mark Scheme

General Introduction

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. 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 either d(i) or d(ii).

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 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 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 – ie AS Unit 2883 and all A2 units.

Specific marking points

(a) **The following economic terms are included in the above material:**

(i) **Current account balance**

(ii) **Recession**

(iii) **Fiscal policy**

Describe what each means.

[6]

(i) 2 marks for either:

visible balance plus invisible balance

or

trade in goods, trade in services, investment income and transfers.

(ii) 2 marks for fall in GDP/output /income over a period of time: 1 mark for a definition with no time reference.

(iii) 2 marks for changes in government expenditure and for changes in taxation; 1 mark for reference to government expenditure and taxation.

(b) (i) **Explain how an economic slowdown in Japan might affect the UK economy.**

[8]

An economic slowdown may have a number of adverse effects on the UK economy:

- a fall in Japanese demand for UK exports;
- increase in Japanese exports to the UK as Japanese manufacturers are forced to switch goods from the domestic to the export market;
- increase in competition from Japanese exports in UK export markets;
- a reduction in the output and employment of Japanese companies based in the UK;
- cancellation of proposed Japanese financial and physical investment in the UK;
- reduction in bank lending as fear of bankruptcies rises.

Award up to 4 marks for identification of likely effects and up to 4 marks for an explanation/elaboration of these effects.

- (ii) **Using the data provided in Tables 1 and 2, compare the economic performance of Japan and the UK for the period shown.** [12]

Apart from 1996, the UK had a higher rate of economic growth than Japan. Its economic growth rate was also more stable than Japan's and whilst it fell from 1997 it did not, unlike Japan, experience a fall in output.

Japan's unemployment rate was lower than the UK's for each year shown. However, whilst the UK rate was lower in 1999 than in 1995, Japan's unemployment rate rose throughout the period. In 1996, the UK's unemployment rate was more than twice that of Japan's, whilst in 1999 it was only 0.2 points higher.

Japan's inflation rate was lower than the UK's in each year shown. However it might be argued that falls in the general price level as experienced in 1995 and 1999 cause more problems than a low, relatively stable rate such as that experienced by the UK. Japan has a large current account surplus throughout the period. Indeed when there is a recession in Japan the surplus increases. This is in part the result of the difficulties experienced by the economy. Japanese producers, unable to sell as much at home, were forced to increase their exports whilst falling incomes and rising unemployment results in lower expenditure on imports. The UK's current account position fluctuates. It is in deficit at the beginning and end of the period. It might be noted that the current account positions would be measured in different currencies.

Up to 8 marks for a comparison of each of the two economies, including specific application from the tables.

Up to 4 marks for an analysis of appropriate performance indicators.

- (c) (i) **Describe how the unemployment rate in the UK is calculated.** [4]

Up to 2 marks for recognising that the unemployment rate is the number of unemployed expressed as a percentage of the labour force (employed and those seeking employment).

Up to 2 marks for referring to the claimant count measure or the survey measure.

- (ii) **Using the information provided in Tables 1 and 2, comment upon the relationship between changes in the rate of unemployment and changes in the rate of inflation.** [10]

Up to 4 marks for an identification of the relationships shown. In Japan, no clear relationship is identifiable. At the beginning of the period, unemployment and inflation both move in the same direction, whereas in 1999 they move in opposite directions. In the UK, with the exception of 1996 to 1997, there was a positive relationship between changes in the unemployment rate and changes in the inflation rate.

Up to 6 marks for a commentary on the disparity between the data and what might be expected from theoretical knowledge. (Note: direct reference to the Phillip's curve is **not** required.)

(d) Either

(i) Discuss why growth rates may differ between particular economies. [20]

The nature of economic growth and its measurement in terms of growth rates. Short and long run considerations (increasing aggregate demand and increasing productive potential). Causes of economic growth - quantity and quality of resources.

Differences in growth rates between economies, for example between developed and developing economies. Discussion or relevance of explanation in these terms.

L4 For a discussion of why growth rates differ between economies [15-20]

L3 For an analysis of why growth rates differ between economies [9-14]

L2 For an understanding of why growth rates between economies may differ [5-8]

L1 For some descriptive points on economic growth [1-4]

Or

(ii) Discuss alternative government policies for reducing the rate of inflation in an economy. [20]

Policy options for controlling the rate of inflation in an economy - fiscal policies (reducing government expenditure, increasing various types of taxation types of association), monetary policy (interest rate increases), exchange rate and supply-side policies. Analysis of how alternative policies work. Discussion of the implications and likely effectiveness of each policy.

L4 For a discussion of alternative policies for reducing inflation [15-20]

L3 For an analysis of alternative policies for reducing inflation [9-14]

L2 For an understanding of alternative policies for reducing inflation [5-8]

L1 For a description of some policy options [1-4]

Quality of written communication [(d) (i) or (ii) only]

Unit 2883: The National and International Economy

	a	b(i)	b(ii)	c(i)	c(ii)	d(i) or (ii)		TOTAL
AO1 Target: 18	6	4		4		4		18
AO2 Target: 18			8		4	4		16
AO3 Target: 12		4	4			6		14
AO4 Target: 12					6	6		12
								60
Subject Content Reference	5.3.1,3,4	5.3.1,2,4	5.3.1,4	5.3.1	5.3.3	5.3.1,2,3		

Quality of Written Communication embedded in mark scheme for (d) - see general introduction to mark scheme.

Oxford Cambridge and RSA Examinations

Advanced GCE

ECONOMICS

ECONOMICS OF WORK AND LEISURE

2884

Specimen Paper

Additional materials:

Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Write all your answers on the separate answer paper provided.

Answer Section A and **one** question from Section B.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

The quality of your written communication will be assessed in your answer to Section B.

This answer must be in continuous prose.

The total mark for this paper is 45.

Section A

Answer this question

1. Changes in the British Labour Market

Extract 1

Table 1 shows the distribution of earnings as a percentage of the median pay of men and women in 1979 and in 1995. The median pay is the mid-point of the earnings distribution – in 1995, for example, the median pay for men was £304 per week and for women £222 per week. Consequently, as the table shows, 10% of men earned at least 186% of the median wage in 1995, whilst 90% of men earned at least 57% of the median wage.

Table 1

Distribution of Earnings as a Percentage of Median Pay

	Men		Women	
	1979	1995	1979	1995
	% of Median Pay	% of Median Pay	% of Median Pay	% of Median Pay
top 10% earned more than	157	186	159	181
top 25% earned more than	125	137	125	140
top 50% earned more than	100	100	100	100
top 75% earned more than	80	74	82	76
top 90% earned more than	66	57	69	61

Note: The figures relate to gross weekly earnings of full-time adult employees whose pay was not affected by absence in April each year.

Source: Department of Employment, *New Earnings Survey*, 1997, Part A, HMSO

Extract 2

Wages Councils and Minimum Wages

5 The Trade Union Reform and Employment Rights Act in the early 1990s brought at least a temporary end to the 84 year old system of legal minimum wages. Until that date, it was the role of Wages Councils to determine them. At abolition, the 26 Wages Councils determined minimum rates of pay for 2.4 million workers, mostly non-union women working in the service sector - in shops, restaurants, hairdressers etc - but also in some parts of manufacturing.

10 The Wages Councils did little to raise the relative pay of the low paid, but they may have prevented it from falling. The government's precise reason for abolishing the councils was unclear. Ministers sometimes implied that minimum wages priced unskilled workers out of jobs and led to higher unemployment. In defending abolition of the councils, however, former Employment Secretary, Gillian Shepherd, argued that they were irrelevant, since most workers covered by the Councils' Wages Orders earned more than the minimum rates of pay being set.

15

If the latter claim proved true, abolition would have had little effect other than to save the money spent on the Councils' administrative machinery. If the Councils did serve to price some workers out of jobs, however, reform should have led to more jobs, but with the consequence of even lower pay for some of the weakest groups in the labour market.

Source: Adapted from 'The Labour Market' by John Philpot in Focus on Britain. Edited by Phillip Allan, John Benyon and Barry McCormick. Published by Perennial Publications.

- (a) Give **two** reasons which might explain the fact that the median earnings of men and women differed in 1995 (Extract 1, line 3). [4]
- (b) (i) Using the data in Table 1, show how the pay gap (i.e. the gap between the highest paid and lowest paid) widened between 1979 and 1995. [3]
- (ii) Explain **one** reason why this pay gap may have widened. [2]
- (c) (i) Use supply and demand analysis to explain why it could be argued 'minimum wages priced unskilled workers out of jobs' (Extract 2, line 8). [2]
- (ii) Explain the likely impact of the abolition of the Wages Councils on the pay gap for women. [3]
- (d) Discuss **one** policy which might be used to reduce earnings differences between men and women. [6]

Section B

Answer **one** question in this section.

- 2 Relative wages may depend on demand and supply, but the nature of the industry in which workers are employed has at least as much influence.
- (a) Explain what determines the demand for labour in a perfectly competitive market. [10]
- (b) With reference to the market for manual workers in an industry such as car assembly, discuss the extent to which the level of wages may differ from that determined in a perfectly competitive market. [15]
- 3 ‘We conclude that the proposed merger between BSkyB and Manchester United may be expected to operate against the public interest. Accordingly, we recommend that the proposed acquisition of Manchester United by BSkyB should be prohibited.’
(Competition Commission, 9 April 1999).
- (a) Explain the characteristics of the structure of the broadcasting markets in which BSkyB operates. [10]
- (b) Discuss why the Competition Commission might be concerned about the merger between BSkyB and Manchester United. [15]
- 4 ‘The Government’s strategy is based around moving people from welfare and into work and making work pay’ (HM Treasury).
- (a) Explain how the tax and benefit system may affect work incentives. [10]
- (b) Discuss whether reform of the tax and benefit system **alone** can be expected to reduce income inequality and poverty in the UK. [15]



Oxford Cambridge and RSA Examinations

Advanced GCE

ECONOMICS

ECONOMICS OF WORK AND LEISURE

2884

Mark Scheme

General Introduction

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 markscheme only – ie AS Unit 2883 and all A2 units.

Specific marking points

Section A

- 1 (a) Give two reasons which might explain the fact that the median earnings of men and women differed in 1995 (Extract 1, line 3). [4]

Expect a variety of reasons that may apply to either the supply or demand side of wages determination eg discrimination, employment in different industries (manufacturing/ service industries), differences in unionisation, differences in skilled/unskilled occupations.

(1 mark for recognition of potential cause - 1 mark for explanation) x 2 = 4

- (b) (i) Using the data from Table 1, show how the pay gap (i.e. the gap between the highest and lowest paid) widened between 1979 and 1995. [3]

Must refer to both men and women. If we consider women (men in brackets) - the bottom 10% earned less than 69% (66%) of median wages in 1979 and 61% (57%) in 1995 whilst for the top 10% the figure has increased more dramatically from 159% (157%) to 181% (186%), a widening of the gap in both cases - this is in relative (and absolute) terms. So must also have widened for employees in total.

Recognition that the figure has dropped for the bottom 10% (1 mark) and risen for the top 10% (1 mark).

Conclusion on the effect on the pay gap (1 mark).

- (ii) Explain one reason why this pay gap may have widened. [2]

Any acceptable reason which may include: at the lower end relative wages have fallen because of reduction in TU power, end of Wages Councils, pay limits on public sector workers, whilst growth in pay of top earning more difficult to justify - could be explained by fact that managers/top executives enjoyed larger pay rises than other workers.

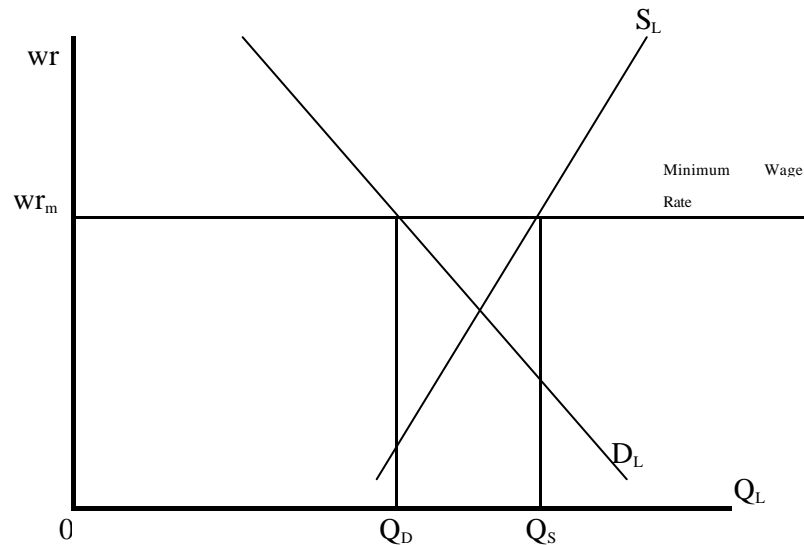
1 mark for recognition of potential cause - 1 mark for explanation.

- (c) (i) Use supply and demand analysis to explain why it could be argued ‘minimum wages price unskilled workers out of jobs’ (Extract 2, line 8).

[2]

Candidates should draw supply and demand curves for labour within the minimum wage rate drawn above the equilibrium wage rate thus creating excess supply of labour.

1 mark for diagram - 1 for explanation.



- (ii) Explain the likely impact of the abolition of the Wages Councils on the pay gap for women.

[3]

The passage clearly states that the 26 Wages Councils were mainly concerned with non-union women working in the service sector. Thus it could be argued that their wages will fall as they are not unionised and thus the pay gap will widen. Note the data is concerned with full-time employees and thus any reference to changes in hours is not relevant.

1 mark for recognising structure of female employment and relationship to Wages Council and 2 marks for likely impact on pay gap.

- (d) Discuss one policy which might be used to reduce earnings differences between men and women.

[6]

Many possible policies: e.g. equal pay legislation, use of employment taxes/subsidies.

Up to 6 marks for evaluation of its effects.

Section B

2 Relative wages may depend on demand and supply, but the nature of the industry in which workers are employed has at least as much influence.

- (a) Explain what determines the demand for labour in a perfectly competitive market. [10]

Demand for labour is derived. Nature of a perfectly competitive market. Firm is a profit maximiser. Explanation of MPP and MRP, and of MRP as determining demand for labour in the market. Individual firm as a price (wage)-taker.

L3 For clear explanation, both of MRP and demand for labour in market. [7-10]

L2 For valid explanation of MRP, without clear links to demand for labour [3-6]

L1 For a few general points only on demand for labour [1-2]

- (b) With reference to the market for manual workers in an industry such as car assembly, discuss the extent to which the levels of wages may differ from that determined in a perfectly competitive market. [15]

Discussion of non-perfectly competitive nature of relevant industry (which need not be car assembly). Level of wages as determined both by S and D and by other factors. Firms as having some degree of monopsony power, with resulting effect on wages. Possibility of trade union influences on wages. Comparison with wage in perfectly competitive market.

L4 For a clear discussion of the 'extent to which' the level of wages may differ in the different types of market [9-15]

L3 For relevant analysis applied to the labour market for manual workers, with some attempt to compare across different types of market [6-8]

L2 For some explanation of effect of at least one market failure [3-5]

L1 Generally descriptive points about the labour market for manual workers, with little economic analysis [1-2]

- 3 ‘We conclude that the proposed merger between BSkyB and Manchester United may be expected to operate against the public interest. Accordingly, we recommend that the proposed acquisition of Manchester United by BSkyB should be prohibited.’
(Competition Commission, 9 April 1999)**

- (a) Explain the characteristics of the structure of the broadcasting markets in which BSkyB operates. [10]**

Structure of broadcasting markets in terms of: number of firms in the market; size of firms in terms of market share; ease of entry; nature of product (product differentiation); knowledge and information. Application of market structure characteristics to television broadcasting. Distinction between pay TV, free-to-air TV and premium channel TV markets.

- L3 Clear explanation, with distinction between range of markets in which BSkyB operates [7-10]
- L2 Some explanation of a limited range of market structure characteristics with no clear distinction between the range of markets [3-6]
- L1 A few descriptive points only [1-2]

- (b) Discuss why the Competition Commission might be concerned about the merger between BSkyB and Manchester United. [15]**

Issues of ‘vertical integration’ and effects on competition for broadcasting rights - BSkyB’s potential influence over selling of rights and response of other bidders. Effects of reduced competition on choice for viewers and innovation. Effects on entry into market. Wider effects on pay TV market. Effects on competition amongst football clubs and implications for the game - inequality of wealth. Discussion of benefits of the merger.

- L4 For a discussion of the concern about the anti-competitive effects of the merger between BSkyB and Manchester United [9-15]
- L3 For analysis of anti-competitive effects of the merger only [6-8]
- L2 For broad explanation of anti-competitive effects of mergers, with little reference to the case of TV broadcasters and football clubs [3-5]
- L1 For a few descriptive points only [1-2]

4 ‘The Government’s strategy is based around moving people from welfare and into work and making work pay’ (HM Treasury).

(a) Explain how the tax and benefit system may affect work incentives. [10]

Unemployment trap and the replacement ratio (income in work: income out of work). Poverty trap - effect of tax and means tested benefits on income in work. High effective marginal rates of taxation.

L3 For a clear explanation of unemployment and poverty traps and the effect on work incentives [7-10]

L2 Some explanation of effect of tax or benefit system only, with no consideration of how they might interact to affect incentives [3-6]

L1 A few descriptive points only [1-2]

(b) Discuss whether reform of the tax and benefit system alone can be expected to reduce income inequality and poverty in the UK. [15]

*Causes of income inequality and poverty - wealth, qualifications, hours worked, labour market power, nature of employment, composition of household and demographic factors, unemployment, level of benefits, trends in pension provision etc. Reform of tax and benefit system - reduction in lower rates of taxation, Working Families Tax Credit, minimum income guarantees etc. Effect on inequality and poverty. Discussion of extent to which tax and benefit reform **alone** can reduce inequality and poverty - role of employment opportunities, minimum wage, growth in employment, labour market flexibility in reducing/causing inequality/poverty.*

L4 For a clear discussion of relevance of tax and benefit reform measures to reduction of income inequality and poverty, including causes or policies [9-15]

L3 For an analysis of tax and benefit reform with an attempt to relate to impact on income inequality and poverty [6-8]

L2 For a broad explanation of tax and benefit reform, with little link to impact on income inequality and poverty [3-5]

L1 For a few descriptive points only [1-2]

Unit 2884: Economics of Work and Leisure

	Q1						Q2		Q3		Q4		TOTAL
	(a)	(b) (i)	(b) (ii)	(c) (i)	(c) (ii)	(d)	(a)	(b)	(a)	(b)	(a)	(b)	
AO1 Target: 9	2		1	1			3	2	3	2	3	2	9
AO2 Target: 9		3					3	3	3	3	3	3	9
AO3 Target: 13-14	2		1	1	3		4	3	4	3	4	3	14
AO4 Target: 13-14						6		7		7		7	13
													45

Subject Content Reference	5.4.1,3 ,4	5.4.1,2,3	5.4.3,4	5.4.4	5.4.4	5.4.3,4			5.4.2		5.4.4		
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Quality of Written Communication embedded in Section B mark scheme: see general introduction to mark scheme.

Oxford Cambridge and RSA Examinations

Advanced GCE

ECONOMICS

TRANSPORT ECONOMICS

2885

Specimen Paper

Additional materials:

Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer Section A and **one** question from Section B.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

The quality of your written communication will be assessed in your answer to Section B. This answer must be in continuous prose.

The total mark for this paper is 45.

Section A

Answer this question.

1 Bus Deregulation - a contestable market?

5 The main economic principle which has underpinned the deregulation of local bus services has been to create a contestable market. Following deregulation in 1986, many small bus operators were formed. Some of these were from management or employee buyouts of the former publicly owned National Bus Company subsidiaries and municipal transport operators. Other new companies which entered the market were small private operators of other types of bus and coach services.

10 The structure of the bus industry has changed since the early days of deregulation, as Table 1 below indicates. Whether or not the market is now contestable is a matter for debate amongst economists, who fear that the changes in structure shown in Table 1 provide potential for anti-competitive behaviour. The Monopolies and Mergers Commission (MMC) and the Office of Fair Trading (OFT) have also expressed concern at these trends and at the business practices and behaviour of some of the large bus operators.

Table 1
Market Share of Bus Companies 1989 - 95¹

Group	1989	1992	1995
Major Groups			
Stagecoach	3.9	4.9	13.4
First Bus ²	3.7	6.2	12.6
British Bus	2.8	3.4	8.8
Total Major Groups	10.4	14.5	34.8
Emerging Groups			
National Express/West Midlands Travel	0	5.9	7.7
Go-Ahead Group	1.7	1.7	4.3
Cowie Group	0.6	0.6	3.5
MLT	0	0	3.2
SB Holdings	0	0	3.7
Others³			
Publicly-owned	30.4	18.1	7.5
Other privately owned companies	56.9	59.2	35.7
	<u>100</u>	<u>100</u>	<u>100</u>

- Notes: ¹ Percentage share of the market based on income from fares
² Badgerline and Grampian Regional Transport before 1995
³ Includes employee owned, management owned, independent bus companies and London Buses

- (a) (i) Using Table 1, state which of the major groups has experienced the fastest rate of growth in market share
1. between 1989 and 1992 [1]
 2. between 1992 and 1995. [1]
- (ii) The data shown in Table 1 is based on the income from fares (see Note 1).
Give **two** other measures of market growth which could be used to show the changes in market share from 1989 to 1995. [2]
- (b) (i) Use the information in Table 1 to describe **two** ways in which the ‘structure of the bus industry has changed since the early days of deregulation’ (line 7). [2]
- (ii) Briefly explain **one** likely economic reason for each of these changes in structure. [4]
- (c) Briefly analyse the characteristics of a contestable market. [4]
- (d) Discuss why economists, the MMC and OFT are concerned about the ‘business practices and behaviour of some of the large bus operators’ (lines 11-12). [6]

Section B

Answer **one** question in this section.

- 2 (a) Explain why it is necessary for the government to apply a cost-benefit approach to the appraisal of new major road schemes in the UK. [10]
- (b) Discuss the contribution that the private sector can make to the funding of road investment. [15]
- 3 (a) Explain why economists are concerned about the main environmental problems associated with the growth of road traffic in the UK. [10]
- (b) Discuss how a more sustainable transport policy might reduce these environmental problems. [15]
- 4 (a) In 1998, the Confederation of British Industry (CBI) estimated that the costs of traffic congestion were £19bn a year. Explain how this estimate might have been made. [10]
- (b) The costs of traffic congestion, according to the CBI, have increased by 25% over the period of 1989 to 1998. Discuss the economic implications of this increase for transport operators, other businesses and the UK economy. [15]

Oxford Cambridge and RSA Examinations

Advanced GCE

ECONOMICS

TRANSPORT ECONOMICS

2885

Mark Scheme

General Introduction

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 markscheme only – ie AS Unit 2883 and all A2 units.

Specific marking points

1 (a) (i) **Using Table 1, state which of the major groups has experienced the fastest rate of growth in market share**

1. **between 1989 and 1992** [1]
2. **between 1992 and 1995.** [1]

1. First Bus
2. Stagecoach

(ii) **The data shown in Table 1 is based on the income from fares (see Note 1).**

Give two other measures of market growth which could be used to show the changes in market share from 1989 to 1995. [2]

Various other measures of market growth:

- passengers carried;
- passenger kilometres travelled;
- bus miles operated.

Transport-specific measures must be given. Simplistic measures as used in Economics but not transport-specific gain 1 mark maximum.

(b) (i) **Use the information in Table 1 to describe two ways in which the ‘structure of the bus industry has changed since the early days of deregulation’ (line 7).[2]**

Various possibilities can be extrapolated from Table 1:

- substantial increase in market share for Major Groups;
- emerging groups such as National Express/West Midlands Travel, MLT and SB Holdings have entered the market;
- publicly-owned groups have lost market share;
- other privately-owned companies have lost market share.

Any 2 - 1 mark each.

(ii) **Briefly explain one likely economic reason for each of these changes in structure.** [4]

The answer to this part must relate back to the descriptions given in b(i). Various possibilities include:

- benefits to be gained from economies of scale in minor groups;
- new market opportunities for emerging groups;
- continuation of privatisation process;
- smaller privately-owned companies being taken over by larger companies.

Award 1 mark for identification of reason, 1 mark for brief explanation/elaboration.

- (c) **Briefly analyse the characteristics of a contestable market.** [4]

Various characteristics are:

- few barriers to entry - this leads to a pool of potential entrants able to enter the market;
- normal profits are earned;
- size of firm is irrelevant;
- price competition is unlikely;
- some modest product differentiation.

Up to 2 marks for barriers to entry characteristic.

Up to 2 marks for identification of other characteristics.

- (d) **Discuss why economists, the MMC and OFT are concerned about the ‘business practices and behaviour of some of the large bus operators’ (lines 11-12).** [6]

Up to 3 marks for a statement of the business practices and behaviour of some of the larger bus operators such as:

- frequent service changes;
- saturation of routes to remove competition;
- predatory pricing

which are more consistent with a monopoly than with a contestable market.

Up to 3 marks for a discussion of why this has given concern to the MMC and OFT as to why the market may not actually be contestable.

Section B

- 2 (a) **Explain why it is necessary for the government to apply a cost-benefit approach to the appraisal of new major road schemes in the UK.** [10]

Brief definition of CBA and its use through the COBA model for the appraisal of new major roads and motorway projects. Why this approach is necessary - roads as a quasi-public good and the need for some method of appraisal as a consequence of how users are currently charged for using the network. Use of CBA to identify need, priorities and the allocation of public expenditure in this context. (Relevant examples are likely to enhance the quality of answer.)

- L3 For an explanation of why it is necessary for the government to apply a CBA approach. [7-10]
- L2 For an understanding of CBA and its use. [3-6]
- L1 For a few general points on CBA or its use. [1-2]

- (b) Discuss the contribution that the private sector can make to the funding of road investment. [15]**

Road expenditure as an aspect of central and local government expenditure. Opportunities for private sector funding over the last ten years or so e.g. North Birmingham Relief Road and recent proposals for further toll roads and motorway charging - The Private Funding Initiative. Opportunity cost considerations for the public sector in relation to other transport expenditure and general government expenditure. Issues of quality, fairness, equity and income distribution.

- L4 For a discussion of the contribution of the private sector to the funding of road investment. [9-15]
- L3 For an analysis of how the private sector has contributed to the funding of road investment. [6-8]
- L2 For an application of how the private sector has contributed to road investment. [3-5]
- L1 For a general description or only examples of how the private sector has contributed to road investment. [1-2]

- 3 (a) Explain why economists are concerned about the main environmental problems associated with the growth of road traffic in the UK. [10]**

An understanding of the positive relationship between the growth of road traffic and the general increase in concern about the deteriorating quality of the environment. Relevant examples such as increased CO₂ emissions, traffic noise, blight and visual inspection and their relevance as negative externalities. Private intrusion and social cost divergence in explaining the concern of economists from an equity and efficiency standpoint.

- L3 For an explanation why economists are concerned about the environmental problems associated with the growth of road traffic. [7-10]
- L2 For an understanding of why economists are concerned about the environmental problems associated with the growth of road traffic. [3-6]
- L1 For a few general points or examples. [1-2]

- (b) Discuss how a more sustainable transport policy might reduce these environmental problems. [15]**

The nature and underlying principles of sustainable transport policy. Comparison with other policy approaches.

How to reduce the demand for transport; examples with respect to particular modes of passenger and freight transport. Potential for transfer from road to rail and to other more sustainable modes. Current policy initiatives and proposals. Problems of achieving sustainability through reducing transport demand and of its acceptance by individuals and industry. Likely impact of this on the quality of the environment.

- L4 For a discussion of how a more sustainable transport policy might reduce environmental problems. [9-15]
- L3 For an analysis of the issues involved in implementing a more sustainable transport policy. [6-8]
- L2 For application of the principles of a more sustainable transport policy. [3-5]
- L1 For a general description of how transport policy can become more sustainable. [1-2]

- 4 (a) In 1998, the Confederation of British Industry (CBI) estimated that the costs of traffic congestion were £19bn a year. Explain how this estimate might have been made. [10]**

How economists estimate the costs of traffic congestion - valuation of travel time, including an understanding of the opportunity costs issues, the increased costs of operating private and commercial vehicles, particularly variable costs, and other factors such as increased inventory levels and lost sales. (General principles are required rather than an explicit knowledge of the CBI's methodology.)

- L3 For an explanation of how the estimate might have been made. [7-10]
- L2 For an understanding of how the estimate might have been made. [3-6]
- L1 For a few general points only. [1-2]

- (b) **The costs of traffic congestion, according to the CBI, have increased by 25% over the period of 1989 to 1998. Discuss the economic implications of this increase for transport operators, other businesses and the UK economy.** [15]

Increased traffic congestion and its effects on the costs of transport operators. Direct cost increase of vehicle use in terms of labour, fuel and other variable costs especially; indirect cost in terms of reduced fleet efficiency and additional vehicle movements. Impact of increased transport costs on overall business costs. Transport costs as a component of travel costs in different types of business and the effect of increased transport costs on factory and consumer prices. Wider macro-economic implications on international competitiveness of UK businesses relative to others in the rest of the EU especially. Possible effects on industrial location decisions for non-UK based companies.

- L4 For a discussion of the economic implications of increased congestion costs for transport operators, other businesses and the UK economy. [9-15]
- L3 For an analysis of the economic implications of increased congestion costs. [6-8]
- L2 For an application of the economic implications of the costs of congestion. [3-5]
- L1 For a general description of how traffic congestion affects economic well-being. [1-2]

Unit 2885: Transport Economics

Q1	a (i)	a (ii)	b (i)	b (ii)	(c)	(d)	Q2		Q3		Q4		TOTAL
							(a)	(b)	(a)	(b)	(a)	(b)	
AO1 Target: 9	2	2					3	2	3	2	3	2	9
AO2 Target:9			2				3	3	3	3	3	3	8
AO3 Target: 13-14				4	4		4	3	4	3	4	3	15
AO4 Target: 13-14						6		7		7		7	13
													45
Subject Content Reference	5.5.1	5.5.2	5.5.2,3	5.5.2,3	5.5.2,3,4	5.5.4	5.5.3,4		5.5.4		5.5.4		

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

Oxford Cambridge and RSA Examinations

Advanced GCE

ECONOMICS

ECONOMICS OF DEVELOPMENT

2886

Specimen Paper

Additional materials:

Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer Section A and **one** question from Section B.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

The quality of your written communication will be assessed in your answer to Section B. This answer must be in continuous prose.

In this paper you are expected to show your knowledge and understanding of different aspects of Economics and the connections between them.

The total mark for this paper is 45.

Section A

Answer this question.

1

African debt repayments 'imperil 21m children'

The cost of debt repayments by the world's poorest countries is overwhelming their efforts to save children's lives and provide a basic education, according to a report issued today by Oxfam.

Governments in Sub-

Saharan Africa transfer to creditors four times as much as they spend on health care, and more than they spend on primary education plus primary health care.

Zambia dramatically illustrates the worsening trend. Per capita spending on

primary school children is one sixth of the level of a decade ago, and health spending is 30 per cent lower.

On the most optimistic budget projections Zambia will have spent \$26 million on primary education in 1995. Its obligations to multilateral creditors are around \$127 million.

There are 32 countries classified by the World Bank as severely indebted low-income countries (SILICs). They have debt-service-to-gross-national-product ratios of more than 80 per cent, or debt-service-to-export ratios of over 220 per cent.

Last year repayments of \$16 billion fell due, but they were able to pay less than half this amount, with the rest added to arrears. For some countries the gap between their obligations and ability to pay has grown well beyond what could ever be paid back.

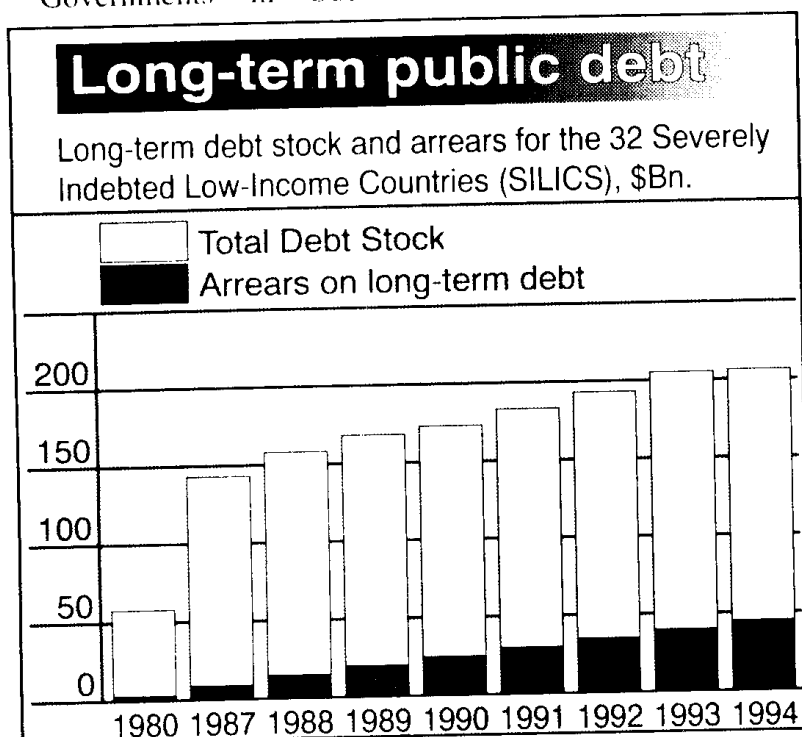


Fig. 1

In recent years, these countries have been able to reschedule their debt, although this is only a temporary solution. The IMF plays a role here by advocating long-term structural change to the economy which makes rescheduling more likely by encouraging confidence in the economy. This approach usually involves programmes of devaluation, deflation and more use of the market system.

- (a) (i) With reference to Fig 1, what happened to the debt position of Severely Indebted Low-Income Countries between 1980 and 1994? [2]
- (ii) Show, with an example from the article, how opportunity cost applies to debt repayment. [2]
- (b) (i) What is meant by a 'debt-service-to-export ratio' and why is a figure of over 220 per cent significant? [2]
- (ii) Explain **two** possible reasons for increases in debt ratios of developing economies. [4]
- (c) (i) State **one** way in which debt can be rescheduled. [1]
- (ii) Explain the operation of any **one** of the structural adjustment policies favoured by the IMF. [3]
- (d) Discuss how the debt position of Sub-Saharan African countries might affect their prospects of development. [6]

Section B

Answer **one** question in this section.

- 2 Developing countries frequently depend heavily on primary production.
- (a) Explain what is meant by primary production and the problems caused by this dependency. [10]
- (b) Discuss the difficulties faced by developing countries when they try to diversify their production. [15]
- 3 The path to economic development for the least developed economies is blocked by obstacles which the developed economies have not had to face or which they have already overcome.
- (a) Briefly explain the major obstacles to economic development faced by the least developed economies. [10]
- (b) With the aid of examples, discuss whether these obstacles are best overcome by free market forces or government intervention. [15]
- 4 (a) Explain how a developing country's factor endowment influences where its comparative advantage lies. [10]
- (b) Discuss the policies the government of a developing country might introduce to improve its performance in international trade. [15]



Oxford Cambridge and RSA Examinations

Advanced GCE

ECONOMICS

ECONOMICS OF DEVELOPMENT

2886

Mark Scheme

General Introduction

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 markscheme only – ie AS Unit 2883 and all A2 units.

Specific marking points

Section A

- 1 (a) (i) **With reference to Fig. 1, what happened to the debt position of Severely Indebted Low-Income Countries between 1980 and 1994?** [2]
- Worsened (1)
Details of change e.g. four times worse, growth slowing (1)
- (ii) **Show, with an example from the article, how opportunity cost applies to debt repayment.** [2]
- Understanding of opportunity cost (1)
Application to data e.g. loss of health care or primary education (1)
- (b) (i) **What is meant by a ‘debt-service-to- export ratio’ and why is a figure of over 220 per cent significant?** [2]
- Comparison of debt repayment obligations to export earnings (1).
Export earnings insufficient to reduce debt burden, need to find alternative funds, worsening of debt position (1) for the chosen aspect.
- (ii) **Explain two possible reasons for increases in debt ratios of developing economies.** [4]
- Explanation of its effect (2) for 2 cases.
Likely causes include poor trade performance, increased need to borrow, increased cost of borrowing, oil and commodity price problems.
- (c) (i) **State one way which debt can be rescheduled.** [1]
- Longer repayment period or write off of debt (1).
- (ii) **Explain the operation of any one of the structural adjustment policies favoured by the IMF.** [3]
- One from devaluation, deflation or increased market forces.
Basic idea (1), detail of method (1), application to developing economy (1).
E.g. deflation: reduction of AMD, raising tax and lowering government expenditure and monetary tightening, transfer of resources to more productive use.
- (d) **Discuss how the debt position of Sub-Saharan African countries might affect their prospects of development.** [6]
- Recognition of influences (2), linkage to development (2), outcome of influences (2).
E.g. lack of funds for education, low skill levels and training potential, low productivity slowing development, increasing debt levels, loss of confidence and capital flight, lack of investment to promote development or alternatives. financial restrictions or side effects of policy measures. Credit view that aid flows may be increased with beneficial effect.

Section B

2 Developing countries frequently depend heavily on primary production.

- (a) Explain what is meant by primary production and the problems caused by this dependency. [10]

The first stage of production involving raw materials, mining and agricultural output. Problems arise because this sector is subject to: volatile terms of trade, unfavourable natural influences, markets dominated by consuming countries and problematic elasticities of demand and supply. These affect export earnings, living standards and economic stability.

L3 For an explanation of primary production and the nature and effect of the dependency. [7-10]

L2 For the idea of primary production and the problems it faces. [3-6]

L1 For basic knowledge of primary production. [1-2]

- (b) Discuss the difficulties faced by developing countries when they try to diversify their production. [15]

Developing economies may seek to increase their manufacturing and service sectors. This may or may not be in line with comparative advantage. Possible problems include lack of finance, real resources and enterprise. Opposition may arise from rival producers and domestic producers. Current trading practices may prove to be an obstacle. The ability to succeed will depend upon the particular difficulties and the resourcefulness of the individual economies.

L4 For a discussion of the importance and intractability of the difficulties.[9-15]

L3 For an analysis of the nature of the difficulties. [6-8]

L2 For an understanding of the nature of the difficulties. [3-5]

L1 For a description of the difficulties. [1-2]

3 The path to economic development for the least developed economies is blocked by obstacles which the developed economies have not had to face or which they have already overcome.

- (a) Briefly explain the major obstacles to economic development faced by the least developed economies. [10]**

There are a wide range of obstacles and candidates required to select the major ones rather than a long list. They are likely to select from resource limitation, poor economic management, debt problems, population structure and growth, the structure of international trade and relations with developed economies. For those selected, the nature of obstacle and its relevance to development need to be explained.

L3 For an explanation of the nature of the obstacles and their relevance to development. [7-10]

L2 For an understanding of the nature of the obstacles. [3-6]

L1 For recognition of possible obstacles to development. [1-2]

- (b) With the aid of examples, discuss whether these obstacles are best overcome by free market forces or government intervention. [15]**

The obstacles can be left to market forces with minimal intervention and producers and consumers acting in their own interests or be tackled by government action with planning and official bodies which regulate the operation of the market system. The desirability of the outcome can be judged by reference to factors such as effectiveness, fairness, timescale, side-effects, sustainability and appropriateness. It may be concluded that a mixture of the two approaches can be valid.

L4 For discussion of the effectiveness of possible policies in light of relevant criteria. [9-15]

L3 For an analysis of the two approaches. [6-8]

L2 For an understanding of the two approaches. [3-5]

L1 For a description of the two approaches. [1-2]

4 (a) Explain how a developing country's factor endowment influences where its comparative advantage lies. [10]

Most developing countries have strengths in land and cheap labour supplies and weaknesses in the quantity and quality of capital and technology. Comparative advantage is based upon specialisation in those areas of production where countries have relative cost advantage. The broad pattern is that developing economies concentrate on those industries which employ cheap labour and land such as tourism, agriculture and basic manufacturing.

L3 For an explanation of how factor endowment and comparative advantage are linked in a developing country. [7-10]

L2 For an understanding of how factor endowment influences comparative advantage. [3-6]

L1 For some knowledge of either factor endowment or comparative advantage. [1-2]

(b) Discuss the policies the government of a developing country might introduce to improve its performance in international trade. [15]

The policies might be aimed at export promotion or import reduction or both. Possibilities include import-substituting industrialisation, export-oriented industrialisation, exchange rate adjustment, trade protection, and productivity and quality improvement. The nature of the policy needs to be shown and its effectiveness considered. The judgement can be made in light of its impact, its drawbacks and the success of the policy when it has been tried by developing economies.

L4 For a discussion of the effectiveness of possible policies. [9-15]

L3 For an analysis of different policies. [6-8]

L2 For a general understanding of different policies. [3-5]

L1 For a description of different policies. [1-2]

Unit 2886: Economics of Development

Q1	a		b		c		d	Q2		Q3		Q4		TOTAL
	(i)	(ii)	(i)	(ii)	(i)	(ii)		(a)	(b)	(a)	(b)	(a)	(b)	
A01 Target: 9		1	1		1	1		3	2	3	2	3	2	9
A02 Target: 9	2	1						3	3	3	3	3	3	9
A03 Target: 13-14				4		2		4	3	4	3	4	3	13
A04 Target: 13-14			1				6		7		7		7	14
														45
Subject Content Reference	5.6.1, 4	5.6.1 ,4	5.6.2 ,4	5.6.3, 4	5.6.5	5.6.5	5.6.4, 5	5.6.2,4	5.6.2,3,4,5		5.6.3,4,5			

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

Oxford Cambridge and RSA Examinations

Advanced GCE

ECONOMICS

THE UK ECONOMY

2887

Specimen Paper

Additional materials:
Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
Answer Section A and **one** question from Section B.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

The quality of your written communication will be assessed in your answer to Section B. This answer must be in continuous prose.

In this paper you are expected to show your knowledge and understanding of different aspects of Economics and the connections between them.

The total mark for this paper is 45.

Section A

Answer **this** question.

1

Performance of the UK economy

The March 1999 Budget stated that the Government's reforms of macro-economic policy are promoting economic stability by delivering low inflation - the essential foundation for achieving the Government's central economic objective of high and stable levels of growth and employment.

The following tables show actual data for the period 1992 to 1998 inclusive and give forecasts for 1999 to 2001. These forecasts have been made by the National Institute for Economic and Social Research, an independent economic forecasting organisation.

Table 1 Gross Domestic Product and its components

		Consumer's Expenditure	General government consumption	Total investment	Exports of goods and services	Total final expenditure	Less imports of goods and services	Statistical adjustment	GDP at market prices
1992	Actual	421.8	137.6	106.3	162.8	828.5	178.9	-0.6	649.0
1993	Actual	434.0	136.4	109.5	169.2	849.1	184.6	-0.5	664.0
1994	Actual	446.6	138.3	117.9	184.9	887.7	194.6	0.1	693.2
1995	Actual	454.2	140.4	120.8	202.4	917.8	205.2	0.0	712.6
1996	Actual	470.6	142.8	123.7	217.6	954.7	224.0	0.1	730.8
1997	Actual	489.3	142.9	134.0	236.3	1,002.5	245.0	-0.8	756.7
1998	Actual	502.5	145.1	145.1	243.6	1,036.3	265.7	1.7	772.3
1999	Forecast	516.2	149.8	149.4	243.0	1,058.4	279.5	2.7	781.6
2000	Forecast	528.8	153.9	156.4	256.2	1,095.3	295.9	2.9	802.3
2001	Forecast	541.9	157.0	161.6	273.0	1,133.5	313.6	2.9	822.8

Table 2 Key Macro-economic Indicators

		Actual							Forecast		
		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Retail Price Index	1995=100	92.9	94.4	96.7	100.0	102.4	105.6	109.3	110.7	114.0	118.7
Inflation	%	3.7	1.6	2.5	3.4	2.4	3.1	3.5	1.3	2.9	4.1
Unemployment	%	9.7	10.3	9.3	8.1	7.3	5.5	4.7	4.5	4.5	4.5
Growth of GDP	%	0.1	2.3	4.4	2.8	2.6	3.5	2.1	1.2	2.7	2.6
Current Account Balance of Payments	£b at 1995 prices	-9.7	-10.3	-1.4	-3.2	0.1	7.1	1.9	-6.5	-13.7	-15.3

- (a) (i) Identify, using appropriate examples, what is meant by an ‘injection’ into the circular flow of income. [2]
- (ii) Calculate the **total** value of injections into the UK economy for 1997 and 1998. [2]
- (b) Comment upon whether this change in the value of injections between 1997 and 1998 is forecast to bring about the expected changes in the UK’s economic performance. [4]
- (c) Suggest and explain **two** possible economic reasons for the change in the current account balance between 1997 and 2001. [4]
- (d) (i) The passage mentions low inflation, and high and stable levels of growth and employment as key objectives of the Government’s economic policy.
- Identify and explain **one** other policy objective that could be added to this list. [2]
- (ii) With reference to the data, discuss whether there is any evidence to support the view that it is not possible to achieve all of these objectives at the same time. [6]

Section B

Answer **one** question in this section.

- 2 The UK government has handed control over interest rates to the Bank of England and its Monetary Policy Committee.
- (a) Explain how economic theory explains the determination of interest rates. [10]
- (b) Discuss whether or not the UK government is able effectively to regulate the
- 3 (a) Explain how economists model how an increase in government expenditure can lead to a greater increase in national income. [10]
- (b) Suppose the UK government wishes to reduce the inflationary pressures in the economy. Discuss how it may vary its own expenditures to achieve this objective and at the same time minimise undesirable consequences for other macro-economic objectives. [15]
- 4 (a) Briefly explain the criteria that an economist might use in measuring the international competitiveness of the UK economy. [10]
- (b) In September 1999, the Chancellor, Gordon Brown, emphasised that supply-side policies were necessary to improve the productivity of the UK economy and its international competitiveness. Discuss the extent to which supply-side policies **alone** can achieve this outcome. [15]

Oxford Cambridge and RSA Examinations



Advanced GCE

ECONOMICS

THE UK ECONOMY

2887

Mark Scheme

General Introduction

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 Section B.

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 markscheme only – ie AS Unit 2883 and all A2 units.

Specific marking points

Section A

1 Performance of the UK economy

- (a) (i) **Identify, using appropriate examples, what is meant by an ‘injection’ into the circular flow of income.** [2]

Injections are additions to the circular flow of income. They include investment, government expenditure and exports.

1 mark for explanation and 1 mark for examples.

- (ii) **Calculate the total value of injections into the UK economy for 1997 and 1998.** [2]

$$\text{Injections } J = G + I + X$$

$$J \text{ for } 1997 = 142.9 + 134.0 + 236.3 = 513.2$$

$$J \text{ for } 1998 = 145.1 + 145.1 + 243.6 = 533.8$$

1x2 marks for calculations. If errors in arithmetic award 1 mark for correct methodology.

- (b) **Comment upon whether this change in the value of injections between 1997 and 1998 is forecast to bring about the expected changes in the UK’s economic performance.** [4]

Keynesian theory would lead us to believe that a rise in injections brings about a multiplied rise in national income. In this case injections have risen by £20.6 billion whilst GDP at market prices rises by £15.6 billion. Thus in general terms a rise in injections has caused a rise in Y. However, it can be seen that the rise in Y is smaller than the rise in injections. If Y does not rise then this increased J might show up in either inflation or a worsening of the balance of payments - both of which happen.

Explanation that the rise in Y is smaller than the rise in J - 1 mark.

Recognition that injections cause national income to rise - 1 mark.

Comments that these injections affect other aspects of the UK’s economic performance e.g. inflation or balance of payments (any one aspect done well required for full marks) - up to 4 marks.

- (c) **Suggest and explain two possible economic reasons for the change in the current account balance between 1997 and 2001.** [4]

The current account is forecast to worsen. This may be for several reasons. Growth of the economy will suck in imports and Table 1 shows these are rising (exports are up too). Although lower in 1999, inflation is forecast to increase which may mean our exports are becoming less competitive. The

interest rates may be high which causes an appreciation of the pound and makes it more difficult for the UK to compete in international markets.

1 mark for reason and 1 mark for explanation x 2.

(Can award 1 mark for recognition that current account balance will worsen).

- (d) (i) **The passage mentions low inflation, sound public finances, and high and stable levels of growth and employment as key objectives of the Government's economic policy. Identify and explain one other policy objective that could be added to this list.**

[2]

Balance of Payments and Equity/Fairness

1 mark for identification

1 mark for explanation

- (ii) **With reference to the data, discuss whether there is any evidence to support the view that it is not possible to achieve all of these objectives at the same time.**

[6]

*Candidates should make any relevant comments on the trade-offs such as those between inflation and unemployment **or** growth and balance of payments. Over the period as a whole unemployment has fallen whilst inflation has been more variable and there is no clearly identifiable trade-off (except that in 1993 the highest unemployment corresponds with the lowest inflation). The balance of payments improves and then worsens over the period and growth slows and then improves. Thus it might be argued that an improvement in growth leads to a worsening of the balance of payments.*

There are a wide range of possible approaches here and, in awarding marks, it is the use of the data and the quality of the discussion that is important.

2 marks maximum if no clear reference to data in Table but there is a general discussion of trade-offs.

4 marks maximum if there is an attempt to place a discussion of trade-offs in the context of the given data.

For maximum marks, at least one potential trade-off mentioned in the data/text must be considered in depth or two discussed in an appropriate manner.

Section B

2 In 1997, the UK government handed control over fixing interest rates to the Bank of England and its Monetary Policy Committee.

(a) Explain how economic theory explains the determination of interest rates. [10]

The determination of interest rates - an explanation in terms of supply and demand for loanable funds or an explanation in terms of the liquidity preference approach in terms of the demand and supply of money. The underpinning principles underlying either model and the way in which interest rates may change with a change in one or more of the variables.

- L3 For an explanation of the Loanable Funds or Liquidity Preference Model. [7-10]
- L2 For an understanding of the Loanable Funds or Liquidity Preference approach. [3-6]
- L1 For general points on supply and demand only. [1-2]

(b) Discuss whether or not the UK government is able effectively to regulate the macro-economy without day-to-day control over interest rates. [15]

Regulation of the macro-economy in terms of macro objectives and the policy means available. The relevance of fiscal policy instruments, budgetary controls and direct controls and their operation alongside monetary controls, including interest rate regulation. Circumstances where interest rate control is relevant (e.g. to control inflation) and implication for exchange rates. Impact and consequences for other macro-economic policy objectives of not being able to use interest rate control in an explicit manner.

- L4 For a discussion of whether the UK government can effectively regulate the macro-economy without day-to-day control over interest rates. [9-15]
- L3 For an analysis of alternative policy instruments and their relevance to regulation of the economy. [6-8]
- L2 For an understanding of alternative policy instruments and/or their relevance to regulation of the economy. [3-5]
- L1 For a vague general description of policy instruments. [1-2]

- 3 (a) **Explain how economists model how an increase in government expenditure can lead to a greater increase in national income.** [10]

Government expenditure as an injection into the circular flow of income. Explanation of the multiplier process for an increase in government spending, e.g. increased welfare payments or increase in defence expenditure. Assumption regarding leakages. Knock-on effects for the increase in national income as modelled by the simple multiplier process.

L3 For an explanation of the multiplier process and how it can be modelled. [7-10]

L2 For an understanding of the multiplier process and how it is represented. [3-6]

L1 For a few general descriptive points on the multiplier process. [1-2]

- (b) **Suppose the UK government wishes to reduce the inflationary pressures in the economy. Discuss how it may vary its own expenditures to achieve this objective and at the same time minimise undesirable consequences for other macro-economic objectives.** [15]

Understanding of inflationary pressures - recognition of when and why the government might find it necessary to intervene. An analysis of how a reduction in government spending can lead to a fall in income, so reducing inflationary pressure to include multiplier considerations. Consequences for other macro-objectives such as unemployment (increasing) and economic growth (decreasing). Application to AS model to show shift to left of AS curve. Equity and welfare considerations of a reduction in government spending.

L4 For a discussion of how a fall in G affects the economy and other macro-objectives. [9-15]

L3 For an analysis of how a fall in G affects the economy and other macro-objectives. [6-8]

L2 For an understanding of how a fall in G affects the economy and other macro-objectives. [3-5]

L1 For a vague general description of a fall in G. [1-2]

- 4 (a) **Briefly explain the criteria that an economist might use in measuring the international competitiveness of the UK economy.** [10]

Nature and meaning of international competitiveness. Criteria for measuring the competitiveness of the UK economy relative to the rest of the EU and the rest of the world e.g. productivity measures, unit labour costs, technology and capital employed, education and training measures.

L3 For an explanation of the criteria for measuring international competitiveness. [7-10]

L2 For an understanding of how international competitiveness can be measured. [3-6]

L1 For a few vague comparisons only. [1-2]

- (b) **In September 1999, the Chancellor, Gordon Brown, emphasised that supply-side policies were necessary to improve the productivity of the UK economy and thus its international competitiveness. Discuss the extent to which supply-side policies alone can achieve this outcome.** [15]

Nature of productivity - its meaning and how it can be measured. The link between productivity and international competitiveness. Relevance of productivity from a competitiveness standpoint. Nature of supply-side measures designed to increase productivity such as increased vocational training, technology transfer schemes, labour mobility schemes and lower interest rates. Limitations of supply-side policies. Scope for application of other policies to improve productivity e.g. tax relief on new capital projects and job seeker allowances.

L4 For a discussion of the extent to which supply-side policies alone can improve productivity. [9-15]

L3 For an analysis of supply-side policies and their likely effects on productivity. [6-8]

L2 For an understanding of supply-side policies and the link to productivity. [3-5]

L1 For a few vague points on productivity. [1-2]

Unit 2887: The UK Economy

Q1	a		b	c	d		Q2		Q3		Q4		TOTAL
	(i)	(ii)			(i)	(ii)	(a)	(b)	(a)	(b)	(a)	(b)	
A01 Target: 9	2			2	1		3	2	3	2	3	2	10
AO2 Target: 9		2				1	3	3	3	3	3	3	9
AO3 Target: 13-14			3	2	1		4	3	4	3	4	3	13
AO4 Target: 13-14			1			5		7		7		7	13
													45
Subject Content Reference	5.7.3		5.7.2,3	5.7.2, 3,5	5.7.1, 2,5	5.7.2	5.7.3	5.7.2,5	5.7.3	5.7.2, 3,5	5.7.1	5.7.1,4,5	

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

Oxford Cambridge and RSA Examinations

Advanced GCE

ECONOMICS

ECONOMICS IN A EUROPEAN CONTEXT

2888

Specimen Paper

Additional materials:

Answer paper

TIME 1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer booklet.

Write all your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

Answer **all** questions.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

You will be assessed on the quality of your written communication. All answers should be in continuous prose.

A copy of the pre-issued case study is included in the question paper.

In this paper you are expected to show your knowledge and understanding of different aspects of Economics and the connections between them.

The total mark for this paper is 60.

The purpose of this unit is to assess the extent to which you have understood the full range of concepts, models, theories and policies which have been introduced in earlier AS modules and in A2 optional modules. You will therefore gain credit for demonstrating in your answers how individual aspects of the specification are inter-related and can be used to explain and evaluate economic issues and problems which are set in a European context.

The UK and EMU - High stakes in a case of wait and see

Introduction

On 1 January 1999, eleven of the fifteen member states of the European Union (EU) became founder members of the Economic and Monetary Union (EMU), having met the convergence criteria for membership. In some cases, for example, France, this had not been an easy process as the domestic economy had suffered in order to meet the convergence requirements. The UK, along with Denmark and Sweden, had also met these criteria, but all have decided to play a waiting game to see what happens.

Business and trade union leaders have been concerned for some time about the UK's 'reluctant European' label. Their main worry has been the potentially damaging effect on new inward investment into the UK. Any diversion to other EU member states would mean less jobs in the UK and, potentially, less visible exports. Japanese and US motor vehicle manufacturers especially have even threatened to not invest further in the UK if this position remains for much longer.

The government's dilemma is that the UK economy is strong and relatively out of step with most others in the EU. To join a single currency in this situation would mean even lower interest rates and the danger of a further boom which could not be contained. Pro-European politicians and the 'Britain in Europe' group do not agree - they believe the UK should be a member from the outset and use this opportunity to have a major influence in the development of the EMU.

Pre-issued supporting material

- Extract 1. UK inward investment, S.Ison, **British Economic Survey**, Vol 26 No1, Autumn 1996 (Adaptation).
- Extract 2. Toyota chief in warning on EMU, **The Financial Times**, 30 January 1997.
- Extract 3. Brown's waiting game, **The Guardian**, 27 October 1997 (Adaptation).
- Extract 4. Britain in Europe - are we in or are we out? **Britain in Europe Movement**, 1998.

Extract 1

UK Inward Investment

Stephen Ison

Senior Lecturer in Economics, Anglia Polytechnic University, Cambridge.

1 Introduction

A headline in the Financial Times on 10 July 1996 read, 'Korean group plans £1.7bn electronics plant in Wales'. The basis of the article was that the South Korean conglomerate I.G. (formerly Lucky Goldstar) plans to establish a £1.7bn electronics plant in South Wales. I.G. is just one of a number of companies which have been attracted to the UK in recent years. As well as electronics, the automotive, pharmaceutical, financial services and telecommunications sectors have also featured prominently in UK inward investment. This means that foreign-owned manufacturing companies such as NEC, Sony, Toyota, Honda and Fujitsu from Japan, and Korean companies such as Samsung and Daewoo, now provide a third of UK manufacturing investment, a fifth of manufacturing output, a fifth of manufacturing employment and two fifths of manufacturing exports. All businesses have to make important decisions, many of which will affect how successful they are for many years to come. Where to locate their premises is one such decision. A wrong decision could lead to a company making losses or even going out of business.

Businesses may look to relocate from one region to another in the UK and although such intra-country location is important, this article seeks to concentrate on the location of UK inward investment from overseas. The UK share of total inward investment into the EU was 38 per cent in 1995 and in fact accounted for 40 per cent of Japanese investment made within the EU. It has been estimated that 48,000 jobs have been created in the UK in 1995-96 as a result of £7-8bn of new foreign investment. In fact, since 1993, over 1300 new projects have taken place in the UK by firms from outside the UK, and these have created 114,000 new jobs. In recent years, the UK has become one of the most favoured overseas locations for Japanese, German and US businesses as illustrated in Figure 1. It reveals that there were 477 new projects in the UK over the period April 1995-96 alone.

The question is why have foreign companies sought to invest in the UK and not elsewhere? And, once that decision has been made, why has a particular locality in the UK been chosen in preference to another?

Figure 1 UK inward investment



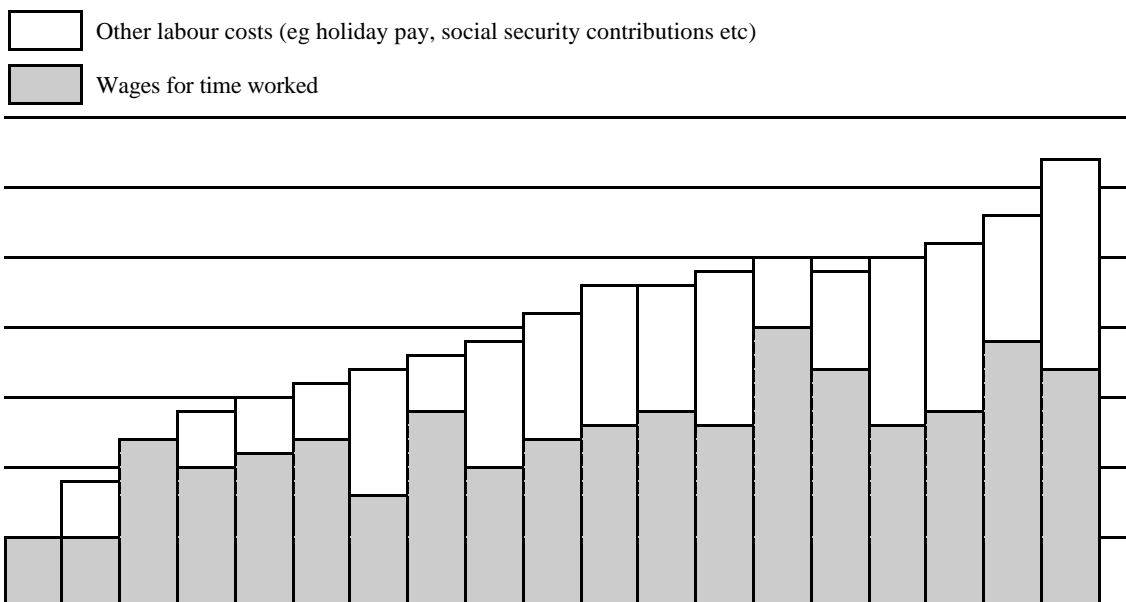
Not to scale

2 The factors influencing the locational decision

A combination of factors influence a firm's decision of where to locate or relocate its activity. Historically, businesses have been drawn to the sources of raw materials and power. Although these factors are less important today, they do help to explain why certain businesses are in their present location. The market is all important in terms of location. If the goods being produced are weight or bulk increasing during the productive process, then it may be worthwhile locating the business close to the market, as this may reduce the transport costs. Certainly, the decision made by Toyota to locate at Burnaston in Derbyshire was based, in part, on the desire to produce close to the market place. Closeness to an efficient transport infrastructure has also been an important locational factor. Here again, the UK offers certain advantages. In terms of air transport, the UK includes three of Europe's top ten airports, namely Heathrow, Gatwick and Manchester. It is also the case that the opening of the Channel Tunnel has changed the perception of Britain's location in Europe. In terms of the UK's road and rail infra-structure, however, there is still room for improvement. For example, Britain's roads are some of the most congested in Europe. With the growth of just-in-time manufacturing techniques, it has become more important to have an efficient, accessible transport network. However, although the transport network is far from perfect in the UK, Korean executives have cited, among other factors, the excellent infra-structure enabling products to be transported to the rest of Europe as an important reason for their decision to locate in the UK.

An efficient, skilled, low-cost labour force can be a factor which positively influences the location of businesses. On the other hand, a location may be avoided because it has a reputation for strikes and absenteeism. It is certainly the case that the UK has been successful in recent years in attracting inward investment because of the availability of skilled workers. For example, the siting in 1991 of Sony's £147m TV factory in South Wales instead of Barcelona was partly due to the high standards of labour skills. It is also the case that foreign companies have been able to take advantage of relatively low wage costs. This is illustrated in Figure 2, which reveals the competitive nature of Britain's manufacturing labour costs when compared to a number of other countries.

Figure 2: Manufacturing labour costs (\$ per hour. 1995)



Germany
 Switzerland
 Belgium
 Austria
 Norway
 Denmark
 Finland
 Japan
 Holland
 Sweden
 France
 United
 Italy
 Canada
 Britain
 Iceland
 Spain
 Greece
 Portugal

Source: The Economist, 27 April 1996

It is also stated that the UK tax burden has been an important influence in both attracting and maintaining foreign business in the UK. For example, in the UK, total tax as a percentage of GDP is 34 per cent while that of Germany, Italy and France is higher at 39,42 and 44 per cent, respectively. A whole range of tax incentives, including one of the lowest rates of corporation tax in Europe, is yet another reason for the popularity of the UK for inward investment. The UK also offers cultural advantages, not least the global appeal of the English language. The language was certainly a factor in the decision of Toyota to locate in Derbyshire. As for Korea, English is the main language taught in schools.

As businesses develop in a specific location, it is likely that they will attract other businesses, leading to a concentration of particular firms in that area. As a result, that area will adapt itself to the needs of those businesses. There will be economies of concentration. For example, local colleges will develop courses relevant to the nature of firm's needs in that area. Similarly, small specialist subcontract firms may set up to provide the main 'parent' firms with component parts in, for example, the vehicle industry. Local financial institutions are also likely to become expert in the needs of the industry in the neighbourhood, being able therefore to offer specialist treatment. The advantages of a particular location can be seen in terms of natural or acquired advantages. Natural advantages include the possession of raw materials, the availability of sources of power and the nearness to major markets. All these natural advantages have been of historical importance to location. Acquired advantages have more to do with the benefit gained from the concentration of firms in the locality, rather than with the characteristics of the locality itself. For example, the concentration of Japanese electronics companies in South Wales is a strong reason for other such companies to locate there.

In addition to the factors covered in this section, government financial assistance has also contributed to UK inward investment. It would appear to be the case, however, that the financial assistance offered by the government is ranked behind access to markets, the transport infrastructure, a cheap and deregulated labour force, favourable tax regimes and the English language, as the most important influence on the decision of foreign companies to locate in the UK. The financial assistance is not insignificant, however, and it can possibly be viewed as 'icing on the cake'. Where government financial assistance does play a major role is in which area of the UK the foreign company chooses to locate. In fact, regions of the UK vigorously compete with each other in order to attract inward investment.

Toyota chief in warning on Emu

Ministers embarrassed over group's investment doubts

By Stefan Wagstyl and Robert Peston

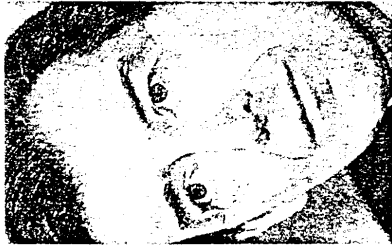
Toyota Motor, one of the biggest inward investors in the UK, warned yesterday that the company's European investment strategy might change if the UK stayed out of European monetary union.

The warning, given in Tokyo by Mr Hiroshi Okuda, president of the Japanese car-maker, is an embarrassment for the government, which only last week said it was "very unlikely" sterling would participate in European economic and monetary union at the 1989 launch.

It prompted an immediate reaction from ministers. Mr Ian Lang, trade secretary, insisted "another (unnamed) Japanese businessman" had been expressing "concern that a single currency would not be 'dependable'" and that there were "lots of views on these matters".

Labour insisted it was now more in tune with the interests of big international companies. Mr Gordon Brown, the shadow chancellor, stressed Labour was keeping open the option to join in the first wave.

Mr Okuda, speaking informally to reporters in Tokyo, said the company's future strategy towards the UK would "change" if the UK stayed outside Emu. This did not mean



Ian Lang: concern in Japan over single currency

"decreasing" the level of investment, but Toyota would "leave investments as they are now". It would "prefer to make" any new investments "in continental Europe rather than Britain".

Downing Street insisted there were doubts about the significance of the comments, since Mr Okuda had also said: "Regardless of whether Britain joins [Emu] I have a feeling that it would be excessive if we made additional investments in Britain."

But a minister admitted the incident was an embarrassment, because it came in the middle of a Tory campaign to



Gordon Brown: Labour more in tune with multinationals

highlight the government's success in attracting inward investment.

Yesterday morning, Mr John Major, the prime minister, initiated building work at the plant being set up in south Wales by LG group of South Korea. At the same time, Mr Lang was holding a press conference at Conservative central office, arguing that big overseas companies would stay away from the UK under a Labour government.

Last night, Nissan Motor, the first Japanese motor group to build a British plant, agreed it would prefer the UK to join Emu, but added this was not

"a major concern". "It would make our business a little easier," said Nissan, which employs 4,100 at Sunderland.

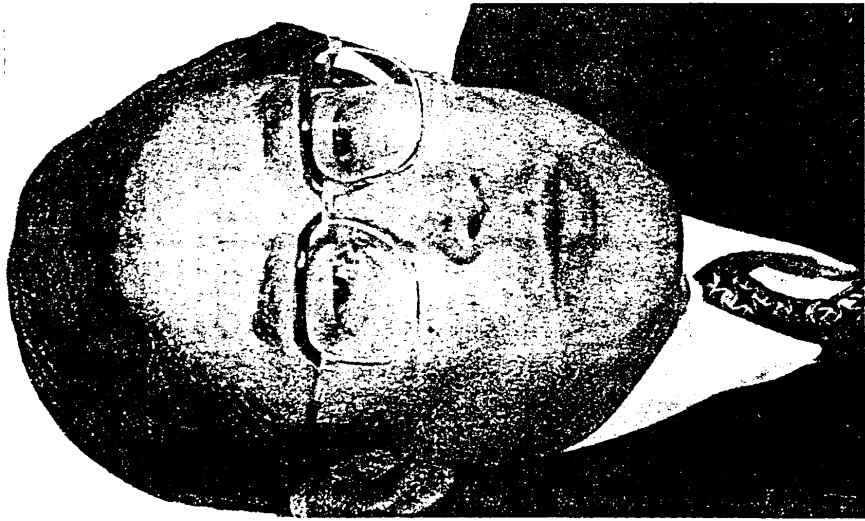
Honda Motor, which has a factory employing 2,300 at Swindon, said Emu would not have an impact on its UK strategy including its plan to invest £200m over the next three years.

Toyota UK declined to elaborate on Mr Okuda's remarks. But the company last year announced plans to invest a further £200m in its £700m plant at Burnaston, Derbyshire. It intends to build a new model - the Corolla - and hire 1,000 staff on top of the 2,500 already employed in the UK. It also indicated a second European plant could be built in eastern Europe, not the UK.

Mr Okuda has touched a raw nerve in the UK. Sir David Simon, chairman of British Petroleum, said the remarks confirmed his view that the government must "keep options open and remain at the negotiating table for the single currency".

Officials dealing with foreign investment said few investors raised concerns about Emu. But they did express fears about what might happen if Britain found itself on the European periphery.

Major: bails Korean investment, Page 13; Lex, Page 20



Toyota's Hiroshi Okuda: the motor group's strategy would 'change' if the UK stayed outside European monetary union

Extract 3

Brown's waiting game

Chancellor backs euro in principle but UK will not join before 2001

Michael White
And Larry Elliott

<p>The Chancellor yesterday virtually ruled out British membership of a single currency for the next five years but failed to take the vexed issue of monetary union off the political agenda when his long awaited statement ran into flak from both sides of the Commons.</p> <p>In an attempt to win the Government some</p>	<p>nomy has converged by the early years of the next century, the Government would then recommend membership and put the question to the people in a referendum.</p> <p>Mr Brown, who yesterday published a Treasury document detailing the UK reasons for not signing up during this Parliament, is concerned the British economic cycle is</p>	<p>We will join if ...</p> <p>The Chancellor's five criteria for joining EMU</p> <ol style="list-style-type: none"> 1 Whether there can be sustainable convergence between Britain and the other economies of a single currency 2 Whether there is sufficient flexibility to cope with economic change 3 The effect on investment 4 The impact on our financial services industry 5 Whether it is good for employment 	
<p>breathing space on the euro, Gordon Brown said Labour supported the project in principle and would take steps over the coming years to ensure that Britain was ready for entry.</p> <p>However, he said the economy was so out of step with continental European economies that Britain could not make the first wave in 1999 and 'barring fundamental or unforeseen change in economic circumstances' would not be ready before the end of the Parliament.</p> <p>Provided the UK eco-</p>	<p>out of step with Europe. Britain has enjoyed six years of growth since leaving the Exchange Rate Mechanism (ERM) but the rest of Europe has only just started to emerge from a long recession.</p> <p>Ministers fear joining a single currency in the short term would lead to lower interest rates, increasing the risk of another boom.</p> <p>The Treasury concluded that 'a period of stability, though continuing to aim for low inflation and sound public finances, would be necessary to</p>	<p>ensure that convergence was sustainable and durable and to provide a basis for successful membership of the single currency'.</p> <p>Government sources admitted that the delay in membership would diminish Britain's influence over the structure of the European Central Bank (ECB) and the conduct of policy inside the euro zone.</p> <p>However, with the Treasury convinced that the pound is seriously over valued, Mr Brown sees even bigger risks for entry at the wrong time. 'To try to join</p>	<p>now would be to accept a monetary policy which would suit other European countries but not our own,' he said.</p> <p>With global financial markets in turmoil last night, the Chancellor's attempt to clear the air could hardly come at a worse time for the City. The FTSE 100 Index closed down 130 points. However, Adair Turner, head of the CBI, welcomed the declaration of support for the principle of monetary union, although the CBI would have preferred the door to be left open for entry in 2001.</p>

Source: The Guardian (27 October 1997)

Are we in or are we out?

The question of whether or not

Britain should join the European

single currency is the most

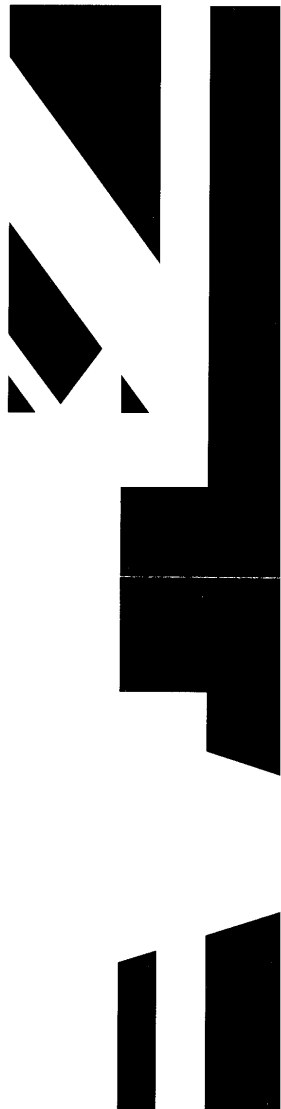
important issue facing this country today. It will be decided by a referendum, possibly in 2001, and it is essential that everybody is properly informed about the issues before that referendum takes place.

This leaflet contains the facts about the European single currency and what it means for Britain. Please read it, and discuss it with your friends and family. If you want our FREE information pack, please fill out and return the form overleaf. You don't even have to pay for postage.

or call this number

0990 011 997

Britain in Europe



Out of Europe and consumers pay the price

Inside the single currency, British consumers will benefit – with lower prices, cheaper mortgages and lower inflation

Britain is the most expensive country in the EU for 61 of the 72 best-selling cars – for 16 of these, prices were over 40% more expensive

Out of Europe and business is under threat

Inside the single currency, British business will thrive – with more investment, lower costs and a competitive advantage

Over half of British exports are exposed to exchange rate fluctuations in Europe – getting rid of transaction costs would save £3 billion a year

Out of Europe and our economy will decline

Inside the single currency, the British economy will be stronger – with more stability, inward investment and a global profile

Over 30% of inward investment into the EU comes to Britain, creating more than 800,000 jobs

Out of Europe and the UK is left behind

Inside the single currency, Britain will lead in Europe – making Europe work for us, with real influence to achieve reform

"There is a simple observation that if Britain's voice is less influential in Paris or Bonn, it is likely to be less influential in Washington." Raymond Seitz, former American Ambassador to Britain, 1996



Answer **all** questions.

- 1 Extract 1 lists various cost factors which might influence where a firm locates. Explain how the costs of a firm might be affected by its location and how firms can benefit from internal and external economies of scale. [15]
- 2 Extracts 1 and 2 consider certain aspects of inward Japanese investment into the United Kingdom. Use economic concepts to discuss the importance of inward investment by multinational companies such as Toyota for the UK economy. [20]
- 3 Evaluate the economic arguments for and against the UK's participation in EMU. [25]



Oxford Cambridge and RSA Examinations

Advanced GCE

ECONOMICS

ECONOMICS IN A EUROPEAN CONTEXT

2888

Mark Scheme

General Introduction

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 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 markscheme only – ie AS Unit 2883 and all A2 units.

Specific marking points

- 1 Extract 1 lists various cost factors which might influence where a firm locates. Explain how the costs of a firm might be affected by its location and how firms can benefit from internal and external economies of scale.** [15]

Synoptic knowledge: this question requires candidates to draw upon their knowledge of the cost structure of firms and of economies of scale introduced in section 5.1.3 of module 1. The effects of subsidies, drawn from section 5.2.3 of module 2, and the broader context of section 5.3.1 should also be incorporated into answers. The broad concept of international competitiveness is also relevant (modules 6 and 7).

The nature of fixed costs and variable costs. Examples of each drawn from Extract 1 such as transport costs (variable), labour costs (variable) and government financial assistance (to reduce fixed costs). Why firms might choose to locate close to the market from a cost standpoint e.g. Japanese car assembly plants in the UK. The international cost dimension as given in Figure 2.

The nature of economies of scale and the benefits for firms in terms of reducing long run average costs. External economies of scale through the training work of local colleges, a network of sub-contractors and local financial institutions. Locational advantages for (say) Japanese electronics firms in South Wales. [Credit will be given for any appropriate contextual examples.]

Level 3	For an explanation of how a firm's costs are affected by its location and how firms can benefit from internal and external economies of scale	[9-15]
Level 2	For an understanding of how a firm's costs are affected by its location and/or how firms can benefit from internal/ external economies of scale.	[5-8]
Level 1	For descriptive points on the cost structure of firms and/or economies of scale.	[1-4]

- 2 Extracts 1 and 2 consider certain aspects of inward Japanese investment into the United Kingdom. Use economic concepts to discuss the importance of inward investment by multinational companies such as Toyota for the UK economy.** [20]

Synoptic knowledge: this question requires candidates to draw upon their knowledge of the nature of investment, how increased investment contributes to aggregate demand and the circular flow of income resulting in broad multiplier effects in the national economy. The external implications for the trading and capital accounts of the Balance of Payments should also be understood. (See sections 5.3.1, 5.3.2 and 5.3.4 in particular; knowledge from sections 5.1.1 and 5.1.3 might also be used).

The meaning of investment. Investment as a component of aggregate demand. Control of investment in managing the economy to meet macro-economic objectives with respect to unemployment and the balance of payments. The broad multiplier

effects of an increase in investment from outside the UK economy – impact on employment, the balance of trade and business prospects.

The relative importance of inward investment for the UK economy should be recognised from Figure 1. Toyota’s threat to leave its investments in the UK as now should be understood in terms of the opportunity cost of lost jobs and trade, particularly if this investment is diverted to elsewhere in the EU. Other examples of multinational companies investing in the UK could also be used. The broader costs in terms of less specialisation and comparative advantage are also relevant. Managerial objectives of firms such as Toyota may also have a bearing on such decisions.

Level 4 For a discussion of the benefits and costs of inward investment for the UK economy. [15-20]

Level 3 For an explanation of the importance of inward investment for the UK economy and the consequences of Toyota (or other multinationals) leaving its investment in UK as it is now. [9-14]

Level 2 For an understanding of the importance of inward investment to the UK economy. [5-8]

Level 1 For descriptive points on inward investment and its economic importance to the UK economy. [1-4]

3 Evaluate the economic arguments for and against the UK’s participation in EMU. [25]

Synoptic knowledge: this final question is designed to test the ability of candidates ‘to think as economists and see the relationship between different aspects of the subject’ (see page 3, Specification Aims). In order to do this effectively it will be necessary for them to draw upon their knowledge of the workings of the national and international economy (Modules 3, 6 and 7) and to a lesser extent, their knowledge of how firms and the labour market operate (Module 1).

The case study material puts forward two particular arguments:

- wait and see (Extract 3)*
- join in 2001 (Extract 4)*

A logical deduction from these arguments could be the third possible outcome – do not join. The aim of this question is for candidates to appraise the key issues as they might affect business, the exchange rate and the economy as a whole.

Benefits include:

- less risk of exchange rate fluctuations*
- elimination of transactions costs for firms and for travellers*
- common prices across the EU*
- new inward investment and jobs for the UK*
- ECB control of macro-economy, with less chance of external shocks*

Likely costs include:

- loss of business for City of London*
- business cycles not synchronised*
- loss of control over macro-economic policy*
- exchange rate depreciation*

An appraisal of the political issues is not required.

Level 4	For an evaluation of the economic arguments for and against the UK's participation in EMU.	[14-25]
Level 3	For an analysis of the economic arguments for and against the UK's participation in EMU.	[9-13]
Level 2	For an understanding of some of the economic arguments for and against the UK's participation in EMU.	[5-8]
Level 1	For a description of some of the economic arguments for and against the UK's participation in EMU.	[1-4]

Unit 2888: Economics in a European Context

	Q1	Q2	Q3	TOTAL
AO1 Target: 12	4	4	4	12
AO2 Target: 12	4	4	4	12
AO3 Target: 18	7	6	5	18
AO4 Target: 18		6	12	18
	15	20	25	60

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

[Note: elements of specification content are referenced in the body of the mark scheme.]