Mark Scheme (Results)

Summer 2007

GCE

GCE Economics (6351) Paper 1

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Registered Office: One90 High Holborn, London WC1V 7BH

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6351 Mark Scheme June 2007

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

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.
3. If option is left blank, but correct option is referred to in the text, then the mark for the correct key **is** available.

1. **C**
Definition of normative: must include 'value judgement' **or** 'not testable/verifiable' – 2 marks
Identification of key word highlighting normative qualities "ought" – 1 mark
Comparison of normative with positive statements (statement of fact which is testable) – 1 mark

2. **B**
Definition of opportunity cost (next best alternative foregone) – 2 marks
Original opportunity cost = 225 new opportunity cost = 210 therefore difference = a fall of 15 – 2 marks **or** definition of PPF (a graphical representation of the maximum output an economy can produce given fully employed resources) – 2 marks
MAX OF 2 MARKS FOR DEFINITIONS

3. **C**
Definition of comparative advantage (where the opportunity cost ratios differ it is mutually advantageous to specialise and trade) – 2 marks **or** definition of PPF (a graphical representation of the maximum output an economy can produce given fully employed resources) – 1 mark
MAX OF 2 MARKS FOR DEFINITIONS

   Indication that ratios are equal at 1:5 for each country – 1 mark
Link between definition and no difference in ratios therefore no trade – 1 mark

4. **D**
Definition or formula for cross price elasticity of demand – 2 marks
Calculation of % increase in price – 25% - 1 mark
Application to formula to arrive at answer – 1 mark
Or explanation/definition of meaning of substitute goods or positive cross price elasticity of demand (total of 1 mark available for either explanation)

5. **B No definition to be rewarded in this question**
Result of fall in demand for chicken assuming that beef is a substitute will result in a shift to the right (1 mark) in demand for beef from D1 to D2 (1 mark)
Following increase in supply of beef (1 mark) there is a shift from S1 to S2 (1 mark) therefore the new equilibrium is at B

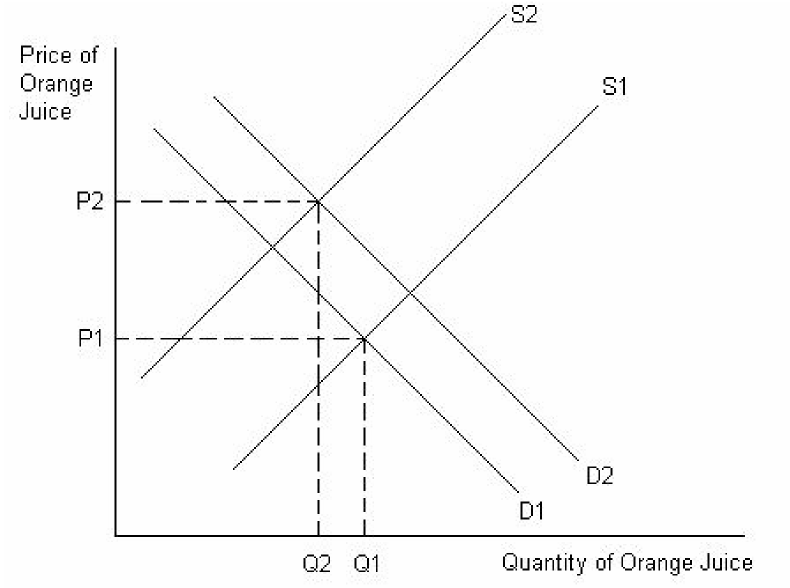
6. **D**
   Definition or formula for Price Elasticity of demand – 2 marks
   Identification that Indian ready meals are relatively price inelastic – 1 mark
   Therefore an increase in the price of an Indian ready meal will result in a less than proportional fall in demand, thus raising revenue.
   No credit for definition of YED.

7. **A**
   Definition of producer surplus (the difference between the price a firm would be willing to supply at and the market price) – 2 marks
   or
   The area between the price and the S curve (1 mark)
   Explanation that technological innovation will cause Supply curve to shift from S1 to S3 – 1 mark
   Annotation of new producer surplus on the diagram – 1 mark
   Annotation of old producer surplus on the diagram – 1 mark
   or Identification of old producer surplus (1 mark)

8. **A**
   Identification that tax is equal to £2.00 per unit (1 mark) and supply has fallen to 80 (1 mark)
   Annotation of diagram to show which area is paid for by the consumer **and** the producer. – 1 mark
   Calculation of consumer liability 80 * £1.50 = £120 and producers' share 80 * £0.50 = £40 – 1 mark
   Definition of indirect tax: Tax on expenditure (1 mark) which increases producer's costs (1 mark)
   Do not accept Ad Valorem Tax.

9.

a. Supply has fallen **1 mark**
   Demand has increased **1 mark**
   Correctly labelled diagram showing a shift left of the supply curve **(1 mark)** and a shift right of the demand curve **(1 mark).**
   Reference to the extract, i.e. production ravaged by 3 hurricanes or speculative demand **1 mark**



b. Identification (**1 mark**) and explanation of factor (**1 mark) x 2 factors**
   Factors could include: Changing tastes, fashion, advertising, increasing price of a substitute e.g. apple juice, health benefits identified, fall in price of complements, changing incomes, changing population.
   Factors can refer to rising or falling demand.

c. Definition of comparative advantage – including reference to different opportunity cost ratios **1 mark**
   Identification and explanation of at least one factor that contributes to Florida's position as one of the world's leading producers of oranges – e.g. weather, cheap labour, plentiful supplies of cheap land **2 marks**

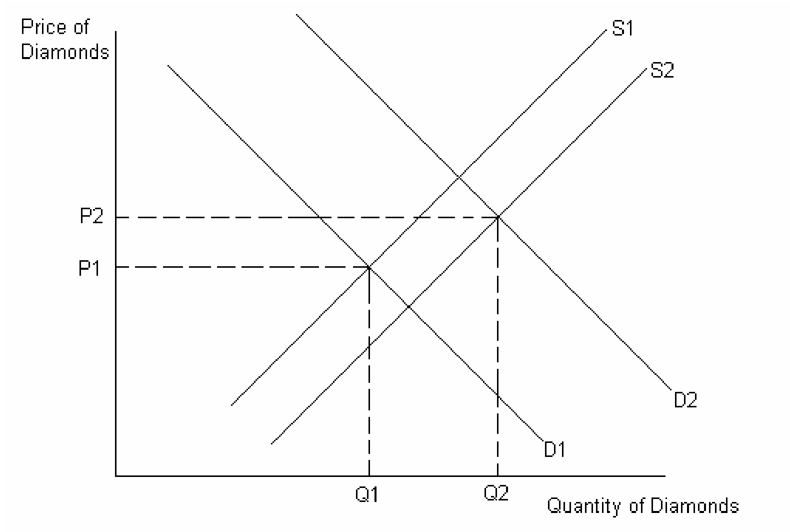
   Evaluation: Significance of any factor suggested, discussion of the weaknesses of the comparative advantage model, discussion as to whether Florida has specialised in the production of oranges, and whether it has a comparative advantage because farming subsidies are required to encourage output, discussion of vulnerable nature of Florida's position due to inclement weather. **2 marks (1 point x 2 marks or 2 points less developed x 1 mark each)**

d. Definition of price elasticity of supply or formula **1 mark**
Explanation of the economic effects of increasing prices i.e. increased output, increased investment, increased employment, increased profit or revenue **1 mark**

Evaluation: Oranges are relatively price inelastic therefore any increase in prices needs to be sustained before farmers will invest. Discussion of the relative size of price change, and price of oranges relative to orange juice. (**2 x 2 marks)**

10.

a. Increase in demand **1 mark**.
Increase in supply **1 mark**.
Shift in D curve to the right **1 mark**.
Shift in S curve to the right **1 mark** but at smaller rate than D **1 mark**. Reference to extract to explain shift in D i.e.: rising incomes or shift in S i.e.: rising output from Russia/Botswana **1 mark**.



b. Definition of consumer surplus – area above price and below demand curve or reference to difference between what one is willing to pay and what they actually pay. **1 mark**

Diagram or written explanation of changes to consumer surplus resulting from an increase in demand **(1 mark)**

Evaluation: Consider the magnitude of the change in consumer surplus, does consumer surplus always rise, does it depend on the elasticity of supply or demand **(2 marks)**

c.

i. Definition or formula for Income Elasticity of demand **(2 marks)**

ii. Application of data – demand for diamonds will increase suggesting that this is a normal (or luxury) good **1 mark** demand for emeralds and sapphires is falling suggesting that these are inferior goods **1 mark**

Evaluation: Discussion of whether a good could be a luxury for some income groups while an inferior good for others, or discussion of whether there is a link between changing income levels and demand for gems especially when dealing with the income levels required to demand gems in such quantities. **2 marks**

d. Identification of **one** advantage e.g. income levels increasing, standard of living, tax revenue, foreign investment, falling poverty, increased export revenue, comparative advantage, economies of scale, increased productivity/output, employment, economic growth. **1 mark**
Identification of **one** disadvantage e.g. exposure to changing tastes and fashion, exposure to falling incomes in export markets, vulnerable to losses in revenue as demand falls, problems associated with over-reliance on one product. **1 mark**

Evaluation: Consideration of likelihood, significance or importance of the factors mentioned **2 marks**