



GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

SUMMER 2013

INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2013 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 2013

Question	Answer	Mark allocation	Assessment objective
Q.1	<p>With reference to the data, explain one factor that could explain the change in manufacturing productivity over the period shown.</p> <p>Definition of productivity (1). Productivity has increased (1). Plausible reason explained: mechanisation, technology, working practices (3).</p>	3	AO1 1 AO2 2
Q.2 (a)	<p>Adapt the above diagram to discuss whether the policy changes are likely to increase or reduce the price of cycle helmets.</p> <p>Demand shifts right (2) Supply shifts divergently right (2) New price and quantity not shown (-1). Parallel supply shift (1). Evaluation: Candidate explains how the price could rise or fall relating to degree of each shift (2). Extent of the VAT cut (2). Price elasticity of demand and supply of cycle helmets (2). Firms don't pass on the VAT cut (2).</p>	6	AO1 2 AO2 2 AO4 2
Q.2 (b)	<p>Explain how the policies outlined above may help to correct market failure.</p> <p>Definition of market failure (2). Reduction in external costs: Fewer NHS accidents (2). Fewer employees off work due to injuries (2). Less effect on productivity (2).</p>	4	AO1 1 AO2 1 AO3 2
Q.3	<p>Calculate the price elasticity of demand for this football club and explain why the club's revenue has been affected by the price change.</p> <p>Understanding of the formula/concept (1). Calculation (1) Explanation of why revenue rises (2).</p>	4	AO1 1 AO2 1 AO3 2
Q.4	<p>Using the above passage explain the concept of asymmetry of information.</p> <p>Definition of asymmetry of information (2). Application to the passage (2).</p>	4	AO1 2 AO2 2
Q.5	<p>Complete the circular flow diagram by identifying flows 1 to 5.</p> <p>Flow 1= Factors of production/factor services/labour/employment/capital (1). Flows 2-5 2/3 correctly identified (1) 4 correctly identified (2). Flows 2 and 3 exports/government spending/subsidies. Flows 4 and 5 imports/taxation.</p>	3	AO1 2 AO2 1

Question	Answer	Mark allocation	Assessment objective
Q.6 (a)	<p>In the above diagram explain the shape of both the aggregate demand and aggregate supply curves.</p> <p>AD: Real balance effect/ interest rate effect/ exchange rate effect (2). A fall in the price level increases the purchasing power of incomes thus AD rises (2). AS: Explanation of the relationship between the price level and GDP in the elastic and inelastic sections.</p>	4	AO2 2 AO3 2
Q.6 (b)	<p>Explain how fiscal policy can shift both the aggregate demand and aggregate supply curves to the right.</p> <p>Rise in government spending/cuts in taxation will increase injections and via the multiplier raise GDP (3). Increase in capital spending (infrastructure) or training etc will increase potential output shifting AS to the right (3).</p>	6	AO1 2 AO2 2 AO3 2
Q.7	<p>With reference to the data, discuss how successful this plan seems to have been.</p> <p>Inflation above target, current account deficit, rising unemployment and low economic growth explained. Maximum 4. (two objectives well explained)</p> <p>Evaluation: Some of the problems are outside government control; inflation returning to target, other data might be needed to pass judgement, there is still two years to go. Maximum 4. (two marks for each point made)</p>	8	AO1 2 AO2 1 AO3 1 AO4 4
Q.8	<p>To what extent might Russia expect to benefit as a result of freer international trade?</p> <p>Greater choice/lower prices/competition/better quality goods and services/increased productivity and efficiency/LRAS shifts right/pressure to innovate. 2 x 2.</p> <p>BUT.</p> <p>Lower priced imports cause job losses/possible trade deficit/lower economic growth/depends on the competitiveness of the Russian economy/reduction in tariff revenue/time lags/no change in the trading relationships with countries not in the WTO. 2 x 2.</p> <p>Max 4 without evaluation.</p>	8	AO1 2 AO2 1 AO3 1 AO4 4

EC2

GENERAL MARKING GUIDANCE

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Question	Answer	Mark allocation	Assessment objective
Q.1 (c)	<p>With the aid of diagrams explain what is meant by:</p> <p>(i) the ‘minimum wage effect’ (line 7)</p> <p>Minimum wage effect: higher wages reduce the demand for labour and cause unemployment (2) Diagram (2)</p> <p>(ii) the ‘recession effect’ (lines 6-7 & 18)</p> <p>When explaining the rise of youth unemployment.</p> <p>Recession effect: Falling AD leads to a falling demand for labour (derived demand) and rising unemployment (2) AD/AS diagram with AD shifting left. (2) OR labour market diagram showing the demand for labour shifting left (2) explained (2)</p>	<p>4</p> <p>4</p>	<p>AO1 2 AO2 1 AO3 1</p> <p>AO1 2 AO2 1 AO3 1</p>
Q.1 (d)	<p>Using an appropriate diagram, evaluate the extent to which increases in the minimum wage will “increase costs for firms who then pass this on to customers in the form of higher prices”. (line 16)</p> <p>Increases in the NMW will increase firms’ costs (2). Shifts the supply curve to the left raising the price of products (2) Diagram (2). OR Diagram showing AS shifting left (2). BUT: Depends on the Ped of the firms’ products, wage costs as a proportion of total costs, state of the economy (firms reduce profit margins or reduce staffing). Some firms pay everyone above the NMW, a higher NMW motivates workers to higher productivity and reduces costs, depends on the magnitude of the NMW. Max 4 without evaluation Reversible answer.</p>	8	AO1 2 AO2 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
<p>Q.1 (e)</p>	<p>Discuss whether supply side policies are likely to be the best way to reduce the level of unemployment in the UK.</p> <p>Definition of supply side policies (1). Identification of relevant of supply side policies: training/education, welfare/tax reform and labour market reform. Explanation of how these help to reduce unemployment. Relevant diagram (2).</p> <p>BUT: Policies may be wrongly focussed, lack of AD in the economy may prevent unemployment falling/policies are expensive/take a long time to work etc. Relevant alternative demand side policies discussed (Max 2)</p> <p>Max 2 per policy. Max 6 without evaluation.</p> <p>Reversible answer</p>	<p>10</p>	<p>AO1 2 AO2 2 AO3 2 AO4 4</p>

SECTION B

Question	Answer	Mark allocation	Assessment objective
Q.2 (a)	<p>With the aid of diagrams explain why the prices of agricultural goods fluctuate more than the prices of manufactured goods?</p> <p>Candidate refers to the different P_{ed} and P_{es} in agriculture and manufacture and gives the reasons for this (4).</p> <p>Candidate explains how shifts in supply due to weather etc in agricultural markets have a big impact on price as does speculation on the demand side. Thus there is price volatility compared to manufactured goods (4).</p> <p>Candidate draws well explained diagrams (4).</p> <p>Candidates may refer to the Cobweb diagram.</p>	8	AO1 3 AO2 3 AO3 2
Q.2 (b)	<p>Evaluate the view that governments should try to stabilise prices in agricultural markets.</p> <p>Prices and incomes are volatile in agriculture and thus produces find it harder to plan ahead/invest. May exit farming but food supply is vital to the global economy. Fairer to consumers (max price). Preserve rural employment.</p> <p>There is a need for price stability (minimum price). Reduce rural poverty/inequality.</p> <p>BUT:</p> <p>Stabilising prices/incomes via guaranteed minimum prices/buffer stock schemes is costly/causes over production/leads to a misallocation of resources. Taxpayers and consumers lose/loss of consumer surplus. Many schemes have failed in the past. Many schemes fail because of poor administration/corruption.</p> <p>Diagram (2).</p> <p>Max 8 without evaluation (reversible answer).</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
<p>Q.3 (a)</p>	<p>What factors determine the price elasticity of demand of a product?</p> <p>Definition of price elasticity of demand/ equation. (1)</p> <p>Price elasticity determinants:</p> <p>Luxury or necessity: petrol v restaurant meals Number of substitutes: electricity v soft drinks. Price in relation to total income: box of matches v new kitchen. Addictive: link to tobacco. Brand loyalty: link to advertising. Durable or non-durable: washing machine v washing powder.</p> <p>Max 3 for any factor explained.</p>	<p>8</p>	<p>AO1 3 AO2 3 AO3 2</p>
<p>Q.3 (b)</p>	<p>With the aid of diagrams and examples, discuss the view that a rise in demand for a product will always raise both the price and quantity sold.</p> <p>Diagram and explanation showing how a rise in demand leads to a rise in price and quantity sold. Explanation to include the working of the price mechanism. Diagram (2) Examples (2) Explanation (4)</p> <p>Rise in demand may lead to a rise in just price when supply is perfectly inelastic (2). Plus diagram (2). Rise in demand may lead to just a rise in quantity sold when supply is perfectly elastic (2). Plus diagram (2). Examples (2). Rise in demand is offset by a similar rise in supply (2). Diagram (2). Maximum price prevents a rise in demand increasing price (2). Diagram (2).</p> <p>Reversible answer.</p> <p>Max 8 without evaluation.</p>	<p>12</p>	<p>AO1 3 AO2 3 AO3 2 AO4 4</p>
<p>Q.4 (a)</p>	<p>With the aid of examples distinguish public goods from private goods.</p> <p>Public goods defined via explanations on non-rivalry and non-excludability (free rider problem) (2). Illustrated example (2). Private goods defined via reverse of public goods/able to assert private property rights (2). Illustrated example (2).</p>	<p>8</p>	<p>AO1 3 AO2 3 AO3 2</p>

Question	Answer	Mark allocation	Assessment objective
Q.4 (b)	<p>Evaluate the policies that a government could introduce to reduce greenhouse gas emissions which contribute to global warming.</p> <p>Policies: Taxes on external costs i.e. APD/Climate Change Levy Tradable pollution permits i.e. ETS Regulations on emissions for cars/planes/factories i.e. catalytic converters, London Low Emissions Zone. Subsidies to reduce emissions i.e. renewable energy (wind farms)</p> <p>Any plausible policy requires evaluation.</p> <p>Max 8 without evaluation. Max 6 for one point fully evaluated.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

SECTION C

Question	Answer	Mark allocation	Assessment objective
Q.5 (a)	<p>Explain the main factors taken into account when setting the base interest rate in the UK?</p> <p>Economic data considered each month by the MPC includes the GDP growth and spare capacity: The rate of growth of real national output and the estimated size of the output gap.</p> <p>Bank lending and consumer credit figures. Equity markets (share prices) and house prices. Consumer confidence and business confidence indicators. The growth of wages, average earnings and unit labour costs in the labour market Unemployment figures Trends in global foreign exchange markets –. Forward looking indices such as the Purchasing Managers' Index International economic data including recent macroeconomic developments in the Euro Zone and the United States. Forecasts for inflation relative to the target. Reward a maximum 2 marks for an appropriate AD/AS diagram. Max 3 for each point made.</p>	8	AO1 3 AO2 3 AO3 2
Q.5 (b)	<p>To what extent can monetary policy be relied upon to get an economy out of a recession?</p> <p>Definition of monetary policy (1) Explanation of how low interest rates can affect the components of AD. Consumption, Investment, Exports (via a lower exchange rate). Possible benefits of QE. Use of an AD/AS diagram. Max 8 without evaluation.</p> <p>BUT: Problems with low expectations among consumers and firms/interest inelasticity. Recovery difficult if major export markets are flat. Banks refusal to lend to firms. Low UK interest rates in recent years/QE have not had a significant effect – although it would have been worse without these policies perhaps. Max 8 without evaluation. Answer is reversible.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
Q.6 (a)	<p>Explain the factors that determine the level of investment in an economy.</p> <p>Definition of investment (1) Factors: Expectations, interest rates, company tax rates, level of profits of firms, technological change, availability of funds, government capital spending.</p> <p>Any plausible factor explained maximum 3 marks.</p>	8	AO1 3 AO2 3 AO3 2
Q.6 (b)	<p>To what extent is investment always good for an economy?</p> <p>Good for an economy:</p> <p>Increase in productive potential/shifts LRAS to the right. Firms take advantage of technological change. Increase in productivity/national competitiveness. Improves the quality of goods/services. Diagram (2) Max 8 without evaluation.</p> <p>BUT: Investment can be badly directed. Causes loss of employment. New skills for workers needed which requires re-training. Short term problems with new investment (installation/training) Long term availability of spare parts. High investment can increase inflation (rise in AD).</p>	12	AO1 3 AO2 3 AO3 2 AO4 4
Q.7 (a)	<p>Explain why a country's foreign exchange rate might fall against other currencies.</p> <p>Definition of exchange rates (1)</p> <p>Lower interest rates than other countries. Trade deficit. Lack of confidence in the economy/government policies. Quantitative easing. FDI overseas. Speculation. Government intervention policy (selling currency)</p> <p>Max 3 for each point made.</p>	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
7 (b)	<p>Evaluate the view that a fall in the value of the pound will enable the UK government to achieve its macroeconomic objectives.</p> <p>Macroeconomic objectives stated (2).</p> <p>Fall in the pound will help the trade balance (1) Explained (2).</p> <p>Fall in the pound will help unemployment (1) Explained (2).</p> <p>Fall in the pound will help economic growth (1) Explained (2).</p> <p>BUT:</p> <p>Fall in the pound could cause inflation (1) Explained (2).</p> <p>Depends on the Ped of exports and imports (2).</p> <p>Depends on the extent of the fall in the pound (2).</p> <p>Depends on the state of the global economy (2).</p> <p>Max 8 without evaluation.</p> <p>Reversible answer.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

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.

EC3

GENERAL MARKING GUIDANCE

Positive Marking

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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.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS – EC3

Summer 2013

Question	Answer	Mark allocation	Assessment objective
Q.1 (a)	<p>The diagram below shows the short-run situation for a firm in monopolistic competition. Using the diagram, explain what is meant by abnormal profit.</p> <p>Occurs when Price (AR) > AC (1). At output OQ/area PRST (1). Explanation of greater than needed to keep producer in industry. Will attract new firms into industry (1). <i>Must refer to diagram for 3 marks</i></p>	3	AO1 2 AO2 1
Q.1 (b)	<p>Explain why a firm in monopolistic competition is able to earn abnormal profit in the short-run.</p> <p>Identification (1) and explanation (1) of monopoly power e.g. brand name, customer loyalty, fixed factor, may be high demand for product in short-run</p>	2	AO1 2
Q.1 (c)	<p>Explain why the firm will make only normal profits in the long run.</p> <p>Identification and explanation of lack of/weak barriers to entry (1) New entrants will force down price until normal profit earned because increased industry reduces price towards AC (2).</p>	2	AO1 2
Q.2	<p>Using the diagram explain what the firm's price and output would be if it decided to maximise sales revenue.</p> <p>Mark point where MR crosses horizontal axis (1). Explanation that when MR becomes negative increased sales will reduce revenue (3).</p> <p>Alternative answer is in terms of PED. Sales are maximised where PED = (-) 1. After this revenue falls as sales increase</p>	3	AO1 1 AO2 2

Question	Answer	Mark allocation	Assessment objective
<p>Q.3</p>	<p>Evaluate the case for the Government freezing fuel duties at their current rate in 2102.</p> <p>Identification and explanation of appropriate argument FOR duty freeze e.g. to reduce transport costs for motorists, transport firms; to control cost push inflation; to help poorer families/regressive tax; assisting car industry and jobs; benefits to haulage industry – reduced costs for users of haulage industry; maintaining/increasing consumer confidence; petrol duty has been falling in real terms.</p> <p>Identification and explanation of appropriate argument AGAINST duty freeze e.g. tax rise will encourage energy conservation; loss of tax revenue for Government; higher fuel prices will encourage use of public/more fuel-efficient transport; more R &D into alternatives to petrol; other factors could increase the fuel price; fuel duties only small % of income.</p> <p>Max 4 without evaluation.</p>	<p>8</p>	<p>AO2 2 AO3 2 AO4 4</p>
<p>Q.4 (a)</p>	<p>Explain what the chart shows about bank lending to firms between 2008 and 2011.</p> <p>Identification (1) and explanation (1) of trend e.g. rose until mid-2009, fell afterwards, interest rate rose OR growth rate falls until Jan 09, rises thereafter</p>	<p>2</p>	<p>AO2 1 AO3 1</p>
<p>Q.4 (b)</p>	<p>Explain the likely effects of higher interest rates and lower bank lending on the UK economy.</p> <p>Identification (2) and explanation (4) of possible effects e.g. possible falling investment, higher costs, lower output & employment; effects on house prices/wealth effect; fewer business start-ups; reduced I and reduced C; fall in AD; fall in GDP and employment; £ appreciates/effects on BoP.</p>	<p>6</p>	<p>AO1 1 AO2 2 AO3 3</p>

Question	Answer	Mark allocation	Assessment objective
<p>Q.5</p>	<p>Discuss what the data suggests about the relationship between earnings and unemployment between June 2010 and December 2011.</p> <p>Suggests positive relationship as both rose (1) Use of data (2)</p> <p>Explanation/evaluation of possible link (4) e.g. higher wages make labour more expensive – fall in D for labour/higher unemployment; recession may have had more impact than wage rises; seasonal effects on wages; workers demanded higher wages to keep pace with inflation.</p>	<p>4</p>	<p>AO3 2 AO4 2</p>
<p>Q.6</p>	<p>Explain why the weaker value of sterling might not have helped to reduce the UK's trade deficit.</p> <p>Explanation of falling demand in Eurozone depressing exports, certain UK industries growing therefore attracting imports (2)</p> <p>Development related to price elasticities of demand for exports and imports/ other non price factors influencing demand for imports/exports/falling NI on Eurozone/supply side constraints in the UK economy, depends upon which countries are major trading partners (4)</p>	<p>4</p>	<p>AO3 2 AO4 2</p>
<p>Q.7</p>	<p>In an economy, a world recession reduces Aggregate Demand from AD1 to AD2. Using the diagram, discuss whether the economy will return to the Full Employment Level of output in the long run.</p> <p>Explanation of full employment output as maximum capacity of economy/natural level of unemployment (2)</p> <p>Explanation/evaluation related to diagram Wage levels fall thus costs fall, SRAS will increase because producers more efficient until output increase to Y_{fe}, assuming perfect mobility of factors Assumption of perfect mobility/wages falling etc may be incorrect therefore economy may be stuck in recession Sticky or rigid wages</p> <p>(Maximum 4 for one side only)</p>	<p>6</p>	<p>AO3 2 AO4 4</p>

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 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>
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>

Question	Answer	Mark allocation	Assessment objective
<p>Q.8</p>	<p>Discuss whether university students should pay the full cost of their education rather than being subsidised by the Government.</p> <p>Explanation of subsidy/full cost e.g. university students only pay part of cost, Government pays rest/ education is a merit good – under consumed in market mechanism</p> <p>Explanation and evaluation e.g. graduate earnings higher than non-graduate students investing in own future; can afford to pay back loans out of higher earnings; reduced cost to Government; alternative uses for Government spending; may encourage applications for ‘vocational’ courses; hasn’t significantly deterred applications; may deter poorer students; students start working life in debt; HE a merit good ∴ creates external benefits; may reduce international competitiveness; high cost of administration.</p> <p>Level 4 answers should refer to wider macroeconomic costs and benefits such as effect on output, competitiveness, human capital etc.</p>	<p>20</p>	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
<p>Q.9</p>	<p>To what extent is privatisation likely to benefit the UK economy?</p> <p>Definition and explanation of privatisation e.g. transfer of production from private to public ownership; includes denationalisation, deregulation and contracting out of public services.</p> <p>Explanation & evaluation of possible benefits and drawbacks of privatisation e.g. increased competition/remove public sector monopolies; increased consumer choice; lower production costs; increased share ownership; higher productivity; lower taxes & government spending; reduced PSBR; higher rates of return on investment.</p> <p>natural monopoly argument; may create private monopoly; loss of revenue to government from profits; may lead to higher prices; may lead to lower service quality; job losses in some industries; some enterprises sold too cheaply/windfall profits for some shareholders.</p> <p>Level 4 answers should make a reasoned judgement as to the overall success of privatisation e.g. illustrating how it appears to have been successful in some cases but not in others, and refer to wider macro-economic effects such as those on employment and productivity/output.</p>	<p>20</p>	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
<p>Q.10</p>	<p>Discuss the argument that the efficiency of the economy would be maximised if all markets were perfectly competitive.</p> <p>Definition and explanation of perfect competition e.g. competition in its purest form and/or definition of efficiency.</p> <p>Explanation and evaluation of how perfect competition creates efficiency e.g. <ul style="list-style-type: none"> explanation of assumptions of model; diagrammatic representation of efficiency (productive and allocative); comparison with other types of market; not necessarily ideal e.g. costs may be lower in a monopoly market because of economies of scale; perfect competition is an idealised model rather than a real-world market; monopolies are social contributors therefore are major employers and exporters; monopolies engage in R & D. </p> <p>Application to wider economy e.g. discussion of how or whether Government could try to achieve perfect competition, whether UK firms would be competitive with foreign firms</p>	<p>20</p>	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>

EC4

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GCE ECONOMICS – EC4

Summer 2013

Question	Answer	Mark allocation	Assessment objective
<p>Q.1 (a)</p>	<p>With reference to the data, explain possible reasons for the changes in Orange’s charges since March 2010.</p> <p>Level 1 Identification of rising prices</p> <p>e.g. 4.34% January 2011; 32% since merger; 75% for pre-pay customers; below inflation rate 5.4%.</p> <p>Level 2 Development using data</p> <p>e.g. merger creates monopoly power; possible cartels/tacit or explicit collusion/ interdependent pricing strategies; had to cut termination rates; charging more for handsets and other calls falling in real terms in January; Some charges rose faster than inflation (e.g. prepay); inflation increased production costs; phone companies taking advantage of customer loyalty.</p>	<p align="center">8</p> <p align="center">1-4</p> <p align="center">5-8</p>	<p align="center">AO1 4 AO2 4</p>
<p>Q.1 (b)</p>	<p>Explain what the data suggests about the market structure of mobile phone networks the UK.</p> <p>Level 1 Identification of basic structure using figures</p> <p>e.g. high level of concentration/3 firms dominate industry (3-firm CR 92%); oligopoly (or EE/O2 monopolies 41% & 27% market share).</p> <p>Level 2 Development</p> <p>e.g. interdependence in pricing; arguably a monopoly situation (2 firms above 25% threshold); offer similar services; market concentration; market shares; benefit of economies of scale/national; Ofcom as regulator.</p>	<p align="center">8</p> <p align="center">1-4</p> <p align="center">5-8</p>	<p align="center">AO1 4 AO2 4</p>

Question	Answer	Mark allocation	Assessment objective
<p>Q.1 (c)</p>	<p>Discuss whether customers of Orange and T-Mobile were likely to benefit from the proposed merger.</p> <p>Level 1 Explanation of possible benefits</p> <p>e.g. firms cutting duplication costs; customers should benefit from lower prices; economies of scale should lower costs; more retail outlets, wifi spots etc.; T-mobile customers may get new services e.g. residential broadband; higher profits may create capital for new investment.</p> <p>Level 2 Evaluation of benefits</p> <p>e.g. prices have rise/consumer surplus falls; still keeping separate brand names; not removing duplication; fewer customers/customers spending less; suggests that customers have not benefitted.</p>	<p>12</p> <p>1-6</p> <p>7-12</p>	<p>AO3 6 AO4 6</p>
<p>Q.1 (d)</p>	<p>To what extent is it desirable to regulate the market for mobile phone services?</p> <p>Level 1 Explanation of case for price control</p> <p>e.g. monopoly power present; customers may be exploited; termination rates far above costs suggesting abnormal profit; to reduce X-inefficiency; appropriate diagrammatic analysis; control quality of provision; can protect poorer consumers;</p> <p>Level 2 Evaluation of case</p> <p>e.g. will cut profits and reduce investment; still a lot of competition e.g. more phones than people, customers can move between networks (high churn rate); unnecessary networks have to cut prices because of fierce competition; may discourage new entrants; possible diseconomies of scale/loss of benefits of natural monopoly in network; companies are large-scale producers & employers.</p>	<p>12</p> <p>1-6</p> <p>7-12</p>	<p>AO3 6 AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
<p>Q.2 (a)</p>	<p>Explain what evidence there is to suggest that “standards of living have increased significantly since 2000” in Ghana</p> <p>Level 1 Identification of indicators of improved standard of living.</p> <p>e.g. GDP growing HDI rose Life expectancy increased Child mortality fell More access to clean water Higher service employment</p> <p>Level 2 Explanation of how indicators demonstrate improved standard of living.</p> <p>e.g. GDP growth means more goods & services available; HDI rising means better health & education etc.</p>	<p>8</p> <p>1-4</p> <p>5-8</p>	<p>AO1 4 AO2 4</p>
<p>Q.2 (b)</p>	<p>Explain why investment in education and training was seen as important for the economy of Ghana</p> <p>Level 1 Identification of role of education and training in making workforce more skilled.</p> <p>e.g. need literacy and numeracy for work skills will be more productive; 28% of men and 42% of women not literate; unemployment rising.</p> <p>Level 2 Theoretical development</p> <p>e.g. reference to international competitiveness, importance of human capital, growth of service sector; use of AS/AD analysis (e.g. LRAS/PPC moves to right).</p>	<p>8</p> <p>1-4</p> <p>5-8</p>	<p>AO1 4 AO1 4</p>

Question	Answer	Mark allocation	Assessment objective
<p>Q.2 (c)</p>	<p>To what extent is the Government’s claim of “considerable success in managing the Ghanaian economy” (lines 35-36) justified?</p> <p>Level 1 Explanation of arguments for success.</p> <p>e.g. high growth rate; falling inflation; high export receipts; terms of trade have risen; increase in FDI; rising consumption and investment; growth in services; Government repaying debt; debt service ratio has fallen.</p> <p>Level 2 Evaluation of arguments for success.</p> <p>e.g. balance of trade negative/current deficit increasing; imports rising; growth rate fell in 2011; rising unemployment; high growth rate may be inflationary; deforestation/environmental damage; still dependent upon gold & cocoa; widening income distribution.</p>	<p>12</p> <p>1-6</p> <p>7-12</p>	<p>AO3 6 AO3 6</p>
<p>Q.2 (d)</p>	<p>Discuss whether being “well-endowed with natural resources” (lines 3-4) is beneficial to Ghana’s economy.</p> <p>Level 1 Explanation of benefits of natural resources.</p> <p>e.g. contribute to GDP growth; important source of export revenue; create employment; attracts FDI; not dependent upon single commodity.</p> <p>Level 2 Evaluation of benefits of natural resources.</p> <p>e.g. relies upon oil for exports, trade, tax revenue, GDP etc.; prices fluctuate; oil may eventually run out; only small proportion of population benefit; vulnerable to ‘shocks’ e.g. strikes; may create uncertainty in economy/makes it difficult for business and Government to plan; takes away resources from other industries e.g. agriculture; sudden changes in employment and GDP; economy vulnerable to falling oil price; world environmental pressures; other countries may find oil increasing world supply; use of figures.</p>	<p>12</p> <p>1-6</p> <p>7-12</p>	<p>AO3 6 AO4 6</p>

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>

Question	Answer	Mark allocation	Assessment objective
Q.3	<p>“It is essential for the government to cut public spending and raise taxes to reduce the public sector deficit.” Discuss</p> <p>Definition/explanation of reasons for Government debt e.g. spending consistently higher than taxes Cost of rescuing banks Recession</p> <p>Explanation and evaluation of arguments for cutting spending/raising taxes</p> <p>e.g. debt may be unsustainable in the long-run; lower consumption in future years; cost of interest payments; difficulty of meeting pension liabilities; may make recession worse; possible mass unemployment; social costs of cutting spending/raising taxes; high taxes discourage domestic investment; high taxes discourage FDI/may lead to tax avoidance; effects depend on types of spending and taxes changed; use of AS/AD analysis to illustrate possible problems.</p> <p>Level 4 answers should evaluate effect of spending cuts/higher taxes on macroeconomic objectives.</p> <p>e.g. deflationary policy may reduce employment, growth, personal incomes etc.</p>	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
<p>Q.4</p>	<p>In early 2012 UK unemployment rose to 2.8 million, 8.4% of the workforce. Discuss the view that reduction of unemployment should be the Government's main priority</p> <p>Definition/explanation of unemployment.</p> <p>e.g. ILF/claimant count measures</p> <p>Explanation and evaluation of arguments for prioritising reduction of youth unemployment.</p> <p>e.g. waste of resources; reduces AD -may further increase unemployment; young unemployed do not develop work skills/may become unemployable; social problems e.g. crime, poor mental health may lead to higher taxes and Government spending economy may suffer long-term stagnation/difficult to break out of downward cycle; use of appropriate theory e.g. AS/AD analysis in long-run economy will return to full employment without Government intervention.</p> <p>Level 4 answers should evaluate effect of policies on macroeconomic objectives.</p> <p>e.g. reflationary policy may create higher inflation, increase imports etc.</p>	<p>20</p>	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
<p>Q.5</p>	<p>To what extents are free market policies the best way for developing countries to raise their living standards?</p> <p>Definition and explanation of free market policies.</p> <p>e.g. Privately-owned firms producing for profit/less Government intervention.</p> <p>Explanation & evaluation of possible arguments for free market policies.</p> <p>e.g. private firms will minimise costs/use of resources; creates incentives for innovation & enterprise; consumer sovereignty will be maximised; taxes and government borrowing can be reduced; will encourage inward investment; increased international competitiveness; firms will only produce what is profitable; will not produce public goods; merit goods may be 'under-produced'; may ignore externalities; may lead to monopoly power; domestic firms will be unable to compete; Government spending may be needed to make infrastructure suitable for private enterprise; may have to cut spending on education and welfare services; may widen distribution of income/have regressive effect.</p> <p>Level 4 answers should make a reasoned judgement referring to issues such as economic growth and living standards/differences between different countries' situations, etc.</p>	<p>20</p>	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>



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