GCE

Economics

Advanced GCE **A2 7812**

Advanced Subsidiary GCE **AS 3812**

Mark Schemes for the Units

June 2007

Oxford Cambridge and RSA Examinations

OCR (Oxford, Cambridge and RSA Examinations) is a unitary awarding body, established by the University of Cambridge Local Examinations Syndicate and the RSA Examinations Board in January 1998. OCR provides a full range of GCSE, A level, GNVQ, Key Skills and other qualifications for schools and colleges in the United Kingdom, including those previously provided by MEG and OCEAC. It is also responsible for developing new syllabuses to meet national requirements and the needs of students and teachers.

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by Examiners. It does not indicate the details of the discussions which took place at an Examiners' meeting before marking commenced.

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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

Any enquiries about publications should be addressed to:

OCR Publications
PO Box 5050
Annesley
NOTTINGHAM
NG15 0DL

Telephone: 0870 870 6622
Facsimile: 0870 870 6621
E-mail: publications@ocr.org.uk

CONTENTS

Advanced GCE Economics (7812)

Advanced Subsidiary GCE Economics (3812)

MARK SCHEMES FOR THE UNITS

Mark Scheme 2881
June 2007

INSTRUCTIONS ON MARKING SCRIPTS

Excerpts from the Instructions for Examiners booklet.

For many question papers there will also be subject or paper specific instructions which supplement these general instructions. The paper specific instructions follow these generic ones.

1 Before the Standardisation Meeting

Before the Standardisation Meeting you must mark a selection of at least 10 scripts. The selection should be drawn from several Centres. The preliminary marking should be carried out **in pencil** in strict accordance with the mark scheme. In order to help identify any marking issues which might subsequently be encountered in carrying out your duties, the marked scripts must be brought to the meeting.

2 After the standardisation meeting

a) Scripts must be marked in **red**, including those initially marked in pencil for the Standardisation Meeting.

b) All scripts must be marked in accordance with the version of the mark scheme agreed at the standardisation meeting.

c) **Annotation of scripts**

The purpose of annotation is to enable examiners to indicate clearly where a mark is earned or why it has not been awarded. Annotation can, therefore, help examiners, checkers, and those remarking scripts to understand how the script has been marked.

Annotation consists of:

- the use of ticks and crosses against responses to show where marks have been earned or not earned;
- the use of specific words or phrases as agreed at standardisation and as contained in the final mark scheme either to confirm why a mark has been earned or indicate why a mark has not been earned (eg indicate an omission);
- the use of standard abbreviations eg for follow through, special case etc.

Scripts may be returned to Centres. Therefore, any comments should be kept to a minimum and should always be specifically related to the award of a mark or marks and be taken (if appropriate) from statements in the mark scheme. General comments on a candidate's work must be avoided.

Where annotations are put onto the candidates' script evidence, it should normally be recorded in the body of the answer or in the margin immediately adjacent to the point where the decision is made to award or not award the mark.

d) **Recording of marking: the scripts**

i) Marked scripts must give a clear indication of how marks have been awarded, as instructed in the mark scheme.
ii) All numerical marks for responses to part questions should be recorded un-ringed in the right-hand margin. The total for each question (or, in specified cases, for each page) should be shown as a single ringed mark in the right-hand marking at the end of each question.
iii) The ringed totals should be transferred to the front page of the script, where they should be totalled.
iv) Every page of a script on which the candidate has made a response should show evidence that the work has been seen.
v) Every blank page should be crossed through to indicate that it has been seen.

e) **Handling of unexpected answers**

The standardisation meeting will include a discussion of marking issues, including:

- a full consideration of the mark scheme in the context of achieving a clear and common understanding of the range of acceptable responses and the marks appropriate to them, and comparable marking standards for optional questions;
- the handling of unexpected, yet acceptable answers.

There will be times when you may not be clear how the mark scheme should be applied to a particular response. In these circumstances, a telephone call to the Team Leader should produce a speedy resolution to the problem.

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, ie 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.

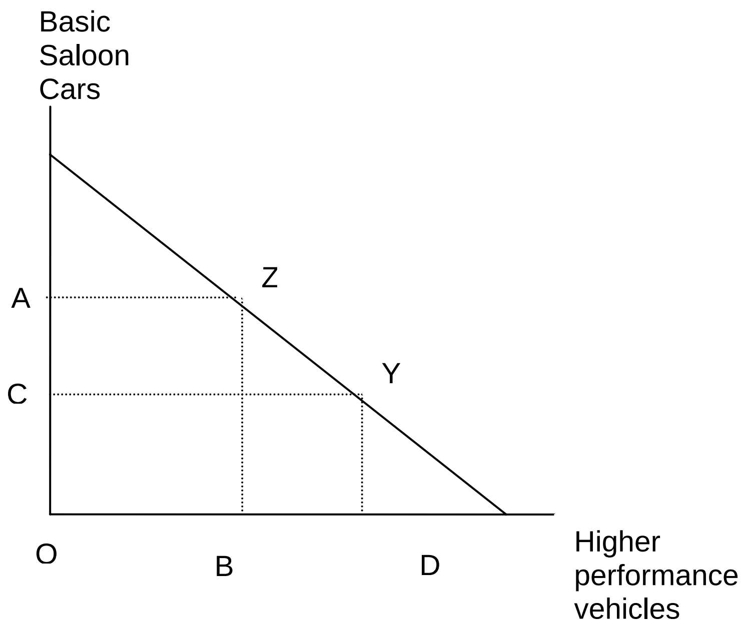
a) Companies such as Nanjing Auto have to decide how to allocate their productive capacity between basic saloon cars and higher performance vehicles (lines 12 to 13).

(i) **Explain what is meant by opportunity cost.** **(2)**

This is the sacrifice that is given up (1) in terms of the next best alternative (1)

(ii) **Draw a production possibility curve to show the choices a company such as Nanjing Auto might face when deciding which type of vehicle to produce.**

(4)



Note: a convex-shaped PPC is equally acceptable.

1 mark for correctly labelled axes as above (accept vehicle A/ vehicle B).
1 mark for a straight line or convex PPC.
1 mark for showing an efficient allocation of resources eg Z or Y.
1 mark for showing more than one production possibility.

(iii) **Explain how opportunity cost can be used to show the effects of Nanjing Auto increasing the production of higher performance vehicles.** **(2)**

Increasing output of higher performance vehicles means less basic saloon cars are produced (1). Reference back to diagram in part (ii) is acceptable (1). An example can also gain second mark as can reference to reallocation of resources.

(b)

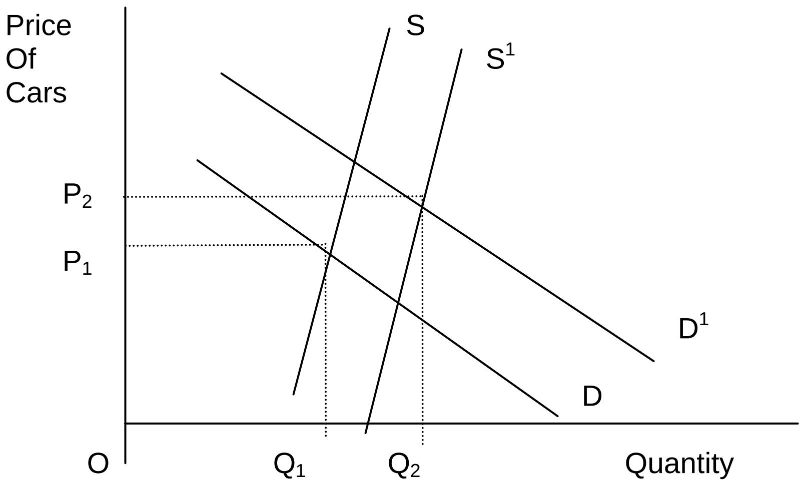
(i) **Using the information provided, explain <u>two</u> possible determinants of the increased demand for private cars in China** **(4)**

The information provided refers to three factors
- expanding population
- new found affluence (i.e. income) accept increasing living standards
- more convenient means of transport (i.e. taste)

1 mark for identification, 1 mark for how each can affect the demand for private cars.

Watch out for answers in terms of airline context – not relevant to question

(ii) **Using the information provided, and with the aid of a diagram, analyse how the changes in demand and supply might affect the market equilibrium for private cars in China.** **(6)**



Up to 4 marks for a correct diagram showing correct axes (1), shift of D (1), shift of S (1), change in equilibrium price and quantity (1). Up to 4 marks for an analysis in the above terms- reference to shift (1) new equilibrium (1).
Award 2 max for diagram if only one shift
Award 2 max for analysis if only one shift

(c) A recent report contained the following estimates for income elasticity of demand in China:

Private car purchases	**+ 1.8**
Domestic air travel	**+ 3.0**

(i) **Define income elasticity of demand.** **(2)**

2 marks for a correct definition e.g. the responsiveness of demand to a change in income or correct formula. Award 1 mark for a vague idea. Such as effect of a change in income on demand.

(ii) **Explain what each of these estimates means.** **(4)**

Both private car purchases and domestic air travel are elastic (1) normal goods (1) Domestic air travel is a more superior good (1) As incomes increase more of each is demanded (1). The change in demand for air travel will be relatively much greater (1) Numerical elaboration (2) accept implicit reference to relatively greater within a numerical example.
Consider answer as a whole if done in two parts

(iii) **Comment on their business significance for private car manufacturers and domestic airlines in China.** **(5)**

Business significance – good news for both (1). Markets can be expected to continue to grow in the future (1). Could be seen as an opportunity to invest (1). Takes out some of the risk and uncertainty (1). Markets could become more competitive (1).Helps to plan ahead (1)

2 marks for application, 3 marks for comment. Any one comment done well can get full marks.
Possible comments are to relate to quality and reliability of data, historical data might change over time; businesses cannot really influence income changes. Watch out for reverences to changing prices - not appropriate.

(d)

(i) **State and explain <u>two</u> characteristics of an oligopoly.** **(4)**

Accept any 2 from

- High or substantial barriers to entry - collusion
- a few large firms dominate the market – price rigidity
- firms may not be profit maximisers – long run abnormal profits
- firms are price makers – price leadership
- product differentiation/ branding – non price competition
- interdependence

1 mark for identification, 1 mark for elaboration
Branding alone – 1 mark
For answers in terms of “few large” or “dominant” firm, elaboration must refer to market share.

(ii) **Discuss the extent to which the domestic airline market in China is oligopolistic.** **(12)**

The case material contains two clear pieces of evidence of an oligopolistic market, barriers to entry and the market controlled by a few large firms. 3 firm concentration ratio is 65%, 4 firm ratio is 74%. Although the regulatory barrier has been removed, others e.g. high entry cost, remain. There could be a hint of product differentiation through the names of the four main airline companies that are listed. The 'extent' aspect of the question requires candidates to identify which characteristics are not evidenced and to discuss their significance.

ii)**Discuss the extent to which the domestic airline market in China is oligopolistic.**

(12)

The case material contains two clear pieces of evidence of an oligopolistic market, barriers to entry and the market controlled by a few large firms. 3 firm concentration ratio is 65%, 4 firm ratio is 74%. Although the regulatory barrier has been removed, others e.g. high entry cost, remain. There could be a hint of product differentiation through the names of the four main airline companies that are listed. The 'extent' aspect of the question requires candidates to identify which characteristics are not evidenced and to discuss their significance.

L4) (7 – 12) For a <u>discussion</u> of the extent to which the China air passenger market is oligopolistic

The evaluation should come through a discussion of 'the extent' to which the evidence in the case material supports this being an oligopolistic market.

<u>Examples</u>

- Although there are seemingly few firms, no one firm really dominates
- The 26% of 'other firms' could include some large firms as well as small firms
- Substantial barriers to entry still remain despite the new 'open skies' policy
- Branding could be a serious obstacle to new firms seeking to enter the market

There is no evidence with respect to

- Whether firms are maximising profits
- Whether existing firms are price makers
- Interdependence of firms

On balance the market would seem to be that of an oligopoly but with some qualification.

A very good evaluation may go as far as stating that over time there could be amalgamations and that the market may move more towards a technical monopoly.

L3 (5 – 6)
For an <u>analysis</u> of how the China air passenger market is oligopolistic

The key here is that the understanding of the characteristics of oligopoly should be deepened and maybe extended in context.

<u>Examples</u>
- Clear analysis of concentration ratios in context
- Where few firms dominate a market they are in a position to set prices. The largest may become a price leader.
- Barriers to entry. Some analysis of how these act as a deterrent to new firms wishing to enter a market

- How branding may make it difficult for new firms to make an impact in terms of market share

L2 (3 - 4)

For the application of knowledge and critical understanding to the China air passenger market

Examples

- 3/4 firms dominate the market.
- There are barriers to entry of new firms. Although not stated these would include high set up costs, threat of predatory pricing, problems of establishing a brand image
- Product differentiation/branding through large named airline operators

L1 (1-2)

For knowledge and understanding of oligopoly

These answers are unlikely to go beyond a description of the characteristics of oligopoly, some of which may have been explained in the previous part. For 2 marks candidates should include other characteristics as well as those stated in d(i)

Mark Scheme 2882
June 2007

INSTRUCTIONS ON MARKING SCRIPTS

Excerpts from the Instructions for Examiners booklet.

For many question papers there will also be subject or paper specific instructions which supplement these general instructions. The paper specific instructions follow these generic ones.

1 Before the Standardisation Meeting

Before the Standardisation Meeting you must mark a selection of at least 10 scripts. The selection should be drawn from several Centres. The preliminary marking should be carried out **in pencil** in strict accordance with the mark scheme. In order to help identify any marking issues which might subsequently be encountered in carrying out your duties, the marked scripts must be brought to the meeting.

2 After the standardisation meeting

a) Scripts must be marked in **red**, including those initially marked in pencil for the Standardisation Meeting.

b) All scripts must be marked in accordance with the version of the mark scheme agreed at the standardisation meeting.

c) **Annotation of scripts**

The purpose of annotation is to enable examiners to indicate clearly where a mark is earned or why it has not been awarded. Annotation can, therefore, help examiners, checkers, and those remarking scripts to understand how the script has been marked.

Annotation consists of:

- the use of ticks and crosses against responses to show where marks have been earned or not earned;
- the use of specific words or phrases as agreed at standardisation and as contained in the final mark scheme either to confirm why a mark has been earned or indicate why a mark has not been earned (eg indicate an omission);
- the use of standard abbreviations eg for follow through, special case etc.

Scripts may be returned to Centres. Therefore, any comments should be kept to a minimum and should always be specifically related to the award of a mark or marks and be taken (if appropriate) from statements in the mark scheme. General comments on a candidate's work must be avoided.

Where annotations are put onto the candidates' script evidence, it should normally be recorded in the body of the answer or in the margin immediately adjacent to the point where the decision is made to award or not award the mark.

d) **Recording of marking: the scripts**

i) Marked scripts must give a clear indication of how marks have been awarded, as instructed in the mark scheme.
ii) All numerical marks for responses to part questions should be recorded un-ringed in the right-hand margin. The total for each question (or, in specified cases, for each page) should be shown as a single ringed mark in the right-hand marking at the end of each question.
iii) The ringed totals should be transferred to the front page of the script, where they should be totalled.
iv) Every page of a script on which the candidate has made a response should show evidence that the work has been seen.
v) Every blank page should be crossed through to indicate that it has been seen.

e) **Handling of unexpected answers**

The standardisation meeting will include a discussion of marking issues, including:

- a full consideration of the mark scheme in the context of achieving a clear and common understanding of the range of acceptable responses and the marks appropriate to them, and comparable marking standards for optional questions;
- the handling of unexpected, yet acceptable answers.

There will be times when you may not be clear how the mark scheme should be applied to a particular response. In these circumstances, a telephone call to the Team Leader should produce a speedy resolution to the problem.

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, ie 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) Using the information provided

(i) identify and explain one possible external cost arising from the consumption of chewing-gum. (3)

1 mark for identifying a relevant cost from the article, for example:

- the cost of cleaning up the pavements
- the total bill facing councils of £150 million
- damage to pavements
- disfiguring of the area / damage to the local environment / area
- increase in litter

Up to 2 marks for the explanation:

2 marks for clear use of economics, namely that it is a cost which is paid by an innocent third party OR that the person who has to pay is external / outside the decision making process OR that it is a third party effect OR that social cost exceeds private cost

1 mark for the vague idea that it is a cost inflicted upon others as a result of another person's actions OR that it is a cost which private individuals / consumers themselves will ignore.

Maximum of 2 marks available for explanation.

(ii) identify and explain one possible private benefit arising from the consumption of chewing-gum. (3)

1 mark for recognising that "Chewing gum is enjoyable and it helps fight tooth decay"

As a result, accept basic references to satisfaction / enjoyment gained from the gum

A further 2 marks are available for the explanation:

2 marks for the use of clear economics, namely that it is the benefit accruing / gained by the individual decision maker OR that it is a benefit not received by third parties OR for clear recognition that it does not benefit those outside the decision making process OR that it is a benefit to the first party

1 mark for a basic statement that it is a benefit to the individual consumer / purchaser of the good OR for the simple statement that it does not affect others

Maximum of 2 marks available for explanation.

(b) (i) Explain what economists mean by information failure. (2)

Up to 2 marks for a statement such as:

- it is where individual consumers fail to take in to account full costs and/or benefits when making a decision

- consumers do not see how good / bad a product is for them because they lack the relevant information (or have the wrong information)
- consumers lack the full information on costs and benefits
- consumers do not have the relevant / correct information <u>with which to make choices</u>
- consumers over / under-consume because they lack the relevant information
- imperfect information results in allocative inefficiency

In other words, for two marks there should be some idea of inadequate information and some development of this either in terms of costs/benefits not being accurately measured or in terms of it resulting in incorrect choices being taken

1 mark for the basic idea such as:

- consumers suffer from imperfect information (1 mark only as lacking any development)
- consumers are poorly educated as regards their decisions
- consumers do not fully realise what they are doing OR are not aware of the impact of their actions
- consumers do not understand the information
- consumers do not have / receive full information about a product

Maximum of 2 marks available.

(ii) Explain what economists mean by a demerit good. (2)

2 marks for a clear definition either that it is a good which generates external costs / is associated with negative externalities OR that there is information failure OR it is a good which is worse for consumers than they realise

1 mark for a vague idea, for example it is a good which is bad for consumers OR a good which is bad for society

1 mark for simple recognition that it is a good which is over-consumed or overproduced but lacking any development in terms of why

Maximum of 2 marks available.

(iii) Explain why the consumption of demerit goods leads to market failure. (4)

Up to 2 marks for applying relevant knowledge:

- Decision makers fail to take into account the full social costs of their actions (1 mark). Accept the simple idea that consumers are not fully aware of the true costs of the good

- They only consider the lower private costs OR costs are lower than they should be (1 mark)

- Consumers don’t realise quite how bad consumption of these goods is for them (1 mark)

- Consumers ignore / don’t pay the external costs OR ignore the third party impact of their actions OR they ignore any negative externalities which may arise (1 mark)

- Overall, the price charged for demerit goods in a free market is lower than it should be (1 mark)

Maximum of 2 marks available for use of basic knowledge

Up to 2 marks are available for analysing the consequences:

- there will be over-consumption/overproduction of demerit goods OR recognition that too many goods will be produced OR more goods made than society wants OR that demand will be higher than it should be (1 mark)

- as a result, too many scarce resources will be used in the production of these goods OR there will be a misallocation of resources OR some idea that scarce <u>resources</u> will not be used in the most efficient way (1 mark)

- this results in allocative inefficiency (1 mark)

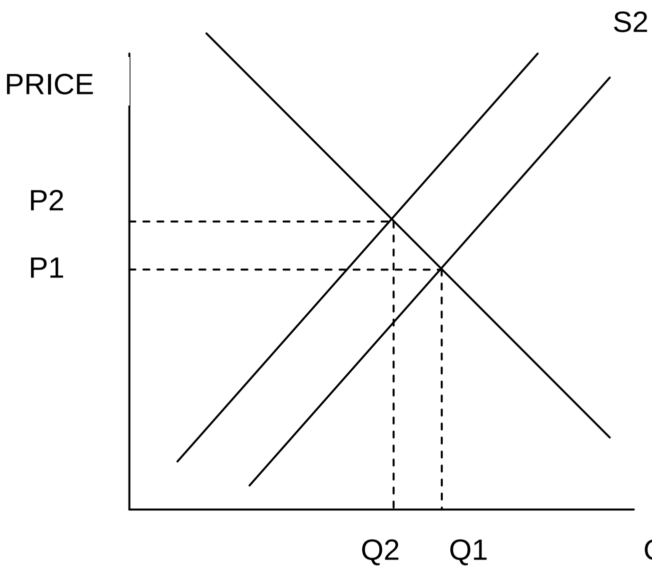
Maximum of 2 marks available for analysis

Overall, maximum of 4 marks available

(c) The article states that some people “support a tax on chewing gum producers to reduce the problem of market failure” (lines 18-19).

(i) Using a supply and demand diagram, analyse the effect of introducing a tax on the production of chewing gum. **(10)**

Up to 6 marks are available for the diagram and up to 6 marks for the accompanying explanation:



1 mark for original supply curve
1 mark for original demand curve
1 mark for initial equilibrium points (both P and Q labelled)
1 mark for labelling of both axes
1 mark for new supply curve **
1 mark for new equilibrium

Up to 6 marks are available for the explanation, including:

A tax on production will raise firms' costs of production (1 mark)

This will shift the supply curve <u>to the left</u> / inwards (1 mark)

This will raise the price paid by the consumer (1 mark)

This reduces the level of output OR less will be produced / supplied OR there will be a contraction in demand OR less will be consumed OR quantity falls (1 mark)

Tax corrects the overproduction or over-consumption of these goods (1 mark)

The tax will internalise the externality

In theory, tax results in a more allocatively efficient level of output / corrects the misallocation of resources (1 mark)

The impact of the tax will depend upon the PED of the product (1 mark)

NOTE: if diagram curves labelled MPC/MPB accept axes labelled cost/quantity

** If MPC/MSC used then new supply curve must clearly indicate that tax has been added

A maximum of 10 marks are available in total.

(ii) Identify and explain two advantages of using taxation to correct the market failure caused by demerit goods. (4)

2 marks are available for identifying relevant advantages, such as

- A tax will raise revenue for the government
- A tax is a market based solution
- The tax should, in theory, equal the external cost and will therefore force the polluter to internalise the negative externality (in other words, the tax should result in private cost now equalling social cost)
- A tax should make the polluter realise the true (social) costs of their actions ie the polluter pays
- A tax should reduce over-consumption by forcing consumers to pay the true price of the goods (accept basic recognition that a higher price results in demand for the product falling for 1 mark)

A further mark is available for explanation/elaboration of each advantage. Any relevant economic elaboration can be accepted. For example, simple reference to what the increase in government revenue could be spent on will receive a second mark.

A maximum of 4 marks are available.

(iii) Comment upon the limitations of using taxes to correct market failure. (5)

1 mark is available for basic analysis which candidates use in developing answers.

For example: taxes raise the price of a product (1 mark) which leads to a contraction in demand (1 mark). Alternatively, accept reference to taxes raising costs of production (1 mark) and shifting the supply curve to the left (1 mark). Accept an accurate diagram, if repeated, for this mark.

Up to 4 marks are available for discussion of the limitations of taxation. One point which is well developed can gain all 4 marks. Likewise, several points which are not elaborated upon still gain all 4 marks. Possible comments could include:

- With inelastic demand (as is arguably the case here) then there will be very little fall in demand
- It is very difficult to identify exactly what size the tax should be (how do we measure external costs?)
- Taxes make UK producers less competitive internationally if they cause inflation
- Taxes may lead to lower growth and therefore damage the economy (accept accurate macro-economic analysis)
- To be effective, such a tax must be applied internationally.
- If illegal supplies of products are available in the shadow economy then such goods may still be purchased (and hence over-consumption continues)
- If a flat rate tax were to be levied then this would be regressive. Accept reference to the fact that such a tax would result in low income groups no longer being able to afford products whilst high income groups can continue buying them
- By raising firms' costs of production then taxes could lead to higher unemployment (for example, firms may see mechanisation as a way of reducing their other costs)
- To be effective, taxes need to be enforced with the government facing costs in terms of policing and enforcement

A maximum of 5 marks are available.

*** (d) The article mentions that regulation backed by fines is a possible alternative to taxation as a way of reducing market failure. Discuss the likely effectiveness of regulation as a way of reducing market failure. (12)**

Level 4	For a discussion of the effectiveness of regulation.	7-12 marks
Level 3	For an analysis of how regulation works and can be effective in solving market failure.	5-6 marks
Level 2	For an application of knowledge and critical understanding of the use of regulation to reduce market failure.	3-4 marks
Level 1	For knowledge and understanding of regulation only.	1-2 marks

Level 1 answers will simply state what regulation is – for example a set of laws / rules which are enforced by the government.

Level 2 answers will then develop this by applying real world examples of regulation – for example MOT's, bans on certain products

Level 3 responses will then be expected to analyse how regulation corrects market failure. This could be achieved by looking at how regulations which are broken will result in fines and that these provide a clear incentive for individuals to change their behaviour and therefore reduce market failure

Level 4 answers will be expected to develop relevant discussion/evaluation as to the limitations of regulation. Basic elaboration of such points is necessary for this level.

Possible Level 1 answers include:

- Basic knowledge and understanding that regulation involves the setting of laws or limits on the production or consumption of particular goods or services.

Possible Level 2 answers include:

- Application of knowledge of regulation to examples, for example the use of speeding limits to discourage motorists from driving above the speed limit or the use of age limits on smoking and alcohol consumption.

  Given the fact that the question refers to market failure in general, accept references to the Competition Commission as a form of regulation

Possible Level 3 answers include:

- Analysis of how regulation can solve market failure by limiting production / consumption of products which give rise to negative externalities. Answers need to clearly explain how regulation reduces market failure by limiting consumption/ production rather than simply explaining the example of market failure.

Possible Level 4 answers include:

- The cost of enforcing and monitoring such regulation may mean that the costs exceed the possible benefits. The effectiveness of regulation will depend upon how willing authorities are to enforce the law

- The difficulty of setting what level of regulation is actually needed in the first place (ideally the regulated level of output will be where SC equals PC). In order to work out what this output level is, the government must be able to accurately assess costs and benefits involved which is often extremely difficult

- The possibility of government failure in setting the wrong level of regulation

- The effectiveness of regulation will also depend upon the size of the fine which is used. Too small a fine and it may be cheaper for firms to continue breaking the law. At the same time, a flat rate fine which is charged regardless of the scale of market failure may be less effective as a deterrent

- The practicalities of it -eg with products such as chewing gum, is it really practical to suggest that people can be watched, caught and fined for dropping gum?

- The possibility of illegal markets/suppliers operating in the shadow economy which would result in regulation being ineffective

- Regulation is not a market based solution and as such may not be efficient
- Ultimately the effectiveness of regulation depends upon what it is trying to solve – if it is trying to solve pollution on an international basis then this will be more difficult as it involves many national governments. Regulations aimed at solving national or even local examples of market failure may be more successful

- It may take time to introduce - there may be a time lag before legislation is passed and then before it is implemented

Note: clear discussion of the advantages and disadvantages <u>of regulation</u> is needed rather than of alternative solutions.

Mark Scheme 2883
June 2007

INSTRUCTIONS ON MARKING SCRIPTS

Excerpts from the Instructions for Examiners booklet.

For many question papers there will also be subject or paper specific instructions which supplement these general instructions. The paper specific instructions follow these generic ones.

1 Before the Standardisation Meeting

Before the Standardisation Meeting you must mark a selection of at least 10 scripts. The selection should be drawn from several Centres. The preliminary marking should be carried out **in pencil** in strict accordance with the mark scheme. In order to help identify any marking issues which might subsequently be encountered in carrying out your duties, the marked scripts must be brought to the meeting.

2 After the standardisation meeting

a) Scripts must be marked in **red**, including those initially marked in pencil for the Standardisation Meeting.

b) All scripts must be marked in accordance with the version of the mark scheme agreed at the standardisation meeting.

c) **Annotation of scripts**

The purpose of annotation is to enable examiners to indicate clearly where a mark is earned or why it has not been awarded. Annotation can, therefore, help examiners, checkers, and those remarking scripts to understand how the script has been marked.

Annotation consists of:

- the use of ticks and crosses against responses to show where marks have been earned or not earned;
- the use of specific words or phrases as agreed at standardisation and as contained in the final mark scheme either to confirm why a mark has been earned or indicate why a mark has not been earned (eg indicate an omission);
- the use of standard abbreviations eg for follow through, special case etc.

Scripts may be returned to Centres. Therefore, any comments should be kept to a minimum and should always be specifically related to the award of a mark or marks and be taken (if appropriate) from statements in the mark scheme. General comments on a candidate's work must be avoided.

Where annotations are put onto the candidates' script evidence, it should normally be recorded in the body of the answer or in the margin immediately adjacent to the point where the decision is made to award or not award the mark.

d) **Recording of marking: the scripts**

i) Marked scripts must give a clear indication of how marks have been awarded, as instructed in the mark scheme.
ii) All numerical marks for responses to part questions should be recorded un-ringed in the right-hand margin. The total for each question (or, in specified cases, for each page) should be shown as a single ringed mark in the right-hand marking at the end of each question.
iii) The ringed totals should be transferred to the front page of the script, where they should be totalled.
iv) Every page of a script on which the candidate has made a response should show evidence that the work has been seen.
v) Every blank page should be crossed through to indicate that it has been seen.

e) **Handling of unexpected answers**

The standardisation meeting will include a discussion of marking issues, including:

- a full consideration of the mark scheme in the context of achieving a clear and common understanding of the range of acceptable responses and the marks appropriate to them, and comparable marking standards for optional questions;
- the handling of unexpected, yet acceptable answers.

There will be times when you may not be clear how the mark scheme should be applied to a particular response. In these circumstances, a telephone call to the Team Leader should produce a speedy resolution to the problem.

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, ie 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) i) Define unemployment. (line 2) **(2)**

1 mark for identifying a situation where people are without jobs.
1 mark for a further, relevant elaboration eg people willing and able to work, people actively seeking employment.
1 mark for reference to ILO or claimant count measure.
1 mark for excess supply of labour.

ii) Define aggregate demand. (line 3) **(2)**

2 marks for AD = C + I + G + (X – M).
1 mark for any two or three components of aggregate demand.
1 mark for total spending/demand.
1 mark for reference to domestically produced products.
1 mark for at a given price level

b) Using Fig. 1:

i) State the budget position at the income level Y. **(2)**

1 mark for reference to tax revenue exceeding government spending.
2 marks for budget surplus.

ii) Explain the relationship shown between real GDP and tax revenue. **(3)**

1 mark for identifying a positive relationship.
1 mark for stating what will be expected to happen to direct taxes
1 mark for further elaboration/example
1 mark for stating what will be expected to happen to indirect taxation
1 mark for further elaboration/example

c) Growth in the Vietnamese economy has benefited its people.

Explain:
i) Two possible causes of economic growth. **(6)**

1 mark each for each of two causes identified eg increase in investment, rise in government spending, improved education/training, increase in the size of the labour force, increase in exports etc.
1 mark each for each of two basic descriptions eg increase in investment increases the quantity of factors of production.
1 mark each for each of two further elaborations eg an increase in the quantity of factors of production increases productive capacity/aggregate supply.

ii) Two benefits of economic growth. **(4)**

1 mark each for each of two benefits identified eg higher living standards, higher employment, easier to reduce poverty, increased government revenue.
1 mark for each development of two descriptive points eg higher living standards in the form of more goods and services being consumed, increased ability of the government to spend more on eg education.

d) i) Explain whether exports are a leakage from or an injection into the circular flow of income. (2)

1 mark for identifying an injection.
1 mark for recognising exports add to aggregate demand/increase spending/result in money entering the economy.

ii) Explain two possible reasons why UK firms might be able to export more to Vietnam. (4)

1 mark for each of two factors eg lower exchange rate, higher incomes in Vietnam, better quality exports, better marketing, reduction in tariffs.
1 mark for each of two basic explanations eg lower exchange rate would make UK exports cheaper, higher incomes in Vietnam would increase demand for imports.

e) i) Give two examples of monetary policy measures. (2)

1 mark for each of two changes in interest rates, the money supply and the exchange rate.

ii) Comment on the likely effectiveness of one of these monetary policy measures in reducing unemployment. (6)

Up to 3 marks for explaining how a monetary policy measure could reduce unemployment:

- 1 mark for explaining what will happen to the measure eg a reduction in the rate of interest.
- Up to 2 marks for explaining how the measure will increase aggregate demand.
- 1 mark for explaining higher aggregate demand will increase employment.
- Maximum of 3 marks for analysis.

Up to 4 marks for evaluating the likely effectiveness of one monetary policy measure. Evaluative comments may include, for instance:

- The possibility of a time lag.
- Monetary policy measures may be quicker to impact on the economy than some fiscal policy measures.
- Effectiveness is influenced by the cause of unemployment.
- The measure may not reduce frictional or structural unemployment.
- The measure is likely to be effective in reducing cyclical unemployment.
- The effectiveness will depend on the size of the change.
- The measure may be offset by changes in the global economy.

Maximum of four marks for evaluation.

f) Discuss how an increase in aggregate supply may affect output and inflation. (12)

An increase in aggregate supply may reflect a reduction in costs of production (SRAS) or an increase in productive potential (LRAS). The effect on output and inflation will depend on the size of the change, the position of the AD curve, whether AD also increases.

L4 For a discussion of how an increase in aggregate supply may affect output and inflation. (7 – 12)

Examples:
- The impact on output and inflation will depend on the initial position of the AD curve and where it moves to on the AS curve. If initially the economy was producing with considerable spare capacity, the increase in AS may not have any impact on output and the price level. In contrast, if the economy was initially producing at full capacity such an increase should raise output and reduce inflationary pressure (the price level).
- If AS continues to increase an economy may be able to experience increases in AD without encountering inflation.
- An economy's macroeconomic policy objectives are more likely to be achieved if increases in AD are matched by increases in AS.

L3 For an analysis of how an increase in aggregate supply may affect output and inflation. (5 – 6)

Examples:
- The inclusion of an AD/AS diagram showing how a shift to the right may affect output and the price level with some relevant accompanying comments.
- If costs of production fall producers may lower their prices causing the price level to fall (SRAS).
- If the quantity or quality of resources increase, it will become possible for the country's producers to make more goods and services – productive capacity will increase. Such an increase is also likely to reduce inflationary pressure.

L2 For an application of knowledge and critical understanding of how an increase in aggregate supply may affect output and inflation. (3 – 4)

Examples:
- An increase in aggregate supply may cause an increase in national output.
- An increase in aggregate supply may reduce inflationary pressure.

L1 For knowledge and understanding of aggregate supply. (1 – 2)

Examples:
- Aggregate supply is the total output all producers in the economy are willing and able to supply at a given price level.
- An increase in aggregate supply in the short run is caused by a reduction in the costs of production.
- An increase in aggregate supply in the long run is caused by an increase in the quantity or quality of resources.

Mark Scheme 2884
June 2007

INSTRUCTIONS ON MARKING SCRIPTS

Excerpts from the Instructions for Examiners booklet.

For many question papers there will also be subject or paper specific instructions which supplement these general instructions. The paper specific instructions follow these generic ones.

1 Before the Standardisation Meeting

Before the Standardisation Meeting you must mark a selection of at least 10 scripts. The selection should be drawn from several Centres. The preliminary marking should be carried out **in pencil** in strict accordance with the mark scheme. In order to help identify any marking issues which might subsequently be encountered in carrying out your duties, the marked scripts must be brought to the meeting.

2 After the standardisation meeting

a) Scripts must be marked in **red**, including those initially marked in pencil for the Standardisation Meeting.

b) All scripts must be marked in accordance with the version of the mark scheme agreed at the standardisation meeting.

c) **Annotation of scripts**

The purpose of annotation is to enable examiners to indicate clearly where a mark is earned or why it has not been awarded. Annotation can, therefore, help examiners, checkers, and those remarking scripts to understand how the script has been marked.

Annotation consists of:

- the use of ticks and crosses against responses to show where marks have been earned or not earned;
- the use of specific words or phrases as agreed at standardisation and as contained in the final mark scheme either to confirm why a mark has been earned or indicate why a mark has not been earned (eg indicate an omission);
- the use of standard abbreviations eg for follow through, special case etc.

Scripts may be returned to Centres. Therefore, any comments should be kept to a minimum and should always be specifically related to the award of a mark or marks and be taken (if appropriate) from statements in the mark scheme. General comments on a candidate’s work must be avoided.

Where annotations are put onto the candidates’ script evidence, it should normally be recorded in the body of the answer or in the margin immediately adjacent to the point where the decision is made to award or not award the mark.

d) **Recording of marking: the scripts**

i) Marked scripts must give a clear indication of how marks have been awarded, as instructed in the mark scheme.
ii) All numerical marks for responses to part questions should be recorded un-ringed in the right-hand margin. The total for each question (or, in specified cases, for each page) should be shown as a single ringed mark in the right-hand marking at the end of each question.
iii) The ringed totals should be transferred to the front page of the script, where they should be totalled.
iv) Every page of a script on which the candidate has made a response should show evidence that the work has been seen.
v) Every blank page should be crossed through to indicate that it has been seen.

e) **Handling of unexpected answers**

The standardisation meeting will include a discussion of marking issues, including:

I. a full consideration of the mark scheme in the context of achieving a clear and common understanding of the range of acceptable responses and the marks appropriate to them, and comparable marking standards for optional questions;
II. the handling of unexpected, yet acceptable answers.

There will be times when you may not be clear how the mark scheme should be applied to a particular response. In these circumstances, a telephone call to the Team Leader should produce a speedy resolution to the problem.

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, ie 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) With reference to Fig.1, summarise the trends in UK cinema admissions since 1946. **[2]**

Up to two marks in total, 1 for large fall '46 - '85 plus 1 for slight rise since then.
N.B only 1 without <u>both</u> date <u>and</u> relative size

(b) Explain **two** possible reasons why cinema attendances have risen in recent years and are forecast to continue to rise. **[4]**

There are several possible reasons which may be suggested - rise in incomes, increased quality of the experience of visiting cinemas, changed preferences, for example.
One mark for each correct identification, up to a maximum of two, plus a further one mark for each of two associated explanations.
Each explanation should be explicitly linked to the rise in attendances to gain the mark. (However, an answer may possibly identify reason[s] for fall in demand – eg rise of the DVD - and go on to consider sizes of countervailing forces ; this is also acceptable). An answer may, but need not, consider the forecast aspect.

(c) (i) Explain **two** possible reasons why the cinema industry is showing strong tendencies towards increasing concentration. **[4]**

One mark for each correct identification of a reason, up to a maximum of two marks, plus a further one mark for each of two associated explanations.
Valid reasons might include: To counteract the power of Hollywood distributors; to increase market share and so profit; to gain relevant economies of scale. The explanation should be linked explicitly to the tendency to increasing concentration to gain the mark.

(ii) Comment on the possible impact on consumers of increasing concentration in the cinema industry. **[4]**

Up to two marks for valid application/analysis plus up to two marks for a commentary/evaluation.
The analysis could refer to, for example, downsides to the consumer in the form of an increase in price or reduction in choice, though it must be applied explicitly to the cinema context to gain the full marks available. The commentary might refer to possible doubts as to whether these downsides would occur, or might explain possible countervailing benefits.
N.B OFR applies from incorrect interpretation from (c) (i)

(d) Discuss the possible consequences for the industry of the entry of the easyCinema. **[6]**

The analysis is likely to be in terms of reduced demand and/or profitability for existing firms, as they may be forced to cut prices in response.
The evaluation should establish criteria by which to judge, if only implicitly, and also consider possible pros and cons. The criteria are likely to be profit, or perhaps more generally efficiency. Consequences for the industry may be judged narrowly in terms of the firms in it, but may also consider consumers and/or employees.

Overall, up to 3 marks for valid explanation of 1 consequence, and up to 3 further marks for evaluation, which may address the likelihood or extent of this consequence or may consider some alternative outcome.

2 (a) Explain how the extent of poverty in an advanced industrial economy such as the UK can be measured. **[10]**

Meaning of poverty, in both absolute and relative terms. In absolute case, need to decide on what basket of goods to define as borderline - then use proportion of population below that level to measure the extent of poverty. In relative case, need for data on income distribution [which can be shown in diagram or numerically], and then to decide how far below the average to define as in poverty - again measured as a proportion.

Level 3 For an explanation of measurement, both absolute and relative. N.B needs consideration of extent [e.g. in percentage terms] for more than 8 marks. (7-10)

Level 2 For an application of knowledge and critical understanding of one measurement. (4-6)

Level 1 For some knowledge and understanding only of meaning of poverty. (1-3)

(b) Discuss the relative effectiveness of **two** different policies which could be used to reduce poverty in the UK. **[15]**

Identification of relevant policies. Explanation of how each is meant to achieve a significant reduction in poverty - which might be linked to [a], though it is not necessary here to deal with measures of poverty. An explicit comparison between the two policies needs to be made - eg that one targets absolute and the other relative poverty. Evaluation of the policies - eg whether or not it is likely to be effective, and why, or potential undesirable side-effects.
[nb A wide range of policies could be chosen - introduction, or raising, of minimum wage; targeted benefits, in cash or in kind; making taxation more progressive, including tax credits.]

Level 4 For an evaluative discussion, focusing on effectiveness/side-effects, with explicit comparison needed for more than 12 marks. (9-15)

Level 3 For an analysis of two relevant policies, with explanation of how they reduce poverty. (6-8)

Level 2 For application of knowledge and critical understanding of one policy, which may be applied to some extent to poverty. (3-5)

Level 1 For some knowledge and understanding only of one policy. (1-2)

3 (a) Using **two** contrasting occupations of your choice, explain what is meant by the 'net advantages' of an occupation. **[10]**

Explanation of "net advantages", to include monetary benefits, quasi-pecuniary benefits and non-monetary advantages and disadvantages of an occupation. Choice of two occupations, with net advantages of each explained. Explanation of the way in which they are contrasting.

Level 3 For an explanation of net advantages fully illustrated using two contrasting occupations, although a maximum of 8 marks if no negative aspects considered. (7-10)

Level 2 For application of knowledge and critical understanding of the concept with less than full application of two contrasting occupations. (4-6)

Level 1 Knowledge and understanding only of basic idea of the concept. (1-3)

(b) Occupations which seem to offer many attractions sometimes pay much higher wages than others which seem less attractive. Discuss possible reasons for this. **[15]**

Identification of occupations which illustrate the scenario - eg successful professional v unskilled manual. Explanation of supply and demand factors which determine relative net advantages of different occupations in general, and with specific reference to the two chosen occupations. Evaluation of at least two reasons given - eg the extent to which the reasons might apply, and why; or consideration of circumstances in which they might or might not apply. [Alternatively it would be perfectly acceptable to argue against the validity of the scenario]. Time period - long- or short-run - is likely to be an important aspect of an answer.

Level 4 For an evaluative discussion of at least two reasons for the scenario, with consideration of time period included, and the validity of the reasons assessed. Need to address the paradox/ scenario explicitly for more than 12 marks. (9-15)

Level 3 For an analysis of at least two reasons, linking the reasons explicitly to the wage differential. (6-8)

Level 2 For application of knowledge and critical understanding of the chosen occupations. (3-5)

Level 1 For knowledge and understanding only of basics of wage determination. (1-2)

4 (a) Explain why both the short-run and long-run supply of labour to an occupation are likely to rise with the hourly wage rate. **[10]**

Identification of supply of labour as quantity of labour supplied per time period at different wage rates. Explanation of different time periods - the long-run implying time for individuals to change occupation. Long-run supply an increasing function of wage because of objectives of [most] individual workers, who would wish to move to occupations which offer higher wages. [NB. consideration of other net advantages would be valid here]. Short-run supply of hours may be a decreasing function of wage rate for some individuals, because of income/leisure trade-off, but probably not so for a whole occupation - though it would be fine to dispute this.

Level 3 For an explanation of both long- and short-run supply. (7-10)

Level 2 For application of knowledge and critical understanding of either short- or long-run supply. (4-6)

Level 1 For knowledge and understanding only of basic idea of labour supply. (1-3)

N.B Can interpret short -run either as leisure/income trade off, or as a period with lower elasticity of supply.

(b) Discuss possible ways in which a government might attempt to increase the supply of labour to an occupation such as nursing in which there is thought to be a shortage. **[15]**

Explanation of possible reasons why there might be such a shortage, with recognition that it constitutes a market failure - why do market forces [increase in supply and/or fall in demand] not work to adjust? Explanation of possible government action - increased wages where it is the employer[and/or increase in other net advantages] ; increased investment in relevant training ; etc. Evaluation of the policies identified - the extent to which they might be successful, possible negative side-effects. [It is equally possible to argue that no action is appropriate].

Level 4 For an evaluative discussion of at least two policies, focusing on tackling reasons for the shortage, and the likely effectiveness of the chosen policies. N.B needs to be explicit on the nature of the shortage for more than 12 marks. (9-15)

Level 3 For an analysis of at least two relevant policies, explaining how the policies work to increase the supply of labour. (6-8)

Level 2 For application of knowledge and critical understanding of at least two policies. (3-5)

Level 1 For knowledge and understanding only of at least one policy. (1-2)

INSTRUCTIONS ON MARKING SCRIPTS

Excerpts from the Instructions for Examiners booklet.

For many question papers there will also be subject or paper specific instructions which supplement these general instructions. The paper specific instructions follow these generic ones.

1 Before the Standardisation Meeting

Before the Standardisation Meeting you must mark a selection of at least 10 scripts. The selection should be drawn from several Centres. The preliminary marking should be carried out **in pencil** in strict accordance with the mark scheme. In order to help identify any marking issues which might subsequently be encountered in carrying out your duties, the marked scripts must be brought to the meeting.

2 After the standardisation meeting

a) Scripts must be marked in **red**, including those initially marked in pencil for the Standardisation Meeting.

b) All scripts must be marked in accordance with the version of the mark scheme agreed at the standardisation meeting.

c) **Annotation of scripts**

The purpose of annotation is to enable examiners to indicate clearly where a mark is earned or why it has not been awarded. Annotation can, therefore, help examiners, checkers, and those remarking scripts to understand how the script has been marked.

Annotation consists of:

- the use of ticks and crosses against responses to show where marks have been earned or not earned;
- the use of specific words or phrases as agreed at standardisation and as contained in the final mark scheme either to confirm why a mark has been earned or indicate why a mark has not been earned (eg indicate an omission);
- the use of standard abbreviations eg for follow through, special case etc.

Scripts may be returned to Centres. Therefore, any comments should be kept to a minimum and should always be specifically related to the award of a mark or marks and be taken (if appropriate) from statements in the mark scheme. General comments on a candidate's work must be avoided.

Where annotations are put onto the candidates' script evidence, it should normally be recorded in the body of the answer or in the margin immediately adjacent to the point where the decision is made to award or not award the mark.

d) **Recording of marking: the scripts**

i) Marked scripts must give a clear indication of how marks have been awarded, as instructed in the mark scheme.
ii) All numerical marks for responses to part questions should be recorded un-ringed in the right-hand margin. The total for each question (or, in specified cases, for each page) should be shown as a single ringed mark in the right-hand marking at the end of each question.
iii) The ringed totals should be transferred to the front page of the script, where they should be totalled.
iv) Every page of a script on which the candidate has made a response should show evidence that the work has been seen.
v) Every blank page should be crossed through to indicate that it has been seen.

e) **Handling of unexpected answers**

The standardisation meeting will include a discussion of marking issues, including:

- a full consideration of the mark scheme in the context of achieving a clear and common understanding of the range of acceptable responses and the marks appropriate to them, and comparable marking standards for optional questions;
- the handling of unexpected, yet acceptable answers.

There will be times when you may not be clear how the mark scheme should be applied to a particular response. In these circumstances, a telephone call to the Team Leader should produce a speedy resolution to the problem.

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, ie 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 summarise the changes in trips per person between 1994 and 2004.

Up to two marks for correct identification of changes.
1 mark for each relevant change
eg more car trips
fall in walking trips
fall in bus / coach trips
fall in trips for other modes.

Final mark for critical understanding
eg of average number of trips per person per year or for comment that walking trips fell most or overall fall in number of trips.

Total marks (3)

b) On average people travelled 6,800 miles within Great Britain in 2004. (line 1-3)

Explain why miles travelled per person is a better measure of passenger transport demand than trips per person.

1 mark for statement that that miles travelled takes into account distance.

1 mark for critical understanding of why this is a better measure of passenger transport demand than trips per person
eg number of trips only considers passengers not passenger miles.

1 mark for further explanation
eg 1 longer trip could be equivalent of several smaller trips or measure of demand needs to be a composite measure of both distance per trip and number of trips per person over a period of time.

Total marks (3)

c) i) State and explain two possible economic reasons for the decline in the number of bus journeys outside London. (line 17)

1 mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations.

eg tastes continue to change in favour of car outside London due to convenience etc reducing the demand for bus journeys.
Price of bus journeys outside London have increased
Price of alternatives fallen relative to bus fares
Reduced subsidies to local bus companies.

Reward use of diagrams with appropriate explanation.

Total marks (4)

ii) Comment on <u>one</u> government transport policy aimed at reversing this decline.

1 mark for knowledge of transport policy aimed at reversing decline in number of bus journeys eg subsidies

1 mark for explanation of how named policy can achieve increase in bus patronage eg reducing costs, increasing supply and therefore reducing price.

2 marks for evaluative comment eg subsidies may not be directed at reducing price and just cover loss, low PED, YED of bus travel; comments need to be clearly underpinned by appropriate theory for 4 marks.

Total marks (4)

d) Discuss the extent to which these transport trends promote greater sustainability.

Up to two marks for an explanation/analysis, plus up to four marks for a commentary/evaluation.

2 marks for an explanation of sustainability; 1 mark if implicit, 1 mark for definition only.
eg Definition / explanation of sustainability.

2 further marks for judgements on whether trends identified in text are sustainable with appropriate understanding of sustainability – may only be a one-sided view.
eg Increase in car use and fall of use of other modes not sustainable. Walking and cycling most sustainable and both falling. Increased bus journeys in London and increased light railway and tram use are more sustainable.

2 marks for more sophisticated evaluative discussion; two-sided view with appropriate analytical underpinning.
eg includes underpinning analysis in terms of inter-generational resource use and also the issue of renewable energy sources v. non-renewable energy

Total marks (6)

Section B

2 a) Explain the likely effects of an increase in demand in an oligopolistic market.

Understanding of oligopoly as market with a few dominant producers and significant barriers to entry. Increase in demand likely to increase price and may attract new entrants. Final outcome on price and output dependent on extent of barriers to entry and how firms within the industry compete / collude / play safe. Reward use of any particular model. Reward diagrams where they add to understanding / explanation.

Level 3 For an explanation of the likely effects of an increase in demand in an oligopolistic market - at top end must explain various possible effects. (7-10)

Level 2 For application of knowledge and critical understanding of the likely effects of an increase in demand in an oligopolistic market.eg shows a clear understanding of pricing and output decisions in an oligopoly as a result of an increase in demand but lacks analysis. (4-6)

Level 1 For knowledge and understanding of the likely effects of an increase in demand or of an oligopolistic market. (1-3)

Total marks (10)

b) Discuss the impact of deregulation on the structure of the air passenger transport industry.

Deregulation of international air passenger industry in terms of removing regulation that acted as barriers to entry; evident in Europe and US but not necessarily worldwide. Entry of low-cost airlines on short-haul flights; judgements on whether this is a contestable market. Long haul flights between major hubs have seen increasing alliances between national flag carriers; barriers reinforced through such activity. Competition exists but many economies of scale suggest oligopoly more common in long haul. Deregulation has not removed all barriers eg ownership of take-off and landing slots at major airports –' use it or lose it' has encouraged alliances.

Level 4 For a discussion of the impact of deregulation on the structure of the air passenger industry underpinned by appropriate theory such as contestability. This will be more sophisticated at top end. (9-15)

Level 3 For an analysis of the impact of deregulation on the structure of the air passenger industry eg how removal of barriers has increased competition. (6-8)

Level 2 For an application of knowledge and critical understanding of the impact of deregulation on the structure of the air passenger industry eg importance of removing regulation in the industry – will lack analysis. (3-5)

Level 1 For knowledge and understanding of deregulation and / or the international air passenger transport industry. (1-2)

Total marks (15)

3 a) Explain how the environmental costs associated with transport use result in a misallocation of resources.

Explanation of environmental costs such as atmospheric pollution, noise, blight and visual intrusion in terms of external costs caused by transport users on third parties. MSC > MPC ; overconsumption leading to welfare loss. Reward use of diagram but it is not a requirement. Such costs are exacerbated by congestion – but it is not the costs of congestion that are required!

Level 3 For an explanation of how the environmental costs associated with transport use result in a misallocation of resources. Explanation of impact on third parties required at top end as well as analysis of market failure. (7-10)

Level 2 For application of knowledge and critical understanding of how the environmental costs associated with transport use result in a misallocation of resources. Must understand misallocation of resources in terms of overconsumption. (4-6)

Level 1 For knowledge and understanding of the environmental costs associated with transport use or market failure. (1-3)

Total marks (10)

b) Discuss the contribution that estimating such environmental costs can make towards correcting the market failure associated with increased transport use.

Explanation of calculation of estimates of environmental costs eg shadow pricing or use of surveys; use of such estimates in decision making for eg regarding the size of taxes on petrol, road building and the regulation of land use in an attempt to internalise the externalities / make the polluter pay. Evaluation in terms of inaccuracies involved in calculations / different possible outcomes / bias. Other factors need to be considered eg political influence of campaigners on both sides.

Level 4 For a discussion of the contribution that estimating environmental costs can make towards correcting the market failure associated with increased transport use. At top end judgements on contribution must be clearly underpinned with sound economic analysis eg in terms of resource allocation. (9-15)

Level 3 For an analysis of how estimates of environmental costs associated with increased transport use can be made or analysis of how market failure associated with increased transport use can be corrected. Both required at top end. (6-8)

Level 2 For an application of knowledge and critical understanding of how estimates of environmental costs can be used to address market failure associated with increased transport use. Will lack analysis of how estimates are made and how market failure associated with increased transport use can be corrected. (3-5)

Level 1 For knowledge and understanding of how estimates of environmental costs are made or how market failure can be corrected – but not applied..(1-2)

Total marks (15)

4 a) Explain the economic benefits of constructing new and improved motorways and trunk roads.

Private and external benefits of constructing new and improved roads. Private benefits to users of new road in terms of reduced congestion and therefore reduced time costs, reduced user costs and reduced accident costs. Increase in consumer surplus as such costs fall. Private benefits will also accrue to builders of road if they receive a toll or other payment. External benefits in terms of reduced congestion on existing roads. Possible external benefits to homeowners / businesses where congestion is reduced and / or communication improved.

Level 3 For an explanation of the economic benefits of constructing new and improved motorways and trunk roads. Explanation must distinguish between external and private benefits at top end. (7-10)

Level 2 For application of knowledge and critical understanding of the economic benefits of constructing new and improved motorways and trunk roads – in terms of reducing costs associated with congestion. (4-6)

Level 1 For knowledge and understanding of the benefits of road construction. (1-3)

Total marks (10)

b) Discuss whether forecasts of demand for road traffic on their own should be the basis for making decisions on road construction.

Explanation of how forecasts of demand for road traffic are calculated; extrapolation of past trends; use of GNP / social trends data etc. combined with YED figures. Explanation of use of such figures to aid decisions on road construction. Evaluation in terms of explanation of difficulties making forecasts of future and the need to consider economic costs as well. Explanation of private and particularly external costs required for top L4 answer. Expect answers to give CBA framework. NB COBA not an extensive model. Recent strategy does promote a more sustainable approach including an Environmental Impact Assessment.

Level 4 For a discussion of whether forecasts of demand for road traffic on their own should be the basis for making decisions on road construction. Requires clear judgement of role of forecasts for decision making based on appropriate analysis at top end. (9-15)

Level 3 For an analysis of how forecasts of demand for road traffic are made and how they aid decisions on road construction and / or explanation of CBA generally without judgement on question set. (6-8)

Level 2 For an application of knowledge and critical understanding of extent to which forecasts are used to aid decisions on road construction eg within CBA without relevant analysis on how they are calculated or explanation of costs. (3-5)

Level 1 For knowledge and understanding of forecasts of demand for road transport or CBA. (1-2)

Total marks (15)

Mark Scheme 2886
June 2007

INSTRUCTIONS ON MARKING SCRIPTS

Excerpts from the Instructions for Examiners booklet.

For many question papers there will also be subject or paper specific instructions which supplement these general instructions. The paper specific instructions follow these generic ones.

1 Before the Standardisation Meeting

Before the Standardisation Meeting you must mark a selection of at least 10 scripts. The selection should be drawn from several Centres. The preliminary marking should be carried out **in pencil** in strict accordance with the mark scheme. In order to help identify any marking issues which might subsequently be encountered in carrying out your duties, the marked scripts must be brought to the meeting.

2 After the standardisation meeting

a) Scripts must be marked in **red**, including those initially marked in pencil for the Standardisation Meeting.

b) All scripts must be marked in accordance with the version of the mark scheme agreed at the standardisation meeting.

c) **Annotation of scripts**

The purpose of annotation is to enable examiners to indicate clearly where a mark is earned or why it has not been awarded. Annotation can, therefore, help examiners, checkers, and those remarking scripts to understand how the script has been marked.

Annotation consists of:

- the use of ticks and crosses against responses to show where marks have been earned or not earned;
- the use of specific words or phrases as agreed at standardisation and as contained in the final mark scheme either to confirm why a mark has been earned or indicate why a mark has not been earned (eg indicate an omission);
- the use of standard abbreviations eg for follow through, special case etc.

Scripts may be returned to Centres. Therefore, any comments should be kept to a minimum and should always be specifically related to the award of a mark or marks and be taken (if appropriate) from statements in the mark scheme. General comments on a candidate's work must be avoided.

Where annotations are put onto the candidates' script evidence, it should normally be recorded in the body of the answer or in the margin immediately adjacent to the point where the decision is made to award or not award the mark.

d) **Recording of marking: the scripts**

i) Marked scripts must give a clear indication of how marks have been awarded, as instructed in the mark scheme.
ii) All numerical marks for responses to part questions should be recorded unringed in the right-hand margin. The total for each question (or, in specified cases, for each page) should be shown as a single ringed mark in the right-hand marking at the end of each question.
iii) The ringed totals should be transferred to the front page of the script, where they should be totalled.
iv) Every page of a script on which the candidate has made a response should show evidence that the work has been seen.
v) Every blank page should be crossed through to indicate that it has been seen.

e) **Handling of unexpected answers**

The standardisation meeting will include a discussion of marking issues, including:

- a full consideration of the mark scheme in the context of achieving a clear and common understanding of the range of acceptable responses and the marks appropriate to them, and comparable marking standards for optional questions;
- the handling of unexpected, yet acceptable answers.

There will be times when you may not be clear how the mark scheme should be applied to a particular response. In these circumstances, a telephone call to the Team Leader should produce a speedy resolution to the problem.

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, ie 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.

(a) (i) Explain why changes in real GDP per capita, rather than GDP, are used in some measures of economic development.

[2]

Removes the effect of inflation (1), allows for different sized populations (1)

(ii) Use Fig.1 to compare the performance of Sierra Leone and South Korea in achieving growth in real GDP per capita. [3]

Korea more successful (1), Korea positive/Sierra Leone negative (1), Korea GDP rose fourfold (1), Sierra Leone GDP halved (1), one mark per point.

(b) (i) Explain how high levels of

- **real GDP per capita and**
- **primary school enrolment contribute to economic growth. [4]**

High real GDP per capita influences income and hence saving and investment, it also improves health and hence productivity. 2 marks maximum
High enrolment improves literacy and numeracy, will raise productivity/ skills levels 2 marks.maximum
Each element up to a maximum of 2 marks with a maximum of 4 marks for the whole

(ii) Using Fig.2, comment on how the two countries' levels of development compare with that of a developed economy.

[5]

Sierra Leone is poorer in all aspects, so is a low income, least developed economy. Korea sometimes approaches equality, but there are exceptions e.g. GDP per capita and improved water access, so is a lower end, high income or newly industrialised economy. Detailed features of developed economy. Criticism of validity of data. Reasoned conclusion on comparative development.
1 mark for application, 2 marks for analysis and 2 marks for evaluation.

(c) Discuss the view that low levels of development are the fault of the developing countries themselves. [6]

Their own responsibility may include poor economic management, cultural attitudes, resistance to change and corrupt and unstable government
Against this poor factor endowment may exist. Other external influences may include past dependency, unequal economic power, biased trade arrangements and unrepresentative international institutions. While developing economies may have contributed to the problem, the obstacles that they face are often beyond their control.
2 marks for analysis of the influences, 4 marks for evaluation of their significance and an overall conclusion.

2 (a) Explain why sustainable development is desirable. [10]

Development raises the quality of life across an economy. Sustainable development involves meeting the needs of present generations without compromising the needs of future generations and is concerned with intergenerational welfare and husbanding resources. This involves maintaining the stock of man-made, human and natural wealth. Economic growth may increase development in some ways but harm future development particularly in terms of the stock of natural resources and the environment. Failure to make development sustainable might mean falling quality of life for future generations. Damage to sustainability may be irreversible so harming development permanently.

Level 3 For an explanation of the desirability of sustainable development (7-10)

Level 2 For an application of knowledge and critical understanding of sustainable development (4-6)

Level 1 For knowledge and understanding of sustainable development (1-3)

(b) Discuss the extent to which the actions of multinational companies are likely to promote sustainable development.

[15]

MNCs invest in developing economies to make profits. As long as they act ethically they may encourage sustainable development. Their policies may reveal awareness of the issues of sustainability. They may introduce efficient methods, co-operate with government policies, improve human capital and capital stock and raise the quality of life.
Against this they may exploit developing economies by paying low wages, may avoid paying taxes, may encourage urban migration, may exhaust natural resources, may create external costs, may harm local cultures and may create greater inequality. These would be anti-developmental and need to be linked to sustainability. The conflict arises from the contrasting aims of profit maximization and sustaining levels of development. There is more awareness on the part of MNCs of criticisms of their traditional approach and the possibility that regulation may affect their profitability.
A higher L4 may refer to specific cases of the damage done. A basic L4 may discuss some aspects of the behaviour of MNCs.

Level 4 For a discussion of the extent to which MNCs are likely to promote sustainable development (9-15)

Level 3 For an analysis of the contribution or harm to sustainability made by MNCs (6-8)

Level 2 For the application of knowledge and critical understanding of MNCs' activities (3-5)

Level 1 For knowledge and understanding of MNCs (1-2)

3 (a) Explain the importance of industrialisation for developing countries. [10]

Industrialisation is the process of moving production from the primary to secondary sector, so that manufacturing predominates over agriculture. It may also be interpreted as applying industrial methods to all forms of production. Manufacturing is seen as an engine for growth bringing more employment, higher incomes, higher productivity, technical progress and greater value added. It has been the traditional method of achieving growth and features in Rostow's analysis. The outcome would be faster growth with the potential for higher living standards and greater development.

Level 3	For explanation of the importance of industrialisation for developing countries (7-10)
Level 2	For application of knowledge and critical understanding of the effects of industrialisation (4-6)
Level 1	For knowledge and understanding of industrialisation (1-3)

(b) Discuss whether or not balanced growth is an appropriate policy for a developing country. [15]

Balanced growth involves the government injecting large scale investment in setting up a wide range of industries. The industries would trade with each other, would boost investment, expand the size of the domestic market and create external economies. Economic growth would result. The policy requires state intervention and is the basis of the 'big push' approach and involves the use of planning. The policy faces a number of difficulties: The required managerial skills may not exist, resources may be insufficient, the planning process may be inefficient, agriculture may be neglected. It contradicts comparative advantage and it has failed in command economies. It contrasts to the policy of unbalanced growth. Higher L4 may consider the effectiveness of the policy in practice. Basic L4 may discuss some of the benefits and problems of the approach.

Level 4	For a discussion of the appropriateness of a policy of balanced growth for a developing country (9-15)
Level 3	For an analysis of the benefits or problems of balanced growth for a developing country (6-8)
Level 2	For an application of knowledge and critical understanding of balanced growth for developing economies (3-5)
Level 1	For knowledge and understanding of balanced growth for developing countries (1-2)

4 Developed countries have been criticised for encouraging the privatisation of public utilities, such as water supply, as part of structural adjustment programmes in developing countries.

(a) Explain why the World Bank believes that some developing economies require structural adjustments. [10]

The poor economic performance of developing economies has been blamed on excessive state control, inflexibility, lack of competitiveness, budget deficits, trade deficits and resistance to change. These have been linked to the lack of market influences and a weak supply side. The outcome of the present structure has been poor living standards and low levels of development. A move from state control to the market is required. Structural adjustment is necessary to speed up change, improve efficiency and raise levels of development. It would be achieved by market methods and reduced regulation.

Level 3 For an explanation of the need for structural adjustments within developing economies (7-10)

Level 2 For an application of knowledge and critical understanding of structural weaknesses within developing economies (4-6)

Level 1 For knowledge and understanding of structural weaknesses /need for structural adjustment within developing economies (1-3)

(b) Discuss the extent to which structural adjustment programmes necessarily promote economic development. [15]

Structural adjustment programmes(SAPs) are promoted by the World Bank to re-structure the economies of developing countries. They favour market solutions and may involve deflationary policies, reduction of government intervention, devaluations, greater reliance on private enterprise and extensive use of markets. Loans and assistance may be conditional upon their implementation. They intend to promote economic efficiency, macro-stability and international competitiveness. They are criticised for harming poorer citizens, reversing previous development and concentrating on growth rather than development. They are said to reflect the needs of the developed world at the expense of developing economies and they may increase dependency.
A higher L4 may refer to recent experience of the implementation of SAPS. A basic L4 may discuss some benefits and harms which result from the programmes.

Level 4 For a discussion of the effects of SAPs in promoting economic development (9-15)

Level 3 For an analysis of the benefits or harm from SAPs in promoting economic development (6-8)

Level 2 For an application of knowledge and critical understanding of SAPs (3-5)

Level 1 For knowledge and understanding of SAPs (1-2)

Mark Scheme 2887
June 2007

INSTRUCTIONS ON MARKING SCRIPTS

Excerpts from the Instructions for Examiners booklet.

For many question papers there will also be subject or paper specific instructions which supplement these general instructions. The paper specific instructions follow these generic ones.

1 Before the Standardisation Meeting

Before the Standardisation Meeting you must mark a selection of at least 10 scripts. The selection should be drawn from several Centres. The preliminary marking should be carried out **in pencil** in strict accordance with the mark scheme. In order to help identify any marking issues which might subsequently be encountered in carrying out your duties, the marked scripts must be brought to the meeting.

2 After the standardisation meeting

a) Scripts must be marked in **red**, including those initially marked in pencil for the Standardisation Meeting.

b) All scripts must be marked in accordance with the version of the mark scheme agreed at the standardisation meeting.

c) **Annotation of scripts**

The purpose of annotation is to enable examiners to indicate clearly where a mark is earned or why it has not been awarded. Annotation can, therefore, help examiners, checkers, and those remarking scripts to understand how the script has been marked.

Annotation consists of:

- the use of ticks and crosses against responses to show where marks have been earned or not earned;
- the use of specific words or phrases as agreed at standardisation and as contained in the final mark scheme either to confirm why a mark has been earned or indicate why a mark has not been earned (eg indicate an omission);
- the use of standard abbreviations eg for follow through, special case etc.

Scripts may be returned to Centres. Therefore, any comments should be kept to a minimum and should always be specifically related to the award of a mark or marks and be taken (if appropriate) from statements in the mark scheme. General comments on a candidate's work must be avoided.

Where annotations are put onto the candidates' script evidence, it should normally be recorded in the body of the answer or in the margin immediately adjacent to the point where the decision is made to award or not award the mark.

d) **Recording of marking: the scripts**

i) Marked scripts must give a clear indication of how marks have been awarded, as instructed in the mark scheme.
ii) All numerical marks for responses to part questions should be recorded unringed in the right-hand margin. The total for each question (or, in specified cases, for each page) should be shown as a single ringed mark in the right-hand marking at the end of each question.
iii) The ringed totals should be transferred to the front page of the script, where they should be totalled.
iv) Every page of a script on which the candidate has made a response should show evidence that the work has been seen.
v) Every blank page should be crossed through to indicate that it has been seen.

e) **Handling of unexpected answers**

The standardisation meeting will include a discussion of marking issues, including:

- a full consideration of the mark scheme in the context of achieving a clear and common understanding of the range of acceptable responses and the marks appropriate to them, and comparable marking standards for optional questions;
- the handling of unexpected, yet acceptable answers.

There will be times when you may not be clear how the mark scheme should be applied to a particular response. In these circumstances, a telephone call to the Team Leader should produce a speedy resolution to the problem.

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, ie 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) i) Apart from investment spending, identify the two other components of domestic demand? [2]

Consumption spending	1 mark
Government spending	1 mark

ii) With reference to Fig. 1, explain what happened to domestic demand and real GDP from 2004 to 2005. [2]

Both increased in real terms	1 mark
By a decreasing amount	1 mark

Reference to percentage ***change*** *is acceptable.*

iii) In 2004, the percentage changes in real GDP and domestic demand in real terms were not the same. Explain one possible reason for this. [2]

The influence of net external trade(X-M)	2 marks
A valid reference made to the current account	2 marks
If referring to the Balance of Payments	1 mark

Accept any plausible development for the additional mark.

b) i) With reference to Fig. 2, compare the UK's productivity in 2002 with that of the USA and France. [3]

UK productivity lower on both measures 2 marks

Either Gap with USA narrows when using GDP per hour worked
(Or Gap with USA widens when using GDP per worker) 1 mark

Either gap with France widens when using GDP per hour worked
(Or Gap with France narrows when using GDP per worker) 1 mark

(If reference is made to only one country then a maximum of 2 marks)

ii) Comment on the extent to which relatively low productivity may reduce the international trade competitiveness of 'UK companies'. [5]

Up to 2 marks for analysis/explanation of either how it might OR might not reduce competitiveness.

Candidates should explain the link between low productivity & competitiveness. For example how, ceteris paribus, lower productivity raises relative unit labour costs - this reduces profit margins or forces UK firms to raise prices.

Up to 3 marks for commentary on, for example,
- Other factors influencing price competitiveness wage rates, non-wage costs, ER
- Role of non-price factors eg quality, reliability, design, service

- Productivity position may be better than suggested
  - data may be outdated
  - problems of using average, aggregate figures
  - disaggregated data will indicate inter/intra-industry variations
  - UK aggregate productivity may be higher than some countries (Japan)

One point which is well developed can gain all 3 marks for commentary.

c) Discuss whether policy 'aimed at increasing capital investment spending by UK companies' will close the 'productivity gap'. (lines 11-12) [6]

Candidates should explain how productivity enhancing capital investment could be stimulated by, for example, fiscal incentives or by maintaining macroeconomic stability to facilitate longer term corporate planning.
Answers should incorporate discussion on why investment spending might not respond – company investment decisions are based on a range of factors. Many of these are outside the government's control especially since monetary policy is now the responsibility of an independent Bank of England. Furthermore, increased investment may not, in itself, be sufficient to improve productivity because of, for example, the relatively low quality of management and the workforce using that capital. This raises issues related to the skills gap in the UK workforce. Given the nature of the productivity gap, candidates may also comment on the requirement for UK productivity growth to exceed that of other industrialised countries.

Up to 2 marks for analysis of how investment will OR will not close the productivity gap/or for analysis of the policy response.

Up to 4 marks for discussion

Section B

2 Most Central Banks hold reserves of foreign currencies and other assets in case they need to intervene to prevent large fluctuations in the foreign exchange value of their currency. Records show that, during 2004-05, the Bank of England chose not to intervene in the foreign exchange market in this particular way.

a) With the use of a diagram, explain how the Bank of England could prevent large fluctuations in the sterling exchange rate. [10]

Candidates should use an accurate diagram(s) to explain how exchange rate intervention though buying/selling foreign currency/assets from the EEA and selling/buying sterling in the Forex markets can prevent or reduce the extent of changes in the Forex value of the currency.

They could also explain how interest rate changes can be used to exert direct and indirect influence on the ER – this should also be illustrated diagrammatically.

Level 3 For an explanation with a correct diagram of how the BoE can intervene to prevent large fluctuations in the exchange rate (7 – 10)

A valid explanation with an incorrect (or no) diagram – Max 8 marks.

Level 2 For application of knowledge and critical understanding of BoE intervention in Forex markets (4 – 6)

Level 1 For knowledge/understanding of exchange rates or intervention in Forex markets (1 – 3)

b) Discuss the extent to which the foreign exchange value of a currency should be determined solely by market forces. [15]

Candidates should explain the advantages and disadvantages of a floating exchange rate system where 'free' market forces determine the ER.

The principal areas of discussion might focus upon the problems of trade; impacts upon KPIs; how significant is international trade to an economy's performance; links to the Euro.

Level 4 For a discussion of the extent to which the foreign exchange value of a currency should be determined solely by market forces. (9 – 15)

Level 3 For analysis of the impacts of a floating exchange rate system on an economy (6 – 8)

Level 2 For application of knowledge and critical understanding of the impacts of the exchange rate on the economy (3 – 5)

Level 1 For descriptive knowledge of relevant issues or relevant assertions about exchange rates. (1 – 2)

3 Between 2000 and 2004, the faster growing major industrialised economies including the UK had relatively low savings rates. The slower growing comparable economies over this period, such as Germany, had relatively high savings rates.

a) Explain the main factors that affect the level of savings in the UK economy. [10]

Candidates would be expected to refer to the factors that influence the willingness and ability to save of households, but may make reference to the corporate and public sectors.

Since answers are likely to focus on household savings, the expected areas of coverage include growth of real disposable income, the attractiveness of saving (including expected returns of different types of savings), the influence of financial institutions and government policy (regulation, incentives and welfare provision) as the main influences. Others could include demographic factors and expectations.

There should be a genuine attempt to explain by commenting on the nature of the relationship between the variables rather than a list-like approach.

Level 3 For an explanation of the main factors that affect the level of savings (7 – 10)

Level 2 For application of knowledge and critical understanding of influences on savings in a UK context (4 – 6)

Level 1 For knowledge of the concept of savings or a series of assertions related to saving (1 – 3)

b) Discuss whether an increase in the UK's savings rate will lower the country's rate of economic growth. [15]

Growth is influenced by a range of factors other than the savings rate so candidates should explore the nature, strength and even direction of the causal links between savings rates and growth.

In the 'short run', ceteris paribus, higher savings rates (S/Y) could lower growth of real GDP by reducing consumption spending and AD (the paradox of thrift). Changes in the marginal propensity to save may also affect the value of the multiplier.

Over time, however, domestic savings may be linked to capital investment – diverting resources away from current consumption is necessary for increasing the productive capacity of the economy. So a higher savings rate, if it promotes more investment, may increase the level and rate of growth or real GDP – although, of course, faster growth may also generate additional problems.

The long run effect depends on several factors including the type of investment that occurs (especially the technological advances it may embody) and the effectiveness with which it is used. The relationship between domestic savings and investment has been complicated in recent years by the increased international mobility of financial capital. UK savings may 'flow' overseas and UK companies (and households) may be able to acquire finance from overseas sources, reducing their reliance on domestic savings. Candidates may also refer directly to the impact that FDI has had on the UK economy in recent years.

Level 4 For a discussion of the positive or negative impact of savings on economic growth (9 – 15)

Level 3 For analysis of why/how higher savings may affect growth rates (6 – 8)

Level 2 For application of knowledge and critical understanding of savings rates and growth rates (3 – 5)

Level 1 For descriptive knowledge of relevant issues or relevant assertions about the impact of higher savings (1 – 2)

4 In general, poorer UK households enjoyed greater real income growth in 2003/4 than richer ones. This was the third successive year that income inequality had fallen and was due, in part, to a large of package of redistributive measures from government.

a) Explain how changes in income inequality can be measured. [10]

Candidates should demonstrate an understanding of how the quintile group, decile ratio (P_{90}/P_{10}) or the Lorenz curve can be used to measure inequality at one point in time. Correct explanation of the Gini coefficient should be rewarded but is not required.

They should then also explain how changes in income inequality can be measured for example, decile ratio increases/ Lorenz moves away from diagonal (Gini coefficient increases towards 1).

Comments that refer to a valid alternative measure of income especially real disposable income or real equivalised income should also be rewarded.

Level 3 For an explanation of how changes in income inequality can be measured (7 – 10)

Maximum of 8 marks if the change is not explicitly explained.

Level 2 For application of knowledge and critical understanding of how income inequality is measured (4 – 6)

Level 1 For knowledge of measures of income inequality or a series of relevant but general assertions (1 – 3)

b) Discuss whether 'greater real income growth' will necessarily lead to a higher standard of living in the UK. [15]

Candidates should show awareness of the definitional and measurement problems. Most would agree that people's living standards are determined by more than just their material circumstances. It is however extremely hard to define an objective index of human well-being or happiness, let alone to measure it!

Candidates could therefore discuss a variety of factors including:

- 'Adjustment issues' to calculate an appropriate measure of 'average income' eg which measure of inflation, allowances for tax and welfare benefits, demographic factors, and equivalence scale adjustments for different types of household
- Falling inequality does not necessarily eliminate poverty (especially pensioner and child poverty) In 2004 the Gini coefficient was slightly above its 1997 level.
- Role of wealth – ownership rates of key assets

- Omissions from national income data - non-marketed activity – legal and illegal
- Availability and price of public/welfare services (health care, education, other welfare services)
- Quality of life issues (environmental issues, working conditions

The approach to living standards taken in HBAI surveys is to focus solely on material circumstances, and to use real disposable income (from all sources) as a simple proxy for the standard of living.
Candidates may refer to other relevant 'indicators of SoL (eg ISEW, MEW, HDI, misery index).
They may justifiably query the sustainability of such changes which result from significant income redistribution by government.

Level 4 For a discussion of whether growing real household income will ***necessarily*** lead to improvements in the 'standard of living' (9 – 15)

Level 3 For analysis of how growing real household income can lead to improvements in the standard of living (6 – 8)

Level 2 For application of knowledge and critical understanding of how growing real household income might affect the SoL (3 – 5)

Level 1 For descriptive knowledge of relevant issues or relevant assertions about the standard of living (1 – 2)

Mark Scheme 2888
June 2007

INSTRUCTIONS ON MARKING SCRIPTS

Excerpts from the Instructions for Examiners booklet.

For many question papers there will also be subject or paper specific instructions which supplement these general instructions. The paper specific instructions follow these generic ones.

1 Before the Standardisation Meeting

Before the Standardisation Meeting you must mark a selection of at least 10 scripts. The selection should be drawn from several Centres. The preliminary marking should be carried out **in pencil** in strict accordance with the mark scheme. In order to help identify any marking issues which might subsequently be encountered in carrying out your duties, the marked scripts must be brought to the meeting.

2 After the standardisation meeting

a) Scripts must be marked in **red**, including those initially marked in pencil for the Standardisation Meeting.

b) All scripts must be marked in accordance with the version of the mark scheme agreed at the standardisation meeting.

c) **Annotation of scripts**

The purpose of annotation is to enable examiners to indicate clearly where a mark is earned or why it has not been awarded. Annotation can, therefore, help examiners, checkers, and those remarking scripts to understand how the script has been marked.

Annotation consists of:

- the use of ticks and crosses against responses to show where marks have been earned or not earned;
- the use of specific words or phrases as agreed at standardisation and as contained in the final mark scheme either to confirm why a mark has been earned or indicate why a mark has not been earned (eg indicate an omission);
- the use of standard abbreviations eg for follow through, special case etc.

Scripts may be returned to Centres. Therefore, any comments should be kept to a minimum and should always be specifically related to the award of a mark or marks and be taken (if appropriate) from statements in the mark scheme. General comments on a candidate’s work must be avoided.

Where annotations are put onto the candidates’ script evidence, it should normally be recorded in the body of the answer or in the margin immediately adjacent to the point where the decision is made to award or not award the mark.

d) **Recording of marking: the scripts**

i) Marked scripts must give a clear indication of how marks have been awarded, as instructed in the mark scheme.
ii) All numerical marks for responses to part questions should be recorded un-ringed in the right-hand margin. The total for each question (or, in specified cases, for each page) should be shown as a single ringed mark in the right-hand marking at the end of each question.
iii) The ringed totals should be transferred to the front page of the script, where they should be totalled.
iv) Every page of a script on which the candidate has made a response should show evidence that the work has been seen.
v) Every blank page should be crossed through to indicate that it has been seen.

e) **Handling of unexpected answers**

The standardisation meeting will include a discussion of marking issues, including:

- a full consideration of the mark scheme in the context of achieving a clear and common understanding of the range of acceptable responses and the marks appropriate to them, and comparable marking standards for optional questions;
- the handling of unexpected, yet acceptable answers.

There will be times when you may not be clear how the mark scheme should be applied to a particular response. In these circumstances, a telephone call to the Team Leader should produce a speedy resolution to the problem.

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, ie 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 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 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) Using the data in Extract 1, compare:

the output of the textile and clothing industries in Italy with that in the UK over the period 1990 – 2001;

Synoptic knowledge
Data handling skills are being tested here, so explicit comparisons are required rather than data regurgitation which scores zero marks.

Outline of content
Valid description might include (the bullet point lists are not intended to be exhaustive – other valid comparisons should be credited):

- *Italian output increased over the whole period, whereas UK output decreased. (Alternatively, 1990-95 UK output declines whereas Italian output rises, 1995-2001 UK output declines whereas Italian output is broadly stable).*
- *The increase in Italian output (9%) is less than the decrease in UK output (36%)*
- *Italy's textile and clothing industries' share of manufacturing output has remained broadly stable over the period, whereas that in the UK has almost halved.*
- *Italian output <u>varies</u> more, UK output shows near constant decline.*

1 mark each for valid comparison.
Where comparisons are quantified with valid data manipulation an additional mark should be awarded.
Maximum of 4 marks for comparisons of output

the EU's external trade in textiles with that of clothing over the period 1988 – 2002.

[6]

Synoptic knowledge
Data handling skills are being tested here, so explicit comparisons are required rather than data regurgitation which scores zero marks.

Outline of content
Valid description might include (the bullet point lists are not intended to be exhaustive – other valid comparisons should be credited):

- *Exports of both clothing and textile increased over the period*
- *The growth in exports of both was similar (just over 100%)*
- *Imports of clothing and textile both increased over the period*
- *The growth in imports of clothing (266%) was much more pronounced than that of textile (20-25%)*
- *The deficit in trade in clothing increased over the period, whilst a deficit became a surplus in textiles*
- *The value of trade (exports* ***and*** *imports) of EU clothing increased more than the value of trade of EU textiles over the period*
- *The value of trade (exports* ***and*** *imports) of both EU clothing and textiles increased over the period*

1 mark each for valid comparison.
Where comparisons are quantified with valid data manipulation an additional mark should be awarded.
Maximum of 4 marks for comparisons of external trade

Overall maximum of 6 marks for this question.

(b) Analyse why the Italian textile and clothing industries are more price competitive than those in the UK. [9]

This question is rooted in concepts first introduced in Module 2881.
Extract 2 identifies differences in unit costs as the reason for the greater price competitiveness.
Candidates should, therefore, recognise and analyse the nature of economies of scale and changes in the exchange rate. Other determinants of changes in competitiveness could be used by candidates – for example, changes in productivity and unit labour costs, especially in relation to an analysis of relative prices, and changes in the exchange rate.

Outline of content
Extract 2 focuses on factors determining unit costs. These include a larger scale of production and different organisation of production. Candidates should make the link to economies of scale. Level 3 responses should expand on this critical understanding of the Extract material by making links to the nature and types of economies of scale. This may be in terms of technical economies, etc. The highest marks should be reserved for those who make a distinction between internal and external economies of scale in relation to the 'clustering' of textile and clothing firms in Italy. For example, there are references to sharing of costs, specialist labour available to all firms and skilled/trained labour on a scale not seen in the UK.

Where other determinants of price competition are used by candidates, the levels below should be adapted for the particular determinant chosen.

Level 3 For explicit economic analysis of why the Italian textile and clothing industries are more price competitive than those in the UK. Nature and types of economies of scale (and/or other relevant concepts, such as productivity, unit labour costs, etc) must be explained in order for marks in this level to be awarded. Two well developed reasons are necessary for the top mark in this level. [7 – 9]

Level 2 For an application of knowledge and critical understanding (ie no economic analysis) of why the Italian textile and clothing industries are more price competitive than those in the UK. In this level it is necessary for candidates to recognise the application of the concept of economies of scale (EoS). However, they will not explain the sources of economies of scale (EoS) in relation to the Extract. There may be assertions, along with a long run average cost (LRAC) diagram. [4 – 6]

Level 1 For knowledge and understanding of what is meant by price competitiveness and how it might be determined. Simple statements are likely in this level with no application or analysis. [1 – 3]

2 Comment on the case for government intervention to reduce the negative externalities associated with the production of textiles and clothing. [10]

Synoptic knowledge
Clearly rooted in Module 2882, nature of market failure, methods of intervention and potential government failure. Also role of the market vs intervention.

Outline of content
Case for government intervention should include an analysis of the nature and cause of market failure in the presence of negative externalities. The level of analysis expected is that of concepts of social and private costs. Expect to see explanation of the divergence between the two, probably using an MPC/MSC diagram. Nature of market failure in terms of over-production/consumption, allocative inefficiency, P<MSC. Case for government intervention will be related to the internalisation of negative externalities, optimum output and improvement in resource allocation. Reference to 'polluter pays' principle.

Commentary on the case for government intervention can take many different forms. Any one, done well, can score high marks. Stated points of evaluation only, will score at the bottom of Level 4. Only developed points of evaluation can be awarded mid or top marks in Level 4. Answers which recognise two sides to a case, but lack ANY underlying conceptual framework will show a critical understanding only and will be awarded Level 2 marks.

Comments might include (the list should not be taken as exhaustive of the commentary which could be offered):
- *Dependent on ability to set optimal tax, regulation, etc*
- *If not optimal, government intervention may create rather than remove inefficiencies*
- *Ability to place monetary value on negative externalities*
- *Extent to which 'green production' may be adopted by firms (the example of Röhmer)*
- *Power of 'green consumerism'*
- *Price elasticity of demand for clothing and textile*
- *Impact on international competitiveness*
- *Method of intervention chosen*
- *Impact on income distribution.*
- *Impact on LDC's*
- *Case for EU wide/global intervention/agreement rather than just by a single government.*

Level 4	For a commentary on the case for government intervention to reduce the negative externalities associated with the production of textiles and clothing. [8 - 10]
Level 3	For explicit economic analysis of either the case for **or** the case against government intervention to reduce the negative externalities associated with the production of textiles and clothing. [5 – 7]
Level 2	For an application of knowledge and critical understanding (ie no economic analysis) ofthe case for **and/or** the case against government intervention to reduce the negative externalities associated with the production of textiles and clothing. Alternatively, application and critical understanding of methods of intervention only. [3 – 4]
Level 1	For knowledge and understanding of the negative externalities and/or methods of intervention only. [1 – 2]

3 Comment on the problems of unemployment in Italy created by increased competition in the global textile and clothing industries. [15]

Synoptic knowledge
Clearly rooted in Module 2883 and the causes and consequences of unemployment and policies to reduce unemployment.

Outline of content
Candidates can be expected to explain and analyse the problems of unemployment. The standard approach is likely to be in terms of the costs of unemployment: financial cost to the unemployed; costs to the economy of lost output (actual output below potential output = opportunity cost); multiplier effects of unemployment; costs of unemployment to the government in terms of lost tax revenues and higher expenditure on benefits; costs to firms in terms of lost sales and profits, lower levels of investment; social costs of unemployment (crime etc). The problems/costs of unemployment should be explained analytically rather than just stated.

Commentary on the problems should seek to establish a view of the significance of the costs and / or an awareness of what the problems depend upon. 'It depends' statements should be developed and explained, rather than listed for high marks in Level 4 to be awarded. Candidates might argue, for example, that the problems of unemployment depend on the persistence of unemployment – costs to individuals probably increase the longer someone is unemployed. There is a greater problem with long-term unemployment than short-term, frictional unemployment. This may be explained in terms of de-skilling of the unemployed or the emergence of skills mismatches which prolong the period of unemployment. The problems, then, depend on the mobility of labour and the ability of the economy to absorb the unemployed through the generation of new employment. This is likely to be easier in a period of high economic growth or where alternative employment is available. The Extract material suggests that the problems of unemployment are more severe in regions where the industrial base is narrow. An alternative evaluative approach is to consider the extent of the problems in terms of the extent of the unemployment created and the size of multiplier effects in the regions affected. Policy responses to unemployment also determine the extent of the problems of unemployment. It is likely that some candidates will show how the problems of unemployment can be reduced by appropriate supply side policies. Yet another approach is to consider the response of the textile and clothing industries in adapting to increased global competition. Typical responses might be plant closure, plant relocation, increases in labour productivity or moves to increase value added. These responses will each have different impacts on the costs of unemployment.

Level 4	For a commentary on the problems of unemployment in Italy created by increased competition in the global textile and clothing industries. Developed comments can be awarded up to 12 marks (i.e. a series of **points** of evaluation only). Developed commentary on any **one** issue should be awarded 13+ marks. [10 – 15]
Level 3	For explicit economic analysis of the problems of unemployment in Italy created by increased competition in the global textile and clothing industries. [5 – 9] Award Level 3 marks for answers which do not identify or analyse the problems of unemployment but analyse what the problems depend on.
Level 2	For an application of knowledge and critical understanding (ie no economic analysis) of the problems of unemployment in Italy created by increased competition in the global textile and clothing industries. [3 – 4]
Level 1	For knowledge and understanding of unemployment. [1 – 2]

4 There are currently quotas on textile and clothing imports into the EU from China. Discuss the case for protecting EU manufacturing industries from external competition. [20]

Synoptic knowledge

Clearly rooted in Module 2883 and in the study of comparative advantage and trade in the paired optional Modules, 2886 and 2887.

Outline of content

The case for protecting EU manufacturing industries from external competition can be explained either in the context of the Extract material or from a more general perspective. The latter is likely to include one or more of: the infant industry argument; changes in comparative advantage and the problems created by factor immobility; as a response to 'dumping' and unfair trade practices; to protect declining/sunset industries. There are a number of other/non-economic reasons for protecting EU manufacturing industries from external competition. Balanced answers will ensure that the case for protecting EU manufacturing industries from external competition is clearly established, explained and analysed. Use of economic concepts is expected in this part of the answer to lift responses above the merely descriptive. Case for protecting EU manufacturing industries could be approached in terms of the consequences of the quotas – for example, the 'beneficial' effects for European textile and clothing firms. Any diagrams used must be related to the point of the question – so a quota diagram must be used to show the case for protecting EU manufacturing industries.

Discussion of the case for protecting EU manufacturing industries from external competition could seek to establish which of the above reasons are most valid in the context provided by the Extract material. Stronger candidates might go beyond the context provided to explore contexts of their own. Some may be able to distinguish 'cases' by 'contexts' – a simple approach would be to discuss the relevance of the infant industry argument to the European textile and clothing industries, for example. The question allows candidates to focus on particular types of protection – the obvious being quotas. Diagrams might help candidates to begin to explore the case against protection – for example, the impact on EU prices, consumers, prices and consumer surplus. There may be some candidates who are well versed in a welfare analysis of the effects of quotas. Such an approach may allow developmet of the case against an amplification of the Extract material – gains in producer surplus more than offset by reductions in consumer surplus resulting in a net loss of economic welfare. Another alternative approach to a discussion of the case would be to consider the benefits of trade which are lost through protecting EU manufacturing industries from external competition. Standard responses are likely to show an awareness of possible retaliatory effects and the impact on efficiency of firms of operating behind a wall of protectionist measures. Resource allocation issues could then be discussed to develop these points. A sophisticated approach to evaluation might be to consider whether there are other ways of tackling the problems of the EU textile and clothing industries which are better than protectionism – an argument that could lead to a conclusion that protectionism is a 'second-best' solution.

Evaluation which is stated rather than explained will score at the bottom of Level 4 (12/13 marks). Development of evaluative points is expected for marks up to the middle of Level 4 (15/16 marks). Overall synthesis of arguments, judgement and conclusion is expected for marks above the middle of Level 4 (17+ marks).

Level 3	For an analysis of the case for **OR** case against protecting EU manufacturing industries from external competition. [5 – 11]
Level 2	For an application of knowledge and critical understanding of the case for **and/or** against protecting EU manufacturing industries from external competition**.** Candidates in this level may well consider both the case for

	and the case against but will not offer any analysis of the two sides – ie award a mark in this level for a descriptive approach to the question. [3 – 4]
Level 1	For knowledge and understanding of the case for protecting EU manufacturing industries from external competition. [1 – 2]

Advanced GCE (Economics) (3812/7812)
June 2007 Assessment Session

Unit Threshold Marks

Unit		Maximum Mark	a	b	c	d	e	u
2881	Raw	45	32	28	25	22	19	0
	UMS	90	72	63	54	45	36	0
2882	Raw	45	34	31	28	25	22	0
	UMS	90	72	63	54	45	36	0
2883	Raw	45	34	30	26	22	19	0
	UMS	120	96	84	72	60	48	0
2884	Raw	45	34	30	27	24	21	0
	UMS	90	72	63	54	45	36	0
2885	Raw	45	33	30	27	24	21	0
	UMS	90	72	63	54	45	36	0
2886	Raw	45	32	28	25	22	19	0
	UMS	90	72	63	54	45	36	0
2887	Raw	45	30	26	23	20	17	0
	UMS	90	72	63	54	45	36	0
2888	Raw	60	45	40	35	30	25	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
3812	300	240	210	180	150	120	0
7812	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
3812	22.3	42.4	61.9	78.2	88.8	100.00	6246
7812	32.9	61.7	81.7	93.4	98.4	100.00	4650

10896 candidates aggregated this session
For a description of how UMS marks are calculated see;
www.ocr.org.uk/OCR/WebSite/docroot/understand/ums.jsp

Statistics are correct at the time of publication

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

(General Qualifications)
Telephone: 01223 553998
Facsimile: 01223 552627
Email: helpdesk@ocr.org.uk

www.ocr.org.uk

For staff training purposes and as part of our quality assurance programme your call may be recorded or monitored

Oxford Cambridge and RSA Examinations
is a Company Limited by Guarantee
Registered in England
Registered Office; 1 Hills Road, Cambridge, CB1 2EU
Registered Company Number: 3484466
OCR is an exempt Charity

OCR (Oxford Cambridge and RSA Examinations)
Head office
Telephone: 01223 552552
Facsimile: 01223 552553