

GCE 2004

June Series



Mark Scheme

Economics

Unit ECN3

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Advanced Subsidiary Economics

June 2004

ECN3

Mark Scheme

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 5 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 4. 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 5. 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 (e) 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**Total for this question: 40 marks****1**

1 (a) How would an economist define the term “shortage” (Extract A , line 11)?	<i>(3 marks)</i>
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For an acceptable definition **max 3 marks**
 e.g. an excessive demand (2) over supply(1) at a given price (1),
or insufficient supply (scarcity) (2) to meet demand (1) at a given price (1)

If definition is not sufficient for full marks, then break down as follows:

Notion of an ‘excess demand’; **up to 2 marks**

Notion of ‘insufficient supply’; **up to 2 marks**

Recognition (stated or implied) that in market economics a shortage is related to a market price. **1 mark**

For a descriptive answer, which is likely to relate to some obvious catastrophe, such as shortages during a famine, **1 mark** for description, **1 mark** for example.

MAXIMUM FOR PART (a) 3 MARKS

1 (b) Use the concept of price elasticity of supply to predict the effect on house building of “an 8 per cent price increase on the previous year for new homes sold” (Extract A , line 5). <i>(4 marks)</i>

For definition/description of elasticity of supply: **1 mark**

For asserting and justifying a low elasticity of supply: **2 marks**

For distinguishing between short run and long run: **1 mark**

For predicting a plausible effect: **2 marks**

For a comment on land availability: **1 mark**

Maximum of **2 marks** for a general discussion of elasticity unrelated to the data.
 Accept discussion of zero price elasticity of supply.

MAXIMUM FOR PART (b) 4 MARKS

1 (c) Apart from “consumer confidence”, identify two “general economic conditions” that can affect the housing market (Extract A , lines 8-9) and explain their effects. <i>(8 marks)</i>

For identifying a general economic condition, e.g. boom, interest rates, earnings, employment, recession and discussing reasons why it can affect the housing market (e.g. boom implies increase in spending on all items including houses); or explaining how it affects the housing market (e.g. boom increases incomes, which in turn enables people to negotiate mortgages).

1 mark for stating a condition, up to 4 for elaboration (x 2)

Max 5 marks if only 1 condition discussed

MAXIMUM FOR PART (c) 8 MARKS

1 (d) Suppose that a group of housebuilders in a certain locality are told that in order to improve the affordability of houses, none of them can charge more than an agreed maximum price for a new house for the next few years. This maximum price is shown as P_{\max} in **Extract C**. Reproduce **Extract C** in your answer book.

Making use of the diagram, analyse the consequences of this policy for the local market for new housing. (10 marks)

With diagram questions it is **especially** necessary to be flexible and to reward unanticipated answers which are economically valid.

Among the points that might be raised are:

- The maximum price creates an excess demand;
- Excess demand will tend to pull up price;
- If price cannot hold, a parallel market in new housing might be created;
- In order to maintain the maximum price the housebuilders will either have to reduce demand or increase supply compared to the free market;
- Rationing mechanisms could be introduced, e.g. waiting lists;
- For discussing the feasibility of either policy;
- Give credit to very perceptive candidates who might recognise that the existence of a large stock of existing houses is a complicating factor because the flow of new houses is small compared to the stock (it can be argued that the price of existing houses automatically tends to act as a maximum price control on new houses).

1 mark per point raised, 2 further marks for elaboration.

For effective use of the diagram, e.g.

Drop the second vertical **1 mark**

Label 2 quantities **1 mark**

Show a shortage **1 mark**

Show a shift to eliminate the shortage **1 mark**

Up to 3 marks max for the augmented diagram

No marks for merely copying the diagram but give credit for referring in writing to features of the diagram, e.g. the horizontal price line, the shape of the supply curve.

Full marks are possible for a very good discussion if the diagram is not reproduced but it is referred to.

Max 8 marks if no reference to the diagram

MAXIMUM FOR PART (d) 10 MARKS

1 (e) Explain why governments might regard housing as a merit good **and** evaluate the economic **advantages** and **disadvantages** of government intervention in the housing market. (15 marks)

Relevant points that could be raised include:

Definition of a merit good;

Housing has strong externalities;

- Positive, from a good housing stock
- Negative, from poor housing conditions

Housing has effects on the macroeconomy, e.g.;

- equity withdrawal
- Inflation
- Interest rates

Markets alone cannot house a population (merit/ public good theory);

- Possibility of long term master planning
- Ability to link types of housing to demographic needs

‘Predict and provide’ policy;

- Advantages, e.g.
 - Housebuilding as a motor of other parts of economy (multiplier effects)
 - More building reduces prices for first time buyers
 - Housebuilders, left to themselves, will build profitable (executive style) houses rather than affordable, smaller units
- Disadvantages, e.g.
 - Higher quantity does not necessarily imply quality
 - Lack of consumer choice

Credit for types of government intervention and their relative merits/ issue of government failure. Give credit for candidates who look at different people’s point of view, e.g owner-occupier, first-time buyer. Evaluation does not have to be treated separately. Evaluation is likely to come from a consideration of the ‘advantages’ versus the ‘disadvantages’.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

subject to

Maximum of 7 marks if there is no attempt at evaluation.

MAXIMUM FOR PART (e) 15 MARKS

OPTION 2: THE ENVIRONMENT**Total for this question: 40 marks****2**

2 (a) How would an economist define the term “economic growth” (Extract D , lines 1-2)? (3 marks)

For an acceptable definition. e.g. an increase in real gross domestic product **or** an increase in productive potential (either definition is acceptable): **3 marks**

An increase in GDP: **2 marks**

If definition is not sufficient for full marks, then break down as follows:

Notion of productive capacity; **1 mark**

Potential growth: increase in productive capacity; **1 mark**

Distinction, real and nominal; **1 mark**

Actual growth: utilisation of capacity; **1 mark**

Use of production possibility curve. **2 marks**

MAXIMUM FOR PART (a) 3 MARKS

2 (b) Use the concept of opportunity cost to explain the importance of “finite resources” (Extract D , lines 6 & 22) to the economy. (4 marks)
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For an explanation/description of ‘opportunity cost’: **1 mark**

For relating this to ‘finite resources’: **up to 2 marks**

For an example related to finite resources: **up to 2 marks**

For explaining importance, e.g. need to make choices: **1 mark**

MAXIMUM FOR PART (b) 4 MARKS

2 (c) Explain why it is possible to have economic growth while the quality of life decreases
(**Extract D**, lines 1-4). *(8 marks)*

For linking economic growth and the standard of living: **up to 2 marks**

For distinguishing between growth and the standard of living: **up to 2 marks**

For negative externalities: **up to 2 marks**

For identifying an aspect of the 'quality of life' that can be an adverse effect of growth e.g. pollution: **1 mark**

For making a counter argument, e.g. by mentioning positive externalities: **up to 2 marks**

For candidates who do not conform to the above point-by-point scheme, but who give a very good general discussion of the concepts of 'GDP', 'quality of life', 'living standards' and the linking concepts such as 'externalities', 'sustainability', 'income distribution issues', or 'the costs of growth', allow **up to 3 marks** per concept and **up to 3 marks** for making a clear distinction between quality and quantity.

MAXIMUM FOR PART (c) 8 MARKS

2 (d) Suppose that the major oil producers agree that in order to conserve supplies of oil, none of them will charge less than an agreed minimum price for the next few years. This minimum price is shown as P_{\min} in **Extract E**. Reproduce **Extract E** in your answer book.

Making use of the diagram, analyse the consequences of this policy for the market for oil.

(10 marks)

With diagram questions it is **especially** necessary to be flexible and to reward unanticipated answers which are economically valid.

Among the points that might be raised are:

- The minimum price creates an excess supply;
- In order to maintain the minimum price the producers will either have to reduce supply or increase demand;
- If the aim is to conserve supplies, it will be necessary to reduce supply rather than increase demand;
- Although demand might be increased to create a buffer stock;
- For discussing the feasibility of policy of reducing supply, e.g. by commenting on the difficulty of obtaining world-wide agreement among producers.

Give credit to very perceptive candidates who might recognise that In the long run, higher prices might stimulate production from currently inaccessible sources. Also give credit for recognising that the vertical part of the supply curve indicates that as capacity limits are reached, prices can rise without any increase in supply

Note that oligopoly is not part of the AS specification, so discussion of OPEC is not required; if mentioned it can be credited if the discussion is relevant.

1 mark per point raised, **2 further marks** for elaboration.

For effective use of the diagram e.g.

Drop 2 verticals	1 mark
Label 2 quantities	1 mark
Show a surplus	1 mark
Show a shift to eliminate the surplus	1 mark

up to 3 marks max for the augmented diagram

No marks for merely copying the diagram but give credit for referring in writing to features of the diagram, e.g. the horizontal price line, the shape of the supply curve.

Full marks are possible for a very good discussion if the diagram is not reproduced but it is referred to.

Max 8 marks if no reference to the diagram

MAXIMUM FOR PART (d) 10 MARKS

2 (e) Explain why the rapid depletion of natural resources might be viewed as a market failure **and** evaluate the **advantages** and **disadvantages** of government intervention to correct such a failure. (15 marks)

Relevant points that could be raised include:

Meaning of market failure;

Reasons why markets might encourage over-consumption;

Role of government;

- Examples of government policy
- Types of policy: markets versus directives
- Costs
- Benefits

Possibility of government failure;

Government policy;

- Advantages, e.g.
 - o May influence consumption in environmentally friendly ways
 - o Examples, re-cycling, public transport, etc.
- Disadvantages, e.g.
- May influence consumption in environmentally damaging ways (government failure)
 - o Examples, weakness in face of car lobby, large agri-business, etc.

Give credit for candidates who examine the data critically: for example the extract criticises consumerism, but doesn't put forward concrete alternatives in any detail. Evaluation does not have to be treated separately. Evaluation is likely to come from a consideration of the 'pros' versus the 'cons' of government involvement, and/ or advantages and disadvantages of different types of policy.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

subject to

Maximum of 7 marks if there is no attempt at evaluation.

MAXIMUM FOR PART (e) 15 MARKS

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE Total for this question: 40 marks

3

3 (a) How would an economist define the term “boom” (Extract G , line 14)?	(3 marks)
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For an acceptable definition, e.g. peak of economic cycle with rapid growth. **3 marks**

If definition is not sufficient for full marks, then break down as follows:

Peak of economic cycle; **1 mark**

Notion of economic growth; **1 mark**

Rising or accelerating; **1 mark**

Per characteristic, e.g. high demand, rising prices **1 mark each, up to 2 marks**

A policy response, e.g. the MPC raises interest rates (but this must be clearly stated as a policy response, not a characteristic). **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

3 (b) Corporate ticket buyers are likely to be willing to pay higher prices than ‘ordinary’ fans. Use the concept of price elasticity of demand to suggest why this might be so.	(4 marks)
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Definition/description of PED: **1 mark**

For commenting that ordinary fans pay from their own pockets, while corporate buyers are using company funds: **up to 2 marks**

Therefore they have differing responses to price changes (corporate buyers willing to bear higher prices): **up to 2 marks**

For linking to elasticity: e.g. as prices rise, the demand for corporate tickets becomes elastic at relatively higher price levels: **up to 2 marks**

No explicit or implicit link to elasticity: **max 3 marks**

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Explain how the success of the stadium might be affected “if the economy moves from boom to recession” (**Extract G**, line 14). *(8 marks)*

For explaining:

- The meaning of ‘recession’;
- Linkage between recession and company income;
- Linkage between company income and expenditure;
- Linkage between revenue and profit;
- Firms will attempt to cut costs;
- Cutbacks: non-core items likely to be first in line;
- Hospitality might (or might not) be seen as a non-core item; either way there is uncertainty;
- On the other hand, recession might reduce building costs;
- Effects on individuals as opposed to companies.

2 marks (1+1) for each element in this or any other plausible argument.

MAXIMUM FOR PART (c) 8 MARKS

3 (d) Suppose all tickets are sold at the same price. The horizontal line P_{\max} in **Extract I** assumes that the “pleasant surprise” (**Extract G**, line 17) is a policy of charging a lower price for seats than the market equilibrium price. Reproduce **Extract I** in your answer book.

Making use of the diagram, analyse the consequences of this policy for the market for tickets.

(10 marks)

With diagram questions it is **especially** necessary to be flexible and to reward unanticipated answers which are economically valid.

Among the points that might be raised are:

- The maximum price creates an excess demand;
- Excess demand will tend to pull up price;
- In order to maintain the maximum price the management will either have to reduce demand or increase supply;
- Since supply is fixed demand has to be reduced in this case;
- A rationing mechanism other than price is required, e.g. queue, ballot for tickets;
- Give credit to candidates who might recognise that the conditions of a parallel market (‘spiv’ ticket prices) might be present if the rationing method adopted by the management is not carefully controlled.

1 mark per point raised, **2 further marks** for elaboration.

Max 8 marks

For effective use of the diagram, e.g.

Drop the second vertical **1 mark**

Label 2 quantities **1 mark**

Show a shortage **1 mark**

Show a shift to eliminate the shortage **1 mark**

Up to 3 marks max for the augmented diagram

No marks for merely copying the diagram but give credit for referring in writing to features of the diagram, e.g. the horizontal price line, the shape of the supply curve.

Full marks are possible for a very good discussion if the diagram is not reproduced but it is referred to.

Max 8 marks if no reference to the diagram

MAXIMUM FOR PART (d) 10 MARKS

3 (e) Identify the **costs** and **benefits** of a ‘national’ stadium **and** evaluate the view that government involvement is desirable in the building of such a project. (15 marks)

Relevant points that could be raised include:

Costs;

- Money costs
- Opportunity costs
- Internal/ external social

Benefits;

- Direct
 - e.g. employment, spending
- Indirect
 - e.g. infrastructure, regeneration
- Internal/ external/ social

Case for government involvement;

- Sums involved are too large for purely private sector
- Multiplier effects, crowding in
- Good experiences: Barcelona, Sydney, Manchester

Case against government involvement;

- Pressure on taxation/ government borrowing
- Market imperatives ignored
- Bad experiences: Millennium Dome, early stages of Wembley project

Give credit for querying use of the word ‘national’. Give credit for candidates who recognise the possibility of both market failure and government failure. Evaluation is likely to come from weighing case for and case against government involvement. Evaluation does not have to be treated separately.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

subject to

Maximum of 7 marks if there is no attempt at evaluation.

MAXIMUM FOR PART (e) 15 MARKS