

GCE

Edexcel GCE

Economics(6351)

Summer 2005

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Mark Scheme (Results)

## Unit 1 MARK SCHEME - 6351/01

### SECTION A

#### Key to answers

1	2	3	4	5	6	7	8
C	B	A	A	C	D	D	C

1. If incorrect option is selected, a maximum of 2 marks are available for explanation.
2. Up to 2 marks are available for candidates explaining two incorrect options.

#### Q1 Answer C

- Statement 1 is positive, since it is asserting a fact (1) and can be tested as true or false (1).
- Statement 2 is normative, since it is based on a value judgement (1) as indicated by the word 'good' (1).  
(Award 1 + 3 or 2 + 2).

#### Q2 Answer B

- Correct definition of a production possibility frontier (2).
- An inward shift of the production possibility frontier indicates a decrease in the potential output capacity of an economy (1).
- The capital stock is depreciating at a faster rate than it is being replaced or the capital stock is falling (1).  
Also award for an explanation of a transition economy (1).

#### Q3 Answer A

- Lower interest rates will tend to make repayment of house loans cheaper and so cause an increase in demand for housing, raising the price (2).
- More government restrictions on housing development will reduce the supply of new housing and so increase the price (since demand is increasing at a faster rate) (2).

Alternatively, if a candidate refers to supply decreasing due to government planning restrictions or a diagram to this effect award (1)

Also award a correct demand & supply diagram which shows demand increasing at a faster rate than supply in the housing market (2). If candidate shows an increase in demand, award (1).

Also award for explicit reference to graph i.e. house prices have doubled or figures used in the answer (1).

Also accept reference to inelastic supply (1).

**NOTE:** To achieve maximum marks candidates must refer to both demand and supply, otherwise a maximum of 3 explanation marks.

#### Q4 Answer A

- Correct definition or formula for PED (2).
- Original revenue per performance is £20,000 ( $\text{£}20 \times 1,000$ ) (1).
- New revenue per performance is £21,600 ( $\text{£}18 \times 1,200$ ) (1).  
Also award for correct workings (2)  $-2 = +20\% \div -10\%$   
Also award for demand is price elastic (1) and so a fall in price will increase total revenue (1).

#### Q5 Answer C

- Correct definition or formula of YED (2).
- Fresh fruit is income inelastic in demand (1).
- A positive YED means a normal good or as income rises so will demand rise (1).  
Also award for numerical application of YED (1) and a diagram showing an upward sloping income-demand line (1).

#### Q6 Answer D

- Tennis rackets and tennis balls are complementary goods or in joint demand (1).
- A decrease in the price of tennis rackets (1) will cause an increase in the demand for tennis balls (1).
- They have a negative XED (1).  
Also award correct definition of XED or formula (2)

#### Q7 Answer D

- Correct definition of comparative advantage (2).
- Country W has a comparative advantage in manufactured goods (1) while country V has a comparative advantage in agricultural goods (1).  
Also award a correct numerical explanation of comparative advantage from data provided (4).  
Also award for recognising different gradients lead to different opportunity cost (1).

Also award for recognising that benefits from specialisation lead to higher global output (1).

#### Q8 Answer C

- The government medical report indicating that vitamin pills could endanger health will cause a decrease in demand to D1 (2).
- The introduction of a new range of vitamin pills by a major pharmaceutical company will cause an increase in supply to S2 (2).

## SECTION B

### Q9 The Music Compact Disc Market

(a) What does the extract suggest about the price elasticity of demand for music CDs? Explain your answer. (5)

- CDs are price inelastic in demand (1).
- Explanation / application of the price cut causing a fall in the value of sales (revenue) of CDs (*line 6*) (2).
- Explanation of price inelastic demand (2).

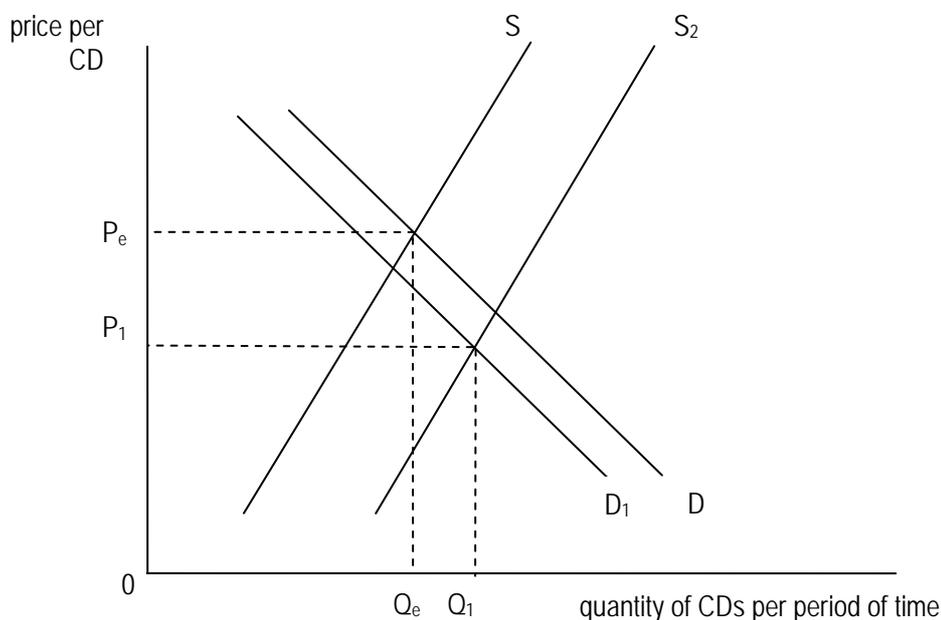
Also award a diagram depicting a price inelastic demand curve and falling revenue as price falls (2).

If candidate states demand is price elastic and refers to substitutes (1) and internet Piracy (1) award up to 2 marks.

(b) Using a supply and demand diagram, explain why 'the average price of a music compact disc (CD) has fallen below £10 for the first time.' (*line 1*) (5)

- A correctly labelled diagram depicting an increase in supply and a decrease in demand (2) with the original and new equilibrium price levels shown (1).

The Music CD Market



- Supply of CDs has increased due to the entry of supermarkets into the retail music industry (1)

- Demand has decreased due to internet piracy as people download music from their computers (1).

Award a maximum of 3 marks if just one curve shifted.

- (c) Discuss the significance of two factors, other than those mentioned in the extract, which might cause a shift in the demand curve for CDs. (6)

Expect the usual determinants of demand to be considered, for example:

- Income / state of economy
- Price of substitutes and/or the development of new substitutes (excluding internet downloads)
- Price of complements
- Tastes & fashion
- Population change / age structure
- Income tax
- Advertising

Identifying two factors (2).

Do not accept discussions on price, promotions or internet piracy.

**Evaluation (2 + 2 or 3 + 1 for two evaluation points)**

- Justifying which of the two factors chosen is most significant.
- The magnitude of changes in demand factors, e.g. 'how large is the price cut of substitute goods?'
- Time scale - e.g. long term trends such as the growth of Ipods or MP3s which could undermine CD sales.

- (d) Evaluate the likely impact on the market for CDs of Tower Records' decision to 'close its shops in the UK'. (*line 14*) (4)

- A decrease in supply of CDs and rise in market price (*ceteris paribus*)
- A less competitive market
- Other music stores may find an increase in demand for CDs as they gain former customers of Tower Records.

Award the development of any valid point (2).

**Evaluation (2)**

Award any evaluative comment, for example:

- The extent of the effect on the CD market will depend on the former importance of Tower Records within it. It might have had a very small market share - so expect little impact.
- Tower Records might act as a signal to other firms to exit the market - note the extract refers to Andy's Records going into administration.
- Discussion of Price Elasticity of demand.

## Q10 UK Tourism Trends

- (a) With reference to Figure 1, calculate the percentage change in the number of UK tourists visiting overseas between 1997 and 2002. (2)

Answer:  $\frac{39,900,000 - 29,138,000}{29,138,000} \times 100 = 36.9\%$  (accept 36-37%)

Also award 1 mark for correct equation if answer is wrong.

- (b) Analyse two factors which might account for the contrasting trends shown in Figure 1.

The decline in foreign tourists visiting UK (-28.3%). Several prompts are provided in the extract:

- Foot & Mouth disease, terrorist attacks of September 11, wars in Afghanistan & Iraq.
- Recession in continental Europe & USA.
- Rise in £ sterling on foreign exchange market, so UK holidays become relatively more expensive.

The increase in UK tourists visiting overseas (+36.9%).

- Rise in £ sterling on foreign exchange market so overseas holidays become relatively cheaper.
- Rising real national income in UK (the extract mentions the UK appears to have escaped the international recession).

Candidates may also introduce other relevant factors for example, climate, increased price competition among airlines & travel operators, promotions etc.

Any two factors can be analysed (3+3 or 4+2 marks)

An analysis of both trends is required, otherwise a maximum of 4 marks.

- (c) Using the concept of cross price elasticity of demand, discuss the impact of a change in the price of overseas holidays on the demand for domestic holidays. KAA (3)

(6)

- The two types of holidays as substitutes (1) with a positive XED (1).
- A fall in the price of foreign holidays is likely to lead to a fall in demand for domestic holidays (1). Definition of XED or formula (1)

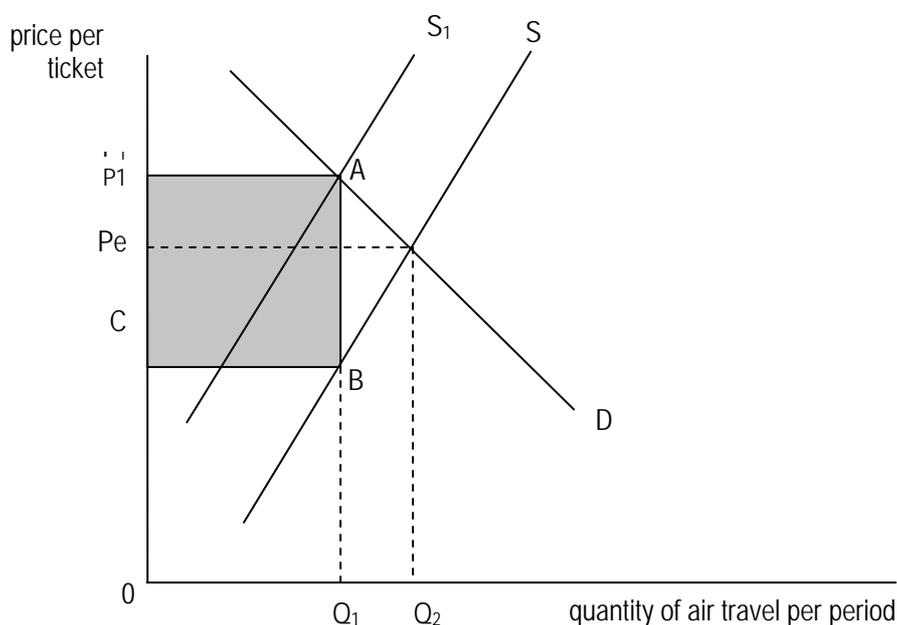
### Evaluation (3)

- Discussion on the extent to which the two types of holidays are substitutes, for example:
    - The magnitude of XED. Are they close or weak substitutes?
    - The extent of price change of foreign holidays.
    - Some people may not view the two as substitutes because of the different nature of foreign & domestic holidays.
    - The extract refers to the warm & sunny weather in Britain which might influence the value of XED.
    - The time lag involved between booking a holiday before taking it. This may reduce the significance of price changes in foreign holidays upon the demand for domestic holidays.
- An evaluation of one or more relevant points up to 3 marks.

- (d) In December 2003, the UK Government considered making a significant increase to indirect tax on airline travel. Using a supply and demand diagram, examine the likely economic effects of such a tax on the market for airline travel. (6)

- A correctly labelled diagram depicting a decrease in supply (1) with the original and new equilibrium price levels shown (1).
- Illustration of the tax area or the tax per unit (1).  
Accept ad valorem tax diagram.

Air Travel Market



### **Evaluation (3)**

These may include an examination of:

- Impact upon price and quantity - depends upon the price elasticity of demand and price elasticity of supply for air travel.
- Air travel firms may be prepared to absorb the tax by reducing profit margins - especially if profits are high.
- Some air travel firms may merge or exit the market, reducing consumer choice.
- Air travel firms may attempt to reduce costs by cutting staff or unprofitable routes.
- Impact on consumer & producer surpluses

An evaluation of one or more relevant points up to 3 marks.

### Unit 1 Assessment Objectives Grid - June 05

Section	Knowledge	Application	Analysis	Evaluation	Total
Section A					
Q1	3	2			5
Q2	2	1	1	1	5
Q3	2	3			5
Q4	2	1		2	5
Q5	2	3			5
Q6	2	2	1		5
Q7	2		2	1	5
Q8	3	2			5
<b>Total</b>	<b>18÷2= 9</b>	<b>14÷2 =7</b>	<b>4÷2= 2</b>	<b>4÷2= 2</b>	<b>40</b>
Section B					
Q9(a)	1	2	2		5
Q9(b)		3	2		5
Q9(c)	2			4	6
Q9(d)			2	2	4
<b>Total</b>	<b>3</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>20</b>
Q10(a)		1	1		2
Q10(b)	2		4		6
Q10(c)	1	1	1	3	6
Q10(d)		3		3	6
<b>Total</b>	<b>3</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>20</b>
<b>A+B</b>	<b>12</b>	<b>12</b>	<b>8</b>	<b>8</b>	<b>40</b>