



ASSESSMENT and  
QUALIFICATIONS  
ALLIANCE

# General Certificate of Education

## Economics 6141

*ECN5 Business Economics and the Distribution of  
Income*

# Mark Scheme

*2006 examination – January series*

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.

## Advanced Level Economics

January 2006

ECN 5

### 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:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. 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 4 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay 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 3. 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 also shown on page 4. 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**

**Level 1:**

Few, if any, relevant issues recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar are likely to be poor. There is very little use of specialist vocabulary.

**0 to 6 marks** (*Mid-Point: 3 marks*)

**Level 2:**

A few issues are recognised but there is only limited evidence of the candidate’s ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

**7 to 12 marks** (*Mid-Point: 10 marks*)

**Level 3:**

A few issues recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of issues, arguments and evidence is limited and superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words 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. Some use of specialist vocabulary which is applied appropriately.

**13 to 20 marks** (*Mid-Point: 17 marks*)

**Level 4:**

Several relevant issues identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated Shows the ability to think as an economist making effective use of the economist’s ‘tool kit’ of concepts, theories and techniques. 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. A wide range of specialist vocabulary which is used with facility.

**21 to 26 marks** (*Mid-Point: 24 marks*)

**Level 5:**

Several relevant issues identified. Good understanding of economic concepts and principles demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated Shows the ability to think as an economist making very effective use of the economist’s ‘tool kit’ of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.

**27 to 30 marks** (*Mid-Point: 29 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 Question 1 (d) and part (b) of the essay 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 format 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.

### Synoptic Assessment

All questions in this unit are synoptic. Therefore candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist’s ‘tool kit’ of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

**SECTION A**

**1**

**Total for this question: 50 marks**

1 (a) Using <b>Extract A</b> , describe the structure of the United States' digital camera market over the period shown in 2003. <span style="float: right;"><i>(4 marks)</i></span>
--

Most candidates will describe the market as an oligopoly, or as highly or relatively concentrated. However, given the facts that the five-firm concentration ratio is 76.4% and that 'others' account for 9.3% of the market, reward an answer that states that the market is an example of monopolistic competition (even though this market structure is not on the Module 5 specification).

**For candidates who:**

identify an element of the market structure e.g. oligopoly, concentrated market:

**1 mark**

develop the description:

**up to a further 2 marks**

**Up to 3 marks per element**

**Maximum of 2 marks if there is no accurate use of statistics**

**MAXIMUM FOR PART (a) 4 MARKS**

1 (b) Explain **two** possible economic reasons why Kodak has continued to manufacture traditional film-based cameras, even though the company makes a loss on these cameras (**Extract B**, lines 1 and 2). *(6 marks)*

Possible reasons include: manufacturing traditional film-based cameras so as to make a profit on complementary goods, namely film and photographic paper (i.e. the cross-subsidy argument); inertia; lack of accurate information; non-profit maximising objective(s); a hope that the market will recover; impossibility of recovering sunk and/or fixed costs; a profit may be made if only variable costs are considered; desire to maintain the brand name or image.

**For candidates who:**

make a basic statement of a reason:

**1 mark**

develop an explanation of the reason:

**up to a further 4 marks**

**Maximum of 4 marks if only one relevant reason is explained**

**If a candidate explains more than 2 reasons, reward the best 2 explanations.**

**MAXIMUM FOR PART (b) 6 MARKS**

1 (c) Lines 13–16 of **Extract B** refer to barriers to market entry protecting Kodak. Analyse why Kodak is facing greater competition, despite being protected by high entry barriers.  
*(10 marks)*

**Issues and areas for discussion and explanation include:**

- explanation of how entry barriers may protect Kodak;
- relevant discussion of the difference between natural and artificial barriers;
- identification of the fact that the entry barriers protect a shrinking market;
- discussion of Kodak's market facing competition from a new photographic technology
- relevant discussion of the more competitive nature of the market into which Kodak is diversifying

**LEVEL 1**

At the bottom of the range, the candidate who explains the meaning of entry barriers but who makes no relevant use of the concept. At the top of the range, the candidate who explains the meaning of entry barriers but who discusses their significance solely in the context of Kodak's traditional market.

**1 to 3 marks**

**LEVEL 2**

At the bottom of the range, the candidate who makes a superficial analysis of the two markets. At the top of the range, the candidate who makes a more developed analysis of the two markets.

**4 to 7 marks**

**LEVEL 3**

At the bottom of the range, the candidate who provides strong and rigorous analysis of competition and entry barriers in one of the two markets, but whose analysis is thin with regard to the other market. At the top of the range, the candidate who provides full and contrasting analysis of competition and entry barriers in both markets, perhaps using concepts such as cross elasticity of demand for the two products, substitutability, sunk costs, or dynamic change.

**8 to 10 marks**

**MAXIMUM FOR PART (c) 10 MARKS**

1 (d) Firms may grow internally by investing in new production capacity, or they may grow externally through merger or takeover. Using the data and your economic knowledge, assess the case **for** and **against** firms growing solely by merger or takeover. (30 marks)

Explanation/analysis is needed to reach Level 3, and some evaluation, building on the analysis, is required to score **21 marks** or higher (Levels 4 and 5). An answer which considers only the case for, or the case against, growing solely by merger or takeover should be restricted to Level 2. To reach Level 3, an answer must consider both the case for and the case against. To reach Level 4, the candidate must discuss external growth and internal growth, implicitly or explicitly. A Level 5 answer might discuss the significance of the word *solely* in the context of the question.

Credit relevant use of real world case histories.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- Understanding of external growth and takeovers or mergers;
- Understanding of internal or organic growth;
- Discussion of advantages of external growth such as speed and the acquisition of other firms' assets and know how;
- Discussion of disadvantages of external growth such as lack of management expertise with regard to the acquired company and the creation of external diseconomies of scale;
- How external and/or internal growth can improve resource allocation and the efficient and profitable use of assets, e.g. by switching under-performing assets to more efficient uses;
- How external and/or internal growth may harm resource allocation and the efficient and profitable use of assets, e.g. through unproductive speculation;
- Relevant application of vertical, horizontal and lateral growth;
- Consideration of the possibility that a mix of external and internal growth is optimal.

**Also give credit for:**

- Relevant use of data and/or candidate's knowledge;
- Relevant use of evidence;
- Overall assessment.

**A maximum of 24 marks if no use is made of the data**

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART (d) 30 MARKS**

**TOTAL FOR QUESTION 1: 50 MARKS**



**SECTION B**

**Each question carries 50 marks**

Successful firms such as BP, Tesco and British Gas regularly make large amounts of profit.

2 (a) Explain the role of profit in an economy. (20 marks)

**For candidates who:**

define profit: **1 mark**

define normal profit: **1 mark**

explain the role of normal profit in an economy: **up to a further 3 marks**

define supernormal (above normal or abnormal) profit: **1 mark**

explain the role of supernormal profit in an economy: **up to a further 3 marks**

state that low entry barriers may reduce profit, or high entry barriers may increase profit: **1 mark**

state that profit is the factor reward earned by a firm or entrepreneur: **1 mark**

state that profit is the reward for risk taking: **2 marks**

explain the role of profit in creating incentives; **up to 3 marks**

explain the role of profit in creating competitive conditions; **up to 3 marks**

explain the role of profit in relation to market contestability; **up to 3 marks**

explain the role of profit in resource allocation, i.e. attracting resources from less profitable to more profitable uses; **up to 6 marks**

explain how monopoly profit, protected by entry barriers, may lead to resource misallocation: **up to 4 marks**

explain the role of profit as a source for financing investment: **up to 4 marks**

explain how profit may accelerate economic growth: **up to 4 marks**

make relevant use of a diagram, e.g. the effect of supernormal profit on a market: **4 marks per diagram**  
**up to a maximum of 8 marks**

**MAXIMUM FOR PART (a) 20 MARKS**

2 (b) Discuss the case **for** and **against** a government regulating the amount of profit firms are making. (30 marks)

Explanation/analysis is needed to reach Level 3, and some evaluation, building on the analysis, is required to score **21 marks** or higher (Levels 4 and 5). Also, to reach Level 3, the case for and the case against arguments must be briefly addressed. To reach Level 4, both the case for and the case against argument must be analysed with some evaluation. Greater analysis and evaluation is required to reach Level 5.

Credit relevant reference to evidence and examples

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- How prices could be regulated;
- Relevance to market structure;
- Relevance to the privatised utility industries;
- Regulation to reduce abuse of oligopolistic and/or monopolistic market power;
- Regulation to reduce exploitation of producer sovereignty and to promote consumer sovereignty;
- Why regulation may not succeed;
- Efficiency arguments
- Equity arguments;
- Government intervention to correct market failure;
- Government failure arguments.

**Also give credit for:**

- Relevant use of data and/or candidate's knowledge;
- Relevant use of evidence;
- Overall assessment.

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART (b) 30 MARKS**

**TOTAL FOR QUESTION 2: 50 MARKS**

3 (a) Explain the impact of gender, ethnic and other forms of discrimination on wages **and** levels and types of employment. *(20 marks)*

**For candidates who:**

provide a definition of labour market discrimination: **up to 3 marks**

**For candidates who**

**for each form of discrimination:**

provide a basic statement of how the discrimination affects wages: **1 mark**  
 develop the explanation: **up to 5 further marks**

(Explanations may relate to the effect of discrimination on education and skills; on aspirations; on relative wage rates of workers subjected to and not subjected to discrimination.)

provide a basic statement of how the discrimination affects levels of employment: **1 mark**  
 develop the explanation: **up to 5 further marks**

(Explanations may relate to the effect on overall employment and unemployment via the creation of labour market immobility; and failure to use talent to the full.)

**For candidates who**

relate their explanation(s) to a particular cause or type of unemployment: **up to 2 marks per cause or type**

provide a relevant diagram or diagrams: **up to 4 marks per diagram up to a maximum of 8 marks**

Some candidates may introduce the theory of wage discrimination, although full marks can be earned without this theory. Wage discrimination theory is similar to the theory of price discrimination, but related to the labour market.

**Maximum of 12 marks for explanation of the effect of discrimination on wages**  
**Maximum of 8 marks for explanation of the effect of discrimination on *levels* of employment**  
**Maximum of 8 marks for explanation of the effect of discrimination on *types* of employment**

**Maximum of 12 marks if only wages or employment is discussed**

**MAXIMUM FOR PART (a) 20 MARKS**

3 (b) Evaluate the view that trade unions raise wage rates but reduce levels of employment.  
(30 marks)

Explanation/analysis is needed to reach Level 3, and some evaluation, building on the analysis, is required to score **21 marks** or higher (Levels 4 and 5). An answer which describes but does not analyse or evaluate trade union activity should be restricted to Level 2. To reach Level 3, an answer must analyse and evaluate one labour market structure, e.g. perfect competition or monopsony (or highly competitive and less competitive labour markets). To reach Level 4, two market structures must be analysed and evaluated, although answers may contain some mistakes. A Level 5 answer must analyse and evaluate two market structures without making any significant mistakes. Award marks for relevant diagrams.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- The meaning of trade unions;
- Trade unions' objectives;
- Whether trade unions' objectives are consistent with employers' objectives;
- Perfectly competitive labour markets;
- Monopsony (or imperfectly competitive) labour markets;
- The effect of trade unions on wages and employment in otherwise perfectly competitive labour markets;
- The effect of trade unions on wages and employment in monopsony or imperfectly competitive labour markets;
- The effect of trade unions on factors such as labour productivity and market flexibility.

**Also give credit for:**

- Relevant use of data and/or candidate's knowledge;
- Relevant use of evidence;
- Overall assessment.

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART (b) 30 MARKS**

**TOTAL FOR QUESTION 3: 50 MARKS**

4 (a) Using economic theory, explain the causes of the unequal distribution of income in the UK.  
(20 marks)

**For candidates who:**

define income:	<b>1 mark</b>
explain the meaning of an unequal distribution of income:	<b>up to 3 marks</b>
use measures such as a Lorenz curve and/ or a gini coefficient to show income inequality:	<b>up to 2 marks for each measure</b>

**Maximum of 5 marks for defining and measuring income and income inequality**

**For candidates who:**

provide information about the extent to which income is unequally distributed in the UK:	<b>up to 4 marks</b>
provide a basic statement of a cause of inequality:	<b>1 mark</b>
develop the basic statement:	<b>up to 6 further marks per cause</b>

(Causes include: different supply conditions for different types of labour; different demand conditions for different types of labour; different productivities; different labour market equilibria; the effect of different natural talents and aptitudes; the effect of different education and investment in human capital; the effect of multi-income households versus single income households, including dependants; the effect of discrimination in labour markets; effects of taxes and benefits.)

provide a relevant diagram or diagrams:	<b>up to 4 marks per diagram</b>
	<b>up to a maximum of 8 marks</b>

**Maximum of 7 marks for an answer that only explains causes of the unequal distribution of *wealth*.**

**Maximum of 9 marks for an answer that is solely descriptive and makes no use at all of economic theory**

**MAXIMUM FOR PART (a) 20 MARKS**

4 (b) Discuss whether a more equal income distribution can only come about through government intervention. <span style="float: right;">(30 marks)</span>
--

Most candidates will probably agree that an unequal income distribution is a market failure, but reward candidates who take issue with the question and argue that an unequal distribution can be justified. But give little reward for assertion. Arguments must be explained, analysed and evaluated.

Explanation/analysis is needed to reach Level 3, and some evaluation, building on the analysis, is required to score **21 marks** or higher (Levels 4 and 5). An answer which describes market failure, but does not explain and analyse why an unequal distribution of income might be a market failure should be restricted to Level 2. To reach Level 3, an answer must explain how government intervention might correct the market failure, without however addressing the word *only* in the question. To reach Level 4, answers must consider whether other market-orientated solutions are possible, e.g. ‘trickle-down effects’; redistribution by charity or gift. A Level 5 answer must evaluate fully both the case for and the case against the view expressed in the question, for example by considering how government intervention may fail, as well as the use of alternatives to government intervention.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- Methods of intervention such as progressive taxation and welfare benefits;
- Explanation of benefits of particular methods of intervention for individuals;
- Explanation of benefits of particular methods of intervention for the economy;
- Explanation of costs of particular methods of intervention for individuals;
- Explanation of costs of particular methods of intervention for the economy;
- Discussion of winners and losers;
- Discussion of efficiency gains and/or losses;
- Discussion of welfare gains and/or losses;
- Discussion of static versus dynamic effects;
- Application of equity criteria;
- Discussion of market-orientated alternatives to government intervention;
- Market failure considerations.

**Also give credit for:**

- Relevant use of data and/or candidate’s knowledge;
- Relevant use of evidence;
- Overall assessment.

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART (b) 30 MARKS**

**TOTAL FOR QUESTION 4: 50 MARKS**

---