

**Economics**

Advanced GCE **A2 7812**

Advanced Subsidiary GCE **AS 3812**

**Combined Mark Schemes  
And Report on the Units**

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**January 2006**

**3812/7812/MS/R/06J**

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All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

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**Mark Scheme 2881  
January 2006**

**Subject-specific Instructions**

- 1 The paper is to be marked to AS standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 4 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 5 The quality of written communication will be assessed in the answer to the final part question.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

**Level 4**

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

(3 marks representing the appropriate level of written communication are embedded in this level of response.)

**Levels 2 and 3**

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

(2 marks representing the appropriate level of written communication are embedded in these levels of response).

**Level 1**

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

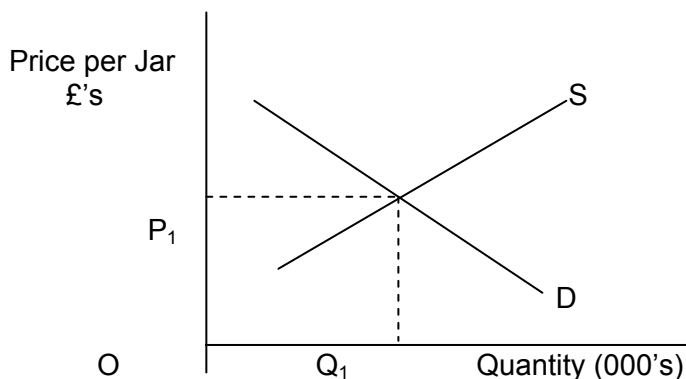
(1 mark representing the above level of written communication is embedded in this level of response).

Exceptionally, answers which are assessed as Level 1, Level 2 or Level 3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only.

No additional QwC marks can be awarded if the initial mark is zero.

- (a) Morrison's, like its supermarket rivals, sells many different brands of instant coffee. Together these brands make up the market for instant coffee.

- (i) Draw a supply and demand diagram to show equilibrium in this market. [3]



Correctly labelled axes (1)  
 Correct supply & demand schedules (1)  
 Correct equilibrium position (1)

If S & D are the wrong way round max 2 marks.

- (ii) Using a diagram, explain how the equilibrium would change with the successful entry of new producers into the market. [4]

Shift to right of supply curve/more instant coffee is available in the market at all prices (1)

Quantity demanded increases (1) (in the context of an increase in S)

New equilibrium price is below old equilibrium (1) (in the context of an increase in S)

Extent of the change will depend on the elasticity of demand (1)

Up to a maximum of 2 marks for explanation.

2 marks for a modified **diagram** showing shift to right of S and new equilibrium position.

Wrong shift – 0 marks.

- (b) Recent market research for Morrisons has produced the following price elasticity of demand estimates:

Morrison's own label brown bread (-)0.8

Morrison's own label instant coffee (-)2.5

- (i) Define price elasticity of demand. [2]

Responsiveness of quantity demanded to a change in price (2)

Correct formula (2)

Vague idea, indicating change such as 'demand changing with price'(1)



- (ii) **The manager of a Morrisons supermarket believes that total revenue from each of these products can be increased by cutting their prices. Comment on whether this view is correct.** [6]

Own label brown bread – price inelastic (1)  
 Own brand instant coffee – price elastic (1)  
 Revenue = price x quantity demanded (1) } Any two

Bread – a fall in price will lead to less than proportionate reduction in demand, therefore reduction in revenue.

Coffee – a fall in price will lead to a larger proportionate increase in sales, therefore more revenue.

The manager's presumption is wrong (1).

It only makes sense to cut the price of coffee for the reason stated above (1).

General comments with no reference to the two products – zero marks.

Annotate answers x + x + x

Up to a maximum of 3 marks for each product.

- (iii) **The cross elasticity of demand for own label instant coffee with respect to a change in price of a well-known brand is estimated to be +1.5. Explain what this means.** [3]

Definition of cross elasticity of demand – responsiveness of demand for one product following a change in price of another/related product. (2)

$$\frac{\% \text{ change in quantity demanded of own brand coffee}}{\% \text{ change in price of well known brand}} \quad (2)$$

Positive sign indicates substitutes (1) 1.5 indicates elastic relationship (1)

Elaboration of numerical example (2)

- (c) **Large supermarkets, such as Morrisons, benefit from economies of scale.**

- (i) **Describe what is meant by 'economies of scale'.** [2]

For definition such as the reduction in unit costs/**long run** average costs fall as scale of production increases (2)

Award 1 mark for a vague idea of falling costs as firm expands **its scale of operations**. Award 1 mark for fall in unit/average costs only.

Note: Falling costs as output expands is wrong – 0 mark

- (ii) **State and explain two types of economy of scale that Morrisons might gain through its takeover of Safeway.** [6]

Various possibilities including

- purchasing economies
- marketing economies
- managerial economies
- financial economies
- risk-bearing economies
- technical economies

1 mark for recognition

1 mark for elaboration

1 mark for application (x2)

Accept bulk buying as elaboration of marketing economies.

- (d) **Using Fig. 1, and the fact that Morrisons is now the owner of Safeway:**

- (i) **state the market structure that best describes supermarket retailing in the UK;** [1]

Oligopoly (1) Monopoly (1)

- (ii) **state and explain three characteristics of this market structure.** [6]

Up to 2 marks for an identification and explanation of the characteristics of an oligopoly/monopoly such as

- market dominated by a few firms
- firms are price makers
- strong barriers to entry
- market leadership
- abnormal profits in the long run
- non price competition including branding
- potential for collusion
- price rigidity
- interdependence

Note: Apply own figure rule in (ii) where correct characteristics are given for another market structure

- \*(e) Profit maximisation is often assumed to be the only objective of firms. Discuss the extent to which takeovers, such as that of Safeway by Morrisons, are likely to be motivated solely by profit maximisation. [12]**

The aim of this question is for candidates to recognise that firms have various objectives apart from that of profit maximisation. These can include sales maximisation, gaining market share, protecting themselves from rivals, maximising volume of sales and behavioural objectives such as satisficing profits or settling for an easy business carry on.

The data provided in Figure 1 would indicate that in this case Morrison's are seeking to gain market share in the first instance. Profit maximisation may therefore have to be forfeited in the short term. The takeover could also be seen as a defensive strategy to avoid themselves being taken over by a larger rival.

- L4 For a discussion of the extent to which profit maximisation is the **only** motive for the takeover, with reference to an alternative objective(s) (7-12)
- L3 For an analysis of the objectives of firms including profit maximisation (5-6)
- L2 For an application of knowledge and critical understanding of the reasons for the takeover (3-4)
- L1 For knowledge and understanding of the motives for the takeover (1-2)

#### **Possible responses to part (e)**

- L1** (1 – 2 marks) For a **knowledge** and **understanding** of the motives for the takeover

##### **Examples**

- To increase sales
- To increase market share
- To increase profits

Answers here will be very general and will not explicitly be applied to the Morrison's takeover of Safeway.

- L2** (3 – 4 marks) For an **application** of knowledge and **critical understanding** of the reasons for the takeover

##### **Examples**

- Morrisons will be able to increase sales
- Morrisons will increase market share to c. 16%
- The takeover would put them more or less equal to Sainsbury's and Asda
- The takeover might enable Morrisons to increase/maximise profits

Answers here must be applied to the material provided in the stimulus.

- L3** (5 – 6 marks) For an **analysis** of the objectives of firms including profit maximisation

**Examples**

- Objectives of firms include
  - Profit maximisation
  - Sales maximisation
  - Revenue maximisation
  - satisficing
- Increasing market share will make Morrison's more competitive and there could be further benefits from economies of scale e.g. bulk buying

Answers in this level should be analytical for 6 marks. For 5 marks the objectives of firms as stated above should be spelled out.

\* Profit maximisation only, 6 marks maximum.

- L4** (7 – 12 marks) For a **discussion** of the extent to which profit maximisation is the **only** motive for the takeover, with reference to alternative objective(s).

**Examples**

- Increasing market share could be a defensive strategy to protect Morrison's from a takeover from another competitor
- Profit maximisation is difficult to determine in practice
- Satisficing is a very unlikely objective in this case
- Profit maximisation might be a more long term objective after the takeover
- Increasing market share could be an aggressive strategy

Regard 9 marks as the mid-point for answers that discuss the issues involved; award higher marks where 'the extent' aspect is clearly evidenced.

**Mark Scheme 2882  
January 2006**

**Subject-specific Instructions**

- 1 The paper is to be marked to AS standard.
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**Level 4**

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

(3 marks representing the appropriate level of written communication are embedded in this level of response.)

**Levels 2 and 3**

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

(2 marks representing the appropriate level of written communication are embedded in these levels of response).

**Level 1**

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

(1 mark representing the above level of written communication is embedded in this level of response).

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**(a) (i) Define the term external benefit. [2]**

An external benefit exists when the social benefits exceed the private benefits (2 marks)

A positive effect on a third party (2 marks)

A situation where a benefit is gained by a third party (2 marks)

A benefit to someone else (1 mark)

A positive side effect (1 mark)

A spillover effect (1 mark)

A spillover effect/ by-product / effect of one person's actions on someone else (1 mark as answer fails to develop idea of third party clearly enough)

A benefit to the public / a benefit to society (1 mark)

**(ii) Identify and explain one possible external benefit of the take-over of Icarus by Poseidon. [3]**

1 mark for the identification of any relevant external benefit, for example increased employment, lower prices, greater choice.

Up to 2 marks are then available for explaining why this is an external benefit:

2 marks for recognising that the social benefits of the takeover exceed the private benefits which are just the benefits to Poseidon

1 mark for some reference to there being a positive impact / benefit to someone else

1 mark for some implied reference to a third party OR other relevant economics such as it affects people who are not part of the original decision making process

1 mark for an answer which includes some valid explanation but lacks clear use of economics (e.g. "it is a benefit to someone else" / "it is a benefit to society")

**(b) (i) Identify two characteristics of a private good. [2]**

Rivalry/diminishability (1 mark) Excludability (1 mark) Rejectability (1 mark)

Accept answers which clearly explain these characteristics but do not explicitly state what they are.

**(ii) Explain why clothing is a private good. [4]**

2 marks are available for stating that clothing is both rival and excludable

1 mark for an explanation of why clothing is excludable in terms of people being excluded from possible consumption if they cannot afford the good

1 mark for stating that clothing is a rival good because consumption by one person does diminish the amount that another person can consume (or it diminishes the satisfaction gained).

Do not award explanations which confuse rivalry and excludability.



(c) **'There are substantial benefits to be gained from increased competition in terms of greater efficiency and lower prices' (lines 3-4).**

(i) **Describe what is meant by the term 'X inefficiency'. [2]**

2 marks for stating that it is where firms do not produce at the lowest point of their (lowest) average cost curve OR firms do not produce at lowest costs

2 marks for stating that it is where large firms lack competitive pressures which may lead them to allow costs to rise

2 marks for stating that it is where firms 'take it easy' and thereby use more scarce resources than they need to in production

2 marks for stating that it is where firms are not productively efficient

2 marks for stating that it is where firms are not allocatively efficient

2 marks for stating that it is where there is not pareto efficiency

2 marks for stating that it is where you are not producing at a point in the production possibilities curve

1 mark for the basic idea that firms lack competitive pressures OR that firms simply choose to 'take it easy' without any clear elaboration

1 mark for a vague idea lacking clear economic development

- (ii) Using a Production Possibility Curve, show the effect of a rise in productive efficiency on an economy. [3]

1 mark for a basic PPC, as shown below (do not reward if axes labelled price/quantity). Accept axes labelled 'good x/y' or 'quantity x/y' or labelled with specific names of different goods.

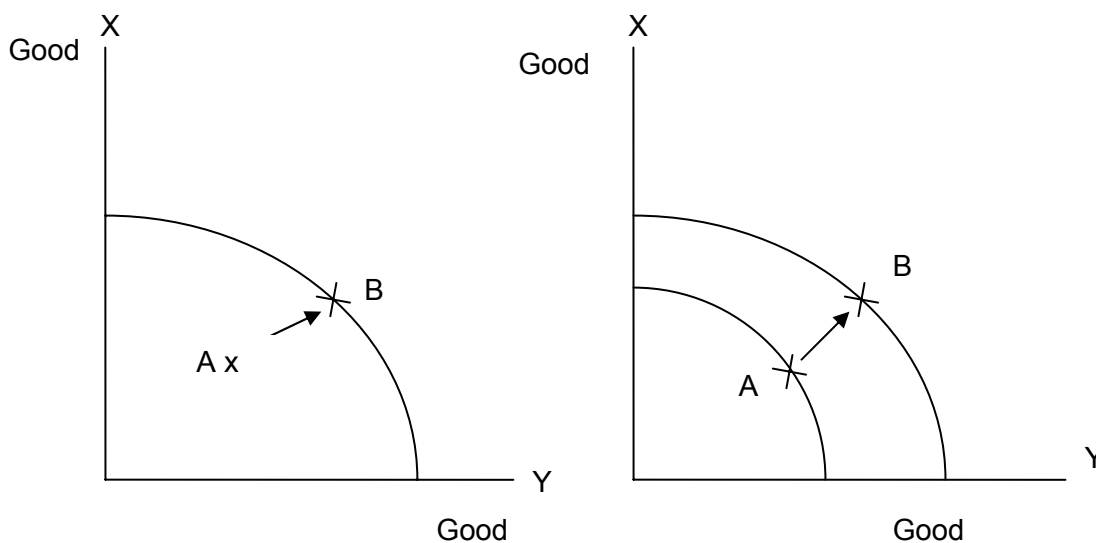
2 further marks are available for showing the impact of a rise in efficiency:

1 mark for showing the basic idea that a rise in efficiency will result in a rightwards shift of the entire PPC

1 mark for the clear identification of the original output level for society

1 mark for clearly identifying the new output level for society being to the right of the original one – either by showing a shift of the entire PPC or by showing a move from a point within the curve to a point on the curve

Note: two pairs of equilibrium lines showing the old and new points are acceptable even though specific points ('A' and 'B') may not be labelled.



- (d) **The government decided that Poseidon's take-over of Icarus was not against the public interest.**
- (i) **What factors might the government have taken into account when making this decision? [4]**

Two marks are available for basic knowledge of Competition Policy in the UK with a further 2 marks for applying relevant material from the extract.

Up to 2 marks are available for basic knowledge of Competition Law:

1 mark each for identifying factors which the government / Competition Commission will be interested in, for example:

- market share / concentration ratio
- price changes / possible exploitation of consumers
- possible barriers to entry
- restrictions on output
- the impact upon the level of competition in a market / consumer choice
- the impact on employment

Alternatively, the 2 marks for basic knowledge can be gained from specific knowledge of Competition Policy, such as:

The Office of Fair Trading can request that the Commission investigates any firm which it suspects of exploiting consumers either through increased prices (1 mark) or restricted output (1 mark). A firm is deemed by law to have monopoly status if it has 25% or more market share (1 mark). The government can then either impose a regulator on the industry (1 mark), negotiate a voluntary agreement with producers (1 mark), fine the firm up to 10% of their turnover (1 mark) or ultimately nationalise a firm if it is found to be working against the public interest (1 mark).

Up to 2 marks for applying relevant material from the extract:

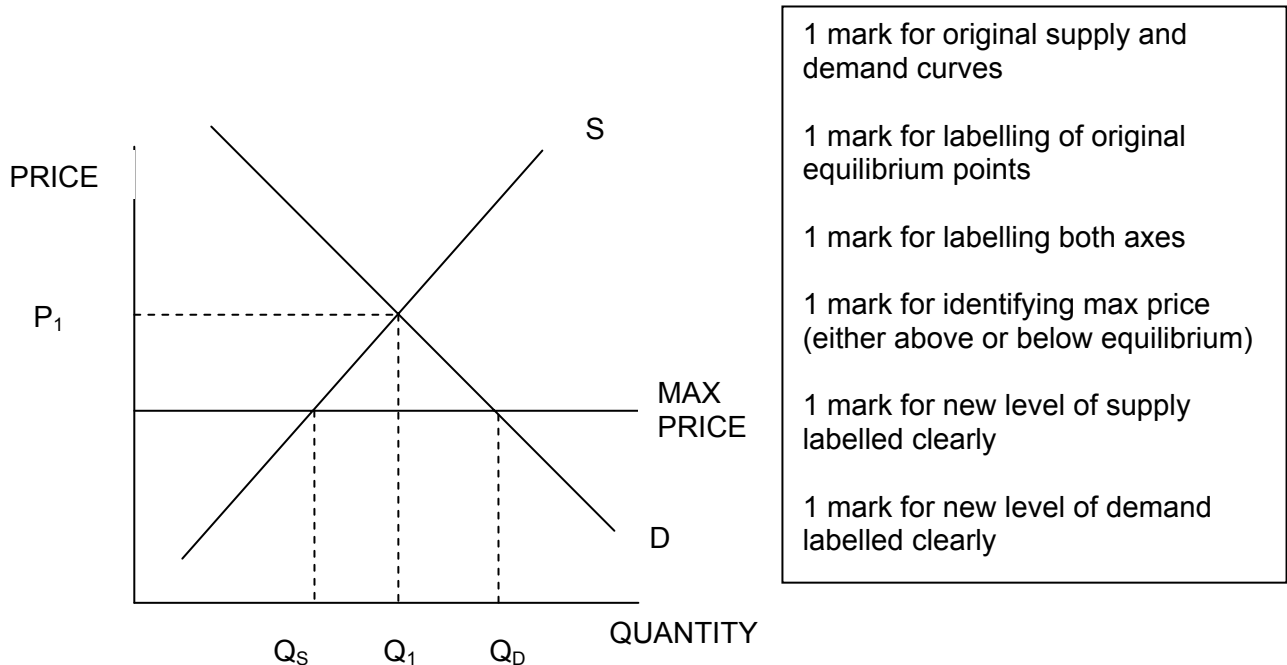
The combined Poseidon-Icarus group will account for only 14% of manufactured clothes in the UK, well below the Competition Commission threshold of 25%.

If it is agreed that the take-over will create 3-4000 new jobs then it may be allowed to proceed as it is in the public interest.

One point which is accurately applied and elaborated can gain both application marks.

- (ii) Apart from encouraging greater competition, the government could reduce clothes prices by introducing a maximum price. Using a diagram, analyse the economic effects of such a policy. [10]

Up to 6 marks are available for a diagram as shown below:



Up to 6 marks are available for explanation and analysis:

1 mark for stating that in order to have any effect the maximum price must be set below equilibrium OR the statement that a maximum price will lead to lower prices

1 mark for stating that if the maximum price is set above equilibrium then it will have no effect

1 mark for recognising that there will be more demanded / an extension of demand\*

1 mark for recognising that there will be less supplied / a contraction in supply\*

1 mark for stating that this results in excess demand / shortages / rationing

1 mark for recognising that this might give rise to a black market for clothes

\* NOTE: if answer explains a change in supply and demand resulting from a shift, then do not reward marks for reference to increased D / decreased S.

Maximum mark available is 10.

**(iii) Comment upon the limitations of a maximum price policy in this case. [3]**

Relevant evaluation includes:

- The problems of deciding at what level the maximum price should be introduced
- A maximum price will only be effective if set below equilibrium
- A maximum price will lead to excess demand and shortages of clothes as more people demand the product and fewer firms supply clothes at lower prices
- Problems of implementation (i.e. the difficulty of which clothes to put the maximum price on)
- Queues and shortages of clothes may well result / a black market / excess demand results in policy being ineffective / fewer consumers are able to get the goods which they want as a result of the policy
- There could be significant enforcement costs on the part of the government who will be required to police such a policy
- It causes allocation inefficiency

Any one comment which is well developed can gain 3 marks.

**\*(e) Three forms of market failure are:**

- externalities
- information failure
- factor immobility

**Select one of these to discuss whether or not government intervention will always correct market failure. [12]**

Level 4	For a discussion of relevant methods of Government intervention.	7-12 marks
Level 3	For an analysis of government intervention which fails to look at any potential drawbacks.	5-6 marks
Level 2	For an application of knowledge and critical understanding of methods of intervention lacking any clear development / analysis	3-4 marks
Level 1	For knowledge and understanding of why market failure arises in the case chosen i.e. descriptive only.	1-2 marks

#### Externalities

Government intervention is aimed at internalising any externality. In the case of negative externalities this may be achieved through taxation, regulation (backed up by fines), the introduction of tradeable permits or by enforcing property rights. Identification of relevant policy solutions lacking any analysis gets L2 max.

Relevant analysis of any of these forms of intervention will achieve a Level 3 mark. For example, this may include a diagram showing the imposition of a tax or some explanation of how permits would be successfully introduced.

For Level 4, valid evaluation would include the problems of successfully introducing these policies, such as:

- what size the tax should be
- the problems of correctly measuring external costs (to set the correct tax)
- the ineffectiveness of taxing products which have inelastic demand
- the need for international rather than national taxes to be set as otherwise polluters simply move production to other countries
- the problems of enforcing and monitoring regulations (and the resulting opportunity cost issues)

For positive externalities, candidates should consider the introduction of subsidies and the use of legislation to promote consumption of these goods. Again, relevant evaluation could take the form of:

- the difficulties of establishing exactly what size the subsidy should be
- the cost to the government of this (and associated opportunity cost issues)
- the difficulties caused by inelastic demand which render a subsidy ineffective.

### Information Failure

Candidates who simply explain what this means will be awarded Level 1 marks. If they then go on to provide relevant examples of merit and demerit goods then they will receive a Level 2 mark.

In order to gain a Level 3 mark then the answer would need to go on to look at why there is under / over provision of these goods. In the case of merit goods, this would involve analysis of the fact that consumers fail to see how beneficial these products are for them and therefore under consume because they only consider the lower private benefits rather than the total social benefit. For de-merit goods, the opposite is the case, with consumers failing to see just how harmful these products are and therefore over consuming. Some analysis of possible government intervention in terms of state provision / subsidies / regulation of merit goods and taxation / prohibition / legal restrictions on demerit goods would clearly be expected.

A Level 4 answer would look at the difficulties of overcoming information failure from the point of view of government intervention. For example, deciding exactly how much of a particular product should be provided and the cost of such provision in addition to points previously raised.

### Factor immobility

In essence, a level 1 answer would involve no more than a simple description / explanation of what is meant by immobility.

A level 2 answer will involve examples of immobility such as geographic or occupational immobility of labour

A level 3 answer will involve some analysis of how policies to solve market failure work

A level 4 answer will involve discussion of the problems / difficulties of such solutions

Candidates will be expected to explain the problem of market failure in terms of factors of production no longer responding to price signals. For example, whilst demand switches away from manufacturing goods, production cannot switch to services due to the immobile nature of capital. When factors of production no longer respond to price signals then market failure arises.

Answers are most likely to focus upon labour market immobility. If workers have 'specific' skills in manufacturing and are unable to acquire the skills required to undertake the jobs now on offer then they will suffer from structural unemployment due to occupational immobility. Likewise, if workers are unable to move to other areas of the country where there are job vacancies then they will suffer from regional unemployment due to geographic immobility. This represents market failure because resources (in this case labour) are not being used to their full potential.

Government policy to solve the problems caused by immobility may include training, re-training, the provision of more information as to job vacancies in other parts of the country and also the availability of more affordable housing for workers. Such policies are expensive and are by nature more long term in nature and therefore government intervention may not correct market failure in the short term. In addition, training and retraining policies may fail to address market failure if they fail to provide workers with the skills necessary to undertake new jobs.





**Mark Scheme 2883  
January 2006**

**General Instructions**

- 1 The paper is to be marked to AS standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Where this marking approach is employed, candidates should be regarded as achieving the highest level of response, which accurately describes their answer. They do not necessarily pass through all lower levels of response, but it is usually expected that higher level answers will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 The mark scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 The quality of written communication will be assessed in the answer to part (e).

As a level of response mark scheme is used here, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more content-specific levels of response shown in the individual mark schemes for each appropriate question.

**Level 4**

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be a few, if any errors of spelling, punctuation and grammar. (3 marks representing the appropriate level of written communication are embedded in this level of response.)

**Levels 2 and 3**

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

(2 marks representing the appropriate level of written communication are embedded in these levels of response).

**Level 1**

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

(1 mark representing the above level of written communication is embedded in this level of response.)

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate questions, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to Levels of Response mark scheme only.

No additional QWC marks can be awarded if the initial mark is zero.

**(a) Using Fig. 1:**

- (i) describe what happened to Belgium's output between 2000 and 2002. [2]**

1 mark for it increased.

1 mark for at a decreasing rate.

- (ii) identify the year in which Belgium's output was highest. [1]**

1 mark for 2004.

**(b) State two causes of an improvement in the quality of resources. (line 9-10) [2]**

1 mark each for two possible causes e.g. improved education, improved training, improved health care, advances in technology.

No marks for rise in productivity, rise in skill, more investment.

- (c) (i) Apart from consumer expenditure, identify the other three components of aggregate demand. [3]**

1 mark for investment.

1 mark for government spending.

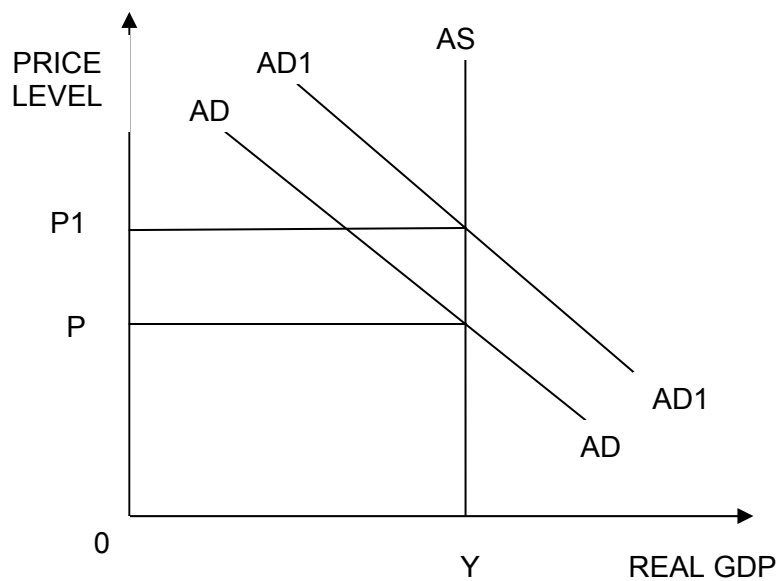
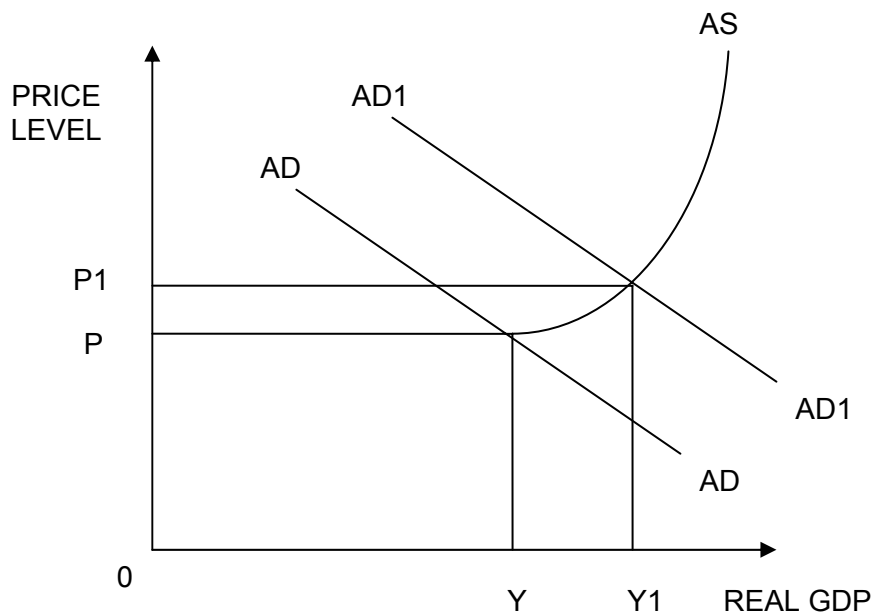
1 mark for net exports (exports – imports).

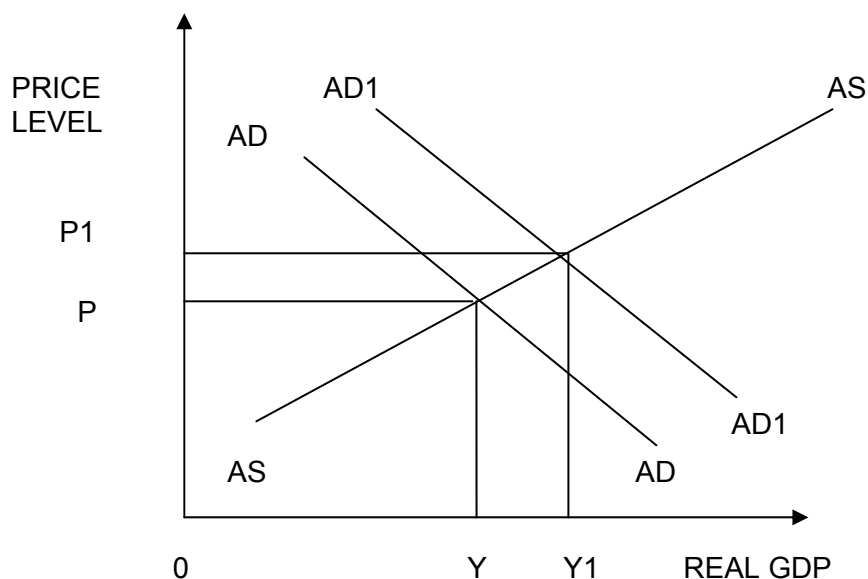
- (ii) State and explain two reasons why consumer expenditure may increase. [4]**

1 mark for each influence identified e.g. income level, confidence, interest rates, income tax, inflation, fall in the price level, fall in unemployment, redistribution of income.

Up to 2 marks for each explanation of how influence may affect consumption.

- iii) Using an aggregate demand and supply diagram, analyse the effects of an increase in consumer expenditure on an economy. [6]





Accurate diagram = up to 4 marks.

1 mark for axes correctly labelled (i.e. macro labels)

1 mark for AD and AS curves correctly labelled.

1 mark for shift of AD curve to the right.

1 mark for initial equilibrium position.

1 mark for new equilibrium position.

Accurate explanation = up to a maximum of 3 marks.

1 mark for noting that AD curve will shift to the right (if not shown on the diagram).

1 mark for noting consumer spending is a component of AD.

1 mark for explanation of effect on output.

1 mark for explanation of effect on price level.

1 mark explanation of effect on employment/unemployment.

1 mark for explanation of effect on balance of payments.

Up to 2 marks for outcome depends on initial position.

**(d) Define:****(i) a tariff (line 15) [2]**

2 marks for a tax on imports.

1 mark for a tax/form of protectionism.

**(ii) external trade (line 13). [2]**

2 marks for exports and imports between countries.

1 mark for the exchange of products (goods and services).

1 mark for exchange between countries/over national boundaries.

**(e) (i) State and explain two advantages of free trade. [4]**

1 mark for each of two advantages identified e.g. increased world output, increased competition, lower prices, greater choices.

1 mark for an explanation/example of each of the two advantages selected e.g. higher output should result from increased specialisation.

**(ii) Comment on whether infant industries should be protected. [7]**

Up to 4 marks for explaining arguments for or against protecting infant industries e.g. not large enough to take advantage of economies of scale, enables industries with long-term comparative advantage to grow prevents dumping, provides employment, improves balance of payments position.

Up to 3 marks for evaluation e.g. difficult to decide which industries will survive in the long-term, membership of international organisations limits power to protect industries, industries may not become efficient, there may be retaliation, recognition of other side.

**\*(f) Discuss the effectiveness of a rise in income tax in reducing the rate of inflation. [12]**

A discussion of how a rise in income tax may affect aggregate demand and so inflation and the advantages of limitations of the policy measure e.g. a time lag in affecting the economy, will not tackle the problem of cost-push inflation, may create a disincentive effect, may stimulate workers to press for wage rises to maintain disposable income, offsetting factors including if confidence is high households may reduce saving rather than consumption, conflicts with other objectives.

Level 4: For a discussion of the effectiveness of the rise in income tax in reducing inflation. (7 – 12)

Level 3: For an analysis of how a rise in income tax may reduce inflation. (5 – 6)

Level 2: For an application of knowledge and critical understanding of how a rise in income tax will affect the components of aggregate demand. (3 – 4)

Level 1: For knowledge and understanding that a rise in income tax will be likely to reduce aggregate demand and so the rate of inflation. (1 – 2)

L1 (1 – 2 marks) For **knowledge** and **understanding** of

- Definition of inflation
- Definition of taxation
- Descriptions of the consequences of inflation

L2 (3 – 4 marks) For an **application** of knowledge and critical understanding of

- Recognition of how and why consumption may fall e.g. a rise in income tax will reduce consumption as people will have less disposable income

L3 (5 – 6 marks) For an **analysis** of

- Explanation of how a fall in consumption may reduce inflation e.g. a rise in income tax will reduce consumption as people will have less disposable income. Lower consumption will reduce aggregate demand. A fall in aggregate demand will reduce demand-pull inflation. (A diagram may be included.)



L4 (7 – 12 marks) For a **discussion** of

Evaluative points include:

- The impact depends on how much tax rates rise. A small rise in income tax may not have much impact
- It is difficult to decide by how much to raise income tax. Too high a rise may result in the rate of inflation being too low or even in deflation
- The impact is influenced by whether higher and/or lower rates of tax are raised. The poor spend a higher proportion of their income than the rich (reference may be made to MPC but not essential)
- The measure may not be effective as it may stimulate workers to press for a wage rise. If successful, this may push up firms' costs and result in cost-push inflation. The measure is designed to reduce demand-pull inflation and will not directly reduce cost-push inflation
- If confidence is high, households may reduce saving rather than consumption and so aggregate demand may not fall – one leakage replacing another leakage
- Whilst a rise in income tax may be successful in reducing inflation, there is a risk that the fall in aggregate demand may have an adverse effect on economic growth and employment. This will be influenced by the initial state of economic activity and by how much aggregate demand falls
- A rise in income tax is not necessarily the best measure to reduce the rate of inflation. It is quicker to implement a change in the rate of interest. The MPC meet each month to consider whether to alter base rate. Tax changes are usually considered annually and changing income tax involves the relatively slow process of changing tax codes
- It may be better to use monetary policy to reduce inflation as the MPC has a proven record in keeping the inflation rate low and stable
- A rise in income tax may not reduce inflation if it is offset by a rise in external demand. If net exports rise whilst consumption falls, aggregate demand may still increase.



**Mark Scheme 2884  
January 2006**

**Subject-specific Instructions**

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidate might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed in the Section B essay.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

**Level 4**

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

**Levels 2 and 3**

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

**Level 1**

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Level of Response mark scheme only as in

- 1 (a) (i) **What is the difference between income and wealth?** [2]

Income as a flow over time, wealth as a stock. 1 for correct idea i.e. no mention of time or stock/flow, 2 for clear statement of the difference.

- (ii) **Using the data available, identify whether income or wealth in the UK is more unequally distributed in the UK. Explain your answer.** [3]

The best data is that the top 1% of after tax earners took 8% of national income in 2000, but the richest 1% of the population owned 23% of wealth in 2001. 1 for identifying wealth as being more unequally distributed plus up to 2 for explanation [which must be comparative].

- (b) **Fig. 1 shows that income is more equally distributed in the UK than it is in the USA. Explain one likely reason for this difference.** [3]

1 for identification and up to 2 for explanation of a valid reason – e.g. minimum wage in UK; large number of US low paid workers; larger group of higher paid in US; perhaps more progressive UK taxation (if data refers to after tax earnings). Accept size of population as a possible reason. Needs clear link between reason and difference for all 3 marks.

- (c) **There are different ways in which inequality of income can be measured. Explain one way of showing that UK income distribution has become more unequal in recent years.** [2]

1 for identification of a valid method of measuring income distribution plus 1 for explanation of how the measure changes when income becomes more unequal. [The two most obvious possible measures are Gini co-efficient, getting bigger; or Lorenz curve, moving away from line of absolute equality. But accept any other valid measure.]

- (d) **Comment upon the impact of one possible fiscal policy aimed at reducing wealth inequality in the UK.** [4]

1 for identification plus 1 for explanation of a valid fiscal policy – examples might be inheritance tax, wealth tax or possibly government grants (e.g. to all children, or on a means tested basis).

Up to 2 for valid comment on the impact of the chosen policy. 'Impact', can be interpreted in various possible ways – e.g. on fairness, on income distribution, on government budget, on migration, on tax avoidance. In principle, up to 1 mark for each of at least 2 impacts discussed one positive and one negative – though a very good discussion of just one could gain 2 marks.

N.B. Increase in progressive income tax is valid as a policy provided it is explicitly linked to wealth inequality reduction.

- (e) **Discuss the view (lines 2-3) that 'market forces should be allowed to operate freely in the labour market'.** **[6]**

1 for explanation of market forces as being supply and demand, determining the equilibrium, market clearing price (i.e. wage).

1 for application of this to labour market, with implication e.g. for inequality of incomes, or for overall efficiency.

Up to 4 for evaluative discussion which should refer to at least 1 benefit and 1 possible problem of allowing free operation; in principle 2 for each, though a very good one-sided discussion can gain up to 3 marks.

- 2 (a) **Explain the price and output decisions of a firm with substantial monopoly power, stating your assumptions. [10]**

Interpretation of 'firm with substantial monopoly power' – this could be an absolute monopoly, with complete barriers to entry, or a price-making firm with a less, than 100%, but still substantial market share. Traditional explanation of profit maximising output where  $MC = MR$  (with u-shaped AC curve), and corresponding level of price – in short run only if long run new entry is feasible, but in long run too if complete barriers to entry. Modifications to this explanation if assumptions are different – non profit maximising objectives, economies of scale, impact of entry of new competition in long run if market structure approaches monopolistic competition, interdependence in case of oligopoly.

- L3 For an explanation of monopoly, with focus especially on assumptions, linked to relevance to price and output determination. 7-10  
[For 9+ needs also to address "substantial"]
- L2 For application of knowledge and critical understanding, probably of absolute monopoly. 4-6
- L1 For knowledge and understanding of the market structure of monopoly. 1-3

- (b) **Discuss the effect on the behaviour of firms either in television broadcasting or in spectator sports when profit maximisation is not their primary objective. [15]**

Clear choice needed of either TV broadcasting or spectator sports. For chosen market identification of major 'firms' within it, and explanation of the way in which their prices and out put are determined. Discussion of the objectives of the 'firms', and of the relative importance of profit and other goals – e.g. public service broadcasting aspect of BBC, or trophy winning aims of participants in spectator sports. Explanation of relationship between objectives and behaviour of the 'firms', with recognition that there is variation within the market.

- L4 For a discussion of the objectives of firms, integrating consideration of both profit and other objectives with variations in behaviour. 9-15
- L3 For an analysis of varying objectives within chosen market. 6-8
- L2 For the application of knowledge and critical understanding of chosen industry, linked to firms' objectives. 3-5
- L1 For knowledge and understanding of chosen industry. 1-2



**3 (a) Explain what determines the level of an employee's transfer earnings. [10]**

Definition of an employee's transfer earnings as the minimum needed to justify continued work in the occupation concerned. Main factor influencing it as cash opportunity cost. Other influencing factors – short-run/long-run issues; quasi-pecuniary benefits (e.g. pension rights); non-pecuniary benefits (e.g. good holidays, job satisfaction); non-pecuniary disadvantages (e.g. danger, boredom). Overall transfer earnings as the combined outcome.

L3 For an explanation of both opportunity cost and a range of other factors. 7-10

L2 For application of knowledge and critical understanding of the factors focusing perhaps only on financial aspects. 4-6

L1 For knowledge and understanding of the concept. 1-3

[Maximum 7 marks if no reference to opportunity cost]

**(b) In two contrasting occupations of your choice, discuss the extent to which workers are able to earn economic rent in the long run. [15]**

Definition of economic rent, as earnings over and above transfer earnings. Explanation of wage determination as the interplay of supply and demand market forces, with both short run and long run identified. Relevance of elasticity of supply in determining extent of economic rent, particularly in long run. Influences on elasticity of supply – natural abilities and aptitudes, training and qualifications, trade unions, monopolistic employers. Choice of 2 contrasting occupations, with justification, and links to variation in extent of earning of economic rent in the long run.

L4 For a discussion of wage determination, focusing on the 'extent to which' aspect, and placing this in the context of two appropriate occupations. 9-15

L3 For an analysis of wage determination and economic rent. 6-8

L2 For the application of knowledge and critical understanding of wage determination, linked to choice of occupations. 3-5

L1 For knowledge and understanding of economic rent. 1-2

[N.B. credit to (b) relevant material on elasticities of supply from (a)]

- 4 (a) **Explain, with the help of examples, what is meant by labour market failure.** [10]

Definition of market failure in terms of non-achievement of economic outcomes which accord with optimum resource allocation. Explanation of this in context of labour market. Identification and explanation of reasons for labour market failure, with the explanation in each case linked to the concept. Examples are likely to be from the specification – geographical and occupational immobility, minimum wage, discrimination, trade unions, etc.

- L3 For an explanation of labour market failure, linking several examples explicitly to the concept of market failure. 7-10
- L2 For application of knowledge and critical understanding of market failure, perhaps through using examples only. 4-6
- L1 For knowledge and understanding of market failure. 1-3

[Maximum 5 marks if only examples]

[Maximum 7 marks if labour market failure defined only in terms of assumptions]

- (b) **Discuss the likely effects of the enlarged EU on the UK labour market.** [15]

Identification of free movement of labour, at least in principle, as an element of EU membership, and of the 2004 enlargement of the EU to 25 countries. Opportunities for UK workers in other EU countries, and for EU workers, including the generally lower paid ones in the 'new' member states, in the UK; the implications of each of these for the UK labour market and its functioning (e.g. on geographical and occupational mobility, unemployment, wage levels). The Social Chapter as an aspect of EU membership, and its implications for the UK labour market.

[NB. Candidates may focus solely on impact of EU enlargement, or on impact solely on extent of market failure in UK, following on from the question's stem. Alternatively, they may focus more on impact of UK's EU membership, or on impact more generally on operation of UK labour market. Any of these approaches is acceptable.]

- L4 For a discussion of free movement of labour covering both benefits and problems. 9-15
- L3 For an analysis of impact on operation of UK labour market. 6-8
- L2 For the application of knowledge and critical understanding of free movement of labour, linked to UK labour market. 3-5
- L1 For knowledge and understanding of EU enlargement. 1-2

**Mark Scheme 2885  
January 2006**

**Subject-specific Instructions**

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed in the Section B essay.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

**Level 4**

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

**Levels 2 and 3**

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

**Level 1**

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only as in Section B of all A2 optional units.

## SECTION A

1 (a) Environmental groups have also expressed concerns over the escalating costs of road projects. (lines 18-19)

(i) Explain one private cost of road building. [2]

1 mark for relevant example; cost of purchasing land, cost of materials.  
1 mark for explanation in terms of costs imposed and paid for by constructor

(ii) How might the private sector contribute towards the funding of proposed new road building schemes? [2]

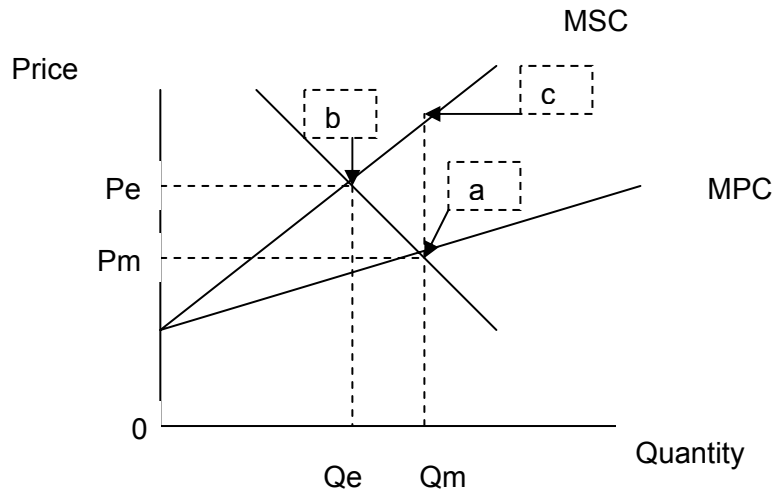
Marks for application/critical understanding not for a list; therefore need to describe how PFI could fund road building e.g. investment with a view to earning profits, government paying over a 25 – 30 year period, possibility of a toll road; reward alternatives.

1 mark for vague idea  
2 marks for critical understanding

(b) Road building generates both positive and negative externalities.

(i) With the aid of a diagram, explain why atmospheric pollution from road traffic is a negative externality. [4]

Accept simple shift  
to the left showing  
 $MSC > MPC$



ca = external costs resulting from pollution caused by road traffic

2 marks for diagram

2 marks for explanation of why atmospheric pollution from road traffic is a negative externality

For full marks there must be explicit reference to costs imposed on third parties from pollution caused by road traffic.

(ii) Explain one reason why business groups have welcomed the proposed increase in the number of road building schemes. [2]

2 marks for explanation of benefit to business groups e.g. reduced congestion and therefore reduced costs and increased profits. For full marks there must be critical understanding of the benefit to business groups. Credit idea of businesses being recipients of positive externalities. Accept alternatives including macroeconomic reasons.

- (iii) **Comment on the effects of economic efficiency that might arise from reduced levels of congestion arising from increased road building across Britain.** [4]

Requires understanding/explanation of efficiency/efficiency gains arising from reduced levels of congestion. Comment could consider short vs long run consequences or size of efficiency gains/different types of efficiency gains.

Level 2 For a commentary of how road building affects economic efficiency 3-4

Level 1 For critical understanding and explanation of how road building affects economic efficiency 1-2

- (c) **The road building schemes are recommended by studies investigating the best road and/or public transport solutions to major bottlenecks (see lines 26-28). Discuss the extent to which new road building schemes are consistent with a more sustainable transport policy.** [6]

Requires knowledge of sustainable transport policy. Explanation/application of road building's contribution to a STP. Evaluation in terms of short and long run impact – the need to have a combination of policies. The key point being that a STP can only be achieved if the rate of growth of future demand for transport is reduced whilst reducing demand for private car use and road freight. Road building alone is unlikely to achieve this although there may be a case for some road building in combination with other policies.

Level 3 For a discussion i.e. judgements made underpinned by relevant theory regarding whether road building contributes to STP 5-6

Level 2 For an application of knowledge and critical understanding leading to some discussion of whether road building is sustainable – needs explanatory link. 3-4

Level 1 For knowledge, understanding and some explanation of STP 1-2

Maximum 4 marks for implicit understanding of sustainability



## SECTION B

- 2 (a) **Explain why the level of profit differs between perfect competition and monopoly.** [10]

Assumptions of each model particularly including profit maximisation. Key role of barriers to entry. Abnormal profit surviving in long run in monopoly due to barriers. Explanation of normal/abnormal profit. Use of diagrams (not essential) to show how increase in supply competes abnormal profits away in perfect competition. Possibility of increasing profits in monopoly due to price discrimination.

Level 3 For an explanation of how profits differ in perfect competition and monopoly. 7-10

Level 2 For application of knowledge and critical understanding of how profits differ in perfect competition and monopoly. 4-6

Level 1 For knowledge and understanding of perfect competition and monopoly. 1-3

- (b) **In a transport market of your choice, discuss the way in which its market structure affects the ability of firms to set prices and to make profits.** [15]

Depends on choice of transport market. Explanation/application required of nature of barriers to entry/level of competition in chosen transport market. This enables ability to make judgement about market structure/degree of contestability. Use of specific examples from chosen transport market should be rewarded where used as evidence. Could consider competition between modes to influence ability to set price and make profit. Also role of government in influencing market structure and ability to set price and make profits.

Level 4 For a discussion of how market structure affects the ability of a chosen transport market to set prices and make profits. 9-15

Level 3 For an analysis of how market structure affects the ability of a chosen transport market to set prices and make profits. Generally one-sided with little evidence. 6-8

Level 2 For the application of knowledge and critical understanding of how market structure affects the ability of a chosen transport market to set prices and make profits. Will lack analysis. 3-5

Level 1 For knowledge and understanding of market structure/prices and profits/ a transport market. 1-2

- 3 (a) Explain the factors that have influenced recent trends in the demand of road transport. [10]**

Knowledge of increased demand for both private car use and road freight. Explanation of derived demand; journey purpose for private car use; ultimately final demand for goods for freight although changing patterns of distribution will have an effect. Increases in both passenger and freight mainly a result of increase in GNP increasing demand for journey purposes etc.; but preference for road over rail for both car use and freight for varying reasons; also changes in relative prices between modes may explain increases in demand for road transport.

Level 3 For an explanation of the factors influencing trends in the demand for road transport (in both private car use and freight at top end). 7-10

Level 2 For the application of knowledge and critical understanding of the factors influencing trends in the demand for road transport. 4-6

Level 1 For knowledge and understanding of the factors influencing trends in the demand for road transport or trends. 1-3

- (b) Discuss the extent to which road user charging can correct the market failure associated with the growth in road transport. [15]**

Knowledge of road user charging and types of market failure associated with increasing use of road transport; congestion, pollution, visual intrusions etc. Analysis of road user charging – possible use of a diagram; increasing cost internalising externality of congestion (making congestor pay). However does not deal directly with other types of market failure. Other evaluation in deciding on correct charge, need for flexible charge and particularly the need to provide choice i.e. alternatives to private car use and road freight.

Level 4 For a discussion of the extent to which road user charging can correct market failure associated with the growth in road transport. 9-15

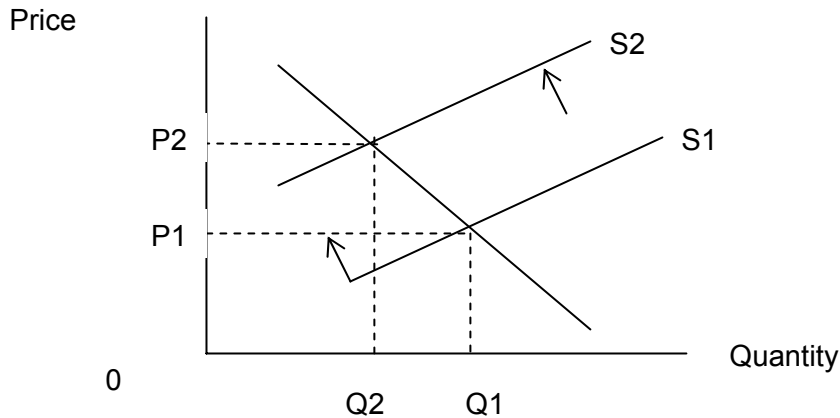
Level 3 For an analysis of road user charging in dealing with market failure associated with growth in road transport. 6-8

Level 2 For the application of knowledge and critical understanding of effects of road user charging associated with the growth in road transport. 3-5

Level 1 For knowledge and understanding of road user charging or market failure associated with the growth in road transport. 1-2

- 4 (a) With the aid of a diagram, explain the effect of a fall in the level of subsidies for local bus services.

[10]



Reduced subsidy has a similar effect as imposition of tax. Diagram as above (reward alternatives) with explanation of effects on price and quantity. Impact dependent on PED. However, subsidies main use has been to cover shortfalls in covering costs. Therefore reduced subsidy may result in closure of some routes and not increase overall fares. Some subsidies directed at certain groups, e.g. pensions and students for social equity reasons and reduction would increase fares for these groups. Or sometimes aimed at certain services which would be closed.

- |         |  |      |
|---------|--|------|
| Level 3 | For an explanation, with accurate diagram, of the effect of a fall in the level of subsidy for local bus services.   | 7-10 |
| Level 2 | For an application of knowledge and critical understanding of the effect of a fall in the level of subsidy for local bus services (or above without accurate diagram). | 4-6  |
| Level 1 | For knowledge and understanding of effects of a subsidy.   | 1-3  |

- (b) **Discuss whether subsidies alone are a sufficient policy to halt the decline in the demand for local bus services.** [15]

Main arguments for subsidising local bus services are social equity, positive externalities, urban regeneration – but they may be inefficient; lack of motivation to keep costs down, blanket nature of subsidies. Evaluation; depends on ultimate aim of policy i.e. if reduction of car use is desired then subsidy may only be part of solution with road user charging, or if aim is to simply increase bus patronage to prevent social exclusion, etc., may need to target subsidy at increasing reliability, convenience, comfort etc. rather than reducing fares. Also, problem of local bus services being an inferior product. Use of government money needs to be accountable.

- |         |   |      |
|---------|---|------|
| Level 4 | For a discussion of whether subsidy alone/alternatives can halt the decline in demand for local bus services.                                 | 9-15 |
| Level 3 | For an analysis of how subsidy or alternatives can halt the decline in demand for local bus services.   | 6-8  |
| Level 2 | For an application of knowledge and critical understanding of how subsidy/alternatives can halt the decline in demand for local bus services. | 3-5  |
| Level 1 | For knowledge and understanding of problems of subsidies/alternatives.  | 1-2  |

**Mark Scheme 2886**  
**January 2006**

**Subject-specific Instructions**

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed in the Section B essay.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

**Level 4**

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

**Levels 2 and 3**

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

**Level 1**

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only as in Section B of all A2 optional units.

- 1 (a) Using Fig.1, outline the economic impact of civil war on Mozambique. [3]

Lowers GDP (1), disrupts international trade (1), causes external debt (1), needs recovery period (1).

2 marks for detailed explanation of one point.

No marks for pure repetition of data.

- (b) Choose one of the five features highlighted by the World Bank. Explain its significance for economic development in Mozambique. [3]

Candidates must identify their chosen feature from the bulleted list in the data.

Identification of impact (1), explanation of impact (up to 2), justification of choice (1).  
e.g. identification: lower inflation helps macro stability (1), explanation: encourages international investment (1), promotes growth and saving (1), justification: basis for other improvements (1).

- (c) (i) Explain why Mozambique might have such a low level of tax revenue. [4]

Low level of GDP (1), large informal sector (1), inefficient tax authority (1), low tax rates (1), tax evasion (1), Government policy for incentives (1).

Identification up to (3) marks, explanation up to (3) marks.

- (ii) Comment on the economic impact of a high incidence of HIV/AIDS for development. [4]

Obstacle to development (1), reduces labour supply (1) and productivity (1), increases government expenditure (1), increases dependency ratios (1), social disruption (1)

Analysis of impact up to (3), comment on impact up to (3)

- (d) Discuss whether World Bank support for countries such as Mozambique is always beneficial. [6]

The World Bank makes loans either at market or concessionary rate to aid development, may be conditional upon structural adjustment and provides expert, technical guidance up to (2) marks for analysis of activities. (1) mark for using data.

Benefits: provides finance and foreign exchange, provides expertise, encourages efficiency, helps small scale projects, promotes debt forgiveness, increases stability. The data suggests progress - up to (4) marks

Problems: may create dependency, free market approach may be inequitable, interest rate may cause debt, lack of sufficient funds, reflects developed countries thinking. Data suggests problems remain - up to (4) marks.

Both sides to be considered for 6 marks.



- 2 (a) **Explain why an economy's structure of production and employment may change as it develops.** [10]

The usual division of production is into primary, secondary and tertiary, with some identifying a quaternary sector. Developing economies move from a dependence on the agricultural sector through industrialisation to reliance on the manufacturing sector. Following this deindustrialisation may occur with the emergence of a predominant service sector. IT employment becomes significant within more mature economies. Developing economies have been moving out of agriculture and recently some have developed services such as tourism and call centres. The pattern reflects innovation and changes in demand, income, government policy, comparative advantage and competitiveness.

L3 For an explanation of the causes of structural change. (7-10)

L2 For application of knowledge and critical understanding of the pattern of change. (4-6)

L1 For knowledge and understanding of the production sectors. (1-3)

- (b) **Discuss the extent to which economic growth guarantees economic development.** [15]

Economic growth involves greater production measured by changes in GDP/GNP. Development is a wider idea, which adds non-material elements to the material standard of living. Higher incomes (economic growth) may provide the basis for development by improved material welfare, health, education and opportunity. This may depend on the provision of services by government. Issues of income equality may be easier to tackle against a background of rising income. Some aspects of growth may hinder development. Poor working conditions and the growth of externalities may directly reduce living standards. The use made of additional income may also cause little direct benefit e.g. military expenditure. Extremes in distribution either through historical influence (oil producing countries) or corruption (some African countries) may prevent development. A higher level 4 answer may make use of recent examples.

L4 For a discussion of the overall effect of growth on development. (9-15)

L3 For an analysis of the contribution of growth to development. (6-8)

L2 For application of knowledge and critical understanding of the distinction between growth and development (3-5)

L1 For knowledge and understanding of growth and development. (1-2)

12 max if not linked explicitly to development.

- 3 (a) **Explain how the principle of comparative advantage can be applied to developing economies.** [10]

*Comparative advantage is based on differences in opportunity costs. It reflects the factor endowments of an economy. It indicates how specialisation can increase total production and through trade at an appropriate exchange rate, world-wide living standards. Developing economies should benefit from specialising where they have comparative advantage. For developing economies this may be based on mineral deposits (extractive industries), climate (tourism and agriculture) and low labour costs (labour-intensive manufacturing and services). There is not one pattern that matches the position of all developing economies.*

L3 For an explanation of relevance of comparative advantage to developing economies. (7-10)

L2 For application of knowledge and critical understanding of comparative advantage to developing economies. (4-6)

L1 For knowledge and understanding of comparative advantage. (1-3)

- (b) **Discuss the extent to which the use of trade barriers by developing economies is an appropriate policy for such economies.** [15]

*Trade barriers include tariffs, quotas, subsidies and regulations. Trade barriers may protect local industries. This may help employment and the balance of payments in the short run and allow the growth of infant industries in the longer run. It can also improve the terms of trade.*

*It is a central part of import-substituting industrialisation. Against this is the danger of retaliation and the loss of competition, choice and lower prices. A small domestic market may not offer the economies of scale of international trade. The idea contradicts the theory of comparative advantage. Such a policy may contravene international obligations. Whether the policy is seen as a temporary or permanent feature will affect its validity. A higher level 4 answer may deal with the applied as well as theoretical elements.*

L4 For a discussion of the outcomes of the use of trade barriers in DCs. (9-15)

L3 For an analysis of the benefits or drawbacks of trade barriers in DCs. (6-8)

L2 For application of knowledge and critical understanding of the operation of trade barriers. (3-5)

L1 For knowledge and understanding of trade barriers. (1-2)

12 max if not linked to position of developing economies.

- 4 (a) **Explain how the incidence of poverty causes problems in developing economies.** [10]

*Poverty may be absolute or relative. A \$ a day income is taken as an approximate measure. Poverty is more extreme in a developing than developed economy. Poverty, resulting from low incomes, means an inability to achieve a reasonable standard of living, to spend, to save or to borrow. It may encourage population growth as a source of security. The need to survive may pose a threat to the environment and the formal economic system. Widespread poverty places demands on the government for relief and the provision of healthcare. A vicious circle of poverty exists for the individual, which repeats itself through poor health and education, low productivity and low income. This extends to the economy as a whole as low incomes lead to low saving and investment and a deficiency of capital further limiting productivity and the prospect of development.*

- L3 For an explanation of the problems caused by poverty. (7-10)
- L2 For application of knowledge and critical understanding of the features of poverty. (4-6)
- L1 For knowledge and understanding of the incidence of poverty. (1-3)

- (b) **Discuss the extent to which greater use of the free market might reduce poverty in developing economies.** [15]

*The free market involves minimal government intervention and the operation of the forces of demand and supply. The self-interested actions of consumers and producers should bring an optimum outcome. Consumer sovereignty and competition would exist. Developed economies have championed the liberalisation of markets and a supply side approach in the belief that they are efficient and benefits will trickle down to all groups. This should reduce poverty. The position of developing economies may mean that market failure occurs. There may be inadequate resources, missing markets, weak financial provision and lack of essential infrastructure. The outcome of the market system may cause greater inequality. A case can be made for government intervention to create the conditions for the successful operation of the market. Large scale state action has a poor record in developing economies, although targeted state action has worked for NICs. A higher level 4 answer may refer to recent experience, such as that in Africa where poverty has increased or may refer to UN development goals.*

- L4 For a discussion of the impact of the free market on poverty (9-15)
- L3 For an analysis of the benefits or drawbacks of the free market impact on poverty. (6-8)
- L2 For application of knowledge and critical understanding of the operation of the free market. (3-5)
- L1 For knowledge and understanding of the free market. (1-2)

10 max for free trade rather than free market. 12 max if not linked explicitly to poverty.



**Mark Scheme 2887  
January 2006**

**Subject-specific Instructions**

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed in the Section B essay.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

**Level 4**

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

**Levels 2 and 3**

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

**Level 1**

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only as in Section B of all A2 optional units.

- 1 (a) **Explain how a consumer price index is constructed.** [3]

*A consumer price index (CPI) is a weighted average measure of changes, in relation to a base year, in the prices of a representative selection of goods and services commonly bought by typical households in the UK. Candidates should explain the main elements in constructing such an index*

Up to 2 marks for identification of relevant aspect of constructing a CPI

1 additional mark for explanation of any identified aspect

- (b) **Explain what might have happened to the value of consumer price inflation in the UK if food and energy prices had been excluded from its index.** [3]

*Excluding price-volatile items such as food and energy from inflation measures creates a price index that is often referred to as a underlying measure of 'core' inflation. Although, candidates are not required to use this terminology, 'core' inflation (CPI excluding food and energy prices) will tend to be below the CPI 'headline' rate in periods when food and energy prices are rising significantly. 'Core' inflation (CPI excluding food and energy prices) however will tend to be above CPI headline rate when food and energy prices are falling.*

*Good candidates will recognise that an unqualified answer to the question is not possible. This is because, for example as in 2004, food prices and energy prices may not move in the same direction or by the same amount. They may also comment on the importance of relative weighting.*

Up to 2 marks for application of food and energy price adjustment to the consumer price inflation

Up to 2 additional marks for explanation

- (c) (i) **Explain how what is happening in the Chinese economy might help to keep the UK's rate of inflation under control.** [4]

*The extract indicates that China has an undervalued exchange rate and 'low-cost' manufacturing exports. This means that prices of imports (finished goods and inputs) into the UK from China will tend, in general, to be relatively low. This may reduce cost-push pressures both directly and indirectly through the competitive process. Demand pull pressures may also be reduced if, as a consequence, the value of net trade (X-M) falls as imports from China rise and exports to China fall. Candidates should link the points they have identified to inflation in the UK.*

Up to 2 marks for identifying likely reasons

Up to 2 marks for explanation in terms of keeping inflation under control of any one causal factor



- (ii) **To what extent might the relatively low rate of inflation in the UK be due to factors in the domestic economy rather than to external factors? [4]**

*The independent Bank of England has been given the target of maintaining a low inflation rate (CPI = 2%) and this has been successfully achieved through an active interest rate policy. The UK has also benefited from the introduction of fiscal rules and a range of other supply side improvements which have maintained economic stability and increased trend growth. On the other hand a range of global factors (e.g. China, effective global monetary policy, technological advance, productivity growth, increased trade) have also combined to help reduce inflationary pressures in the UK.*

*Candidates should attempt some balanced discussion which recognises these influences.*

Up to 2 marks for explanation of relevant factors

Up to 2 marks for evaluation of extent to which the relatively low rate of inflation in the UK be due to factors in the domestic economy rather than to external factors

- (d) **With reference to Table 1, discuss whether continued high growth elsewhere in the world is likely to improve or worsen the performance of the UK economy. [6]**

*If high growth elsewhere in the world is caused by increased aggregate demand overseas this may lead to an increase in the UK's net exports improving the current account, increasing output and raising employment but it may worsen domestic inflation.*

*If high growth elsewhere in the world is caused by increased aggregate supply then any benefits may need to be qualified especially if this reduces the average world price of goods/service and undermines the competitiveness of UK industry. Although subsequent growth may compensate, the overall effect might be to lower UK net exports - with further adverse effects for the UK economy.*

*Discussion would reflect the above points but could be broadened to incorporate a range of other comments. For example, the impact of global growth also depends on the pattern of trade. By trading more with the slow growth EU, a different picture emerges compared with that which would have resulted from greater trade with China.*

*Analysis and discussion should be within the context of KPIs.*

L3 For a discussion of the impact of 'world growth' on UK economic performance (5-6)

L2 For an explanation of impact of world growth on UK economic performance (3-4)

L1 For knowledge and understanding of aspects of UK economic performance (1-2)

## Section B

## Answer one question

- 2 (a) Explain two possible causes of a reduction in the size of the UK's national income multiplier. [10]

*The multiplier is a numerical measure of the causal relationship between changes in GDP and changes in autonomous spending. The size of the multiplier (k) is determined by the marginal propensity to save (mps), marginal rate of tax (mrt) and marginal propensity to import (mpm) and, at this level, can be represented by the formula  $k = 1/(mps + mrt + mpm)$ . A rise in any one of these marginal propensities to withdraw (mpw) is equivalent to a fall in the marginal propensity to consume on UK products  $k = 1/[1 - mpc_{UK}]$  and will reduce the size of the multiplier. In the UK the multiplier is usually considered to be relatively small due to the relatively high overall mpw.*

- L3 For an explanation of how a rise in mps, mpt and mpm might cause a fall in the UK's multiplier. 7-10
- L2 For application of knowledge and critical understanding to the UK 4-6
- L1 For knowledge and understanding of the multiplier 1-3

- (b) Discuss the extent to which a smaller national income multiplier would reduce the effectiveness of the UK government's macroeconomic policies. [15]

*Candidates should show awareness of the objectives of government's macroeconomic policies. A smaller value of the multiplier means that a given increase in any injection (or autonomous withdrawal) will have a smaller impact on national income. This means that fiscal policy (changes in either G or T) is less effective in influencing national. Candidates might use a diagram to analyse these impacts. Any change in the rate of interest to influence AD by the independent Bank of England will also have a smaller effect. Evaluative judgements will explain that demand policies (either fiscal or monetary) are affected but the supply side policies are not directly affected. Candidates could also refer to other constraints on policy effectiveness e.g. aggregate supply conditions, fiscal rules and external factors as well as on the possible benefits of a smaller multiplier.*

- L4 For a discussion of the extent to which a smaller multiplier would reduce the effectiveness of UK government macroeconomic policies. 9-15
- L3 For analysis of how a smaller multiplier would reduce the effectiveness of government macroeconomic policy. 6-8
- L2 For application of knowledge and critical understanding of macroeconomic policy issues and the multiplier. 3-5
- L1 For knowledge and understanding of a government's macroeconomic policies. 1-2

- 3 (a) **Explain how interest rate changes enable the Bank of England's Monetary Policy Committee to meet its annual inflation rate target.** [10]

*Candidates should explain how changing interest rates affect some of the components of AD directly (e.g. C, I M) and some (X and M) indirectly through their impact on the exchange rate. They may show this using one or more diagrams that show the interest rate transmission mechanism. The explanation should incorporate some awareness that the change in interest rates will depend on whether inflation over the relevant period in question is judged to be above or below the 2% CPI target.*

- |    |  |      |
|----|--|------|
| L3 | For an explanation of how changing interest rates enables the MPC to meet its inflation target     | 7-10 |
| L2 | For application of knowledge and critical understanding of monetary policy and inflation in the UK | 4-6  |
| L1 | For knowledge and understanding of monetary policy and inflation                                   | 1-3  |

- (b) **Assume the UK's inflation rate target has been achieved.**

**Discuss whether a reduction in the rate of interest is more likely to benefit the domestic sector or the external sector of the UK economy.** [15]

*A wide reaching question that will allow several alternative approaches. A reduction in the rate of interest may stimulate domestic spending by households and firms and will probably result in an expansion of nominal GDP and an increase in employment. Although this may also lead to a return of inflationary pressures and a worsening of the current account of the balance of payments. However by making borrowing for investment more attractive, this may lead to an increase in aggregate supply and economic growth.*

*An external effect is that lower interest rates may lead to capital outflows and a depreciation of the currency. This in itself will improve the price competitiveness of UK firms. In the LR an improvement in the balance of payments on the current account may occur if the ML conditions are met. However, higher import prices could cause result in increased inflationary pressures..*

- |    |  |      |
|----|--|------|
| L4 | For a discussion of whether a reduction in the rate of interest is more likely to benefit the domestic sector or the external sector of the UK economy.              | 9-15 |
| L3 | For analysis of how a reduction in interest rates affects the economy.   | 6-8  |
| L2 | For the application of knowledge and critical understanding of how a reduction in the rate of interest affects either the domestic or the external sector of the UK. | 3-5  |
| L1 | For knowledge and understanding of some of the effects of a lower interest rate.   | 1-2  |

- 4 During November 2004, the pound sterling appreciated dramatically against the dollar and became worth almost \$2 US to the pound – the strongest position it had been in for several decades.

- (a) Using a diagram, explain how an appreciation in the rate of exchange between the pound sterling and the US dollar might occur. [10]

*An increase in the demand for pounds by those holding the US dollar (e.g. greater demand for UK exports or a relatively high rate of interest in the UK) or fall in the demand for dollars by those holding sterling (e.g. a fall in the demand for US exports or a relatively high rate of interest in the UK) is likely to cause an appreciation of the pound. Candidates should show this using an appropriately labelled supply and demand diagram.*

- |    |   |      |
|----|---|------|
| L3 | For an explanation of an appreciation in the \$/£ rate of exchange  | 7-10 |
| L2 | For application of knowledge and critical understanding of factors that may lead to an appreciation in the rate of exchange | 4-6  |
| L1 | For knowledge and understanding of exchange rates   | 1-3  |

- (b) Discuss the extent to which a strong pound benefits or harms the UK economy. [15]

*A strong pound, ceteris paribus, changes the relative prices imports and exports. Depending on the ML conditions and supply conditions in the relevant export and import markets, a strengthening of the pound will probably improve the current account of the balance of payments in the short run. In the long run it will worsen it unless countered by changes such as more rapid productivity growth. A fall in net exports will affect, AD, GDP and can lead to unemployment as export markets decline and import penetration rises. Cheap imports however may lead to a lowering of pressure on inflation especially if factor input prices are affected. Discussion should be focused on the Key Performance Indicators (KPIs).*

- |    |  |      |
|----|--|------|
| L4 | For a discussion of the effects of a strong pound on the UK economy  | 9-15 |
| L3 | For analysis of how a strong pound may affect the UK economy   | 6-8  |
| L2 | For application of knowledge and critical understanding of the effects of a strong pound on the UK economy         | 3-5  |
| L1 | For knowledge and understanding of the key policy indicators and/or the effects of the exchange rate on an economy | 1-2  |

**Mark Scheme 2888  
January 2006**

**Subject-specific Instructions**

- 1 The paper is to be marked to Advanced GCE standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels but it is usually expected that higher level responses will clearly build on some of the key supporting elements of lower levels.
- 4 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 5 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 6 Quality of Written Communication will be assessed throughout this paper.

A set number of marks for written communication is not a requirement. However, where levels of response mark schemes are used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

**Level 4**

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

[3 marks representing the appropriate level of written communication are embedded in this level of response.]

**Levels 2 and 3**

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point, and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

[2 marks representing the appropriate level of written communication are embedded in these levels of response.]

**Level 1**

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the, main focus of the question. There are errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.

[1 mark representing the above level of written communication is embedded in this level of response.]

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication across this paper as a whole if the general standard attained falls outside the embedded criteria for the Quality of Written Communication stated above.

- 1 (a) Use the data in Extract 1 to compare the relative market performance of
- Carrefour and Tesco
  - Carrefour and Edeka
- [6]

Synoptic knowledge

This question is designed to test how candidates can handle two different types of economic data on the structure (i.e. organisation of the market in terms of forms and their importance) of grocery retailing in Europe as a whole.

- 5.1.2 Competitive markets and how they work
- 5.1.3 Firms and how they operate
- 5.1.4 Transition economies of Europe

There are a number of points that can be made including:

- Carrefour is the clear market leader; Tesco is about two thirds its size
- Carrefour has experienced spectacular growth in sales from 2002-03; Tesco has had sales growth of around half this rate
- Tesco has almost twice the volume of sales in CEE than Carrefour
- Carrefour is twice the size of Edeka and had over 7 times comparative sales growth in 2002-03
- Edeka has not moved in to CEE markets

Max of 4 marks for each comparison (e.g. Carrefour/Tesco, Carrefour/Edeka)

Max of 4 marks if no reference to pie chart (and max 3 if only 1 comparison e.g. Carrefour/Tesco only)

1 mark for any relevant point plus a further mark where there is evidence of data manipulation. Only award marks where there is explicit comparison.

- (b) Analyse the reasons why grocery retailers such as Metro and Tesco have sought to expand their businesses in the rest of Europe. [9]

Synoptic knowledge

This question is designed to test candidates' knowledge of the factors that determine the geographical expansion of major retailers into new markets, particularly in Southern Europe but also in the transition economies of Central Europe. Extract 2 refers to the opportunities for grocery retailers to benefit from economies of scale, the on-going liberalisation of trade in Europe, saturation of domestic markets, increasing disposable incomes and a thirst for western European consumer products, market structures.

- 5.1.2 Competitive markets and how they work
- 5.1.3 Firms and how they operate
- 5.2.3 Aggregate demand and supply: the determinants of output, employment and process
- 5.2.1 Structure and the essential determinants of international trade
- 5.8.3 Transition economies of Europe



- L3 For an analysis of the reasons why grocery retailers have expanded their business (7-9)
- L2 For an application of knowledge and critical understanding of the reasons why grocery retailers have expanded their business (4-6)
- L1 For knowledge and understanding of the reasons why grocery retailers have expanded their business (1-3)

**2 Comment on the extent to which changes in the sourcing of grocery products are economically beneficial. [10]**

Synoptic knowledge

The key to understanding this question is to assess how the principles of absolute and comparative advantage can be applied to the sourcing of grocery products and to comment on the likely outcomes as far as consumers are concerned. Extract 3 refers to lower unit costs, the changing tastes of consumers and the way in which retailers have used vertical integration to control their supply chains. If the outcome is lower prices for consumers, then this represents a more efficient allocation of resources. The sustainability of European supply chains is increasingly questioned – this should form the basis of L4 answers.

- 5.1.2 Competitive markets and how they work
- 5.2.1 Economic efficiency within competitive markets
- 5.2.2 Why markets fail
- 5.3 and 5.7.3 Absolute and comparative advantage
- 5.3.4 Structure and essential determinants of international transactions.

- L4 For a commentary on the benefits of more international sourcing (8-10)
- L3 For an analysis of the benefits of more international sourcing (5-7)
- L2 For an application of knowledge and critical understanding of the benefits of more international sourcing (3-4)
- L1 For knowledge and understanding of the changes in the sourcing of grocery products. (1-3)

An equally valid approach is to comment on the benefits of more local sourcing.

Commentary on the benefits of more international sourcing do not have to include the costs and can be confined to comments of nature, significance, size, duration of benefits.

- 3 Comment on whether both the European Commission and the competition authorities in member states should be concerned about the growing market power of grocery retailers. [15]**

Synoptic knowledge

The introduction, but more specifically Extract 4, raise concerns about the growing market power of grocery retailers. Given their market shares, it seems possible that they can control process and, more particularly, control the basis on which they do business with suppliers. If proven, this would not be in the best interests of consumers as firms would be making above normal profits. Based on the OFT's investigations in the UK, this would appear to be a difficult argument to prove. The European Commission would be concerned if its competition policies were being violated, for example if there was collusion between firms.

- 5.1.2 Competitive markets and how they work
- 5.1.3 Firms and how they operate
- 5.2.1 Economic efficiency within competitive markets
- 5.4.2 and 5.5.2 Theories of market structure and competitive behaviour
- 5.8.2 The Single European Market

- L4 For a commentary on whether governments and the EC should really be concerned about the growing market power, 13 max for commentary on selling or buying power only (10-15)
- L3 For an analysis of why governments and the EC might be concerned about the growing market power, 7 max at L3 for selling or buying power only (5-9)
- L2 For an application of knowledge and critical understanding as to why governments and the EC might be concerned about the growing market power, bottom of level for selling or buying power only (3-4)
- L1 For knowledge and understanding of why governments and the EC might be concerned about the growing market power (1-2)

- 4 Discuss the likely benefits for**
- **UK consumers of grocery products**
  - **UK grocery retailers**
- that might arise from UK membership of the single currency. [20]**

Synoptic knowledge

This final question is wide ranging and is clearly rooted in section 5.8.2 of the specification. Its application though requires candidates to draw more explicitly on the evidence in Extract 5 and to assess this evidence in relation to the arguments that have been put forward in favour of the benefits of the single currency for consumers and the firms. General material, not applied to the grocery market, will gain a mark at the middle of each level, max 14 in L4.

5.8.2 The Single European Market and Economic and Monetary Union

5.2.1 Economic efficiency with competitive markets

5.2.3 Making choices and the impact of government intervention on market outcomes and economic efficiency

5.1.3 Firms and how they operate

- L4 For a discussion on the likely benefits for UK consumers and grocery retailers, pure theory pros & cons of single currency max 14 (12-20)
- L3 For an analysis of the likely benefits of UK consumers and grocery retailers (5-11)
- L2 For an application of knowledge and critical understanding of the likely benefits for UK consumers and grocery retailers (3-4)
- L1 For knowledge and understanding of some of the likely benefits for UK consumers and grocery retailers (1-2)

For candidates producing a bullet point/outline answers, apply levels out of 10 marks.

# **Report on the Units January 2006**

## **Chief Examiner's Report**

### **General Comments**

This report contains comments from principal examiners on the performance of candidates in the January 2006 examinations.

Below please find some general comments covering wider issues relating to the delivery and assessment of the specification as a whole.

Candidate entries this session have increased for AS modules 2881 (especially) and 2882 and for A2 modules 2887 and 2888. The growth in AS entries is particularly encouraging and hopefully is indicative of resurgence in the study of Economics amongst year 12/ lower sixth students.

In general, the positive comments on the quality of candidate performance reported by principal examiners in June 2005 are repeated in their reports for this session. Well done to all concerned. More specifically, the A2 principal examiners have asked me to report an improvement in the general level of essay writing skills on the part of many candidates. It is pleasing to see well structured, lucid essays focussed on the point of question. Again at A2, and to some extent at AS, principal examiners have reported that an increasing number of candidates have given more attention to the directive words in questions, particularly those for the AO4 assessment objective. This is good and appears to be a positive response to what has been said at recent INSET meetings.

Other more general points are

- (i) At AS, candidates should be reminded of the need to write explicit and clear answers to questions where a definition is required. A wrong word here and there can alter the meaning of some of the terms that are central to each of the three units.
- (ii) Also at AS, there were some candidates at whole centres who were not provided with answer booklets. Please remind your examinations officer that there are question papers and answer booklets for units 2881-2883.
- (iii) For A2 data response questions, please advise candidates to label their answers correctly and leave a blank line between each answer.
- (iv) Although not widespread, a small member of AS candidates underperformed through a poor allocation of their writing time. A minimum of 15 minutes, and ideally 20 minutes, writing time should be devoted to answers for the final 12 mark part on each question paper.

## **2881: The Market System (Written Examination)**

### **General Comments**

This was the sixth sitting of the Unit as a one hour examination with a structured examination answer booklet. It was taken by around 6100 candidates, an increase of 1200 candidates on January 2005.

One possible reason is that Economics is having a resurgence in Centres as an AS Level subject. From the script evidence some A2 candidates are re-taking the module this session in order to improve their UMS scores. It could also be that more Centres are opting for a January sitting of this 'basic principles' examination for AS students.

The question paper discriminated well across the range, but with a general improvement in the use and understanding of economic concepts and terminology evidenced in the scripts of many candidates. As in previous examinations there were variations both between and within Centres.

The theme of this question paper was accessible as well as topical. Having said this, candidates were not expected to have any additional knowledge of the Morrison's acquisition of Safeway other than what was provided on the case study material.

Two previous Principal Examiner's reports have drawn the attention of teachers to the generally weak understanding of economies of scale. It is pleasing to record that there was some improvement this session, although by no means so on the part of all weaker candidates.

At the last cycle of INSET meetings, the significance of the 'discuss' and 'comment' directive words was stressed in feedback to Centres. It is further pleasing to report that more candidates have been drilled on how to tackle the two questions that require answers that match this highest assessment objective.

The vast majority of candidates scored well on the first two question parts. This usually, but not always, formed the basis of a good overall mark.

It should be stressed that one of the objectives of any examination is to test candidates' knowledge of the whole specification. No questions on this particular paper were drawn from section 1 of the content on 'Managing scarce resources: the reason for choice and its consequences.' (Ref 5.1.1). This was due to the nature of the case study material and the need to obtain some degree of coherence in the logical structure and development of the questions. Teachers hardly need reminding that questions on this section will be asked on some future examinations.

As in previous examinations, candidates who scored very well on this examination usually achieved on part (e). Well prepared candidates invariably gained high marks on parts (a) and (b) on core concepts drawn from section 5.1.2 of the specification. Consequently, compared to June 2005, rather more candidates scored marks of 36 and above, although only a small percentage gained marks above 40 out of the 45 marks available.

### Comments on Individual Questions

- (a) (i) This was well answered by all candidates. Very few failed to score three marks for a simple diagram that is fundamental to any understanding of how markets operate. The few who did not score full marks either labelled supply and demand wrongly or, not at all or in a handful of cases put price and quantity on the wrong axis. A gentle opener but with little or no basis for differentiation between candidates.
- (ii) This part was also well answered with many candidates scoring full marks. Errors did occur usually from weaker candidates who shifted demand rather than supply or less common, shifted supply to the left and not to the right. A second problem for some candidates was that they were unable to effectively explain what their diagram indicated. The increase in supply was usually understood, less so the increase in quantity demanded and the new equilibrium price. A good number of candidates scored three out of four marks for such incomplete answers. Where a wrong shift was drawn on the diagram, it was not possible for candidates to gain any marks at all on this part of the question.
- (b) (i) As in previous examinations, a correct text book definition or formula for price elasticity of demand was required for two marks. More candidates than in previous examinations had been drilled in anticipation of this question. Some weaker candidates struggled to understand the change aspect of this concept or, in some cases, got it the wrong way round suggesting that it was all about the effect of a change in demand on price. Answers lacking precision were normally awarded one mark.
- (ii) This was a new type of question on the application of price elasticity of demand. It produced a wide range of responses. General answers, with no reference to the two products, received no marks. At the other extreme, it was necessary for candidates to initially recognise that Morrisons own label brown bread was price inelastic and that own label instant coffee was price elastic. It was then appropriate to explain how a reduction in their prices affected revenue and so contradicted the supermarket manager's view that cutting the prices of both would increase total revenue. Where this sequence of events was correctly carried out, then full marks were usually awarded.
- In between these two extremes, all sorts of answers were received. Most candidates recognised the elasticity differences, although some got them the wrong way round. Thereafter, where correct, most went on to relate the effect of the different elasticities on quantity demanded following a reduction in price. Not all candidates were able to link a change in quantity demanded to revenue. Many candidates finished their answers here, gaining three or four marks. For higher marks a comment on the manager's view was needed. For the two marks available, this needed to cover both product types. Compared to June 2005, many more candidates gained marks for making a simple but effective comment.
- (iii) Answers to this part of the question were of mixed quality. Some candidates wrote about price rather than cross elasticity of demand and, therefore, gained no marks. Clear definitions were evidenced in many scripts; there were almost equal numbers of weak definitions but where candidates had some idea of what was meant by cross elasticity. Such answers could still get full marks provided there was some reference to substitute and elastic. A small number of answers contained numerical interpretation.



- (c) (i) As stated earlier, candidates in general were more confident in tackling this question on economies of scale than in previous examinations. Even so, for many, it was a difficult question, with very few candidates scoring full marks on the part as a whole.

A description of economies of scale has two components, a fall in average/unit costs and an increase in the scale of operations/production. One mark was awarded for each. So, a concise description say in terms of 'falling long run average costs' gained two marks. Common errors were to refer to a fall in (total) costs and not average costs or to refer to an increase in output without making clear that it was over a period of time. Some candidates gave an explained example, usually bulk buying, as their answer. This was not acceptable given the wording of the question.

- (ii) Candidates were more comfortable in identifying and explaining examples of economies of scale in this part of the question. Some had a problem in giving the exact label for a generic type, although most were able to gain marks for an explanation, albeit of variable quality. A lenient view was taken as to the relevance of any type of scale economy with respect to the Morrisons' takeover of Safeway. For full marks though the application had to be appropriate and make reference to the benefit in terms of falling average costs or efficiency in an explicit or implicit way. Purchasing and financial economies of scale were the most popular responses from candidates. Very few answers identified technical economies of scale as a possible benefit. No marks were given to candidates who gave internal and external economies of scale as two types.
- (d) (i) Two answers were possible, oligopoly and monopoly. Most candidates gave the former. As some candidates correctly noted, Fig 1 shows that Tesco has a 27% market share in 2003, technically a monopoly. Where candidates gave an answer of another market structure, usually monopolistic competition, then the own figure rule applied in (d)(ii).
- (ii) The quality of answers was very good. Many candidates gained full marks for identifying and explaining three relevant characteristics. With respect to barriers to entry, it was necessary to state that these were 'high, significant or substantial'. Surprisingly, where the market structure had not been correctly identified, candidates often struggled to explain let alone identify three characteristics of their stated market structure. Let it suffice to say that these were usually weak candidates as the grocery market is particularly well known as being oligopolistic.
- (e) This was a challenging question. The stem of the question should have indicated the most likely approach, namely that what was required was to discuss the extent to which when companies expand their scale of operations, profit maximisation is the only objective.

The very best candidates demonstrated strong analytical skills through being able to assess whether alternative objectives, such as sales maximisation/increasing market share, or satisficing, were applicable to Morrisons' takeover of Safeway. For a very good Level 4 mark, it was necessary to evaluate these in relation to the economist's conventional motive of profit maximisation. Given the time available, there were some particularly good answers that tackled the question this way. The defensive nature of Morrisons' takeover was a particularly apt issue to discuss.

More able candidates used this approach but sometimes lacked the ability to form an overall assessment. Even so, a Level 4 mark could be obtained by analysing the usual alternative objectives of firms followed by a simple discussion as to how these compared with profit maximisation. A mid-Level 4 mark could be gained, for example, by recognising that increasing market share was an obvious motive, yet, in the longer term, the motive could well be profit maximisation.

Weaker candidates struggled to get to Level 2, being content to reproduce elements of the stimulus and to state increasing market share as being Morrison's only motive. For Level 3, an analysis of the alternative objectives was required, not necessarily applied to the takeover.

Few problems of timing were evidenced. Some candidates did though have problems in confining their answer to the space provided in the answer booklet. This was particularly the case for parts (b)(ii) and (b)(iii).

## 2882: Market Failure and Government Intervention

### 1 General Comments:

Just over 2,100 candidates sat the paper in January with some extremely good responses given to the questions set. With factor immobility appearing on the paper for the first time, it was very pleasing to see some fine responses to the last question, which reflected the high degree of preparation by Centres, for which they are to be congratulated. Once again, market dominance appeared on the paper, although this is one area which Centres could perhaps continue to focus upon, with mixed responses given to question d(i).

Whilst it is pleasing to see that the majority of candidates recognise command words such as 'comment upon' and 'discuss', too often marks were thrown away for simply not following instructions carefully and answering the question set.

### 2. Comments on Individual Questions:

#### Question No.

- a(i)** This question was very well answered, with a majority of candidates gaining both marks by explaining that an external benefit was a benefit gained by a third party. Equally valid were those responses where candidates stated that social benefits exceed private benefits or that external benefits are spillover effects of production/consumption which benefit a third party.
- a (ii)** With three marks available for this part of the question, the application of clear economics was needed for candidates to gain full marks. The vast majority of answers correctly identified a possible external benefit, such as lower prices or greater choice and gained the first mark. A majority of responses also managed to imply that this was a benefit accruing to someone outside the decision making process and, therefore, gained a second mark. Unfortunately, only a minority of candidates managed to gain the third mark. What was needed was a simple statement that it was a benefit to a third party. That said, a small number of excellent scripts explained how the social benefits arising from the take-over would exceed the private benefits and, therefore, gained all three marks for good application of economic theory.
- b (i)** The large majority of candidates received both marks here for the clear identification of rivalry and excludability. Unfortunately, a few candidates identified non excludability and non rivalry as characteristics of private goods, clearly getting confused with the characteristics of a public good, and, therefore, received no marks.
- b (ii)** The majority of candidates gained some marks on this question part for applying the characteristics of rivalry and excludability. The best candidates stated that clothing would be excludable as only those with money could pay for clothing and then went on to say that clothing was also rival as if one person bought the clothing, then clearly it was not there for someone else to buy. Unfortunately some candidates applied this theory but failed to state that clothing was a private good because it was both rival and excludable, so limited themselves to a maximum of two marks.

**c (i)**

This was the first time that a question on 'X inefficiency' had appeared on the paper and whilst many candidates had a general idea that it was where inefficiency arose due to a lack of competitive pressures, clear, accurate answers were less evident. The simplest way to achieve both marks was to state that due to the absence of competitive pressures, firms would not always produce at their lowest average cost.

**c (ii)**

This part of the question was very well answered, with most candidates well versed in the use of production possibility curves. Sometimes candidates lost marks due to unfortunate errors, such as labelling the axes price and quantity or by failing to indicate a new point on the production possibility curve following a rise in productive efficiency. In both of these cases, candidates could easily have gained more marks with a little more attention to detail.

**d (i)**

The best answers to this question were able to apply details of government competition policy to the proposed take-over and received full marks. Unfortunately, too often candidates failed to apply their knowledge to the decision involved in the case study and, therefore, limited themselves to a maximum of two marks. These two marks were obtained by many candidates who accurately stated that the government would be interested in looking at what would happen to prices, consumer choice and market share. Unfortunately, the large majority of candidates then failed to develop this by applying material from the article. For example, the combined Poseidon-Icarus group would only have 14% of the market share and would, therefore, be well below the government's definition of a monopoly (25%) so IT would not be against the public interest. Those candidates who adopted this approach to the question received full marks.

**d (ii)**

In contrast to d (i), this diagram question was well answered, although more marks were recorded on the diagram part of the question than the explanation. To improve performance on the explanation part of the question, Centres would be well advised to instruct their candidates to explain in greater detail the exact impact of a maximum price. For example, a candidate who simply stated "demand will now be D2" would not receive any credit, whereas the candidate who stated that "demand will rise to D2 as a result of the maximum price" would receive a mark. Greater clarity in their explanation would benefit many candidates – basic points explained clearly would be given credit here. For the diagram, the most obvious mistake was to show a maximum price leading to shifts in supply and demand which was clearly incorrect. Others showed the maximum price as being above equilibrium and then incorrectly followed this by stating that it would change the equilibrium levels of supply and demand, whereas in reality a maximum price set at this level would have no impact whatsoever.

**d (iii)**

Overall, this question produced some excellent responses but they were surprisingly few in number. Many responses reflected a clear misunderstanding as to what exactly a maximum price involved and, therefore, received no marks. Some candidates gained one mark by identifying the fact that a shortage (or excess demand) of clothing would result but often failed to develop/elaborate upon this at all. Better answers focused upon the problems of deciding exactly what level a maximum price should be set at or the problems of enforcing this across the entire clothing industry. Where one point was sufficiently elaborated upon, then full marks could be gained.

- (e) For the first time, candidates were faced with the opportunity of discussing information failure or factor immobility in some depth. Whilst most candidates did opt to discuss externalities, a pleasing number did look at methods of government intervention to overcome information failure and immobility to good effect.

Two key pieces of advice should be offered to candidates for this last question: First, in order to gain more than six marks, it is absolutely vital that candidates introduce an element of discussion. Too often candidates hinted at a particular point or even identified a possible flaw in a policy without elaborating upon this. For example, when looking at methods of solving externalities, candidates might state that a tax might be inflationary but without any explanation/development of this point, Level 4 could not be reached. Centres should remind candidates that simply listing/stating a possible problem without any elaboration does not count as evaluation. A simple, albeit very basic, development of the point is required in order to receive evaluation marks. For example: "a tax will lead to firms trying to pass the burden on to consumers in the form of higher prices which raises inflation". Some development of each point is expected to demonstrate evaluation.

Second, too often candidates wrote at some length describing their points and yet missed out relevant analysis. This was particularly noticeable when candidates looked at factor immobility. Long descriptions of occupational and geographic immobility were often followed by very short references to possible policies which could be used to overcome immobility, often with very little analysis whatsoever. Some analysis explaining exactly how these policies work would have benefited many candidates.

That said, many excellent responses developed several separate points of evaluation and therefore, gained full marks which was extremely pleasing. Candidates are increasingly able to analyse the impact of different forms of government intervention and then criticise/evaluate them in detail. For this, Centres are to be warmly congratulated!

## 2883: The National and International Economy

### General comments

There were some excellent scripts produced this session with clear evidence that many candidates had been well prepared. The answers to question (f) were particularly strong with a high proportion of candidates producing lucid and relevant answers continuing some interesting, evaluative points. Time management was good, with candidates allocating the time available according to the marks awarded.

A number of candidates, however, lost marks through not examining the data or the questions carefully enough. This applied particularly to some of the early questions.

Some candidates continue to answer in microeconomic terms and microeconomic diagrams. Of particular concern, is that a few Centres did not use the correct answer booklet. This is likely to have disadvantaged their candidates.

### Comments on individual questions

**(a)(i)** A disappointing number of candidates were unable to distinguish between relative and absolute changes and incorrectly concluded that Belgium's output fell between 2000 and 2002. It is important for candidates to recognise that a fall in the rate at which real GDP is growing still means that output is rising. Similarly a fall in the inflation rate from, for example, 4% or 3%, means that the general price level is rising albeit more slowly.

**(a)(ii)** Again a disappointing number of candidates failed to interpret the data correctly. A number of candidates, for no apparently logical reason, selected 2001 and 2003 as the year in which Belgium's output was highest.

**(b)** There were some good answers to this question with the most popular choices being advances in technology and improved education. However, some candidates were unable to distinguish between cause and effect and others identified causes of an increase in the quantity, rather than the quality of resources.

**(c)(i)** Generally well answered, but it is surprising, given that this is a relatively straightforward and common question, that a few candidates were unable to identify the components of aggregate demand. Among the incorrect answers given were the rate of interest, the price level and fiscal policy.

**(c)(ii)** This part of the question was very well answered. The two main reasons explained were a fall in the rate of interest and a cut in income tax.

**(c)(iii)** A relatively straightforward question that elicited, in the main, strong answers with clear diagrams and good written explanations. As in previous sessions, however, some candidates used micro labels and explained the effect of a rise in consumer expenditure on a firm.

**(d)(i)** Most candidates gained full marks on this part of the question but a few confused a tariff with a quota.

**(d)(ii)** There was a mixed response to this question with some rather vague answers.

**(e)(i)** Most candidates were able to identify two advantages, but a number struggled to offer convincing explanations. Some candidates identified more than two advantages to no effect.

**(e)(ii)** This question produced a range of responses. There were some excellent, well argued answers. Other answers were rather one sided. A number discussed protecting small firms rather than infant industries. A small number of candidates even discussed the need to stop industries exploiting infant labour and the need to protect industries producing products for infants!

**(f)** As mentioned above, there were some excellent answers to this question part. Good use was made of AD/AS diagrams and many candidates showed an ability to analyse and evaluate in a clear and informed way. They discussed, in some depth, the factors which influence whether a rise in income tax would be likely to be effective in reducing the rate of inflation.

Some of those candidates who scored lower marks concentrated on discussing the effects of inflation. Others produced sketchy answers which failed to analyse or evaluate.

A few candidates sought to bring in other policy approaches without making any comparison with a rise in income tax or by just asserting that, for instance, monetary policy is better than fiscal policy. Others did, nevertheless, compare policy approaches in a relevant and evaluative way.

### **Advice to Centres**

- Candidates should be given experience in interpreting data presented in different forms.
- Candidates should be reminded that 2883 is a macroeconomic paper and their written answers and diagrams should reflect this.
- Devote sufficient time to the international trade aspects of the specification
- Encourage candidates to analyse and discuss the macroeconomic performance of different economies, how government policies can influence macroeconomic performance and current macroeconomic issues.

## 2884: Economics of Work and Leisure

### General Comments

The paper was very effective in discriminating between candidates, and as usual the quality of the best scripts was very impressive indeed; they demonstrated an excellent grasp of relevant economic concepts and principles, and the ability to apply them effectively in the specification's contexts. However, there were also aspects of quite a number of candidates' responses to some questions which were slightly disappointing in comparison to recent sessions. This was particularly the case in relation Question 1.

The issue of the distribution of income and wealth is quite a significant element of the current 2884 specification, and data relating to it is widely available; it is also a topic which is often raised in the media. It was, therefore, disappointing that some candidates quite clearly had some difficulty in coming to terms with parts of Question 1. In particular, they often failed to answer the precise question set (as is explained below) especially in [a][ii] and [d].

All three essays in Section B attracted decent proportions of candidates, and as usual there was no evidence of the quality of scripts suffering from unreasonable time pressure, as well as very few rubric errors. The quality of written communication was also in line with that in past sessions.

Candidates are clearly now very familiar with the format of the paper, so that they are able, in almost all cases, to structure their answers to essay questions and also usually to the final part of Question 1 - quite well. As usual, though, the weaker answers tended to be the ones which failed to address fully the precise question asked, and this is the single most important area in which improvement in performance can be achieved.

### Comments on Individual Questions

- (1) (a) Although many candidates answered both parts well, there was also considerable disappointment about the quality of some responses. In (i), although most had some grasp of the essence of the difference, it was surprising that many answers failed to use either the flow/stock distinction or the fact that one refers to "over a period of time," whilst the other measures a value "at a moment in time". In (ii), it was disappointing that many candidates either did not actually give an answer as to whether income or wealth was the more unequally distributed, or, if they did, failed to try to justify it by reference to data on both variables. The question required candidates to attempt to use the available data to solve a problem, and many clearly found this to be a difficult skill.
- (b) Most candidates were able to put forward at least a feasible reason for the difference, and also to attempt to explain why it would result in the stated difference. Some of the suggestions were more convincing than others, inevitably, but the question did not expect any specific knowledge of the US economy and were answers assessed purely on the reasoning put forward.
- (c) This part of the question was generally well-answered. Most candidates were able to suggest a relevant method of measurement, though some then ignored the question's requirement to indicate how the measure would change when income becomes more unequally distributed.
- (d) This was the question which elicited the weakest answers on the paper, and this was for two reasons. Most commonly, many answers failed to address at all the fact that the question asked for a policy suggestion which was targeted at reducing wealth inequality; they concentrated exclusively on income. (A small minority, too, failed to



notice that it was a fiscal policy which was required). Of those who did address wealth, often there was no attempt to “comment” upon the policy at all. The best answers, however, were often impressive; they identified a relevant policy - usually a tax on inheritance - and then, having explained briefly how it would work to reduce wealth inequality, made some comment, often to the effect that it might have undesirable side-effects, or that it might easily be avoided. (Answers which concentrated on progressive taxation on incomes were acceptable, provided they explained how the distribution of wealth would be influenced by it).

- (e) This question generated a wide variety of answers, both in terms of content and in quality. Amongst the weaker ones, some candidates failed to explain what market forces are; some failed to refer to the labour market; and some concentrated exclusively on either the advantages or disadvantages of allowing a free operation of market forces. On the other hand, there were also many answers which were a pleasure to read, and displayed an impressive understanding of the issues raised.
- (2) (a) The main weakness in the answers was a failure to state assumptions, even amongst candidates who demonstrated a good knowledge and understanding of the relevant traditional theory of monopoly. There was also variation in the use of diagrams; some were inaccurate and others were presented but not used in the answer’s explanation. The use, in the wording of the question, of the phrase “substantial monopoly power” was intended to give candidates scope to define their own market structure to some extent, and although most answered in terms of traditional absolute monopoly, some did not - which was encouraging.
- (b) This generated a range of answers, though only the very best concentrated on the central issue of objectives, in spite of the stem to the question which was provided to try to give candidates a steer in this direction. The weaker answers either concentrated on limited descriptions of the chosen market, with little attempt to link to varying objectives and behaviour, or tried to answer in theoretical terms with little or no reference to a chosen market. At the other end of the ability range, however, answers often contrasted the BBC with other broadcasters, or top soccer premiership clubs with smaller community ones, and attempted to link different objectives to market structure and different behaviour patterns in pricing and quantity and quality of “output”.
- (3) (a) Surprisingly, this part of the question was probably the worst answered of the six available part-essays. Very few answers used both opportunity cost and non-monetary factors in their explanation of what influences an employee’s transfer earnings, whereas both are clearly central concepts. Many referred to one but not the other. Generally this generated much better answers, with a good understanding shown of the relevance of elasticity of supply; often this was used in part (a), though credit was given when the material was more relevant to the answer to (b). Variation in the quality of answers to (b) was usually a function of the extent to which a candidate explained influences on supply elasticities in the two chosen occupations, and, particularly, discussed the short-run/long-run difference in the ability to earn economic rent.
- (4) (a) This was the most popular question in Section B, and was generally quite well answered. The only caveat to this is that a majority of answers to part [a] failed to convince in their explanation of what exactly labour market failure means; only the best attempted to address the issue, referring either to assumptions or, even better, to outcomes. Thus most answers simply inferred what the term meant from their explanation (admittedly often a full and accurate one) of a series of examples. Answers to this part of the question usually demonstrated a good grasp of the possible impact of EU enlargement on at least some aspect of the labour market in the UK, and

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showed that they had been well prepared in terms of interpreting the implications of “discuss” by considering both positive and negative aspects. The question was deliberately couched in fairly general terms, so that “effects” did not need to be restricted to labour market failures; many answers did go down this route, but others did not, and this was quite acceptable.

## 2885: Transport Economics

### General Comments

The question paper was appropriate across the range of candidates and was of a similar standard to previous sessions. Once again marks were spread and although the overall performance of the candidates was good with many scripts scoring 30 plus the mean raw mark was slightly down on last January's examination.

Most candidates had been adequately prepared for the examination. Although, as in previous sessions, there was disparity in such preparation between Centres.

There were few examples of rubric error (mainly answering all of Section B) and time constraint, but the vast majority of candidates divided their time between sections usefully.

Marks on Section A were good, although the main failing of candidates was their inability to apply economic concepts such as efficiency and sustainability accurately to road building. Questions in Section B were attempted roughly in equal numbers by candidates overall, although choice was clearly dependent on what had been taught in Centres.

Again, it is pleasing to note that a good number of candidates used appropriate diagrams to support their understanding of theory, although candidates should be reminded that diagrams should only be used if they add to the written answer and if the candidates are sure of their accuracy.

### Comments on Individual Questions

#### Q 1)

- (a) Most candidates were able to state one private cost of road building, such as the cost of purchasing land, the cost of materials or the cost of labour, although many could not explain what defined the example as a private cost. The better candidates were able to relate to the firm actually building the road and incurring such costs.
- (i)
- (a) Most candidates were able to state that Public/Private sector Partnerships (PPP) or Private Funding Initiative (PFI) could be used but were unable to give a satisfactory reason for private sector involvement in road building.
- (ii)
- (b) Generally well answered. Most candidates produced the required diagram and explained negative externalities well but some did not adequately explain the implications on third parties of atmospheric pollution.
- (i)
- (b) Most candidates recognised that the reduction in congestion would be beneficial. The better candidates went on to say that this was because it was likely to reduce costs and, therefore, increase profits. A few candidates adopted a macro approach, such as an explanation of the multiplier, and this approach was accepted.
- (ii)
- (b) This question discriminated well. The vast majority of candidates could gain Level 1 by applying productive or allocative efficiency, either implicitly or explicitly, to the gains that businesses would achieve if levels of congestion were reduced. The better candidates could obviously see the wider efficiency gains to the UK economy or the short term nature of the gains and were rewarded with a Level 2 for commentary.
- (iii)

- (c) Again this question discriminated well. At the bottom end, there were some very limited and superficial answers that did not seem to fully grasp what was meant by sustainability, with some candidates writing about cost benefit analysis rather than sustainability. At the top end, however, there were some very good answers where sustainability was clearly defined in terms of the potential effect of road building schemes on future generations and where a clear contrast was drawn between short term and long term effects. Others referred clearly to the environmental impact in terms of resource use or argued the case for some selective road building in terms of meeting current transport needs.
- 2) (a) The vast majority of candidates were able to explain why the levels of profits differ between perfect competition and monopoly. The diagrams presented on market structure were generally good and candidates could explain the role of barriers to entry and the aims of the firm. There was often surprising confusion and/or lack of knowledge between short and long run profits, normal and abnormal profits and perfect competition and contestability.
- (b) The quality of answers varied a great deal. Some candidates simply explained the theory of a particular market structure with no or very little link to any transport market. Other answers, however, made a very good attempt to link the two. The rail, bus and air industries were probably the most popular choices. Candidates do need to make sure that their information is up to date and accurate as, although Examiners will make some allowance, impressive knowledge and relevant application and judgement will gain higher rewards.
- 3) (a) Generally well answered, although many candidates failed to consider the freight market and so were unable to access full marks. Many candidates could relate to some factors that determine demand and which have influenced recent trends in road transport. Moreover, the more able related to the concept of derived demand, thirteen years of successive growth in the UK, high levels of employment and the impact it has had on both road freight and car transport.
- (b) There were many reasonable answers to this question using appropriate theory including accurate diagrams showing road charges covering the external cost and evaluative points on size of the road charge, Price Elasticity of Demand, YED and XED between the demand for public transport and the price of using a car and the concept of hypothecation. However, candidates often devoted too much time to explaining market failure caused by congestion, road user charging or the advantages/ disadvantages of road user charging, often followed by little or no discussion of the 'extent to which road user charging can correct the market failure associated with the growth in road transport'. Good approaches to the question could have considered the problems of using road user charges to deal with areas of market failure associated with road transport other than congestion.
- 4) (a) Candidates usually produced the correct diagram and correctly explained the resultant price and quantity changes. Able candidates went further and explained that the effects would depend on the size of the subsidy and Price Elasticity of Demand. However, only a very few identified the likely loss of some services and the potential effects on certain groups.

- (b)** This discriminated well and the less able candidates focused solely on the role of subsidies. The more able candidate discussed subsidies within the context of the market structure of the local bus industry and the need for a combination of policies including the 'stick' to take cars off the road. There was a clear recognition that the issue was not simply one of price, but also one of comfort, convenience and flexibility. The question of bus routes, bus lanes, timetables and safety issues was also important.

## 2886: Economics of Development

### 1 General Comments:

Some candidates scored higher marks than in other recent examinations. This was mainly the result of a better performance on the data response section. The straightforward nature of the data made the data handling task accessible across the ability range and the ideas examined seemed familiar to candidates. The structuring of the essays also showed some improvement. There were very few single figure marks and a good proportion of the candidates scored more than thirty marks.

There remains however issues for candidates to address. There was a surprisingly large misuse of terms including aid, productivity, disposable income and terms of trade. The need to clarify central concepts was sometimes overlooked. When quoting statistics candidates omitted to give the units involved. The tendency to assert points rather than explain them restricted the credit which could be awarded. The desire to force economic models into every possible answer often caused candidates to miss the focus of the question set. For a small number of candidates the legibility of their handwriting handicapped their ability to communicate their meaning.

### 2 Comments on Individual Questions:

#### Question No.

- 1 (a)** This was well answered. Answers which scored full marks ranged from five to twenty lines. There was some carelessness in omitting imports from the trade figures, not using units and basing the answer on the less relevant column.
- 1(b)** The more commonly selected variables were primary school admissions and foreign direct investment. The better answers made clear the link to development rather than growth. Weaker responses stopped at the first stage of the reasoning. There were persuasive comments on improved labour skills, employment and HDI links. A number of candidates equated the fall in inflation with lower prices.
- 1(c)(i)** Answers usually referred to income levels and the existence of subsistence and informal economies. Less frequent was the suggestion of low tax rates as incentive to multinationals. All candidates were able to gain some credit, with higher marks reflecting the degree of detail offered.
- 1(c)(ii)** The candidates who concentrated on economic analysis scored good marks. Those who went in for general identification did less well. The implications of the harm to the labour force and the opportunity cost of increased expenditure on health provision formed the basis of most answers. Full marks were quite common, but candidates who supplied medical answers did rather poorly.

**Question No.**

- 1(d)** There were some excellent balanced assessments of the work of the World Bank. At the other extreme were candidates who lacked a clear knowledge of the Bank's function. Some believed it was more like a NGO, while others linked it to multinationals. Criticism of its actions was expected but there was some overstatement of the harm it did, which ignored the evidence in the data. The use of conditionality of support was often explored thoughtfully, as were the uses to which funds were put. Answers generally revealed a good awareness of the debate about the role of the World Bank.
- 2** This was the most popular essay, with candidates understanding the distinction between growth and development needed in part (b).
- 2(a)** The changes in the structure of production and employment was known to candidates. The element which was least considered was the reasons for the changes. These were needed to reach the top level. Too often candidates went into a total description of a model, either Lewis, Fisher-Clark or Rostow, with little attempt to adapt it to be a direct answer. This meant, for example, that with Rostow, which was the least appropriate model, there was no consideration of the tertiary sector. Some successful answers did not use a model but offered their own reasoning on the influences at work. Marks tended to be sound rather than outstanding for this section.
- 2(b)** The central idea of the question was familiar to candidates. The common arguments offered included that growth allowed individuals to enjoy a more rewarding life style and allowed governments to raise more tax revenue to finance spending on education and health. Against this were matters of greater inequality, increased externalities and the nature of extra spending. Candidates who failed to offer accurate distinctions between the two concepts made it more difficult to establish a clear line of reasoning. Some impressive answers were given to this section.
- 3** Candidates continue to find comparative advantage a difficult topic, while they were more aware of the arguments over trade barriers.
- 3(a)** Some candidates were unable to distinguish between absolute and comparative advantage. They did not seem to know an accurate definition of the comparative case and seemed to be trying to formulate A definition during the examination. While some candidates offered a sound application with reference to the factor endowments and the trading position of developing economies, others simply made the assumption in a two economy model that one of the economies was a developing economy. If candidates intend to work through a numerical example, which is usually helpful but not always essential, they must be able to clarify the basis of the model and how it operates to show an output benefit.

- Question No. 3(b)** The standard of answer to this part of the question was generally higher than the previous one. Candidates knew at least some of the arguments. Those most frequently deployed were on infant industries, dumping, retaliation and the loss of comparative advantage. The latter was used more meaningfully in this section. Weaker responses identified the arguments rather than examining them or offered prepared answers on import substituting industrialisation and balanced growth without tailoring them to the question. Despite these weaknesses there were some high scoring answers, although there is a tendency not to question the validity of some justifications.
- 4** This was the least popular question, although those who attempted it demonstrated thorough knowledge of the concept of poverty and wrote about it in an interesting way. The best answers were able to distinguish between relative and absolute poverty and to show the benchmark used to measure it. Weaker responses treated poverty descriptively and stopped at details of the conditions found when poverty exists. The idea of a circle of poverty was less commonly known than answers in previous years suggested it would be. Candidates were able to make links to the quality of the labour supply, population growth, the need for government action and in a few cases to environmental issues. Candidates gave the impression that this was a topic which they saw as having great significance.
- 4(b)** There were some extremely competent treatments of this question. These examined the working of the free market in the context of developing economies and their relationships with the more developed economies. Analytical approaches set incentives, efficiency, sovereignty and trickle down against inequality, exploitation and market failure and applied them to the impact upon poverty. The latter was the mark of a high standard answer. This approach, unfortunately, was found only in a minority of cases as a common interpretation was to deal with free international trade not the free market. This narrows the topic and overlooks important elements of the free market situation which directly affect development. While this common interpretation did not prevent candidates from reaching the top level, it did restrict marks to the lower end of the range.



## 2887: The UK Economy

This sitting of the UK Economy module attracted over 960 candidates, the highest January entry to date. Both statistically and judgementally the paper discriminated well. It was clearly accessible to those candidates who had prepared effectively for examination at this level. Candidates generally used time appropriately although there were some who perhaps spent an undue amount of time on Q1d, possibly to the detriment of their answers to the essay questions in Section B.

Whilst the comments in this report will focus on areas for improvement, it is important to acknowledge that there were many instances of quite outstanding answers to both the compulsory question in Section A and the essay questions in Section B. The examiners felt, however, that a large number of candidates displayed neither the factual knowledge nor academic skills required to answer questions set at A2 standard. The most obvious factual errors were apparent in certain fundamental macroeconomic areas such as inflation and monetary policy. In addition, questions in both Sections that required candidates to display higher level skills were answered in ways too often characterised by undeveloped and unsubstantiated assertions. Candidates should be reminded that whilst the use of 'signpost' words and phrases such as 'however' and 'on the other hand' are useful as prompts to develop appropriate evaluative and discursive commentary, they do not in themselves constitute discussion or evaluation. Assertions must be supported by and derived from an appropriate analytical framework. Better candidates displayed such skills and were well rewarded. Weaker candidates did not and were marked accordingly.

Section B essay questions were, in general, handled more effectively than the compulsory data question in Section A. Part (a) of the essay questions allowed all well-prepared candidates relatively straightforward access to level 3 marks. Part (b) of these questions discriminated well at all levels. Those candidates who were practised in developing an effective discussion moved quickly and easily into Level 4. As indicated above, however, too many simply provided a series of unexplained assertions. Although these assertions often represented valid alternative perspectives, without the appropriate analytical underpinning, they lacked substance and demonstrated at best critical understanding. Such answers received Level 2 marks.

### Comments on individual questions

#### Section A

- 1a)** Candidates' responses to this question were disappointing. Despite being the official target measure of inflation in the UK, a large minority of candidates had very little awareness of the composition, coverage or characteristics of the consumer price index (CPI) or indeed any price index. There were many factual errors and considerable confusion over the concept of weighting. Some candidates however wrote very concise and precise answers, achieving full marks in a few sentences.
- 1b)** This proved to be a difficult question for many. Once again, better candidates, from a wide range of centres, produced sharp and accurate answers to gain full marks with a few well chosen sentences. Many, however, seemed unprepared to work through the logical consequences of the rate of change in prices of a selected sub-set being higher (or lower) than the average of the remainder of the set. As such there was a considerable amount of irrelevant and inaccurate comment. Although such terminology was not required, the best were clearly aware of the 'core vs headline inflation' debate and some even knew that in 2004 energy prices and food prices moved in opposite directions. This was impressive.
- 1c)** This pair of questions was, in general, answered quite well although better use could have been made of aggregate supply/aggregate demand (AS/AD) diagrams to illustrate technical points more clearly.

- 1ci)** The main weakness was a tendency to fall a little short of connecting the identified causal factors fully and precisely to inflation in the UK. Some candidates seemed confused about the distinction between cost-push and demand pull pressures. This was evident both in written explanation and diagrammatic support.
- 1cii)** Although many identified valid domestic reasons for low UK inflation, the failure to address the 'to what extent' aspect of the question limited the credit available for some. Too few made effective use of the stimulus material provided, especially that contained in paragraph 3. Candidates perhaps need to be reminded that an appropriate amount of time should be allocated to reading, annotating and thinking about the stimulus material. Even where there are no explicit references to it, the data usually contain useful information that can be used by all candidates to stimulate thought, add depth to answers and, at times, even genuine insight.
- 1d)** There was significant variation in quality here. Once again, the general feeling amongst the examiners was that many candidates were prone 'to write too much and think too little'. Perhaps a little more time planning answers might have been beneficial. Certainly many lengthy responses evaded key issues and the extra time spent here probably impaired performance in Section B. Some candidates failed to exploit fully good analytical foundations by not addressing adequately the macroeconomic performance issues specified in the question. Although very few were unable to make any appropriate comment, only the better ones recognised that the consequences of growth for the UK depended partly on the causes of that growth. That insight opened up fruitful areas for analysis and discussion. Others focused a little more narrowly on the impact of foreign growth on UK exports and developed effective commentary on, for example, the relative importance of the elasticity of the aggregate supply curves. Both approaches provided opportunities to gain full credit.

## **Section B**

### **Question 2**

Although this was the least popular of the essay questions, many of those who attempted it did very well especially on Part (a). Candidates who had the ability and confidence to use an algebraic/mathematical approach in particular achieved high marks quickly – freeing up time to devote to the more demanding part (b) question. Such an approach was, however, not the only way to achieve full credit but it was the most efficient way. Candidates who chose to concentrate on a less mathematical approach often found it difficult to express accurately the points they wished to make unless their explanations were supported by and linked to illustrative AS/AD diagrams.

- a)** As indicated above, there were some outstanding answers to this question. A considerable number of candidates however failed to distinguish between average and marginal propensities. This approach was characterised by loose references to increases in savings, taxation or import spending. Such answers focused more on the proximate causes of changes in equilibrium initiating the multiplier process. As such they often missed the point of the question.
- b)** This was a tougher question but one that again produced some wonderfully focused analysis and discussion. The most common weakness was a failure to address squarely the actual question. Many chose to write about the effectiveness of different types of macroeconomic policy in general without reference to the specific 'multiplier' context of the question.

### **Question 3**

The most popular question in Section B. 3(a) was answered well although, as in Q1a, there were some surprising factual errors related to the nature and level of the current UK inflation target. Some candidates achieved full marks on both sections. By failing to develop their answers fully to meet the specific questions set, however, others were a little short of analytical completeness in both parts. There was also some confusion over the distinction between disposable and discretionary income.

- a) In general there was good coverage of the interest rate transmission mechanism. Some candidates reproduced the monetary policy transmission flow-chart that appears on the Bank of England's website. The examiners would encourage all candidates to make use of the excellent Target Two Point Zero material produced by the Bank's education department. We would however point out that all diagrams need to be integrated into the text through relevant explanation rather than simply included without comment. Some candidates digressed into irrelevant and, at times, flawed explanation of how interest rates are set; others rather strangely devoted considerable time to monetary growth targets.
- b) Candidates' answers here were occasionally undermined by a reluctance to engage appropriately with both aspects of the question. Most were able to deal with either the domestic or external sectors and achieved good Level 3 marks. Fewer tackled both sectors. This question did however offer full scope to the very best to display a formidable understanding of economics and the UK economy – they produced some quite superb answers with sophisticated and accurate use of technical economics including expenditure elasticities and output gaps.

### **Question 4**

Although most did well on 4(a), answers to 4(b) were often superficial. Candidates failed to adapt their responses to the specific question set. This meant that quite often analytical development in terms of, for example Marshall-Lerner conditions, was located in the context of depreciation (or devaluation) of the currency. Such answers were misdirected and were graded accordingly.

- a) This question produced generally a good set of answers. The main weaknesses were the consequence of either poorly constructed diagrams and/or superficial explanations. Fundamental trade flows were often omitted in favour of short term speculative flows. This was perfectly acceptable but these were often confused with FDI flows. Better candidates recognised the bilateral nature of the exchange rate movement and made valid points about the depreciation of the US dollar.
- b) Discussion of the impact of a strong pound was often limited by the failure to develop the analytical base. Marginal comments by examiners such as 'why?', 'how?' 'and so ..?' were indicative of answers that contained many valid assertions (often in a list like format) and, as such, had a superficial validity but lacked substance and depth. These represent areas to be addressed before any A2 examination in June

## 2888: Economics in a European Context

### 1 General Comments:

The paper was sat by 849 candidates. This represents a significant increase on the entry in January 2005.

It was pleasing to see a distinct improvement in candidates' data handling skills, as assessed in the first question on the paper. Responses here made comparisons explicit and offered quantification based on basic manipulation of the data. Responses were also much more focused and succinct than in the past. It is interesting to note that there were very few obviously examples of candidates running out of time on the paper. It is reasonable to assume that time saved with a more systematic approach to Question 1(a) assisted candidates in their time allocation in the paper as a whole.

There are a number of themes which are recurrent in the comments on the individual questions below. It may help if these are drawn out and summarised here. Centres and candidates are advised to refer to this list in preparing for future assessments of this unit. The list is a mixture of common shortcomings and strategies which help candidates in their quest for high marks.

- Avoid paraphrasing Extract material – see comments on Questions 1(b), 2, 3
- Add something to what is contained in an Extract by relating it to, or explaining it in terms of, economic concepts – see comments on Questions 1b, 2, 3
- Make sure that key terms used in the question are explained so that responses are clearly focused on the question set – see comments on Question 2
- Comments that are general or are not rooted in economic concepts show *critical understanding* (Level 2), not *evaluation* (Level 4) – see comments on Questions 2, 3, 4
- Comments that are supported by concepts and related to the context of the Extract are likely to score at the top end of Level 4 – see comments in Question 4
- Regurgitation of rote learnt material is unlikely to address the question as it is set in the examination – see comments on Question 4
- In studying the pre-release material candidates should be encouraged to;
  - spot concepts underlying each Extract and not try to spot questions
  - work out counter-arguments to balance views expressed in an Extract
  - practise using the 'it depends' rule to explore opportunities for evaluation

These comments are offered in the spirit of continuous improvement. Read in conjunction with the report below and the mark scheme, it is hoped that they will provide further assistance to Centres and candidates in preparing for this assessment.

**Comments on Individual Questions:**

**Question No.**

**1(a)** Data handling skills were, in the main, better than in previous sessions. Comparisons between Carrefour and Tesco and Edeka were explicit and quantified and the best made use of both the table and the pie chart in Extract 1. Weaker responses made no reference to the pie chart or compared Carrefour with either Tesco or Edeka only. There were some errors in quantification, most common being the distinction between percentage and percentage point differences. For example, Carrefour's growth in sales in 2002-03 was 120% larger, not 9.3%

**1(b)** Weaker candidates approached this part of the question by paraphrasing, rather than analysing, the reasons given for the growth in grocery retailing by firms such as Tesco and Metro in the rest of Europe. Stronger candidates scored in Level 3 of the mark scheme by adding a valid conceptual explanation of economic integration, market structures and growth potential. These responses made good use of concepts such as income elasticity of demand to explain why the growth in sales in Central Europe, for example, might be higher than in the mature European market. Explanation of the impact on revenue and profit followed logically from such a premise. Differentiation, then, was in terms of what candidates **added** to the information in Extract 2 and the extent to which it was rooted in concepts studied at AS and / or in the core elements of the optional A2 units.

**2** Most candidates approached this question by commenting on the economic benefits of the Europeanisation of grocery retail supply chains. Those who *interpreted changes in the sourcing of grocery products* to mean a movement to more local sourcing were not disadvantaged where the benefits were analysed and then commented upon.

Weaker candidates still seem uncertain as to what is required in this first of the questions targeting evaluative skills. Even the best candidates rarely set out at the beginning of their response what is meant by economically beneficial. Those who did brought a welcome focus to their answers in terms of economic efficiency. They were able to explain and analyse how international sourcing brought benefits to consumers through lower prices and higher consumer surplus and to grocery retailers through higher producer surplus. The best responses analysed the benefit using concepts such as productive and allocative efficiency.

The extent of the commentary required by this question was not as extensive as that for the higher mark questions on the paper. Nevertheless, Examiners are looking for comments which are supported by some economic underpinning and not comments of a general nature or those simply drawn from the Extracts. So responses which talked about the impact of the changes on sourcing on CO<sub>2</sub> emissions could not access Level 4 of the mark scheme. Those that addressed the issues conceptually, for example, by explanation of negative externalities, the divergence in social and private costs, clearly convinced Examiners that their commentary was worthy of Level 4 marks. Other comments on the economic benefit of international sourcing were seen. For example, there was interesting evaluation of the extent to which lower unit costs would be passed through to consumers of grocery products given the oligopolistic nature of the market.

Weaker candidates continue to offer little more than a paraphrasing of the material contained in the Extract and, consequently, become trapped in Level 2 of the mark scheme showing nothing more than a *critical understanding* of the issues. That is, they recognise that there are both economic benefits and costs but seem unable to be able to analyse either.

- 3 Unlike Question 2, this question calls for a much more extensive evaluation of the issues raised by the stimulus material. In this case, it was the extent to which the competition authorities of both the EU and its member states should be concerned about the growing market power of grocery retailers. It was rare to find responses which explored the distinctions embedded in the question. Competition authorities were seen to be concerned by the same issues at both the national and EU level and distinctions between the two bodies were not drawn out by candidates. Market power was invariably seen in terms of market concentration and buying power was not considered in many responses. The latter distinction resulted in a hurdle in each of the levels of the mark scheme which only the better candidates negotiated confidently.

Again, the key to differentiation of responses was the extent to which candidates offered a critical understanding of the concerns (Level 2 of the mark scheme) or a commentary on the concerns (Level 4). A commentary required that candidates' responses were underpinned by economic analysis. The first part of Extract 4 ('Outrage as inquiry clears the big supermarkets') provided the framework for an analysis of the concerns of the competition authorities, in terms of prices and profits. Better candidates analysed how market power could result in prices above marginal cost and, consequently, profits which were abnormal. This was often, though not exclusively, tackled with the aid of a standard monopoly diagram. Where reference was made to the second part of the Extract ('Supermarkets dodge abuse claims'), there was much paraphrasing ('supermarkets bullying suppliers') and little analysis of the impact of market power on the prices paid to suppliers. The third part of the Extract ('price check data') was seldom analysed in terms of the oligopolistic nature of grocery retailing.

Stronger candidates were able to comment on the extent of the concerns, having first analysed them. Valid points for commentary including the advantages which market power might bring in terms of economies of scale, the use which abnormal profits might be put to, the extent to which firms in an oligopoly market structure can raise prices (interdependence and the kinked demand curve) and the extent to which similar prices indicate collusion or the outcome of a competitive market. For the very highest marks in Level 4, it was expected that candidates would not only make reference to both selling and buying in grocery retailing, but that the comments offered would be contextual and well as analytical.

**Question No.**

**4**

The importance of context was most apparent in the marking of responses to the final question on the paper. The question was specific in its requirement for candidates to discuss the likely benefits of UK membership of the single currency for two groups – UK consumers of grocery products and UK grocery retailers. Despite this requirement, most responses took a very general approach to the issue of UK membership. There was, as a result, much regurgitation of rote learnt material on the pros and cons of the single currency. Examiners struggled to find anything in these responses which made explicit reference to the two groups identified by the question. The result was, in Level 4 of the mark scheme, that candidates adopting such an approach limited their mark to a maximum of 14. Examiners adopted the same method of discrimination in each of the levels (maximum of 8 marks in Level 3, 3 marks in Level 2 and 1 mark in Level 1).

The question lent itself to an application, analysis and discussion of the microeconomic advantages and disadvantages of membership of the single currency. Most obviously, these centred around the extent to which price transparency and the reduction in transactions costs would result in benefits for the two groups. It was expected that candidates would be able to explain the two terms, apply them to the context of the grocery market and analyse the benefits using economic concepts. Weaker candidates often omitted the last step and simply asserted that the ability to compare prices throughout the eurozone would produce a benefit for consumers and retailers. Better responses analysed the benefit in terms of prices, consumer and producer surplus, competitive pressures and productive and allocative efficiencies.

It was surprising how few candidates seemed unable to offer some simple evaluative comment on these benefits in the context of the grocery market. For example, price transparency is only likely to benefit consumers indirectly given that cross-border grocery shopping is highly unlikely. The benefit is, therefore, derived through sourcing by retailers. The extent to which this benefits the consumer is dependent on whether cost savings are passed through to prices. This allowed candidates to discuss the implications of market structure on the pricing strategy and behaviour of grocery retailers in the UK. There were some truly excellent responses from the best candidates whose blend of concepts and context was outstanding in this respect. They tended to argue that the benefits of price transparency and reduced transactions costs would accrue more to the retailers of grocery products than to the consumers. Wider discussion related to the extent to which sourcing would change as a result of membership of the single currency, the extent to which the UK grocery market would be opened up to new entrants and the likelihood of mergers and takeovers by other European retailers.

The macroeconomics of the single currency was rehearsed theoretically rather than applied in context. It was difficult to see in many responses how issues related to a one-size-fits-all monetary policy had a bearing on the benefits for UK consumers of grocery products or UK grocery retailers. In these cases it was hard to avoid the conclusion that many candidates were determined to write all they knew about the single currency debate rather than apply what they knew to the question as set.

**Advanced GCE (Economics) (3812/7812)  
January 2006 Assessment Session**

**Unit Threshold Marks**

Unit		Maximum Mark	a	b	c	d	e	u
2881	Raw	45	35	30	26	22	18	0
	UMS	90	72	63	54	45	36	0
2882	Raw	45	32	28	25	22	19	0
	UMS	90	72	63	54	45	36	0
2883	Raw	45	37	33	29	26	23	0
	UMS	90	72	63	54	45	36	0
2884	Raw	45	32	28	25	22	19	0
	UMS	90	72	63	54	45	36	0
2885	Raw	45	33	29	26	23	20	0
	UMS	90	72	63	54	45	36	0
2886	Raw	45	34	31	28	25	23	0
	UMS	90	72	63	54	45	36	0
2887	Raw	45	32	28	25	22	19	0
	UMS	90	72	63	54	45	36	0
2888	Raw	60	45	40	36	32	28	0
	UMS	120	96	84	72	60	48	0

**Specification Aggregation Results**

Overall threshold marks in UMS (i.e. after conversion of raw marks to uniform marks)

	Maximum Mark	A	B	C	D	E	U
<b>3812</b>	300	240	210	180	150	120	0
<b>7812</b>	600	480	420	360	300	240	0

The cumulative percentage of candidates awarded each grade was as follows:

	A	B	C	D	E	U	Total Number of Candidates
<b>3812</b>	16.2	37.0	60.4	79.2	95.5	100	154
<b>7812</b>	25.7	71.4	85.7	97.1	97.1	100	35

**189 candidates aggregated this session**

For a description of how UMS marks are calculated see:

[www.ocr.org.uk/OCR/WebSite/docroot/understand/ums.jsp](http://www.ocr.org.uk/OCR/WebSite/docroot/understand/ums.jsp)

Statistics are correct at the time of publication





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