



# **GCE MARKING SCHEME**

**ECONOMICS  
AS/Advanced**

**SUMMER 2012**

## INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2012 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conferences was to ensure that the marking schemes were interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

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**EC1**

## **GENERAL MARKING GUIDANCE**

### **Positive Marking**

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

## GCE ECONOMICS – EC1

Summer 2012

**Q.1 Use the above information to explain the concept of opportunity cost. [2]**

Definition of opportunity cost (1) application to the data (1)

**Q.2 The price of crisps in a school canteen rose from 40p per bag to 50p and, as a result, sales fell from 200 bags to 180 bags per day. Calculate the price elasticity of demand for crisps at the school. [2]**

Equation/definition (1) -0.4 (2)

**Q.3 With reference to the data and using a diagram, explain why petrol retailers are able to shift a large proportion of the tax on petrol onto consumers. [6]**

Candidate correctly draws and labels a diagram shifting the supply curve to the left (parallel or divergent) showing price inelastic demand (3)

Candidate explains the diagram using the data (3)  
No use of data maximum 5.

**Q.4 Define external costs and, using the data, explain why there are external costs resulting from excessive alcohol and food consumption. [4]**

Definition of external costs (2)

Linkage of alcohol/obesity to higher NHS spending (2)  
No explicit use of the data maximum 3.

**Q.5 To what extent are these government grants an example of government failure? [6]**

Candidate explains the meaning of government failure (2) and uses the data to show why potentially this is an example of government failure (2)

Evaluation: it may have been even worse without the grants to farmers, report may be inaccurate, data shows rate of bird decline is slowing, data only goes up to 2005 (2)

Max 4 without evaluation

**Q.6 The diagram shows the average wage of bricklayers in the UK economy.**

**Using the diagram, evaluate the likely effects of a rise in mortgage interest rates and the arrival of bricklayers from Eastern Europe seeking employment in the UK.** [8]

Correct adaptation of the diagram (shift to the left of demand and to the right of supply, causing wage rates to fall). (3)

Explanation (3)

Evaluation: depends on extent of the rise in interest rates, other factors affect the demand for houses (incomes/expectations), depends on number of migrants, other factors affect the wages of bricklayers (trade union action), elasticity of demand and supply of labour, minimum wage will prevent wages falling too much. (2)

**Q.7 (a) Using an aggregate demand and aggregate supply diagram, explain why, according to the data, inflation has been above target in recent years.** [4]

Demand showing leftward shift of the AS curve (2) or shift of SRAS curve. (2)  
Reward plausible AD shift to the right resulting from the fall in the value of the pound boosting exports. (3)

Explanation with use of the data (2)

**(b) Using an aggregate demand and aggregate supply diagram, explain why, according to the data, inflation is predicted to come down in 2012.** [4]

Diagram showing leftward shift of the AD curve (2)

Explanation with use of the data (2)

**Q.8 Discuss the view that the abolition of the 50% tax rate would be beneficial to the UK economy.** [6]

Beneficial: increased incentives, will promote entrepreneurship, prevent exit of top executives, tax revenue might increase (use of the Laffer Curve), creation of employment, cutting tax will increase AD. (4)

BUT

Possible loss of tax revenue, increased post-tax inequality, etc.  
AD might not rise significantly.

Max 4 without evaluation.  
Reversible answer.

**Q.9 In recent years, the UK's trade deficit in goods has continued to worsen despite a fall in the value of the pound since 2007.**

**To what extent can a fall in the value of a currency such as the pound be expected to improve the trade balance?**

**[8]**

Falling pound will make exports cheaper and imports more expensive (2) thus demand for exports rises and demand for imports falls(1), improving the trade balance (1)

BUT

Time lags.

Non-price factors affect demand for goods.

Loss of comparative advantage.

Price inelastic demand for exports/imports.

Depends how big the fall in the currency.

Depends which currencies the pound falls against.

Depends on the state of demand in overseas markets.

Explicit use of the data. (2)

2x2 marks for evaluation

Maximum 4 without evaluation.

## **EC2 GENERAL MARKING GUIDANCE**

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### **Quality of Written Communication**

QWC is assessed in Section B part (b) and Section C part (b).

**GCE ECONOMICS - EC2**

**Summer 2012**

**SECTION A**

- Q.1 (a) Distinguish a :**
- (i) tariff from a quota; [2]**
  - (ii) trade war from a currency war. [2]**

(i) Tariff - a tax on imported goods. (1)  
Quota - limit on the quantity of goods imported or by market share. (1)

(ii) Trade war-countries retaliating against each others protectionist policies. (1)  
Currency war-countries devaluing their currencies to try to gain price advantage. (1)

- (b) Explain the effects of (i) a budget deficit and (ii) a trade deficit on aggregate demand. [4]**

(i) Budget deficit - will increase AD (1) because  $G > T$  (1)  
(ii) Trade deficit - will decrease AD (1) because  $M > X$  (1)

- (c) Why does an artificially low yuan contribute to a 'flood of Chinese imports and rising unemployment in the USA? [6]**

Low yuan makes Chinese exports to the US Cheap (1) thus there is an increasing demand for them (1) causing them to displace US made goods (1) resulting in US firms cutting their output and employment. (1) Makes it harder for the US to sell exports to China. Resulting in US job losses (2).

- (d) Governments, such as those in Japan and Brazil, have intervened to reduce the value of their currencies. Using a diagram, explain how governments can intervene in this way. [6]**

Appropriate diagram showing shifts in the D/S of currency resulting in a lower exchange rate. (2)

Identification (1) and explanation (3) of policies:  
Interest rates.  
Buying and selling currency.  
Use of foreign exchange reserves.

- (e) With the aid of a diagram and the data, discuss the possible effects on the US economy of the imposition by the USA of import tariffs on Chinese goods. [10]**

Tariff diagram or AD/AS diagram explained max 4.  
Beneficial effects - domestic employment/output/profits/tax revenue/trade balance. (max 4)  
Negative effects - retaliation/welfare loss/WTO.  
rising costs/inflation, size/extent of tariffs, Ped of imports, alternative import sources used. (max 4)

Evaluation 4 marks. (max 6 without evaluation)  
Max 6 with no diagram.  
Max 8 no data reference.



- (f) Evaluate the case for the use of supply-side policies as a means of reducing the US trade deficit. [10]**

Definition of supply-side policies.

Explanation of how supply-side policies will reduce trade deficit through increased competitiveness (price/quality).

Tax/benefit reform, training, education, grants for R&D, infrastructure tax breaks for entrepreneurs, etc

Evaluation:

Time lags.

Government failure.

Cost of policies - large US budget deficit.

Other factors important i.e. exchange rate.

Max 6 without evaluation.

Reversible answer.

## SECTIONS B and C

The following levels should be applied to each question.

### Part (a) questions

Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made.
Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

### Part (b) questions

Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. Likely to focus on just one side of the issue.  Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.  Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
Level 3 9 - 12	Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.  Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.

**Q.2 World production of rare earth metals fails to keep up with soaring demand.**

- (a) Define price elasticity of supply and explain the factors that determine it. [8]**

Indicative content

Definition of Pes or equation. (2)

- Factors affecting Pes:
- Time.
- Complexity of the production process.
- Nature of the product
- Availability of the product.
- Perishability of the product.

Max 3 for each factor.

- (b) Many everyday products such as iphones use rare earth metals; discuss the measures which governments could introduce to increase the supply and reduce the demand for these metals. [12]**

Indicative content

Subsidies to mining companies to search for these metals - but subsidies are costly/not a government problem.

Use substitutes - other metals - but this may not be possible in the short term.

Recycling of laptops/mobiles etc - but costly to be set up and takes time.

Reduce demand - taxation of products using these metals - but not popular with customers.

Use of some form of buffer stock scheme - but these have problems. (Like the International Tin Council)/Minimum price scheme.

Up to 4 marks for each fully evaluated point.

Max 8 with no evaluation.

**Q.3 Employers criticise rise in minimum wage to £6.08 per hour.**

- (a) With the aid of a diagram, explain the factors which might cause a change in the equilibrium wage in a free market. [8]**

Indicative content.

Diagram/s showing the demand and supply of labour and how the equilibrium wage changes when there is a shift in demand/supply. Max 2

Factors which may shift demand: derived demand effects, changes in labour productivity, changes in the costs of other factors of production, state of the economy.

Factors which may shift supply: changes in wage rates in other occupations, entry qualifications changing, migration/changes in the size of the labour force, power of trade unions.

2 marks for each explained factor.

- (b) To what extent would an increase in the minimum wage be beneficial for firms, workers and consumers? [12]**

Indicative content

Rise in NMW on firms: raises costs and prices thus fall in demand and profits/less competitive BUT depends how much the NMW rises by, proportion of costs which are labour costs, may encourage firms to raise productivity of workers, some firms don't have any NMW staff. Max 4

Rise in NMW on workers: rise in wage/living standards, more incentive to look for work/work harder BUT can cause them to lose their job/fewer hours if Ped for labour is elastic, some workers unaffected. Max 4

Rise in NMW on consumers: rise in costs thus prices of goods/services rise (reduced consumer surplus) BUT depends how big the rise in the NMW is, many prices of goods/services not affected by the NMW. Max 4

2 marks for a diagram.

Max 8 without evaluation.

All economic agents to be covered to gain full marks.

**Q.4 European emissions trading scheme temporarily suspended.**

- (a) Explain with the use of examples what is meant by market failure. [8]**

Indicative content

Define market failure. (2)

Examples showing why they illustrate market failure:

Public goods, merit goods, demerit goods, absence of property rights, asymmetry of information, external costs/benefits/monopoly..

Max 4 for each example explained. Two examples minimum.

- (b) Consider the view that the use of tradable pollution permits is the best way of reducing greenhouse gas emissions. [12]**

Indicative content

Explanation of the how tradable permit schemes reduce emissions and correct market failure. Focus on the advantages of these schemes not merely how they work.

Market based system designed to reduce emissions over time. All firms are incentivised to clean up pollution using the price mechanism. Pollution is reduced in the most efficient way.

A good basic understanding of a pollution permits scheme. (4)

BUT.

Scheme is open to abuse/corruption: number of permits issued by governments/computer hacking. Permits raise costs for firms, effects on competitiveness. Firms shift production to parts of the world where there are no controls on pollution. Candidates can refer to problems with the ETS.

Max 4 for referring to other policies that could be used to reduce emissions i.e. carbon taxes, regulations etc

Max 8 without evaluation (reversible answer).

## SECTION C

### Q.5 UK economy needs to be rebalanced.

- (a) **Using a diagram, explain the shape of the aggregate demand and aggregate supply curves.** [8]

Indicative content

Diagram/s showing the shape of the AD and AS curves. (2)

Candidate explains shape of AD curve. (Max 4)

Candidate explains shape of AS curve. (Max 4)

- (b) **Evaluate the view that the UK economy would benefit from a greater proportion of aggregate demand coming from investment and exports rather than consumption and government spending.** [12]

Indicative content

Yes: Investment increases productivity/competitiveness/economic growth/employment/trade balance.

Exports help pay for imports/reduce trade deficit/employment effects/economic growth etc

BUT: Consumption contributes to AD benefits from employment/GDP.

Government spending corrects market failure and reduces inequality/needed to support the private sector (training/education/infrastructure).

Candidates may take a different approach by explained the problems of high consumption (inflation) and government spending (budget deficits).

Max 8 without evaluation.

**Q.6 Government tackles huge budget deficit.**

- (a) Explain using examples the main categories of government spending and taxation. [8]**

Indicative content

Government spending: Current spending and capital spending (examples) (4)  
Taxation: Direct and Indirect taxes (examples) (4)

- (b) Discuss the view that in order to reduce the budget deficit the government should increase taxes rather than cut government spending. [12]**

Higher VAT: No real effect on incentives, avoidable to an extent, hard to evade/easy to collect, will raise more revenue than raising top tax rates **but** is regressive/raises prices/unpopular with retailers.

Raising income tax: effect on incentives (Laffer Curve) impact on AD/more evasion/exit of top managers/entrepreneurs **but** higher income tax can reduce inequality/progressive

Tax maximum 8.

Cutting government spending: Can have direct effect on employment, hits lower income groups hardest, **but** less effect on incentives, scope to reduce waste, need to rebalance the economy.

Government spending maximum 8.

Neither policy will reduce the deficit as economic growth will fall. Austerity will worsen the deficit. Max 4 if explained fully.

Max 8 without evaluation.

**Q.7 Inflation and trade deficit worsen whilst economic growth and unemployment disappoint.**

- (a) Explain why governments have attempted to achieve low inflation and a low level of unemployment. [8]**

Indicative content

Low inflation: international competitiveness (trade balance).  
better for forward planning in business (investment decisions).  
saving on menu/shoe leather costs.  
inflationary expectations low (wage bargaining).  
means low interest rates.  
protects those on fixed incomes.

(max 4 2x2 points)

Low unemployment: higher living standards.  
reduced benefit payments.  
higher economic growth.  
Fewer social problems.

(max 4 2x2 points)

- (b) Discuss whether it is possible for a government to achieve all its macroeconomic policies at the same time. [12]**

Indicative content

Identification of macroeconomic objectives (2)

Not possible to achieve all at the same time:

Inflation unemployment trade-off explained max 4  
Economic growth and environmental depletion and degradation max 4  
Economic growth and trade deficit max 4.

Max 8 without evaluation.

BUT:

Possible to achieve all objectives with the successful implementation of supply-side policies - explained with the use of AD/AS analysis.  
Use of evidence from the NICE decade.

Max 4.

Reversible.



## **EC3 GENERAL MARKING GUIDANCE**

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Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

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GCE ECONOMICS – EC3

Summer 2012

SECTION A

**Q.1 The diagram shows the cost and revenue curves for a profit-maximising monopolist in the long-run situation.**

**(a) Using the letters in the diagram, identify:**

**(i) the monopolist's profit-maximising output;** [1]

OQ (or Q) (1) *Not R or S*

**(ii) the firm's monopolist's abnormal profit.** [1]

PRST (1) *or equivalent description of rectangle e.g. TPRS*

**(b) Explain why a monopolist is able to earn abnormal profits in the long-run.** [3]

Explanation/definition of abnormal profits. (1)

Explanation of barriers to entry preventing abnormal profits being competed away (using appropriate example). (3)

*Can get 3 without defining abnormal profit but must describe price falling*

**Q.2 The diagram shows the long-run average total cost (LRATC) of firms in an industry at different levels of output.**

**Explain why it may benefit the consumer to have one monopoly provider producing 3000 units per week rather than three smaller firms producing 1000 per week each.** [4]

Identification of lower costs for monopolist (referring to diagram)  
*e.g. £80 v £100/£120 lower* (2)

Explanation of benefits, e.g. natural monopoly operating at lowest-costs output/MES/economies of scale/would be able to charge lower prices and still be profitable. (Credit argument consumer may not benefit if monopolist does not pass on cost reductions) (4)

*For 4 must explain rather than assume that consumer will benefit from lower ATC*

**Q.3 The diagram shows the marginal product of labour (MPL) and average product of labour (APL) for a bakery using increasing amounts of labour in the short-run.**

**Explain the shape of the marginal product of labour (MPL) curve.** [4]

Explanation of SR situation/at least one fixed factor/definition of MPP/DMR (2)  
*(description of curve only = 1)*

Explanation of why MPP eventually falls/becomes negative at OB, e.g. limited size of factory, labour has insufficient capital equipment, etc.  
(No credit for economies/diseconomies of scale). (2)

**Q.4 The diagram above shows a justification for a carbon tax on coal-fired electricity power stations. Using the diagram, discuss the case for this carbon tax. [6]**

Explanation of case for heavier tax, e.g. demerit goods create negative externalities, will reduce demand, therefore, lower external costs, deadweight/welfare loss, *divert to cleaner technologies, revenue can be used for other purposes*, reference to diagram.

Evaluation, e.g. difficulty of measuring externalities, may be inflationary, tax revenue not necessarily hypothecated to dealing with external effects, effects on employment/output in coal/electricity industries.

Max of 4 marks for one side of argument only.

**Q.5 Explain why the claimant count measure of unemployment is usually lower than that produced by the Labour Force Survey. [3]**

Identification of difference in way unemployed measured, e.g. CC by benefits claims, LFS by survey. (1)

Development, e/g/ explanation (with example) of people included in LFS but not in CC. (2)

**Q.6 (a) Using the data, explain what happened to the UK's terms of trade between 2000 and 2010. [2]**

Rose/improved between 2004, mostly fell/worsened thereafter/rose slightly over period. (1)

Use of figures/ referring to *changes in X and M prices, explanation of TOT index*. (1)

**(b) Explain possible reasons for the changes in export and import prices.[4]**

Identification and explanation of appropriate factors, e.g. changes in UK productivity, relative inflation rates, exchange rates, *cost of raw materials, tariffs. Must refer to prices rather than X and M volumes*. (2x2)

**Q.7 Discuss whether the Monetary Policy Committee (MPC) was right to keep interest rates at 0.5% [6]**

Explanation of arguments for maintaining rate, e.g. higher rates would reduce demand and GDP growth further. exaggerate effects of Government spending cut/deepen recession.

Evaluation, e.g. inflation well above target, will rise further unless MPC raises rates, possibility of wage-price spiral.

Max of 4 marks for one side only

**Q.8 Using appropriate economic theory, discuss the extent to which the data shows a trade-off between unemployment and inflation. [6]**

Descriptive explanation of possible relationship using figures, e.g. appears to be trade-off in some periods (late 80s, late noughties) but positive relationship for other periods. (3)

Development using appropriate theory, e.g. AS/AD, Phillips curve. (3)

**SECTION B**  
Answer **one** question

**The following levels should be applied to each question.**

LEVEL	MARK BAND	DESCRIPTOR
<b>Level 1</b>	1-5	<p>Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
<b>Level 2</b>	6-10	<p>Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p>
<b>Level 3</b>	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
<b>Level 4</b>	16-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

**Q.9 To what extent should governments intervene to correct market failure? [20]**

Definition & explanation of possible sources of market failure, e.g.

- external costs and benefits
- public, merit and demerit goods
- information failure
- uncertainty
- monopoly/power
- factor immobility

Explanation of types of government intervention/reasons for intervention, e.g.

- to reduce pollution
- redistribute income
- correct information failure, e.g. demerit goods

Evaluation of reasons/effects of government intervention (government failure) e.g.

- creation of disincentives to effort and enterprise
- higher taxes/Government spending
- higher costs/prices
- appropriate diagrammatic illustration

**NB:** Candidates are not expected to discuss **all** types of market failure.

**Q.10 'Many UK industries are dominated by a few large firms.' How far is this situation bad for the UK economy? [20]**

Explanation referring to 'domination'/'large firms', e.g. referring to market share/% of total sales, identification of oligopoly without explanation.

Explanation and evaluation of possible extent of competition, e.g.

- small number of producers may limit competition
- possible limited price competition
- large producers may be able to dominate market
- inter-dependence between producers
- still have to compete to keep business
- non-price competition
- possible anti-competitive practices
- explanation of oligopolistic model
- may lead to occasional price wars
- economies of scale/generation of investment funds

Level 4 answers should refer to wider macro-economic issues such as international competitiveness and employment.

**Q.11 Discuss the view that the Government should encourage an increase in the number of mergers between UK firms. [20]**

Definition and explanation of merger.

Explanation of possible advantages of mergers, e.g.

- possible lower prices
- better technology/production methods
- increased international competitiveness
- more secure jobs

Evaluation of benefits of mergers, e.g.

- limited evidence that they have worked in past
- possible diseconomies of scale
- may lead to anti-competitive practices
- may conflict with EU legislation/competition policy

Attempt to balance these arguments/refer to possible macro-economic effects, e.g. on growth, employment, balance of payments, external economies.

## **EC4 GENERAL MARKING GUIDANCE**

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Each question in Section B will be marked using a Levels of Response mark scheme.

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## GCE ECONOMICS – EC4

Summer 2012

- Q.1 (a) Using the data, explain the argument that there were 'more than enough taxis in Cardiff' in March 2010. [8]**

Level 1 1-4 marks	<p>Identification of basic arguments, e.g.</p> <ul style="list-style-type: none"> <li>• increase in taxi licences compared to rise in population</li> <li>• Cardiff has far more than similar cities</li> </ul>
Level 2 5-8 marks	<p>Explanation of argument using figures, e.g.</p> <ul style="list-style-type: none"> <li>• number of taxis almost doubled, population increased more slowly</li> </ul>

- (b) What does the data suggest about the structure of the taxi market in Cardiff? [8]**

Level 1 1-4 marks	<p>Identification of basic structure, e.g.</p> <ul style="list-style-type: none"> <li>• large number of businesses</li> <li>• none particularly dominant</li> <li>• customer loyalty important</li> <li>• few barriers to entry</li> </ul>
Level 2 5-8 marks	<p>Development, e.g.</p> <ul style="list-style-type: none"> <li>• monopolistically competitive</li> <li>• can only make normal profit at most</li> </ul> <p><i>allow up to 4 for perfect competition with appropriate illustration</i></p>

- (c) Discuss whether Cardiff Council were right to restrict the number of taxi licences to be issued in Cardiff. [12]**

Level 1 1-6 marks	<p>Explanation of arguments for restriction, e.g.</p> <ul style="list-style-type: none"> <li>• taxi-drivers unable to make sufficient income</li> <li>• long waiting times for drivers</li> <li>• demand much greater than supply</li> <li>• may avoid creating unemployment for taxi- drivers</li> </ul>
Level 2 7-12 marks	<p>Evaluation of arguments against restriction, e.g.</p> <ul style="list-style-type: none"> <li>• restricts competition</li> <li>• may make it more difficult for passengers to get taxis</li> <li>• more alcohol-related crime</li> <li>• lower quality of taxis</li> <li>• fewer wheelchair-accessible taxis</li> </ul>



- (d) **Some environmental campaigners have suggested that Cardiff Council should subsidise local buses and discourage taxi and private car access to the city centre. Discuss the case for and against this policy.** [12]

Level 1 1-6 marks	<p>Explanation of arguments for policies, e.g.</p> <ul style="list-style-type: none"> <li>• reduction of social costs such as pollution and congestion</li> <li>• fewer accidents</li> <li>• social benefits for lower income groups</li> <li>• has progressive effect</li> <li>• use of appropriate diagram(s)</li> </ul>
Level 2 7-12 marks	<p>Evaluation of argument, e.g.</p> <ul style="list-style-type: none"> <li>• higher Council spending</li> <li>• opportunity cost of subsidies</li> <li>• bus passengers should pay for own transport</li> <li>• too expensive/inefficient to have late-night buses</li> <li>• restricts consumer choice</li> <li>• loss of jobs for taxi-drivers</li> <li>• loss of trade/jobs in city centre <ul style="list-style-type: none"> <li>• <i>bus companies may not pass on savings</i></li> </ul> </li> </ul>

- Q.2 (a) **Describe how the structure of the UK economy has changed since 1980.** [8]

Level 1 1-4 marks	<p>Identification of trends, e.g.</p> <ul style="list-style-type: none"> <li>• fall in manufacturing share of employment and output</li> <li>• rise in service sector</li> <li>• primary sector percentage little change</li> </ul>
Level 2 5-8 marks	<p>Development using figures. <i>Maximum 6 if don't use trade figures</i></p>

- (b) **Explain the factors which may have caused these changes.** [8]

Level 1 1-4 marks	<p>Identification of relevant factors, e.g.</p> <ul style="list-style-type: none"> <li>• foreign takeovers of UK firms</li> <li>• high UK inflation</li> <li>• high exchange rates</li> <li>• lower costs in other countries</li> <li>• success of UK financial services</li> <li>• decline in trade balance</li> </ul>
Level 2 5-8 marks	<p>Explanation of relevant factors, e.g.</p> <ul style="list-style-type: none"> <li>• foreign firms may not use local suppliers</li> <li>• higher productivity/technological change in manufacturing</li> <li>• high exchange rate makes exports dearer, imports cheaper <ul style="list-style-type: none"> <li>• <i>higher Government spending has been mostly on services</i></li> </ul> </li> </ul>

- (c) **How far does the change in its industrial structure matter to the success of the UK economy?** [12]

Level 1 1-6 marks	<p>Arguments for concern about trends, e.g.</p> <ul style="list-style-type: none"> <li>• manufacturing industry important as customer for other sectors</li> <li>• decline may increase trader deficit</li> <li>• may hit particular regions harder than others</li> <li>• loss of skills</li> <li>• financial sector not as successful as previously</li> </ul>
Level 2 7-12 marks	<p>Evaluation of reasons for concern, e.g.</p> <ul style="list-style-type: none"> <li>• service sector replacing manufacturing jobs</li> <li>• need to concentrate upon areas where UK has comparative advantage</li> <li>• many manufacturing jobs low-skilled/low value-added <ul style="list-style-type: none"> <li>• <i>interdependence of service &amp; manufacturing sectors</i></li> </ul> </li> </ul>

- (d) **Recent Government economic policies have been focused on reducing the public sector deficit by increasing some taxes and cutting Government spending.**

**Discuss whether these are the correct policies to help UK manufacturing firms.** [12]

Level 1 1-6 marks	<p>Explanation and evaluation of arguments for cutting spending/raising taxes, e.g.</p> <ul style="list-style-type: none"> <li>• public sector debt may be unsustainable in the long-run</li> <li>• possible crowding-out</li> <li>• lower consumption in future years</li> <li>• lower long-term interest rates</li> <li>• will eventually reduce inflation and interest rates for manufacturing firms</li> <li>• will release finance for private sector manufacturers</li> <li>• lower tax burden eventually</li> </ul>
Level 2 7-12 marks	<p>Arguments against policy, e.g.</p> <ul style="list-style-type: none"> <li>• may make recession worse and cut demand for manufactured goods</li> <li>• possible higher unemployment</li> <li>• will lead to lower spending on education and training</li> <li>• will reduce growth and confidence in the UK economy</li> <li>• may lead to lower profits and investment</li> <li>• depends which taxes are reduced</li> <li>• other policies, e.g. developing skills, supply-side <ul style="list-style-type: none"> <li>• <i>disincentives to effort</i></li> <li>• <i>alternative policies e.g. supply-side, tariffs</i></li> </ul> </li> </ul>

**SECTION B**  
Answer **one** question

**The following levels should be applied to each question**

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	<p>Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p>
Level 3	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with sound logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
Level 4	16-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

**Q.3 In 2012 it seems unlikely that the UK will now join the European monetary Union (EMU) in the near future.**

**Discuss whether continued absence from the EMU is good for the UK economy.**

**[20]**

Definition and explanation of EMU and implications, e.g.

- single European currency European Central Bank, common interest rates

Explanation and evaluation of possible advantages and disadvantages of adopting EMU, e.g.

- easier trading
- no exchange rate fluctuations
- lower transaction costs
- Government cannot devalue
- 'discipline' on inflation
- wider markets for UK firms/possibility of economies of scale
- possible higher growth and employment
- possible outward shift in PPC/AS curve
- if entry delayed will be more difficult to adjust in later years
- increased competition from abroad may lead to higher unemployment/lower growth
- reduced independence for UK economic policy
- not joining may lead to lower inward investment
- *British people happier and more confident abroad if used to using the euro*
  - common interest rate may be unsuitable for countries with different economic conditions/UK economy more sensitive to interest rate changes (e.g. because of variable-interest mortgages)
  - benefits/difficulties of having to meet convergence criteria
  - benefits partially dependent upon mobility of factors
  - costs to business of adjusting to Euro
  - effects upon London as financial centre
- *British people will feel lost if don't have the Queen's head on their currency*

Level 4 answers should make a judgement as to whether the Government should enter EMU and refer to wider macro-economic effects such as those on inflation, unemployment and growth as well as basic 'exchange' effects.

**Q.4 In 2011 the UK's rate of inflation was rose to over 5%. Evaluate the view that the reduction of inflation should be the Government's main priority.**

**[20]**

*Definition/explanation of inflation/causes of inflation*

Descriptive explanation of problems caused by inflation, e.g.

- falling value of money
- shoe-leather and menu costs
- uncertainty
- reduced value of savings/fixed incomes
- distorts functions of money
- fiscal drag
- *Unfair redistribution of income away from pensioners, public sector workers etc*

Theoretical development linked to other macro-economic objectives, e.g.

- maintaining growth and employment
- meeting EMU convergence criteria
- self-perpetuating, e.g. wage-price spiral
- may increase Government spending, e.g. index-linked social security

Evaluation, e.g.

- consequences of Government anti-inflationary policy
- importance of other macro-economic objectives, e.g. getting economy out of recession/mass unemployment

**Q.5 Evaluate the policies that poor developing countries might use when trying to compete with richer more developed countries. [20]**

Explanation and illustration of possible problems, e.g.

- low levels of education/skill
- dependence upon particular industries
- dependence upon imports
- lack of appropriate technology
- high debt repayments
- protectionism
- *Use of appropriate theories e.g. Lewis, Rostow, Harrod-Domar*

Evaluation of possible methods for overcoming difficulties, e.g.

- encouraging strategic industries
- protectionist measures
- concentration upon import substitution
- relying upon free competition and trade
- attracting inward investment
- aid from other countries

Level 4 answers should attempt to balance relative merits of alternative policies, e.g. explanation of why best policies may vary between different countries.



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