

GCE

Edexcel GCE

Economics (6352)

Summer 2005

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Mark Scheme (Results)

MARKSCHEME
6352/01 JUNE 2005:

QUESTION 1:

(a)(i) Distinguish between private and external benefits.

Private benefits: the direct gains/benefits of an activity to consumers/firms

External benefits: positive effects of an activity which have an impact on third parties OR External benefits = Social benefits - Private benefits (2).

Benefits to society only: 1 mark.

2+2 marks (all marks for knowledge)

(4 marks)

(a)(ii) Give one example of a private benefit and one example of an external benefit of farming.

Private benefit: income from farming activities; working outdoors

External benefit: employment and income spent in other local businesses; care of countryside;

(2 marks)

(a)(iii) Apart from external benefits, explain one other economic reason why the EU intervenes in the market for milk and milk products.

- Stabilise prices
- Stabilise incomes
- Ensure self sufficiency
- To prevent/control monopoly
- To prevent overproduction.
- To compete internationally

NB: only reward one reason

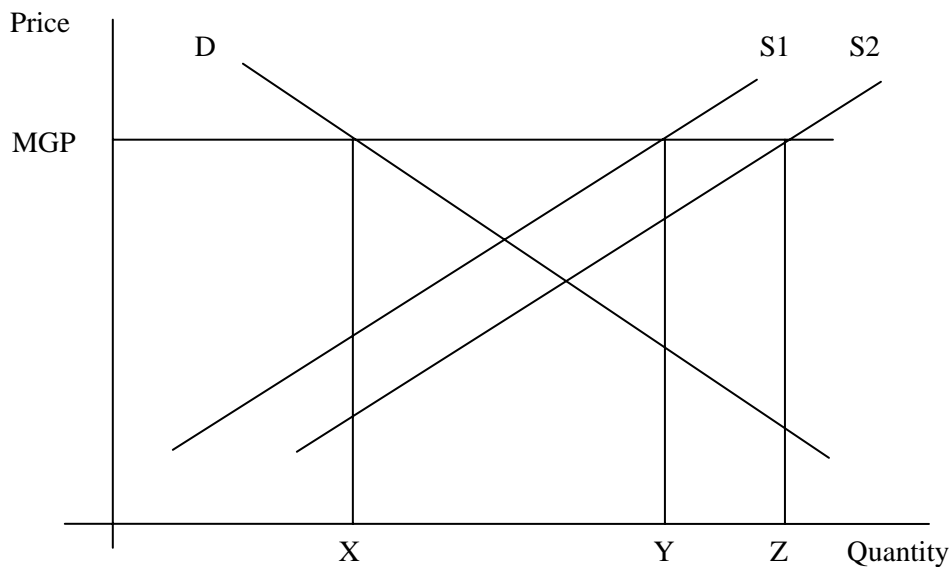
1 mark for identification; 3 for application to context.

(4 marks)

(b)(i) With the aid of a diagram, explain how high guaranteed prices resulted in milk surpluses (Extract 2, lines 9-10).

High guaranteed prices encourage farmers to increase output because they know that there is a ready market for their produce. Therefore, they will use more fertiliser, better seeds etc to ensure higher output.

Diagram could show effect of increased price (extension of supply) and/or effect of increased productivity (increase in supply)



2 marks for diagram and 4 marks for explanation and analysis.

NB: If no reference to milk then maximum 4 marks. (either in diagram or in explanation).

(6 marks)

(b)(ii) Examine the use of quotas to limit the production of milk.

Quotas mean that the minimum price is guaranteed for a fixed quantity of milk only. Therefore, it can eliminate the incentive for farmers to over-produce.

Evaluation points might include:

- Quotas ineffective if level set too high (EU production still higher than EU consumption)
- Do not necessarily ensure that production occurs on most efficient farms

1 mark for knowledge of quotas, 1 mark for application to milk, 2 marks for explanation and 2 marks for any one evaluation point.

(6 marks)

(c) Examine two likely reasons why the dairy processing industry is 'increasingly dominated by a few large firms' (Extract 2, line 5).

Possible reasons include:

- Economies of scale (each type may count for a different point)
- To reduce competition
- To create barriers to the entry of new firms
- High capital costs
- To earn abnormal profit and mergers

Evaluation points might include:

- Relative significance of above points e.g. economies of scale most important factor
- Comment on inability of small firms to afford expensive capital equipment

2 marks for identification (allow two types of economy of scale), 4 marks for application and analysis, 2 marks for any one evaluation point.

If no reference to context, maximum 6/8

(8 marks)

(d) Evaluate the possible effects of subsidised EU exports of dairy produce on consumers and producers in the Dominican Republic.

Analysis should include reference to:

- Effect on Dominican Republic producers - undercut by imports from EU, lower revenues and profits; possibly forcing them out of business: reference to WTO
- Effect on consumers in developing countries e.g. lower food prices in short run; more money to spend on other goods and services

Evaluation points might include:

- Impact of subsidy on price depends on price elasticity of demand
- Consideration of short run/ long run impact
- Surpluses might indicate high productivity of EU farms relative to those in developing countries.

2 marks for identification; 4 marks for application and analysis, 4 marks for any two evaluation points (2 + 2; 1 + 3 or 3 + 1).

Must consider impact on both consumers and producers otherwise max 8/10

Also: if no reference to context, max 8/10.

(10 marks)

QUESTION 2:

(a)(i) Distinguish between the private and external costs.

Private costs: the costs of an activity to consumers/firms

External costs: negative effects of an activity which have an impact on third parties OR external Costs = Social Costs - Private Costs (2). Costs to society only = max 1.

2+2 marks (all marks for knowledge)

(4 marks)

(a)(ii) Give one example of a private cost and one example of an external cost of motoring.

Private cost: petrol, insurance, vehicle tax

External cost: pollution from car fumes, congestion

(2 marks)

(b)(i) Between 1986 and 2003 car traffic levels increased by more than 15%. How might the information in Figure 1 explain this increase?

Increase in costs of travel by rail and bus whereas there has been a fall in relative cost of motoring. Therefore, incentive for people to switch from public transport to use of cars. Credit application of cross elasticity of demand.

1 mark for identification and 3 marks for application.

(4 marks)

(b)(ii) Examine the significance of one other factor which might explain the increase in car traffic levels over the period shown.

Possible factors include:

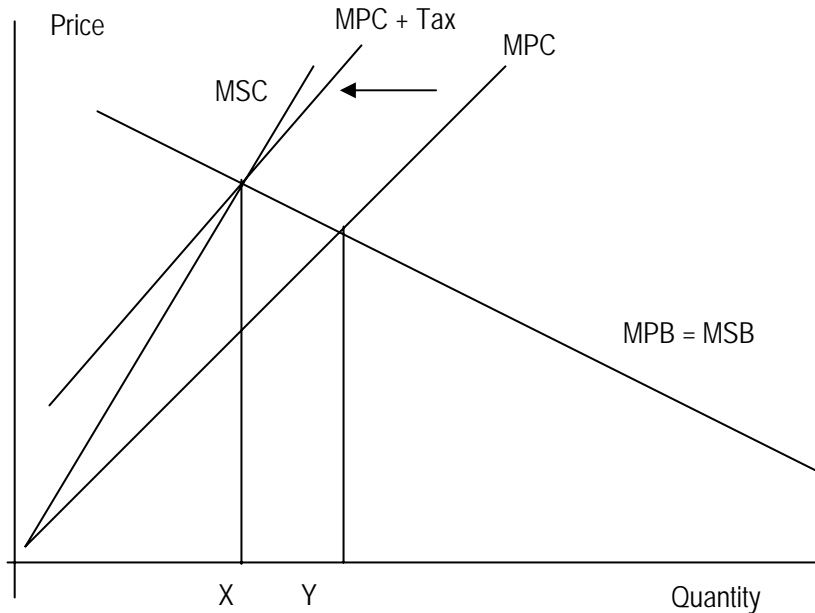
- Unreliability/poor quality/unavailability of public transport
- Rising real incomes (demand for cars is income elastic)
- People living further away from place of work
- Allow "increase in population"

1 mark for identification; 1 mark for application to increase in car traffic levels, 2 marks for explanation and analysis; 2 evaluation marks e.g. for comment on the significance of the factor selected.

(6 marks)

(b)(iii) Explain the likely effect of the Central London Congestion Charge on car traffic levels. Illustrate your answer with an externalities diagram.

Diagram illustrating reduction in level of motoring closer to the socially optimal level.



Need to mention Y as free market equilibrium and X is socially optimal position (1 mark each in either diagram or in explanation)

Should make reference to charge/price

2 marks for diagram and 4 marks for explanation and analysis.

If no application to context then max 4/6.

(6 marks)

(c) Critically assess the policy of building new roads as a method of reducing congestion.

Provides short term relief because new road space is created; cars distributed more thinly over the existing road space.

However:

- *the extra road space is likely to generate more traffic.*
- *Given the predictions on the relative costs of motoring and public transport, any reduction in congestion is likely to be short-lived.*
- *there is a huge expense involved, which could result in higher taxes or opportunity cost*
- *such a policy entails other external costs e.g. more pollution, loss of countryside*

2 marks for identification, 4 marks for explanation and analysis, 2 marks for any one evaluation point.

NB: Candidates may argue for OR against building new roads for 4 application/analysis marks.

Reserve 2 marks for evaluation.

(8 marks)

(d) Evaluate the likely effects of a system of nationwide road pricing as proposed by the Chairman of the Commission for Integrated Transport (Extract 2, lines 9-11).

Possible effects:

- *Reduction in congestion* but higher costs for businesses and increased costs for private motorists who are dependent on cars
- *Can be geared to particular situation i.e. higher in urban areas, lower in rural areas* but fall in trade for businesses in congested areas
- *Revenue from charging may be used to improve public transport* but administrative costs and enforcement costs associated with establishing the system
- *Reduced costs for businesses in transporting goods in rural areas* but fall in trade for businesses in congested areas
- *Reduction in delays for employees getting to work* but higher costs for workers getting to work - might impact on recruitment
- *Fewer accidents*
- *Adverse impact on car manufacturers*
- *Impact on labour market eg more home-working*
- *Reduced negative externalities eg CO2*
- *Impact on public transport*
- *Impact of removal of road tax and reduction in petrol tax.*

2 marks for identification; 4 marks for explanation and analysis, 4 marks for any two evaluation points (2 + 2; 1 + 3 or 3 + 1).

(10 marks)

UNIT 2 MARK GRID:

Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
QU 1					
(a)(i)	4				4
(a)(ii)		2			2
(a)(iii)	1	3			4
(b)(i)	2	2	2		6
(b)(ii)	1	1	2	2	6
(c)	2	2	2	2	8
(d)	2	2	2	4	10
Total	12	12	8	8	40
QU 2					
(a)(i)	4				4
(a)(ii)		2			2
(b)(i)	1	3			4
(b)(ii)	1	1	2	2	6
(b)(iii)	2	2	2		6
(c)	2	2	2	2	8
(d)	2	2	2	4	10
Total	12	12	8	8	40