

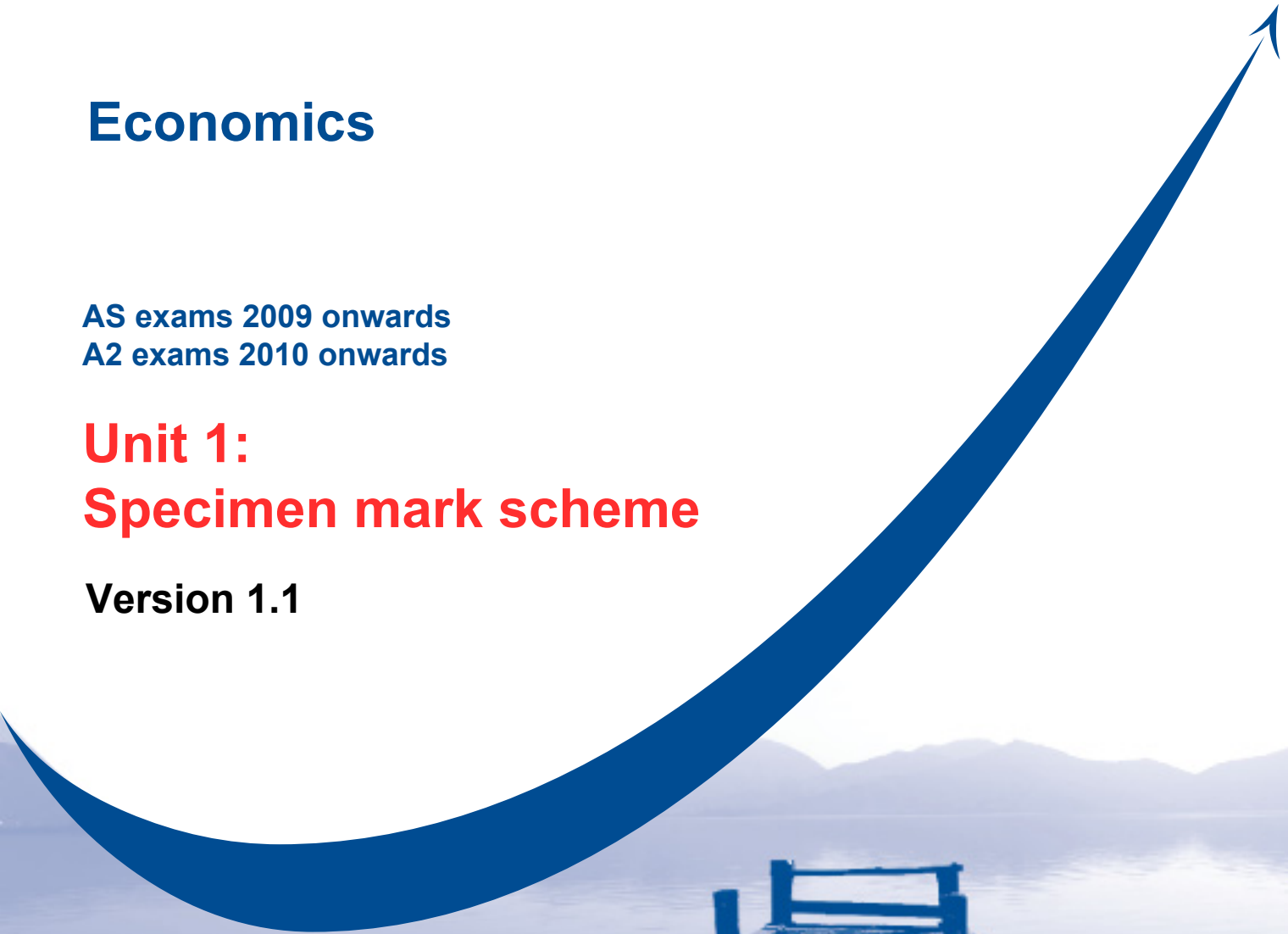
GCE
AS and A Level

Economics

AS exams 2009 onwards
A2 exams 2010 onwards

Unit 1: **Specimen mark scheme**

Version 1.1



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General Certificate of Education

Economics

ECON1

Unit 1 Markets and Market Failure

Specimen Mark Scheme

for examinations in 2009 onwards

The specimen assessment materials are provided to give centres a reasonable idea of the general shape and character of the planned question papers and mark schemes in advance of the first operational examinations.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

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Advanced Subsidiary Economics Unit 1

Section A: Objective Test

Specimen Key List

The following list indicates the correct answers used in marking the candidates' responses.

1	C	19	B
2	D	20	A
3	D	21	D
4	A	22	A
5	C	23	B
6	C	24	B
7	D	25	D
8	D		
9	C		
10	A		
11	C		
12	B		
13	A		
14	A		
15	C		
16	D		
17	A		
18	B		

Advanced Subsidiary Economics Unit 1

Section B: Data Response

Specimen 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), (b) and (c) 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.
- (ii) **A levels approach.** This approach is used for marking part (d) of the data response questions. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. 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. Then think in terms of awarding the mid-point mark which has been identified for that level (e.g. 14 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

THE LEVELS MARK SCHEME FOR AS

Level Descriptions

In part (d) 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. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 13 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. It is not necessary for the answer to identify a wide range of issues to score the top mark. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

Level 1: A very weak answer

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. There might be some evidence of organisation in the answer but generally it 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 6 marks

Mid-Point 4 marks

Level 2: A poor answer but some understanding is shown

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 and analysis will therefore be very limited. There may be some attempt to present alternative points of view but any attempt at evaluation is limited or superficial. There is some logic and coherence in the organisation of the answer. 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.

7 to 11 marks

Mid-Point 9 marks

Level 3: An adequate answer with some correct analysis but very limited evaluation

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 and there is some evidence that the candidate can analyse issues. There will be some attempt to present alternative points of view 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.

12 to 16 marks

Mid-Point 14 marks

Level 4: Good analysis but limited evaluation

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Some appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models 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.

17 to 21 marks

Mid-Point 19 marks

Level 5: Good analysis and evaluation

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to 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/economic models identified and to support conclusions. A clear final judgement is made. 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.

22 to 25 marks
Mid-Point 24 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.

26 PRICES AND MARKET FAILURE

Total for this question: 50 marks

26 (a) Using **Extract A**, identify **three** reasons why house prices in the UK tend to be 'unaffordable'. **(5 marks)**

Award up to 2 marks for each valid point made (1 mark for identification, 1 mark for supporting reference to the data). For example:

- Prices are relatively high
- Earnings are relatively low
- Savings are low
- Mortgages of 3.5 times incomes are insufficient
- Supply is not keeping up with demand
- There are more households due to societal change
- There is regionalised over-heating, e.g. in London and the South-East

MAXIMUM FOR PART (a) 5 MARKS

26 (b) Define income elasticity of demand **and** explain why a knowledge of the income elasticity of demand for housing would be useful to an economist wishing to study the housing market. **(8 marks)**

For candidates who:

- Give a definition of income elasticity of demand, or a formula, or a description of what YED attempts to measure **Up to 3 marks**
- Give reasons why a knowledge of YED would be useful, for example:
 - 'Affordability' depends on both price and income
 - Most houses are bought with borrowed money
 - Loans are closely linked to incomes
 - Changes mentioned in Extract B are likely to 'magnify' this link and so increase the responsiveness of buyers to income changes
 - Income elasticity is likely to be more influential than price elasticity of demand

Award up to **3 marks** for each valid point made (**1 mark** for mention/ identification, up to **2 marks** for elaboration).

Since a definition is required in the question, there is a maximum of **6 marks** if there is no formal definition or formula or description of what it is that income elasticity attempts to measure.

MAXIMUM FOR PART (b) 8 MARKS

26 (c) Using a supply and demand diagram to help you, analyse the possible effects of a government decision to impose a maximum price on new houses in London and the South-East. (12 marks)

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

Anticipated approach:

The maximum price will create an excess demand at that price. In order to maintain the controlled price, either demand will need to be curtailed by some additional rationing mechanism, such as a waiting list (illustrated by shifting D to the left), or supply will have to be increased, e.g. by subsidies to house builders or by public sector provision (illustrated by shifting S to the right).

Diagram break-down:

- Axes labelled (1)
- S & D curves correct (1)
- Equilibrium price identified (1)
- Maximum price below equilibrium as a horizontal line (1)
- Excess demand at the controlled price shown (2)

For a relevant diagram (example overleaf)

up to 5 marks max.

Anticipated approach to written response:

For describing the diagram: reasons for excess demand, maximum price compared to free market price

Up to 4 marks

For some advanced analysis, e.g. consideration of different rationing mechanisms for excess demand, and/or means of stimulating supply (policies that could shift the effective demand curve left, or the effective supply curve right). The possibility of the controlled price being **above** equilibrium; the possibility of the policy being less appropriate in sub-markets within the South East (neighbouring boroughs can have very different socio-economic profiles and housing markets).

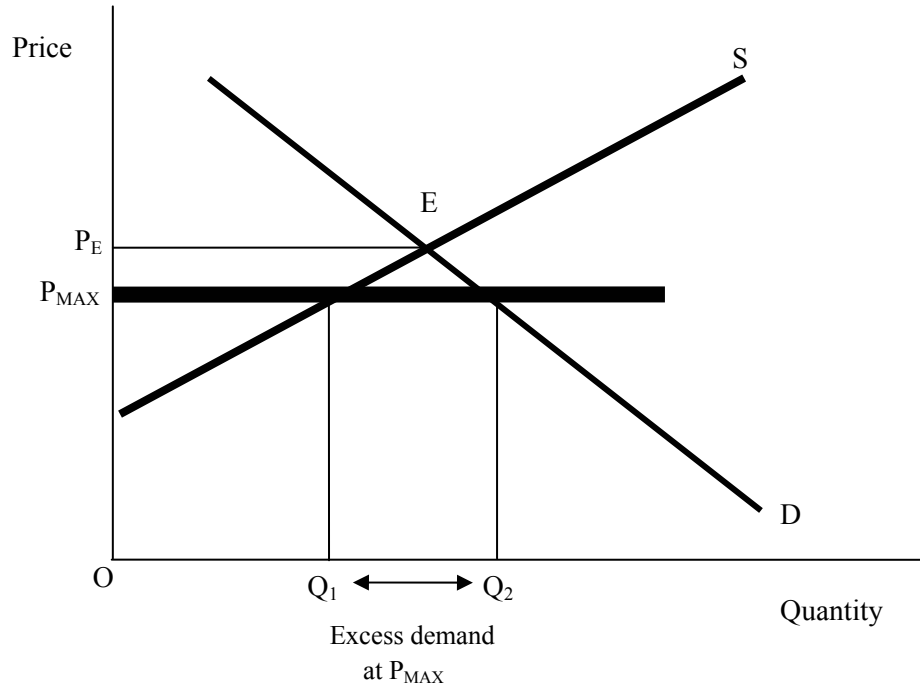
Up to 5 marks

For written explanation

up to 9 marks max.

Anticipated diagram for 26(c)

The controlled market for houses in London and the South-East



MAXIMUM FOR PART (c): 12 MARKS

26 (d) Explain why poor housing conditions and homelessness can lead to negative externalities (**Extract B**, lines 15-16) and evaluate the role that governments could play in avoiding market failure in the housing market. (25 marks)

Answers can be entirely UK-focused, or they can take a cue from the data to broaden the perspective to a more global level. Evaluation can come from anywhere in the answer, but could specifically come from, for example, a general discussion of the role of government versus the role of markets in the context of housing.

Candidates who introduce a discussion of specific policies, e.g. building on the green belt, could evaluate the suitability of individual policies, or types of policy (e.g. 'predict and provide' versus proactive policies to reduce demand).

As always, give credit for sensible use of the data.

Issues and areas for discussion include:

- Negative externalities
 - Definition of the term
 - Externalities arising from poor housing/homelessness
 - Examples
 - Ill health
 - Unsanitary conditions
 - Crime
 - Dependency
 - Environmental issues
 - How costs are transferred to others, e.g.
 - Spread of disease
 - Social tensions
 - Burdens on the taxpayer
- Definition of 'market failure, linking to the housing market
- Arguments against government intervention, e.g.
 - 'Markets know best'
 - Producers respond to price signals
 - Incentives from the profit motive
 - Productive efficiency
 - React to consumer wants
 - Government failure, e.g.
 - Inappropriate housing
 - ...in the wrong place
 - 1970s style tower blocks
 - UK culture is to buy rather than rent
- Rationale for government intervention
 - Market failure
 - Consequences for mobility of labour
 - Key workers, public services
 - Special needs of first time buyers
 - Need for social housing

- Possible policies
 - Intervention in the housing market, e.g. price controls, subsidies, council-house building, relaxed planning laws, etc.
 - Leave things to market forces

Also give credit for:

- Relevant use of the data/and or candidate's knowledge
- Relevant use of evidence/diagrams
- Overall assessment

Maximum of 13 marks if there is no attempt to evaluate

Maximum of 20 marks if there is no explicit reference to the data

USE THE LEVELS MARK SCHEME

MAXIMUM FOR PART (d) 25 MARKS

27 COMPETITION AND MARKET POWER

Total for this question: 50 marks

27 (a) Using Extract C , compare the sales of traditional toys and video games in 2003 with estimated sales in 2008. <i>(5 marks)</i>

Award up to 2 marks for each valid point made (1 mark for identification, 1 mark for supporting reference to the data). For example:

- Sales of video games hardware and software and dolls/ figures are expected to rise, but sales of outdoor games are static/falling slightly
- The absolute changes in video hardware and software are much greater than traditional games
- ...as are the percentage changes
- The gap between video and traditional games is expected to grow
- Overview: the market as a whole is expanding

Candidates who simply ‘trawl’ the data by commenting individually on traditional toys and video games are restricted to **2 marks** overall.

If candidates comment on trends without quoting any specific statistics, the maximum is **3 marks**.

If candidates comment on trends without quoting any specific statistics, but do compare traditional toys and video games, the maximum is **4 marks**.

For **5 marks** there must be clear use of the data, statistics quoted, and some comparison made between the traditional toys and video games categories.

MAXIMUM FOR PART (a) 5 MARKS

27 (b) State **and** explain **two** ways in which eBay might help reduce barriers to entry for specialist toy retailers (**Extract E**, lines 2-3). **(8 marks)**

For candidates who:

- Give a general definition/description of 'barriers to entry' in terms of impediments to new market competitors, or explain some examples such as capital costs or legal barriers. Note: a definition of 'barriers to entry' is not specifically required in the question, so these three marks can be redistributed to 'elaboration' among the points below. Candidates who identify 2 barriers, explain why they are barriers, and how eBay helps remove those barriers can obtain full marks. **Up to 3 marks**
- Give reasons why internet trading and sites like eBay improve ease of entry, for example:
 - No need to build a physical shop
 - Low set-up costs
 - Low running costs
 - Traditional products are weighty, many new products are 'weightless'
 - Traditional markets are tied to locations, new markets involve global networks
 - Access to large numbers of customers, without a large marketing budget

Award up to **3 marks** for each valid point made (**1 mark** for mention/identification, up to **2 marks** for elaboration)

MAXIMUM FOR PART (b) 8 MARKS

27 (c) With the help of a supply and demand diagram, analyse the reasons why shortages can occur in the market for toys and games as mentioned in **Extract D**. (12 marks)

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

Anticipated approach:

Extract D says that prediction is difficult, so the case of the ‘must have’ toy can be illustrated **either** by the actual demand curve turning out to be further to the right than expected, **or** by an unexpected (or cleverly engineered) shift in demand to the right when the ‘craze’ takes hold. Supply is inelastic in the short run (in the case of the Wii the supply curve was vertical through $Q = 50,000$). If price stays at the manufacturer’s recommended level (P_{REC}) there is potential for excess demand (shortage) at that price.

Diagram break-down:

- Axes labelled (1)
- S & expected D curves correct (1)
- Supply curve shown with vertical or very steep gradient (1)
- Excess demand at the recommended price shown (2)
- Unexpected position of D curve, or shift of D curve shown (1)

For a relevant diagram (example overleaf)

up to 5 marks max.

Anticipated approach to written response:

For describing the diagram: reasons for fixed supply (low/zero price elasticity of supply), the position of the demand curve, or its possible shift. In effect the ‘recommended’ price acts as a ‘maximum price’ bringing about excess demand at that price.

Up to 4 marks

For some advanced analysis, e.g. consideration of the existence of a separate market on eBay, with prices differing from the ‘recommended’ price. Highly perceptive candidates might note that ‘recommended’ prices have no legal status, but might in this case be a marketing ploy designed to help ‘create’ the shortage and create publicity. There is a possibility that the ‘shortage’ takes suppliers by surprise, but also that it is not unanticipated, and in fact contrived to create consumer interest and boost prices. There might be a mention that this is in some respects a monopolistic market and not a ‘free’ market. Demand might not shift spontaneously, but might be the result of a marketing campaign, e.g. through children’s television.

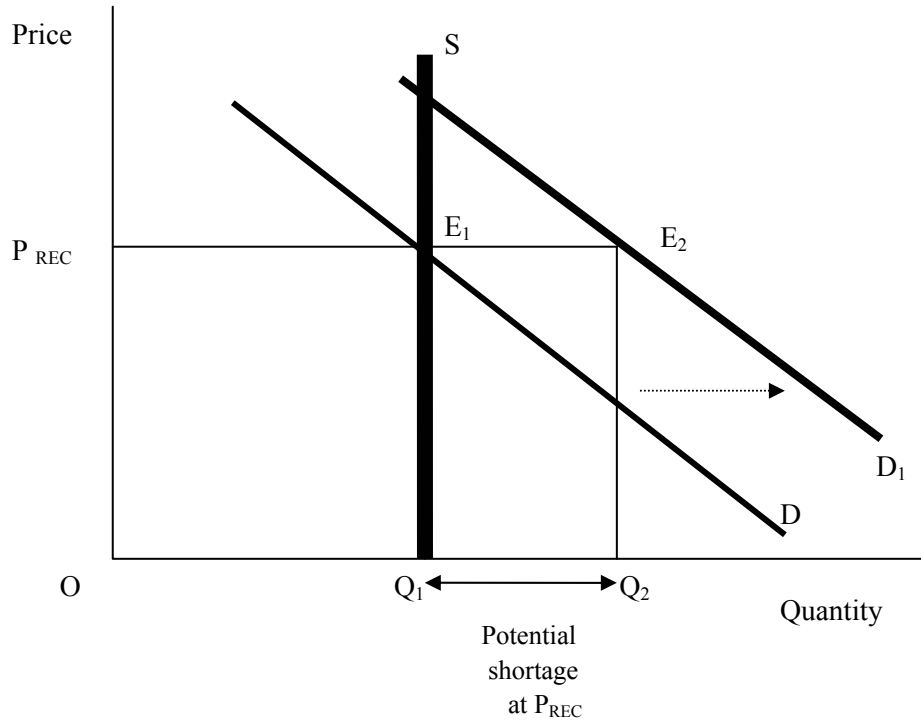
Up to 5 marks

For written explanation

up to 9 marks max.

Anticipated diagram for 27(c)

The market for the 'must-have' toy



MAXIMUM FOR PART (c): 12 MARKS

27 (d) Do you agree that monopoly power among toy retailers will continue to grow and that further growth of monopoly power would harm **both** consumers **and** toy manufacturers? Justify your answer, using the data and your economic knowledge.
(25 marks)

There are two long term trends mentioned in the data: the familiar one of acquisitions, take-overs and economies of scale (fewer suppliers servicing smaller numbers of ever larger markets), and the impact of new technology giving access to larger numbers of smaller markets.

There is, of course, no single correct answer to: 'Do you agree...?' Differentiation will come from the quality of the justification, so candidates can obtain full marks from a logical argument beginning 'yes', 'no', or 'who can tell?'

Evaluation can arise anywhere in the answer, but could specifically come from, e.g. a discussion of the strength of monopoly power of large retailers versus the fight-back by small traders using new technology.

Evaluation can also come from discussing the possible balance of costs and benefits to manufacturers and consumers.

Very perceptive candidates might discuss whether manufacturers and consumers should actually be considered together vis-à-vis retailers, or whether manufacturers have more interests in common with retailers (for example, if annual seasonal 'shortages' are actually contrived, then it could be argued that this works to the advantage of both groups on the supply side, to the detriment of consumers).

As always, give credit for sensible use of the data.

Issues and areas for discussion include:

- Monopoly and market power of retailers could continue to grow because of
 - The influence of economies of scale
 - Global trends towards mergers and conglomerates
- This growth could be undermined by
 - Technological changes improving ease of entry, removing entry barriers
 - Small firms using internet sites to gain marketing economies and reduce entry costs
- The growth has costs for consumers and manufacturers because it
 - Increases the bargaining power of retailers
 - Potentially raises prices
 - Reduces choice to consumers
 - Reduces profits of manufacturers
 - Reduces the potential for innovation and new product development
- The growth benefits consumers and manufacturers because
 - Economies of scale potentially reduce prices to consumers
 - Manufacturers' distribution costs are reduced, dealing with fewer outlets
 - Give credit for any mention of the wider environmental costs related to out-of-town shopping, use of the motor car, decline of town centres

Also give credit for:

- Relevant use of the data/and or candidate's knowledge
- Relevant use of evidence/diagrams
- Overall assessment

Maximum of 13 marks if there is no attempt to evaluate.

Maximum of 20 marks if there is no explicit reference to the data.

USE THE LEVELS MARK SCHEME

MAXIMUM FOR PART (d) 25 MARKS