



GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

JANUARY 2014

INTRODUCTION

The marking schemes which follow were those used by WJEC for the January 2014 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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GCE ECONOMICS – EC1

Mark Scheme – January 2014

Question	Answer	Mark	AO1	AO2	AO3	AO4
1 (a)	<p>Explain at what is shown by a production possibility frontier.</p> <p><i>The maximum potential output of an economy (1) because existing factors of production are fixed/limited or some implication that resources are scarce(1)using resources to maximum efficiency (1). Constant opportunity cost (1)</i></p>	2	1		1	
1 (b)	<p>Using the diagram explain why a production possibility frontier is normally drawn as a curve concave to the origin rather than as a straight line.</p> <p><i>Factors of production are not perfectly substitutable between different activities/employment (1) opportunity cost increases/some factors are more efficient in one sector than another. Diminishing returns/decreasing returns (1). Use of diagram (1)</i></p>	3	1	1	1	
	Total for Question 1	5	2	1	2	0

Question	Answer	Mark	AO1	AO2	AO3	AO4
2 (a)	<p>Identify one factor which could have caused the supply curve to shift to the left.</p> <p><i>Rise in costs. Imposition of a sales tax. Exit of firms. Natural disaster etc.</i></p>	1	1			
2 (b)	<p>Calculate the price elasticity of demand following the resultant price rise and comment on its value.</p> <p><i>Formula (1) (-)0.25 (2) Price inelastic(1) because it is less than – 1.0 (1) Maximum 2 for incorrect answer with correct explanation.</i></p>	4	2		2	
	Total for Question 2	5	3	0	2	0

Question	Answer	Mark	AO1	AO2	AO3	AO4
3	<p>Use the above data to explain the concept of asymmetry of information.</p> <p><i>Understanding/definition of asymmetry of information. An example of market failure. One party has more information than another Thus imperfect decisions/misallocation of resources (2).</i></p> <p><i>Application to the data. Consumers waste money on an unnecessary product because they are already covered (2). Water companies know that the policy is unnecessary therefore resources are misallocated (2).</i></p>	4	2	2		
	Total for Question 3	4	2	2	0	0

Question	Answer	Mark	AO1	AO2	AO3	AO4
4	<p>Evaluate the likely effectiveness of a carbon trading scheme in reducing carbon emissions.</p> <p><i>Explanation that power station A can sell unused permits to B and has an incentive to reduce pollution further below the cap (2).</i></p> <p><i>Permits issued to meet an emissions target (2). Market based solution to pollution using the price mechanism (2). Firms incentivised to reduce pollution by the price of permits (2). Pollution is reduced in the most efficient way (2).</i></p> <p><i>Max 4.</i></p> <p><i>Evaluation.</i></p> <p><i>Depends on how many permits are issued/auctioned/problem of over-issue of permits. Corruption. Raises costs for firms and reduces competitiveness. Firms exit and relocate in countries where there are no permits. Administrative costs of the scheme. Depends which industries are included in the scheme. Real world examples (ETS).</i></p> <p><i>Max 4.</i></p> <p><i>Max 4 with no evaluation.</i></p>	8	2	2	0	4
	Total for Question 4	8	2	2	0	4

Question	Answer	Mark	AO1	AO2	AO3	AO4
5	<p>Using the data, evaluate the extent to which a low interest rate be relied upon to raise aggregate demand and increase GDP?</p> <p><i>Low interest rates increase C and I boost AD and via the multiplier raise GDP (4). Also the exchange rate falls which lowers export prices, and raises export demand. Higher import prices reduce import demand. Rise in AD (2). Fall in savings-less incentive to save thus spending increase. Rise in AD (2).</i></p> <p><i>Link to AD/GDP must be clearly understood.</i></p> <p><i>Max 4.</i></p> <p><i>Expectations may be pessimistic despite low interest rates thus C and I stay low (2). Data suggests that low interest rates have not helped to raise GDP since 2009 (2). Depends how low interest rates are and how long they stay low (2). Other offsetting factors may be more important in affecting GDP such as fiscal policy/supply side/competitiveness/global economy (2). Low interest rates reduce income from savings and cut spending (2).</i></p> <p><i>Max 4.</i></p> <p><i>Max 6 with no data reference.</i></p>	8	1	2	1	4
	Total for Question 5	8	1	2	1	4

Question	Answer	Mark	AO1	AO2	AO3	AO4
6	<p>By adapting the aggregate demand and supply diagrams below and opposite, explain using examples how inflation can arise from:</p> <p>(a) an increase in aggregate demand</p> <p><i>Adapts/labels diagram (2). Use of examples to explain why inflation rises (with examples) (2). Demand-pull inflation (1).</i></p> <p>(b) a significant increase in costs in the economy.</p> <p><i>Adapts/labels diagram . Cost increases shift the lower part of the AS curve vertically (2). Leftward shift of whole AS curve (1). Explain how rises in wages, oil prices, commodities raises prices (2). Cost push inflation (1).</i></p> <p><i>Candidates need to show understanding of the processes involved in the rise in inflation.</i></p>	8		4	4	
	Total for Question 6	8	0	4	4	0

Question	Answer	Mark	AO1	AO2	AO3	AO4
7	<p>Discuss whether this diagram implies that governments should aim to reduce income tax rates</p> <p><i>High marginal rates of tax for top earners discourage initiative/enterprise/seeking promotion. Also encourages avoidance and evasion. Hence tax revenue falls if high tax rates rise to T3. Use of diagram.</i></p> <p><i>Max 4.</i></p> <p><i>Depends where the top marginal tax rate is on the Laffer Curve. If the tax rate is below T2 then a rise in rates will raise tax revenue. Laffer Curve may not be a correct analysis of the real world. Cuts in income tax rates increase spending and increase VAT revenue (2).</i></p> <p><i>Max 4 without evaluation.</i></p>	6	2	1	1	2
	Total for Question 7	6	2	1	1	2

Question	Answer	Mark	AO1	AO2	AO3	AO4
8	<p>Adapt the above diagram to explain how EU producers and governments benefit from the proposed tariff but consumers would lose.</p> <p><i>EU producers gain extra output.</i></p> <p><i>Extra profits – gain in producer surplus (shaded on diagram).</i></p> <p><i>Tax/tariff revenue increases. (shaded on diagram). More employment/higher GDP.</i></p> <p><i>Consumers have higher prices (fall in consumer surplus).</i></p> <p><i>Max 3 without use of the diagram.</i></p>	6	3	3		
	Total for Question 8	6	3	3	0	0

GCE ECONOMICS – EC2

Mark Scheme – January 2014

Question	Answer	Mark	AO1	AO2	AO3	AO4
1 (a) (i)	<p>With the aid of a demand and supply diagram explain why the price of olive oil has been falling in recent years.</p> <p><i>Diagram showing leftward shift in demand and rightward shift in supply (2). Explanation of shifts. Falling demand due to recession or cheaper substitutes (2) and increasing supply due to a bumper crop in Spain (2).</i></p>	6	2	2	2	
1 (a) (ii)	<p>With the aid of a demand and supply diagram explain why the price of agricultural goods such as olive oil fluctuates more than the price of manufactured goods such as cars.</p> <p><i>Supply tends to be very volatile meaning that prices will also be volatile (explained) (2) this is made worse by price inelastic demand (2). Supply is also price inelastic meaning that any change in demand cannot be absorbed, therefore also making prices volatile (2). Speculation (2). Diagram showing this (Cobweb diagram accepted) (2). Max 5 if there is no comparison with manufactured goods.</i></p>	6	2	2	2	
1 (b) (i)	<p>To what extent might the fall in the market price in olive oil to under \$3000 a tonne lead to a fall in the price of olive oil in UK supermarkets?</p> <p><i>A fall in price of olive oil on the commodity markets should be passed on to consumers in lower supermarket prices because it requires no major processing by manufacturers. It represents a major fall in price since 2005 from \$5500 a tonne. (2)</i></p> <p>BUT</p> <p><i>Other costs may be rising eg bottling, wages, distribution etc. Supermarkets may maintain prices in order to make bigger profits. Monopoly power of supermarkets to keep prices high. Exchange rate changes may prevent a price fall (2).</i></p>	4			2	2

Question			Answer	Mark	AO1	AO2	AO3	AO4
1	(b)	(ii)	<p>Define consumer surplus and explain how it will change for UK consumers of olive oil if prices fall in supermarkets</p> <p><i>Definition of consumer surplus (2). Fall in price will increase the consumer surplus because the gap between what consumers will pay and the market price has risen (2). Diagram (1).</i></p>	4	2	2		
1	(c)		<p>Comment on the income elasticity of demand of olive oil</p> <p><i>Definition of Yed/equation (1). Income elasticity of demand is positive/normal good (1) as incomes rise demand rise/as incomes fall demand falls (1). Use of the data (2).</i></p>	4	2	2		
1	(d)		<p>To what extent is the price elasticity of supply of olive oil likely to be inelastic?</p> <p><i>Definition of price elasticity of supply (1). Olive oil takes time to produce- growing time, etc and seen as a perishable product (1). Likely to be price inelastic in the short term (1).</i></p> <p>BUT</p> <p><i>Mention of stockpile in the data indicates that olive oil can be stored so supply may be elastic even in the short run (2). In the long term supply can be increased and becomes more elastic (2).</i></p> <p><i>Maximum 4 without evaluation.</i></p>	6	2	2		2

Question		Answer	Mark	AO1	AO2	AO3	AO4
1	(e)	<p>Using the data evaluate the view that bodies such as the European Union should try to stabilise the price of olive oil.</p> <p><i>Olive oil is an agricultural good and prices and incomes are volatile due to fluctuations in/inelasticity of demand and supply.</i></p> <p><i>Many countries are very dependent on the production and export of olive oil.</i></p> <p><i>Olive oil is an important part of diet in many countries/health benefits.</i></p> <p><i>Need to support/preserve rural communities.</i></p> <p><i>Major EU olive oil producers already have very high unemployment.</i></p> <p><i>Max 6.</i></p> <p><i>Price support leads to overproduction/misallocation of resources.</i></p> <p><i>Costly to EU taxpayers.</i></p> <p><i>Reduces consumer surplus/higher prices for consumers.</i></p> <p><i>Damage to the environment of over-production.</i></p> <p><i>Diagram (2)</i></p> <p><i>Max 6.</i></p> <p><i>Reversible answer.</i></p>	10	2	2	2	4
		Total for Question 1	40	12	12	8	8

Question		Answer	Mark	AO1	AO2	AO3	AO4
2	(a)	<p>Suggest and explain possible policies that the government could introduce to increase the supply of housing in the UK.</p> <p><i>Government builds/renovates more houses/social housing projects.</i> <i>Private builders given tax incentives to build new houses.</i> <i>Simplify the planning process.</i> <i>Regulation-low interest rates for mortgages/smaller deposits.</i> <i>Tax relief on mortgage interest payments.</i> <i>Loans to construction companies backed by government.</i> <i>End affordable housing requirement for new build estates.</i> <i>Up to 3 marks for each point (1 identification + 2 explanation).</i></p>	8	3	3	2	
2	(b)	<p>With the aid of a diagram discuss the view that a maximum rent should be set for all privately rented housing in the UK.</p> <p><i>Maximum rent makes rented property more affordable for tenants.</i> <i>Reduces inequality/poverty/housing is a merit good.</i> <i>Prevents exploitation by profiteering landlords.</i></p> <p><i>Diagram (2)</i></p> <p><i>Creates excess demand for rented property.</i> <i>Fewer private landlords see renting as profitable and rented housing stock falls.</i> <i>Depends how high/low the maximum rent is set.</i> <i>Illegal markets develop in the rented property market.</i></p> <p><i>Max 8 without evaluation.</i></p> <p><i>Reversible answer.</i></p>	12	3	3	2	4
Total for Question 2			20	6	6	4	4

Question		Answer	Mark	AO1	AO2	AO3	AO4
3	(a)	<p>Explain why the government might subsidise vaccinations but heavily tax cigarettes.</p> <p><i>Vaccinations produce external as well as private benefits. Reduced costs on the NHS and wider economy. In a free market vaccinations would be over-priced and under-provided in relation to the social optimum. Thus they should be subsidised to reduce market failure.</i></p> <p><i>Vaccinations are a merit good. Max 4.</i></p> <p><i>Cigarettes impose costs on society via health spending and loss of productivity in the economy. Also there are problems with passive smoking, litter and fires etc. At a free market price cigarettes would be under-priced in relation to their social cost. Smoking is a demerit good. Max 4.</i></p>	8	3	3	2	
3	(b)	<p>With the aid of a diagram evaluate the view that there are better ways to reduce cigarette consumption than to keep raising taxes on tobacco.</p> <p><i>Cigarette taxes raise price by shifting the supply curve to the left.</i></p> <p><i>Demand falls.</i></p> <p><i>Taxation can work if it is high enough so that demand becomes price elastic.</i></p> <p><i>Diagram (2)</i></p> <p>BUT</p> <p><i>Putting taxes on tobacco does not reduce consumption significantly as demand is price inelastic and smoking is addictive.</i></p> <p><i>Indirect taxes are regressive.</i></p> <p><i>People find ways round higher prices through smuggling/duty free purchases</i></p> <p><i>Better to use regulation/smoking bans/raise the age limit for purchase/negative advertising/bans on promotion.</i></p> <p>BUT</p> <p><i>Regulations require costly enforcement/some regulations damage the economy ie closure of pubs.</i></p> <p><i>Taxes internalise the consumption externality.</i></p> <p><i>Max 8 without evaluation/10 without a diagram.</i></p> <p><i>Reversible answer.</i></p>	12	3	3	2	4
		Total for Question 3	20	6	6	4	4

Question	Answer	Mark	AO1	AO2	AO3	AO4
4 (a)	<p>Using a diagram, explain why the equilibrium wage might rise or fall in a free market.</p> <p><i>Diagram/s showing the demand and supply of labour and how the equilibrium wage changes when there is a shift in demand and supply (2). Factors which may shift demand: derived demand effects, changes in labour productivity, changes in 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.</i></p> <p><i>Max 3 marks for each explained factor. Max 6 without a diagram. Max 5 marks for only one explained shift.</i></p>	8	3	3	2	
4 (b)	<p>Discuss whether the government should stop increasing the minimum wage each year.</p> <p><i>Freezing the NMW: may help to raise the demand for labour, prevent rises in unemployment, help younger workers.</i></p> <p><i>BUT: Could lead to poverty, increases inequality, reduce the number of adults seeking work.</i></p> <p><i>Rises in NMW: raises costs and prices thus fall in demand and profits/less competitive, can cause workers to lose their job/fewer hours if Ped for labour is elastic thus unemployment rises.</i></p> <p><i>BUT: Depends on how much the NMW rises by, proportion of costs which are labour costs, may encourage firms to raise the productivity of workers, some firms don't have any NMW staff. Raising the NMW increases spending power in the economy. A rise in the NMW will reduce government spending on in work benefits.</i></p> <p><i>Max 8 without evaluation. Diagram 2 marks.</i></p>	12	3	3	2	4
Total for Question 4		20	6	6	4	4

Question	Answer	Mark	AO1	AO2	AO3	AO4
5 (a)	<p>Explain with examples what is meant by the term supply side policies.</p> <p><i>Definition of supply side policies (2).</i></p> <p><i>Examples of different types of supply side policies:</i></p> <p><i>Education and training.</i></p> <p><i>Infrastructure (roads/rail/high speed broadband)</i></p> <p><i>Labour market reforms. (Benefit/trade union reform).</i></p> <p><i>Privatisation and deregulation.</i></p> <p><i>Tax reform (cuts in direct taxes)</i></p> <p><i>Max 3 marks for each example (1 mark identification and 2 explanation).</i></p>	8	3	3	2	
5 (b)	<p>To what extent will supply side policies help an economy to recover from a recession? Use a diagram in your answer.</p> <p><i>Supply side policies increase potential output shifting AS to the right.</i></p> <p><i>AD/AS equilibrium at a higher level of GDP thus unemployment falls (2).</i></p> <p><i>Supply side reforms increase competitiveness of the economy and raise the demand for labour (2).</i></p> <p><i>Supply side policies increase the efficiency of product and factor markets causing unemployment to fall (2).</i></p> <p><i>Some supply side policies will also increase AD as well as AS eg infrastructure projects.</i></p> <p>BUT</p> <p><i>The economy may lack AD and thus there is a need for a reflationary policy.</i></p> <p><i>Supply side reforms take a long time to work.</i></p> <p><i>Policies may be ineffective (government policy ill directed).</i></p> <p><i>Supply side policies cannot be afforded when an economy is in recession.</i></p> <p><i>Max 8 without evaluation.</i></p> <p><i>Diagram. (2)</i></p> <p><i>Max 10 without a diagram.</i></p> <p><i>Reversible</i></p>	12	3	3	2	4
Total for Question 5		20	6	6	4	4

Question	Answer	Mark	AO1	AO2	AO3	AO4
6 (a)	<p>Using appropriate diagrams explain how a rise in (i) interest rates and (ii) imports might affect the exchange rate.</p> <p><i>Rise in interest rates will increase speculative inflows of 'hot money' and increase the demand for domestic currency shifting the demand curve to the right increasing the exchange rate (2). Appropriate diagram (2).</i></p> <p><i>Rise in imports increases the supply of domestic currency and demand for foreign currency shifting the supply curve to the right decreasing the exchange rate (2). Appropriate diagram (2).</i></p>	8	3	3	2	
6 (b)	<p>Discuss the view that a significant rise in the exchange rate of the pound against the Euro is bad for the UK economy.</p> <p><i>Rise in the exchange rate makes exports more expensive and imports cheaper thus demand for exports falls and demand for imports rises (2) worsens trade deficit (2) loss of jobs/rise in unemployment (2). GDP/output falls (2).</i></p> <p>BUT</p> <p><i>Cheaper imports can help to keep inflation down (2). Export demand may be price inelastic (2). Other factors affect the demand for exports/imports (2). High exchange rate encourages firms to reduce costs/raise productivity (2). Pound may be falling against other currencies such as the dollar.</i></p> <p><i>Max 8 without evaluation. Reversible answer.</i></p>	12	3	3	2	4
Total for Question 6		20	6	6	4	4

Question	Answer	Mark	AO1	AO2	AO3	AO4
7 (a)	<p>Explain why governments have attempted to achieve high economic growth and low inflation.</p> <p><i>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), lower interest rates, Protection of those on fixed incomes. Max 4.</i></p> <p><i>High economic growth: higher living standards, increased tax revenues, higher levels of employment etc. Max 4.</i></p>	8	3	3	2	
7 (b)	<p>Discuss policies that could be introduced to help reduce the UK's trade deficit.</p> <p><i>Devalue the exchange rate to make exports cheaper but could cause inflation and provoke competitive devaluations.</i></p> <p><i>Use protectionist measures to reduce imports but could cause retaliation/misallocation of resources/not possible as an EU member.</i></p> <p><i>Supply side policies to improve competitiveness but can take years to be effective/costly/potential for government failure.</i></p> <p><i>Reduce domestic demand using higher income tax but could cause unemployment.</i></p> <p><i>Tax breaks/R&D subsidies to exporters but costly and may take year to be effective.</i></p> <p><i>Max 3 for each explained policy. Max 8 without evaluation.</i></p>	12	3	3	2	4
Total for Question 7		20	6	6	4	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.



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