Mark scheme
June 2003

GCE

Economics

Unit ECN3

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme for the data response questions:

(i)   **An 'issue' based approach.** The mark scheme for parts (a) to (d) of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 29 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for marking part (e) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 28. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 29. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

In part (c) of the data response questions approximately half the marks are available to award to candidates who demonstrate that they can 'evaluate economic arguments and evidence, and make informed judgements'. It is not necessary that the candidate identifies a wide range of issues. As indicated below, the Quality of Written Communication used should be taken into account when awarding the marks.

Level 1
Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.   **0 to 3 marks**
Mid-Point: 2 marks

Level 2
One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused. There may be some attempt to present alternative points of view but any attempt at evaluation is superficial. The answer is likely to be poorly organised and is unlikely to have a clear structure. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.   **4 to 6 marks**
Mid-Point: 5 marks

Level 3
Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated. There will be some attempt to present alternative views and to evaluate the issues, arguments and/or data. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.   **7 to 9 marks**
Mid-Point: 8 marks

Level 4
Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology.   **10 to 12 marks**
Mid-Point: 11 marks

Level 5
Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.   **13 to 15 marks**
Mid-Point: 14 marks

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D   Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I   Where a relevant **ISSUE** is raised by the candidate.

K   Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap   Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A   Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E   Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing part (c) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

  (i)   use of appropriate form and style of writing to organise relevant information clearly and
          coherently;
  (ii)   use of specialist vocabulary, where appropriate;
  (iii)   legibility of handwriting;
  (iv)   accuracy of spelling, punctuation and grammar.

OPTION 1: THE HOUSING MARKET

1   **Total for this question:** *40 marks*

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1 (a) Define the term 'Retail Price Index' (**Extract A**, lines 19-20).   *(3 marks)*

For an acceptable definition (e.g. a method of measuring changes in average prices).   **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

–   words to the effect that it is a way of measuring inflation;   **2 marks**

–   for an important feature of an index number (related to a base year/ compared with 100);   **1 mark**

–   for a feature of the RPI itself (e.g. a basket of goods and services, its scope/ weighting) or   **1 mark**
    distinction between different kinds of RPI (e.g. RPI/ RPIX).

MAXIMUM FOR PART (a) 3 MARKS

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1 (b) What might be the opportunity costs of undertaking a DIY project?   *(4 marks)*

Explanation of the concept 'opportunity cost', e.g. in terms of alternatives forgone.   **2 marks**

Benefits foregone can be either from consumption of alternative goods or from   **2 marks**
alternative use of time.

For two examples of how household resources could have been used if the DIY project   **Up to 2 marks**
had not been undertaken (e.g. a new car or foreign holiday). 1 mark per example.

MAXIMUM FOR PART (b) 4 MARKS

AQA

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1   (c)   Explain why 'uncertainty about the future direction of house prices, and worries over the economy'
           (**Extract A**, lines 8-9) might discourage people from moving house.   *(8 marks)*

Examples of points for which examiners can give credit:

Uncertainty over future house prices: e.g. falling prices reduce the value of housing as an investment (1 mark for identification, 1 mark for development); possibility of negative equity (1 mark for identification, 1 mark for development).

Worries over the economy: e.g. possibility of incomes not keeping pace with mortgage repayments (1 mark for identification, 1 mark for development); possibility of redundancy (1 mark for identification, 1 mark for development).

For explaining the linkages between one of the two factors mentioned and the number of people moving house.

Up to 2 marks

MAXIMUM FOR PART (c) 8 MARKS

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1   (d) With the help of a supply and demand diagram, explain how a trend towards DIY, instead of moving house, could affect the market for houses.   *(10 marks)*

With diagram questions it is <u>especially</u> necessary to be flexible and to reward unanticipated answers which are economically valid.

For identifying the trend as a demand condition, reducing the demand for new houses (a leftward shift in demand).	**2 marks**
For noting the lower quantity demanded.	**1 mark**
…and lower price.	**1 mark**
Inelastic supply curve.	**Up to 2 marks**
The lower prices are a disincentive to building and selling houses (but might encourage first time buyers).	**2 marks**

Notes:

- Allow **2 marks** for candidates who distinguish between 'falling prices' and a 'fall in the rate of price rises'.

- It is likely that perceptive candidates will argue that the whole 'owner occupier' culture is reinforced by the popularity of DIY, so that the long-run effect is to <u>increase</u> the demand for houses. Give <u>full</u> credit for such an approach if clearly argued.

- Give credit for linkages e.g. with the rented sector.

Max. 6 marks for written explanation

(Max. 4 marks if no diagram)

For relevant diagram   **5 marks**

Diagram Breakdown:

Axes labelled (1)
Shift in appropriate direction (1)
2 equilibrium points (1)
Change in price (1)
Change in quantity (1)

n.b. a supply shift to the left is plausible as on the housing market demand is usually accompanied by supply. Give full credit for this approach.

MAXIMUM FOR PART (d) 10 MARKS

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1   (e) Identify **and** evaluate the private and external costs and benefits of a movement towards DIY among
        homeowners.   *(15 marks)*

Relevant points that could be raised include:

- Private costs:
    - Money spent at B&Q, etc;
    - Damage done by bodged DIY projects;
    - Time and effort (opportunity cost).

- Internal benefits
    - Value added to house;
    - A nicer house to live in;
    - A 'rewarding pastime'.

- External costs
    - Costs to NHS and taxpayer;
    - Lower earnings for estate agents, etc;
    - Lower mobility of labour;
    - Noisy neighbour syndrome.

- External benefits
    - Employment in spin-off industries, DIY stores, etc;
    - Neighbourhood effects of improved housing stock.

n.b. except knock-on macroeconomic affects as external cost/benefits if a case is made e.g. an increase in DIY
leads to a fall in house prices which might affect third parties e.g. to benefit first-buyers or create costs through
recession.

Candidates are expected to distinguish between 'private' and 'external' explicitly in order to enter the highest
band. However, the distinction between 'costs' and 'benefits' is likely to be made only implicitly. This is
quite acceptable, but give credit to candidates who make explicit distinctions. Evaluation is likely to come
from a consideration of the costs versus benefits, and/or the internalities versus the externalities.

**Maximum of 7 marks if there is no attempt to evaluate the significance of the various costs and benefits
identified.**

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USE THE LEVELS MARK SCHEME ON PAGES 28 & 29

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MAXIMUM FOR PART (e) 15 MARKS

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OPTION 2: THE ENVIRONMENT

2   **Total for this question:** *40 marks*

| 2 (a) Define the term 'economic efficiency' (**Extract C**, line 19).   *(3 marks)* |

For an acceptable general definition of efficiency (e.g. a measure of the extent to which the use of economic resources is optimised).   **3 marks**

If the definition is incomplete, marks may be broken down, for example:

–   A specific notion of efficiency (e.g. production possibility curve);   **2 marks**

–   Productive versus allocative efficiency.   **Up to 3 marks**

MAXIMUM FOR PART (a) 3 MARKS

| 2 (b) What might be the opportunity costs of the government setting up a system of road pricing to reduce congestion and pollution?   *(4 marks)* |

Explanation of the concept 'opportunity cost', e.g. in terms of alternatives foregone.   **2 marks**

Reference to cost of implementation to government, businesses or the motorist.   **2 marks**

Two examples of alternative spending. (1 mark per example)   **Up to 2 marks**

Reference to alternatives foregone from other systems e.g. lose of revenue from scrapping fuel taxes.   **Up to 2 marks**

MAXIMUM FOR PART (b) 4 MARKS

AQA

2   (c) Explain why traffic congestion might be described by an economist as a sign of market failure.

(8 marks)

Points for discussion include:

- Explanation of the concept of 'market failure' (e.g. an activity that does not create or respond to price signals);

- Road space is not sensitively priced. Roads are treated as a public good, although they are rival and (in principle) excludable;

- Words to the effect that currently car drivers are not taxed on the margin (this phrase need not be used). The more they drive the lower the average tax;

- It is difficult/impossible <u>in practice</u> to price roads without massive expenditure on technology. Taxation is easier;

- Traffic congestion causes negative externalities.

Up to 4 marks per point stated (1) and explained (3)

MAXIMUM FOR PART (c) 8 MARKS

2 (d) With the help of a demand diagram, explain how the effectiveness of a system of road pricing would depend upon price elasticity of demand.   *(10 marks)*

With diagram questions it is <u>especially</u> necessary to be flexible and to reward unanticipated answers which are economically valid.

Road congestion indicates excess demand (price too low).	**2 marks**
PED formula.	**1 mark**
For defining/ explaining PED.	**2 marks**
For explaining that the lower the PED, the less effect a price rise would have on road congestion.	**4 marks**
For relating PED to revenue, and explaining that a tax can either be efficient at raising revenue or reducing congestion, not both.	**2 marks**
If revenue were spent on improving public transport, elasticity would increase, improving the chances of reducing congestion.	**2 marks**

Max. 6 marks for written explanation
(Max. 4 marks if no diagram)

For relevant diagram   **5 marks**

Diagram Breakdown:

Axes labelled (1)
Price change in appropriate direction (1)
Change in quantity (1)
Indication of different price elasticities of demand (2)
Transfer of resources from road transport to public transport shown (2)

MAXIMUM FOR PART (d) 10 MARKS

2 (e) Identify **and** evaluate the environmental and economic consequences of the road pricing system described in **Extracts C and D**.   *(15 marks)*

Points that could be raised include:

Environmental consequences

- External benefits (reduction in external costs);

- Polluter pays;

- Reduction of noise, emissions, etc.;

- Encouragement of sustainable transport (cycles, trains);

- Less pollution from slow-running vehicles.

Economic consequences

- Efficiency:
  - Less congestion, less time wasted in traffic jams;
  - Vehicles run at more efficient speeds.

- Multiplier effects:
  - Employment in industries supplying technology, and administering scheme.

- Costs:
  - Unproven, expensive technology;
  - Loss of employment/ profits in the motor car and road haulage industries;
  - Costs reflected in higher consumer prices (double whammy).

- Benefits:
  - Tax revenue to government;
  - …could be invested in sustainable transport (although committee claims overall 'tax burden' need not change).

Equity/ value judgements

- 'Ability to pay' versus 'needs';

- Income distribution: effects on lower paid whose cars are a necessity.

Some candidates might refer to civil liberties issues regarding government surveillance. This is not a strictly economic or environmental issue, but it is relevant to the debate, and may be given credit provided that the mainstream economic and environmental issues are well covered.

Evaluation should include comments to the effect that there are alternatives, and some discussion of alternatives is expected from better candidates. For example, could the same results come from massively increased fuel taxes?

Maximum of 7 marks if there is no attempt to evaluate the significance of the various factors identified.

USE THE LEVELS MARK SCHEME ON PAGES 28 & 29

MAXIMUM FOR PART (e) 15 MARKS

AQA

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE

3   Total for this question: *40 marks*

3 (a) Define the term 'recession' (**Extract E**, line 14).   *(3 marks)*

For an acceptable definition (e.g. reduction in GDP over two successive quarters).   **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

– For a general notion of recession (e.g. lower demand/ incomes). (1 mark per   **Up to 3 marks**
    element);

– For relating recession specifically to the tourist industry, for example by   **Up to 2 marks**
    mentioning its effects in terms of knock-on/ spin-off/ or downward multiplier.

MAXIMUM FOR PART (a) 3 MARKS

3 (b) Suggest why the USA is regarded as a 'particularly important' market for the British tourist industry
        (**Extract E**, line 5).   *(4 marks)*

The USA is a large market;   **2 marks**

…with high earning/ spending power;   **2 marks**

…and close cultural links with the UK.   **2 marks**

The dollar is a desirable currency.   **2 marks**

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Explain how the strong pound (**Extract E**, line 22) can affect the domestic tourist industry.
                                                                                        (8 marks)

Possible points for discussion include:

• Meaning of the phrase 'strong pound';

• Relationship between strong pound and
    ❑ prices in UK to foreign tourists;
    ❑ prices abroad to UK tourists;

• Relatively high price elasticity of demand for holidays.

4 marks per point made (1) and developed (3)

MAXIMUM FOR PART (c) 8 MARKS

3   (d)   With the help of a supply and demand diagram, explain how a decline in US tourist numbers has led to domestic tourists being offered 'bargain breaks' (**Extract E**, line 24).   *(10 marks)*

With diagram questions it is <u>especially</u> necessary to be flexible and to reward unanticipated answers which are economically valid.

Anticipated approach:

Lose of US component causes D curve for UK hotel spaces to shift to the left;   **2 marks**

There is space capacity;   **1 mark**

Price of hotel rooms falls;   **1 mark**

Supply of hotel rooms is fixed at any one time;   **1 mark**

In fact, S curve can be viewed as vertical;   **1 mark**

Therefore, price could fall quite substantially.   **1 mark**

N.B. do not insist on a vertical S curve in the diagram.

Max. 6 marks for written explanation
(Max. 4 marks if no diagram)

For relevant diagram   **5 marks**

Diagram Breakdown:

Axes labelled (1)
Shift in appropriate direction (1)
2 equilibrium points (1)
Change in price (1)
Change in quantity (1)

MAXIMUM FOR PART (d) 10 MARKS

3 (e) Identify **and** evaluate the reasons for the government and local councils spending taxpayers' money on promoting tourism.   *(15 marks)*

Points that could be raised include:

Government:

- Tourism is a major employer;
- Unemployment is a cost to the government/ taxpayer;
- External shocks such as foot-and-mouth and terrorist attacks are largely beyond the control of the tourist industry (possibility of market failure).

Local Councils

- Many cities/ districts (e.g. Stratford) have long been dependent on tourism;
- Others (e.g. Manchester) have de-industrialised and used tourism to re-vitalise city centres and provide service employment as an alternative to manufacturing.

However:

- Possibility of government failure (e.g. support for loss-making projects);
- Opportunity costs of government spending;
- Money is arguably being spent supporting a low-wage, seasonal industry.

Give credit to any candidate who discusses the extent to which tourism is an 'industry' e.g. by considering whether people who go to restaurants, hotels or theatres are necessarily 'tourists'. The measurement of the industry's alleged benefits is often suspect, and its costs (e.g. on the environment) under-reported. Evaluation is likely to come largely from the consideration of market failure versus government failure.

Maximum of 7 marks if there is no attempt to evaluate the significance of the various factors identified.

USE THE LEVELS MARK SCHEME ON PAGES 28 & 29

MAXIMUM FOR PART (e) 15 MARKS