

GCE

Edexcel GCE

Economics (6352/01)

January 2006

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Mark Scheme (Results)

Mark Scheme

Question 1 Sugar

(a)	(i)	What is meant by the statement that British Sugar 'is one of 10 large European sugar refiners which enjoy a virtual monopoly in their national markets' (lines 3 and 4)?	
		A firm which supplies almost 100% of the market. (2 marks) A firm with 25% or more market share (1 mark)	
		1 mark for reference to the sugar processing industry.	
			3 marks

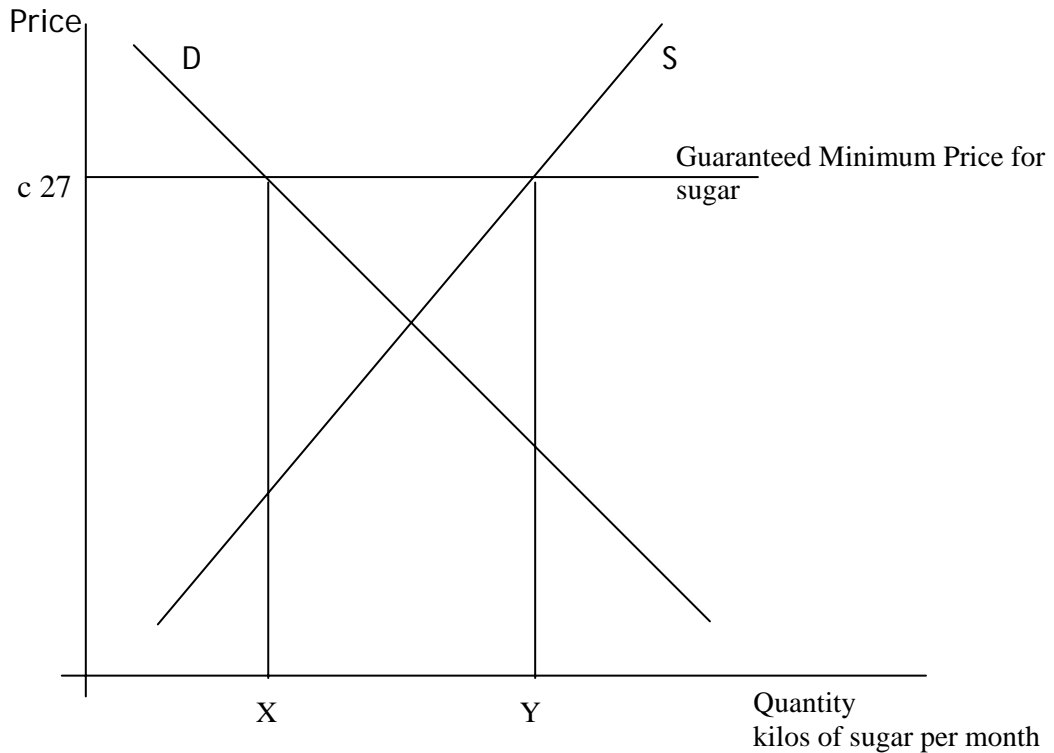
(a)	(ii)	Outline two economies of scale that are likely to benefit firms in the sugar processing industry.	
		Examples include: <ul style="list-style-type: none"> • Technical economies e.g. more efficient use of machinery • Marketing economies of scale e.g. bulk buying of raw materials • Strong brand names supported by heavy advertising • High capital costs • Managerial economies 	
		2 marks for identification and 1 mark for specific application to sugar processing industry and 1 for mention of falling unit costs	
			4 marks

(a)	(iii)	Explain <u>one other factor</u> that might make it difficult for new companies to enter the sugar processing industry.	
		Factors include: <ul style="list-style-type: none"> • Strong brand names supported by heavy advertising • High capital costs • Administration costs of starting a new business 	
		1 mark for identification, 2 marks for application to sugar processing industry.	
			3 marks

(b)	(i)	Apart from the objective of price stability, outline two other reasons why the EU intervenes in the market for sugar.	
		Possible reasons include: <ul style="list-style-type: none"> • To ensure EU self-sufficiency in sugar • To protect incomes of farmers • To protect rural employment and way of life • To regulate an industry dominated by a few large firms 	
		2 marks for identification, 2 marks for explanation and analysis.	

			4 marks
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(b)	(ii)	With reference to Figure 1, analyse the impact on the EU sugar market of the guaranteed sugar price. Illustrate your answer with a diagram.
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		The EU guaranteed sugar price is above the world sugar price leading to a contraction in demand and an extension in supply. Sugar production is higher than would be the case in a free market. Therefore, there will be a surplus of XY.
		2 marks for diagram; 2 marks for application and 2 marks for explanation of diagram. (1 mark for surplus and 1 mark for contraction of demand OR extension of supply).
		Application marks: 1 mark for sugar reference and 1 mark for reference to figure 1.
		6 marks

(c)		Evaluate the likely economic effects of the EU's sugar policy on:
	(i)	sugar producers in Brazil
		<ul style="list-style-type: none"> • Limited access to EU markets. Therefore, loss of revenue. • Producers suffer from dumping of EU surpluses on world market, leading to a fall in world market price and price received by Brazilian producers

		<p><i>Evaluation points:</i></p> <ul style="list-style-type: none"> • <i>Impact on Brazilian farmers depends on their degree of dependence on sugar</i> • <i>Brazil might be better off diversifying into other products given adverse publicity associated with sugar consumption</i> • <i>Difference between short run / long run effects</i> <p>Any one argument explained well together with one evaluation point could gain 5/5.</p>
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	(ii)	consumers of sugar in the EU	
		<ul style="list-style-type: none"> • High prices / lower consumers' surplus • High taxes • Lack of choice • Security of sugar supplies <p><i>Evaluation points:</i></p> <ul style="list-style-type: none"> • <i>Comment on significance/size of gap between EU and world sugar price</i> • <i>Impact on taxes might be relatively small</i> • <i>Significance of expenditure on sugar as a proportion of total expenditure</i> 	
		<p>Mark each part as follows: 1 mark for identification, 2 marks for application and analysis, 2 marks for an evaluative comment (ie 2 x 5 marks).</p> <p>Any one argument explained well together with one evaluation point could gain 5/5.</p>	
			10 marks

- (d) **Making specific reference to external costs, external benefits and other information, assess the desirability of an increase in the world consumption of sugar.**
- External benefits: effects of a transaction on third parties or the difference between Social Benefits and private benefits. **1 mark**
- External costs: effects of a transaction on third parties or the difference between Social Costs and private costs. **1 mark**

External benefits include:

Accept any benefit to a third party e.g.:

- Larger market for developing countries: increased exports, higher incomes
- Dentists (from increased work resulting from tooth decay).

Also:

- Reduction in EU surplus; lower storage costs; lower costs of subsidising exports

Evaluation points:

External costs include: Accept any cost to a third party

- *more obesity; Increasing costs to NHS*
- *more tooth decay; Increasing costs to NHS*
- *more health problems associated with sugar consumption e.g. absence from work from sugar related diseases.*

Also:

- *Opportunity cost of using land for sugar production*

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

Allow credit for negative externalities associated with increased production of sugar (required to meet higher consumption).

10 marks

Question 2 Tobacco

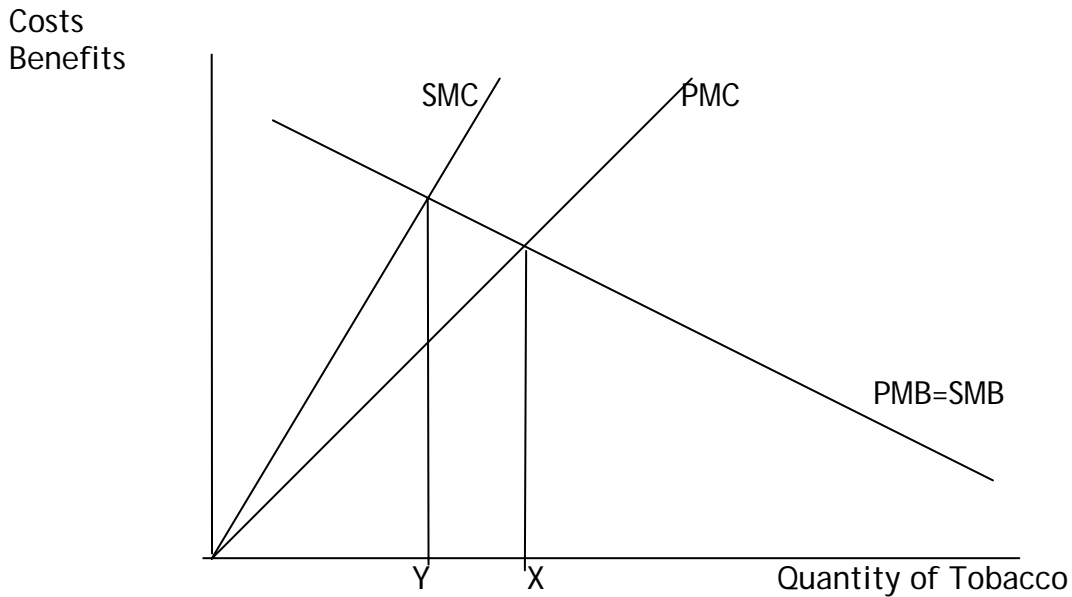
(a)		Outline two reasons that might explain why the UK cigarette market is dominated by two companies (Extract 1, line 5).	
		<ul style="list-style-type: none"> • Mergers - rationalisation resulting from falling demand • Economies of scale - discussion of <u>two</u> relevant economies could count as two points • Other barriers to entry e.g. high capital costs; brand loyalty 	
		2 marks for identification and 2 marks for application to cigarette market.	
			4 marks

(b)	(i)	What is meant by the term 'external costs'?	
		Costs to third parties who were not part of the transaction.	
		OR Social costs - Private costs = External costs. Cost to society: 1 mark	
			2 marks

- (b) (ii) With reference to Extract 2, explain one external cost of tobacco production and one external cost of tobacco consumption.
 External cost of production: damage to ancient forests, soil depletion, pollution.
 External cost of consumption: litter, fire hazards, health costs.
 In both cases, third party effect must be identified.
 2 marks for identification and 2 marks for application to tobacco production & consumption.

4 marks

(b)	(iii)	Illustrating your answer with a diagram, explain the difference between the free market and the socially optimal level of tobacco production.
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		2 marks for diagram, 2 marks for application, (1 mark for tobacco reference and further mark for implication that there is over supply in a free market). Application may be in the diagram or explanation 2 marks for explanation of diagram i.e.: X: free market level of cigarette production. (Where $PMC = PMB$) Y: socially efficient level of cigarette production. (Where $SMC = SMB$)
		6 marks

(c)	(i)	Assess the effectiveness of any two measures that the UK government might use to reduce smoking.
		Measures include: <ul style="list-style-type: none"> • Taxation • Health education • Banning of advertising • Banning of smoking in public places
		<i>Evaluation points include:</i> <ul style="list-style-type: none"> • Demand for cigarettes is very inelastic; • High tax on cigarettes encourages smuggling • Health education expensive; implications for taxes • Very difficult to control subliminal advertising • Problem of enforcing a ban on smoking in public places • Difference between short and long run effects

		2 x 5 marks, i.e. 1 mark for identification, 2 marks for application and analysis, 2 marks for an evaluation point.
		10 marks

- (c) (ii) Evaluate the view that 'smokers should pay a premium for using the National Health Service' (Extract 3, lines 7 and 8).

Candidates should consider arguments on both sides.

For:

- Smoking imposes external costs
- Health problems associated with smoking are self-inflicted
- Opportunity cost of treating smoking related diseases
- Would act as an incentive to give up (or not start) smoking

Two arguments should be covered e.g. (2x3marks)

Case for free health care includes:

- *Equity argument*
- *Information issues*
- *Other lifestyle activities (e.g. alcohol consumption) increase NHS costs*
- *Regressive impact.*

1 mark for identification, 2 marks for application, 3 marks for analysis, 4 marks for 2 evaluation points i.e. consideration of case for free health care (1+3 or 2+2 or 3+1)

10 marks

(d)		With reference to Extract 3, explain the concept of government failure.	
		Definition of government failure: when intervention by the government leads to a net welfare loss. (1 mark)	
		Analysis and application: government intervention in the form of excessively high taxes has led to a significant increase in smuggling. (3 marks) 1 of which is for specific reference to the data.	
			4 marks

Unit 2 Assessment Objectives Grid January 2006

Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
Q1					
(a)(i)	1	2			3
(a)(ii)	2	1	1		4
(a)(iii)	1	2	0		3
(b)(i)	2	1	1		4
(b)(ii)	2	2	2		6
(c)	2	2	2	4	10
(d)	2	2	2	4	10
Total	12	12	8	8	40
Q2					
(a)	2	2			4
(b)(i)	2				2
(b)(ii)	2	2			4
(b)(iii)	2	2	2		6
(c)(i)	2	2	2	4	10
(c)(ii)	1	2	3	4	10
(d)	1	2	1		4
Total	12	12	8	8	40