

2004 June Unit 1 Mark Scheme

Q1 Answer A 1 mark

Correct definition of opportunity cost e.g. 'Value of the next best 'alternative foregone.' 2 marks

Diagrammatic explanation of opportunity cost using production possibility frontier. 2 marks

Also award for correct definition of production possibility frontier, 1 marks e.g. 'Maximum output combinations of two goods an economy can achieve when all resources are fully employed.'

Question 2 Answer D

Correct explanation of division of labour, e.g. 'Production process broken down into specific tasks for which labour is allocated.' A general explanation of specialisation up to 1 mark.

Explanation of why the cost of producing each motor vehicle may fall, 2 marks e.g. 'Explanation of one or more advantages of the division of labour.'

Question 3 Answer B 1 mark

The enlargement of the EU will lead to an increase in supply of 2 marks building workers, so supply shifts to S2.

The increase in the demand for houses will lead to an increase in demand for building workers, so demand shifts to D2. 2 marks

To gain full marks, both shifts and the reason for each must be made explicit.

Question 4 Answer B 1 mark

Correct tabular construction of the new supply curve, depicting new equilibrium price. 2 marks

Also award for Supply will increase and reduce market price (1) so eliminating options C & D. (1)

Correct explanation of a subsidy (1).

Correct diagram which shows an increase in supply (1)

Question 5 Answer D 1 mark

Correct definition or formula of price elasticity of supply 2 marks

Application to fresh peaches e.g. peaches are perishable and/or cannot be stockpiled (they have a short storage period) (1) and supply is severely restricted in between growing seasons (take a long time to grow) (1)

Also award for Correct explanation of low price elasticity of supply or diagram (1).

Question 6 Answer A 1 mark

Ibiza has a negative income elasticity of demand (1) and so the holiday is an inferior good (1).

Correct definition or formula for income elasticity of demand 2 marks

Also award for: The other holiday destinations have a positive YED (1) and so are normal goods (1);

Correct numerical application (1)

Question 7 Answer C 1 mark

Correct definition of consumer surplus e.g. 'the difference between the price consumers are prepared to pay for a good and the actual market price.' 2 marks

Correct definition of producer surplus e.g. 'the difference between the 2 marks price firms are willing to supply a good to the market for and the actual market price.'

Also award a correct annotation of both consumer & producer surplus on the diagram.(1)

Question 8 Answer B 1 mark

A significant increase in German and French tourists to London will lead to an increase in demand for £ sterling and so raise the value of the £ against the Euro. 2 marks

A correct annotation of the diagram, showing an increase in the 2 marks demand for sterling and a higher equilibrium price.

Also award: demand increases German and French tourists will exchange their currency into £ sterling in order to buy UK goods & services (1)

Increase in supply of euros up to 2 marks.

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Question 9: Falling tea prices

- (a) Using a supply and demand diagram, analyse the causes of the falling price of tea. 5 marks

Candidates are required to show a diagram to achieve full marks. Award up to 3 marks for a correct diagram and 2 marks for any two correct reasons.

NOTE: Award a maximum of 3 marks if only one curve is correctly shifted.

Correct shift of supply curve to the right 1 mark

Correct shift of demand curve to the left 1 mark

Original and new equilibrium price 1 mark

Reasons for the shifts in curves Up to 2 marks Supply factors

New tea producers entering the market, e.g. Vietnam 1 mark

Established tea producers increasing their output, e.g. Uganda 1 mark

Stocks of tea at record levels 1 mark

Demand factors

Consumers switching to soft drinks & coffee 1 mark Tea suffering from an image problem, so less demand from younger 1 mark generations

Poor quality of tea, causing demand to decrease 1 mark

- (b) Examine the impact on revenue of tea producers of 'the fall in price of 5 marks tea'

Total revenue will fall (1) as demand is price inelastic (1). 2 marks o A correct diagrammatic explanation showing the original and new total revenue areas. Accept use of previous diagram (1). Evaluation (3)

The size of the revenue fall depends upon the degree of price cut and how price-inelastic demand is for tea. 3 marks

- (c) Analyse two factors, other than those referred to in the passage that could influence the supply of tea. 4 marks

Identification (2) and Analysis (2)

Factors affecting the supply of tea include: Climate; technology; costs of growing tea bushes; wages; distribution costs; raw material costs; indirect taxes and subsidies.

Candidates cannot refer to the 'increase in number of tea producers' or 'stock

levels' of tea.

- (d) Examine the likely impact on the demand for tea of a change in price of:
- i a substitute good 3 marks
 - ii a complementary good 3 marks

For (d)i:

A fall in the price of a substitute will cause a fall in the demand for tea or vice-versa

Substitute goods for tea include soft drinks and coffee There is a positive XED between substitutes

For (d)ii:

A fall in the price of a complement will cause a rise in the demand for tea or vice-versa

Complementary goods include other items in tea shops, milk, sugar and tea pots

There is a negative XED between complementary goods

NOTE: a maximum of 3 marks for knowledge and analysis. Evaluation (3)

A change in the price of a substitute or complementary good may have little impact on the demand for tea since they may be weak substitutes or weak complements

The short term impact may be different from the long term impact.

Tea is an addictive good and so demand may not be affected much by changes in the price of substitutes or complements

NOTE: If only substitutes or complementary goods considered on there own, award a maximum of 3 marks.

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Question 10: Russia - an economy in transition

(a) Distinguish between a 'centrally planned economy' and a 'market based economy.'
4 marks

The government allocates resources in a centrally planned economy 1 mark

The price mechanism allocates resources in a market based economy 1 mark

Candidates may refer to any two characteristics to distinguish between the economic systems, for example: government planning; output targets; public ownership of resources; private ownership of resources; profit motive; competition; decentralised decision-making; consumer sovereignty. Award 1 mark for each distinguishing characteristic.

NOTE: If no definition but 3 distinguishing characteristics or more are explained, award up to 3 marks.

(b) With reference to the second paragraph, identify one positive and one normative statement. Justify your answer. 4 marks

Positive statements are factual whilst normative statements are based on value judgements 2 marks

Every sentence in the second paragraph (except the last one) is a 1 mark positive statement

The last sentence is normative as shown by the word 'should' 1 mark

NOTE: Critical use of the data is required for the evaluation marks.

(c) Examine the economic arguments for transforming Russia into a market based economy. 6 marks

Candidates may use the pointers from the passage, in particular:

Increasing consumer choice (line 6)

Improving product quality (line 7)

Financial incentives for firms (profit motive) and for workers (higher wages) (line 11).

Market reforms as a more efficient means of resource allocation (line 18)

Award up to 3 marks for analysing two or more arguments and a further 3

marks for evaluation of at least one point. Candidate evaluation may be

positive or critical of the arguments for transition to a market based economy.

Candidates may also examine economic arguments not explicitly mentioned in the extract, for example, lower tax levels and increasing living standards.

These responses are equally valid and the same mark structure applies.

Some candidates may focus on the problems of centrally planned economies as a motive for economic transition, for example, low productivity & living standards; lack of consumer choice; poor product quality and lack of financial incentives. This has some validity so award up to a maximum of 3 marks.

Evaluation may include;

A critical questioning of the advantages or prioritising the advantages or short-run verses long-run.

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(d) With reference to the data, evaluate the significance of any two 6 marks economic problems Russia has experienced in the transition to a market-based economy.

There are several pointers in the table and passage, which reveal problems in adjusting to a market based economy, namely:

Loss of automatic customer base and an increase in competition, (both domestic and foreign). A failure of many Russian enterprises to compete over product quality

he dramatic fall in output of over 50% between 1990 and 1998.

o The increase in unemployment to 12% by 1998.

The growth of the hidden economy and drop in tax revenue for the government, leading to problems in financing public spending.

The massive rise in inflation to over 2000% per annum in the early 1990s and consequent loss of savings, plunging people into poverty.

The increase in inequality. This might lead to undesirable side effects, for example, corruption and crime.

2 marks for identifying problems, 2 marks for analysing problems, 2 marks for evaluating problems

Evaluation

Prioritising the two problems.

The magnitude of the two problems.

Short-run versus long-run;

The table indicates unemployment falling 8% and economic growth rising to +5% by 2002.

NOTE: Accept macro economic analysis and evaluation of problems with economic transition.

NOTE: Award a maximum of 4 marks if no reference to the data.