



General Certificate of Education

Economics 5141

ECN1: Markets and Market Failure

Mark Scheme

2008 examination - June 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.

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AQA Advanced Subsidiary Economics**June 2008****ECN1/1**

This component is an objective test for which the following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1.	C	9.	B
2.	A	10.	A
3.	D	11.	B
4.	C	12.	D
5.	D	13.	A
6.	C	14.	D
7.	A	15.	D
8.	D		

Advanced Subsidiary Economics

June 2008

ECN1/2

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) and (b) 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 6 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for marking part (c) 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 5. 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 6. 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 10 marks*Mid-Point: 9 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.

11 to 13 marks*Mid-Point: 12 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.

14 to 15 marks*Mid-Point: 15 marks*

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARKING 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 of 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 an 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.

EITHER**1****Total for this question: 25 marks**

1 (a) Using **Extract A**, compare the changes in the world demand for metals in the period 1993 to 2002 with the changes in the period 2002 to 2005. *(4 marks)*

Award up to 2 marks each for each valid point made (one mark for identification and one mark for supporting reference(s) to the data). The valid points include:

- The annual changes were generally higher between 2002 and 2005 than between 1993 and 2002;
- The one exception was nickel for which the annual change was lower between 2002 and 2005 than between 1993 and 2002;
- The absolute difference between the annual changes in the two periods was greatest for tin (a difference of 6.8%);
- The percentage difference between the annual changes in the two periods was greatest for tin (over 500%)
- The absolute difference between the annual changes in the two periods was least for copper (a difference of 0.3%);
- The percentage difference between the annual changes in the two periods was least for copper (just over 8.5%)

A maximum of **1 mark** may be awarded if there is no comparison and a maximum of **2 marks** if there is no use of statistics or if a candidate confines the comparison to just one indicator.

If the candidate simply trawls through the data, award a maximum of **2 marks**.

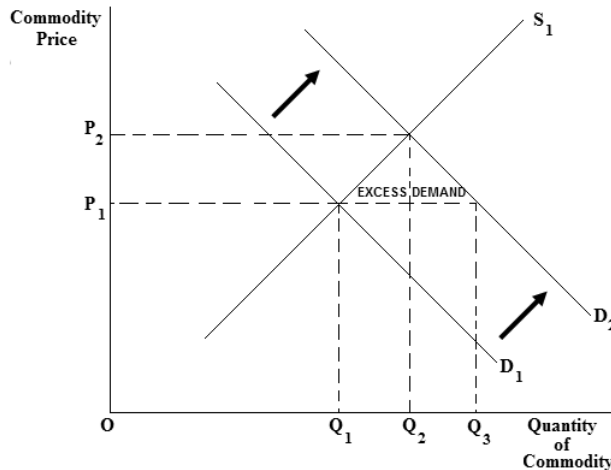
Award **3 marks** where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

Do not award marks for the use of statistics which wrongly indicate that the percentage changes refer to the whole data period rather than to an average annual change within the data period.

MAXIMUM FOR PART (a) 4 MARKS

1 (b) 'Prices of commodities such as cement and steel have been driven by Chinese demand' (**Extract B**, lines 8-9).

With the help of a demand and supply diagram, explain how the prices of commodities such as cement and steel have been driven by Chinese demand. (6 marks)



For the diagram, which is likely to be similar to the one above, award 1 mark for each of the following:

- Drawing a supply and demand diagram, accurately labelled, showing an initial equilibrium price and quantity for a commodity;
- Drawing a new demand curve to the right (or above) the original demand curve, correctly labelled;
- Labelling excess demand at the initial equilibrium price after the shift of demand;
- Showing a new equilibrium price above the initial equilibrium price.

Maximum of 4 marks for the diagram

For the written explanation, award up to 3 marks for each of the following:

- Explaining why the demand curve shifts rightward;
- Explaining why excess demand occurs at the old equilibrium price;
- Explaining the adjustment to the new equilibrium
- Any other relevant point, e.g. relating to the price elasticity of one of the curves

Maximum of 4 marks for a written explanation

Maximum of 3 marks for a diagram with no written explanation, or for a written explanation without a relevant diagram

MAXIMUM FOR PART (b) 6 MARKS

- 1 (c)** Using the data and your economic knowledge, discuss whether governments should impose maximum prices on commodities such as metals and oil. **(15 marks)**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion, if they are to be awarded **more than 7 marks**. The question is not specific to a particular commodity. Good answers might argue that prices should be left as much as possible to market forces, but that there will be circumstances (with examples set out in the answers) when the imposition of maximum prices may lead to a better outcome.

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward more explicit evaluation, i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 or more marks)**, there needs to be more explicit evaluation, perhaps along the lines suggested below, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented in the answer.

Where there is no explicit reference to the data, award a maximum of 12 marks.

The candidate could evaluate by: *discussing the practicality of imposing maximum prices on commodities traded globally. They might discuss the implications of the imposition of maximum prices by producer countries, by industrial countries which buy the commodities, or by both types of countries in combination. Development issues might also be discussed, and the possibility and effects of government failure when maximum prices are imposed.*

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 functions of prices in markets;
- How prices determined in unregulated markets may improve resource allocation;
- Explanation of how free market forces may lead to instability in commodity markets;
- Discussion of whether such instability is good or bad;
- How a maximum price might be implemented in commodity markets;
- The problem of imposing and implementing maximum prices in such markets;
- How maximum prices may affect resource allocation and economic efficiency;
- Long-term versus short-term considerations;
- Effects of market forces upon various forms of economic efficiency;
- Market failure versus government failure arguments;
- Unintended consequences of government intervention.

Also give credit for:

- Relevant use of diagrams;
- Relevant use of prompts;
- Relevant use of evidence;
- Overall assessment.

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c) 15 MARKS

OR

2

Total for this question: 25 marks

<p>2 (a) Compare the smoking and obesity rates in the adult populations of the high-income countries shown in Extract E. <i>(4 marks)</i></p>
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Award up to 2 marks each for each valid point made (one mark for identification and one mark for supporting reference(s) to the data). The valid points include:

- The USA has the highest obesity rate and the joint lowest smoking rate;
- Japan has the lowest obesity rate and the second highest smoking rate;
- There is an inverse or negative relationship between smoking and obesity, overall around - 0.6, and particularly in the USA and Japan
- There may be an inverse relationship in France and the UK;
- Germany had the highest smoking rate and was third out of six countries in terms of obesity;
- Sweden had the lowest smoking rate and the third lowest obesity rate;
- The range between highest and lowest was greater for obesity than for smoking.

A maximum of **1 mark** may be awarded if there is no comparison and a maximum of **2 marks** if there is no use of statistics or if a candidate confines the comparison to just one indicator.

If the candidate simply trawls through the data, award a maximum of **2 marks**.

Award **3 marks** where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

MAXIMUM FOR PART (a) 4 MARKS

2 (b) Extract F provides information on the elasticities of demand for cigarettes in the United States.

Explain how the elasticities mentioned in **Extract F** may affect US demand for cigarettes.
(6 marks)

For candidates who:

explain the meaning of price elasticity of demand: **1 mark**

explain the meaning of income elasticity of demand: **1 mark**

explain how price elasticity of demand affects demand: **up to 4 marks**
(if a diagram or diagrams are included, award up to 2 marks for diagrams)

explain how income elasticity of demand affects demand: **up to 4 marks**
(if a diagram or diagrams are included, award up to 2 marks for diagrams)

Maximum of 4 marks if no accurate use is made of the statistics in Extract F

Maximum of 4 marks if there is no accurate mention of both price and income elasticities of demand

MAXIMUM FOR PART (b) 6 MARKS

2 (c) Using the data and your economic knowledge, evaluate the policies the UK government could use to bring UK smoking rates down to US rates. **(15 marks)**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion, if they are to be awarded **more than 7 marks**. The Extracts do not mention particular policies that could be used to bring UK smoking rates down to US rates. Policies include: taxation; regulation; providing information about long-term health effects; promoting tobacco substitutes; raising people's income.

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward more implicit evaluation, i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 or more marks)**, there needs to be more explicit evaluation, perhaps along the lines suggested below, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented in the answer.

Analysis requires explanation of ways in which government policies may reduce cigarette consumption. Evaluation requires consideration of the extent to which the policies may or may not be effective. Two policies analysed and evaluated in depth or three or more in less depth can earn full marks.

Candidates who make a genuine attempt at evaluation should be well rewarded. *For this question they are likely to: use the information provided about price elasticity of demand to evaluate the effect of raising tobacco taxes; similarly use the information provided about the price of cigarettes in the UK and the USA; similarly make use of the information provided about income elasticity of demand and their own knowledge of average income levels in the UK and the USA; evaluate the relative significance of the income effect and the health effect mentioned in the data; evaluate one or more types of regulation, perhaps relating regulation to the emergence of black markets and criminal activity; considering tobacco as a demerit good; assessing the role of providing information about the long-term health consequences of smoking; arguing the importance of raising income levels.*

Candidates should not be awarded more than **12 marks** if there is no explicit reference to the data.

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:

- Identifying relevant policies;
- Considering the evidence in the data;
- Applying elasticity analysis
- Cigarettes/tobacco as a normal or as an inferior good;
- Market failure arguments;
- Cigarettes/tobacco as a demerit good
- Government failure arguments.

Also give credit for:

- Relevant use of diagrams;
- Relevant use of prompts;
- Relevant use of evidence
- Overall assessment.

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c) 15 MARKS