

**Economics**

Advanced GCE A2 7812

Advanced Subsidiary GCE AS 3812

**Mark Schemes for the Units**

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**January 2008**

**3812/7812/MS/R/08J**

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Advanced Subsidiary GCE Economics (3812)

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# 2881 The Market System

## 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.  
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### Level 4

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

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

### Levels 2 and 3

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

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### Level 1

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

- (a) Using an example in each case, identify two different factors of production which may be needed for the production of pizzas that are delivered to homes.

[4]

Various possible answers.

Land: Raw materials used in pizza production, **site** of retail premises.

Labour: Catering operatives, delivery persons.

Capital: Pizza ovens, shop fittings, delivery vehicles.

Enterprise: Franchisees, local shop owners.

Award one mark for correct identification of a factor of production and one mark for an appropriate example for each of two factors of production. Example alone, no marks

- (b) State and explain two possible determinants of the increase in demand for high quality pizzas.

[6]

The information provided gives two related reasons, ever-increasing appetites in the USA, Australia and the UK, and the inventiveness of retailers introducing new products. (i.e. taste)

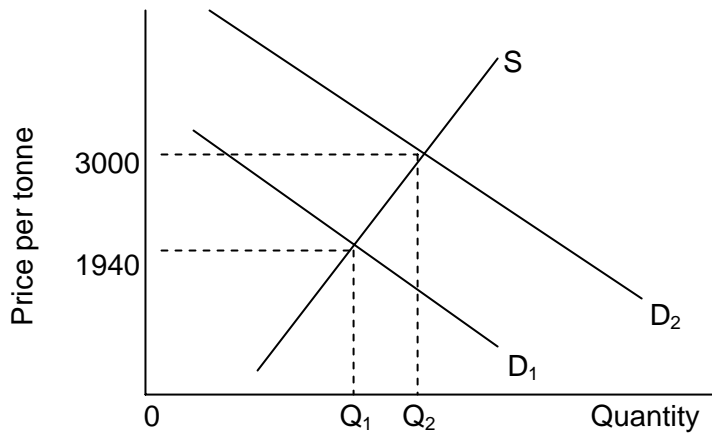
Other possibilities are the other non-price determinants such as:

- Rising income levels
- Growth in delivering services/better quality product
- Favourably priced relative to substitutes
- Fall in price of pizzas
- Increase in population

Award one mark for each correct identification up to a maximum of two identifications, plus up to a further two marks for each of two explanations. 1 mark for elaboration of reason, 2 marks where explanation refers to why demand has increased.

N.B: Answers must be in terms of the text book determinants of demand for full marks i.e. price of pizzas, income, price of substitutes/complements, taste/fashion.

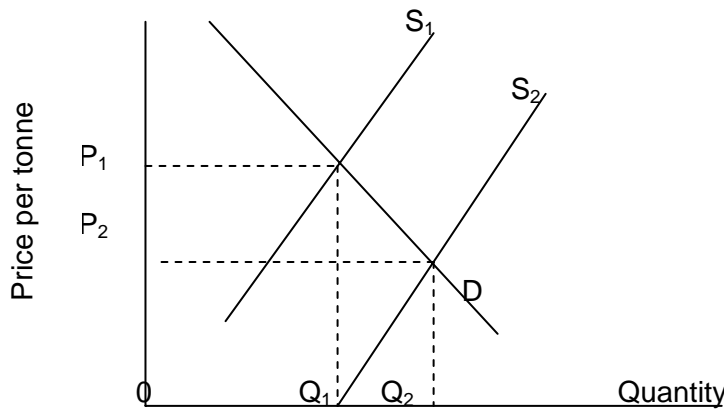
- (c) (i) With reference to the data in lines 9 to 14, use a supply and demand diagram to show how the global price of mozzarella cheese has increased. [4]



Initial D and S	1 mark	Axes 1 mark
Shift of D	1 mark	
New equilibrium	1 mark	
Actual prices (correct equilibrium)	1 mark	Up to 4 marks maximum

Accept a right shift of D and S provided new equilibrium price has increased

- (ii) Explain how the global market for cheese might change with the release of US stockpiles. [4]



The release of the stockpile is an increase in supply (1). This is shown by a shift to the right of S(1). The outcome is a fall in the world price (1) and an increase in the quantity that is bought and sold (1). A diagram is not required – full marks can be gained for an explanation in words. Diagram only – 3 marks. 1 for shift of S, 1 for old equilibrium, 1 for new equilibrium. Up to 4 marks maximum.

- (d) (i) Calculate the price elasticity of demand for mozzarella cheese between 2002 and 2004. [2]

$$\text{Price elasticity of demand} = -^{12}/_{60} = -0.2$$

Up to 2 marks for correct answer. 1 Mark for correct formulation but wrong arithmetic.

- (ii) Explain the significance of your answer to part (d)(i) for mozzarella cheese producers. [4]

Award one mark for each correct statement up to a maximum of four statements. This estimate is inelastic (1). Increased price will lead to little loss of demand (1). It means that mozzarella producers have a product with no close substitute (1). Might not apply in future (1). 0.2 is an estimate (1). Statement that revenue will increase (1). Analysis of revenue increase as price increases (2).

### OFR APPLIES

- (e) Using the evidence provided, comment on the extent to which the market for high quality pizzas may be considered to be one of monopolistic competition. [6]

The evidence contained in the extract is:

- Large number of sellers (huge industry)
- Branded products (Pizza Hut, Domino's etc)
- Few barriers to entry (small locally owned retailers)

Award one mark for identification of a relevant feature (Up to 3 marks), plus up to a further three marks for a commentary as to the extent to which the market for high quality pizzas may be considered monopolistically competitive. The other 'missing' characteristics are namely, ability to set prices/price maker, level of profits being earned, large producers more in line with oligopoly, market power of large producers, interdependence of decision-making. Reference to these can constitute a commentary.

- (f) (i) Using examples from the above table, explain the difference between the Variable and Fixed costs of producing a high quality mozzarella cheese pizza. [3]

Variable costs change directly with the level of output (1). Fixed costs are independent of output (in the short run) (1). Fixed costs are the more significant component in total costs (1). Any increase in pizza production requires an increase in variable costs eg pizza ingredients, delivery costs(1). Relevance of example (1). Up to three marks maximum.

- (ii) Discuss the extent to which the increase in the global price of mozzarella cheese is really of 'serious concern to all pizza producers'. (lines 18-19) [12]

Level 4 : For a **discussion** of some of the effects of an increase in mozzarella prices on pizza production (7-12)

Level 3 : For an **analysis** of the effects of the rise in mozzarella prices on pizza production (5-6)

Level 2 : For **application and critical understanding** of the effects of a rise in mozzarella prices on pizza production (3-4)

Level 1 : For a **description/understanding** of the general effects of a rise in mozzarella prices on pizza producers (1-2)



Examples of Level 1:

- A rise in mozzarella prices increases total costs
- This rise is likely to increase prices to customers
- It is also likely to mean a reduction in profits if prices do not increase

Examples of Level 2:

- Mozzarella comprises 40% of total costs (see table)
- Alternative cheddar cheese could be substituted as it costs less
- Variable costs are smaller than fixed cost

Examples of Level 3:

- Mozzarella is the largest single item of variable costs. Any increase will impact on total costs
- This is 16% of total costs
- Some of the other costs could be reduced
- Mozzarella is an essential ingredient of all types of pizza and cannot be cut
- The increase in cost will lead to shift to the left of S. The impact will depend upon the price elasticity of demand for the product.

Examples of Level 4:

- All pizza producers will have to pay the increased costs and are likely to have similar cost structures
- Profits need not necessarily be affected if cost savings can be made elsewhere
- Branded chains could benefit from economies of scale in purchasing mozzarella to offset the increase
- The loss of profits could be serious due to its impact on future expansion
- Less capital will be available for future expansion

Quality of written communication applies in this question.

**[Total Marks : 45]**

## Specification Grid

	<b>(a)</b>	<b>(b)</b>	<b>(c)(i)</b>	<b>(c)(ii)</b>	<b>(d)(i)</b>	<b>(d)(ii)</b>	<b>(e)</b>	<b>(f)(i)</b>	<b>(f)(ii)</b>	<b>Total</b>
A01 Target 13-14	2	4	3			1		2	2	<b>14</b>
A02 Target 13-14	2	2	1	2	2	1	1	1	2	<b>14</b>
A03 Target 9				2		2	2		2	<b>8</b>
A04 Target 9							3		6	<b>9</b>
<b>Total</b>										
Subject Content Reference	5.1.1	5.1.2	5.1.2	5.1.2	5.1.2	5.1.2	5.1.3	5.1.3	5.1.3	

# 2882 Market Failure & Government Intervention

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**(a) (i) Identify two characteristics of a 'public good'. (2)**

Non excludable	(1 mark)
Non rival / non diminishable	(1 mark)
Non rejectable	(1 mark)

Accept clear explanations which do not necessarily use the above terms but, nonetheless, show an implicit understanding of the concepts.

2 marks maximum

**(ii) Explain two reasons why education is not a 'public good'. (4)**

Up to 2 marks for explaining that education is rival:

1 mark for the recognition of education being rival

Up to 2 marks for further development / explanation of why. For example:

- there are a limited number of places in schools (ie limited supply)
- if one person consumes it then someone else can't
- there may be no room for pupils to attend a certain school
- families have to compete for places in some schools.

Maximum of 2 marks for rivalry

Up to 2 marks for explaining that education is excludable:

1 mark for recognising that education is excludable

Up to 2 marks for further development / explanation of why. For example:

- parents need to pay for some private schools
- students are required to pay tuition fees for higher education
- entry requirements exist for Universities and many Sixth Form Colleges
- without grades/the ability to pay, students can be stopped from benefiting

Maximum of 2 marks for excludability

**(b) (i) Explain what is meant by an externality' (line 1). (2)**

Two marks for the use of clear economics. For example:

A cost or benefit to a third party (2 marks)

An impact upon a third party (2 marks)

A negative or positive spillover effect (2 marks)

Where the price which is paid for a good/service does not fully reflect the true social cost/social benefit of an activity (2 marks)

The difference between private costs/benefits and social costs/benefits (2 marks)

One mark for a vague statement such as:

Where the impact of an action on others is ignored (1 mark)

**(ii) Identify one possible example of a positive externality arising from education. Explain why this is a positive externality. (3)**

1 mark for identification of any relevant positive externality, for example:

- more skilled workforce
- more productive workforce
- the benefits to the economy as a whole as a result of being more competitive (accept increased output/GDP)
- reward examples which provide real world application of positive externalities (eg more skilled physicians improve healthcare in society)

Up to 2 marks for an explanation of why this is a positive externality:

1 mark for a vague idea that it is a benefit arising to others (eg the wider public, society, the economy as a whole or the government).

2 marks for clear use of economics, such as it being a benefit to a third party, social benefits exceeding private benefits, spillover effect or the benefit being derived to someone outside the decision making process etc.

In summary, for both explanation marks, clear use of economics is required, whereas for one mark a simple understanding that others benefit is acceptable.

**(iii) Define the term 'market failure'. (2)**

Where the free market fails to achieve an optimum allocation of resources (2 marks)

Where the free market does not result in allocative (or productive) efficiency. (2 marks)

Where there is an inefficient allocation of scarce resources (2 marks)

Where the free market fails to produce the best use of scarce resources (2 marks)

For the simple statement that there will be inefficiency but lacking any further development (1 mark)

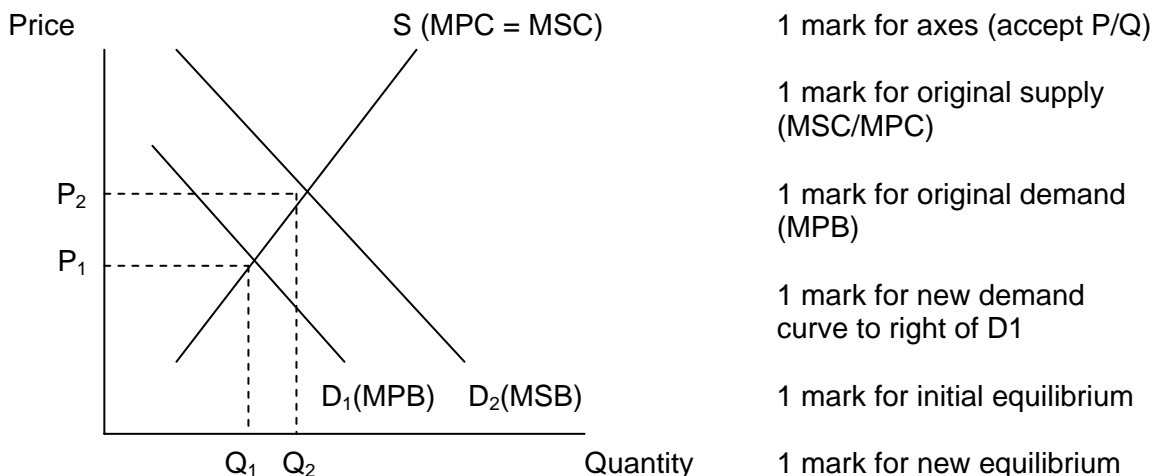
Where the free market does not maximise economic efficiency (1 mark)

For a vague statement referring or hinting at a possible misallocation of resources but not using precise terminology. (1 mark)

DO NOT reward examples of market failure

- (iv) Using a diagram, explain how the existence of positive externalities can lead to market failure. (10)

Up to 6 marks are available for a correct diagram:



Up to 6 marks (maximum) are available for the explanation:

In a free market, consumers only take in to account the private benefits of their actions (1 mark) and therefore ignore the full social benefits/ignore the external benefits of their actions (1 mark) OR  $SB > PB$  (1 mark).

This leads to the individual's demand curve being to the left of society's demand curve (1 mark)

Therefore equilibrium price is too low in a free market (1 mark) OR the price should be higher than the resulting free market equilibrium (1 mark) OR that the price which consumers are willing to pay rises once the external benefit is taken in to account (1 mark)

In turn, this results in underconsumption/underproduction (1 mark) compared to what society would like and therefore allocative inefficiency arises (1 mark) as too few scarce resources are devoted to the production of these goods and services (1 mark). Hence there is a misallocation of resources (1 mark).

Maximum mark available is 10.

- (c) The article looks at the role played by the Office of Fair Trading (O.F.T.) in regulating competition policy in the UK.

- (i) Explain why market dominance can lead to economic inefficiency. (3)

1 mark for a clear/explicit statement that market dominance may lead to allocative, productive (accept 'X') or pareto inefficiency.

A further 2 marks are available for elaboration/explanation of these:

- Allocative inefficiency occurs because dominant firms may not be as responsive to consumer demands as competitive firms are. They know that they dominate the market and they do not have the same incentive to innovate and create high tech products as competitive firms have.

Dominant firms may also have the power to raise prices so that price no longer equals marginal cost (accept reference to firms being price makers)

(Award 1 mark for a basic explanation of the above even if there is no explicit recognition that allocative inefficiency occurs)

- Productive inefficiency arises as firms do not have the incentive to produce at lowest possible costs, so AC may not be minimised. Likewise, if a firm becomes so large that it starts to suffer from diseconomies of scale, then once again, the firm will not be producing at lowest AC.

Alternatively, reward answers which recognise that productive inefficiency may arise as firms use too many scarce resources in production) OR vague idea that scarce resources may be used inefficiently

(Award 1 mark for a basic explanation of this even though there is no explicit recognition that productive inefficiency occurs)

As a variation on productive efficiency, accept reference to X inefficiency. This may arise as a firm becomes complacent and therefore incurs higher costs of production as it uses up too many scarce resources in the production of goods and services safe in the knowledge that it will still make large profits.

**(ii) Explain how competition policy can be used to stop firms abusing their market dominance. (3)**

Up to 3 marks for basic knowledge of how competition policy operates. This can either be general or specific to legislation. For example:

**General:**

1 mark for recognising that each of the following may happen if firms are found to be abusing their market dominance:

- firms can be fined
- they can be forced to remove barriers to entry
- the government can make firms sell off their assets / break up dominant firms
- price controls can be introduced
- government can act to stop collusion or price fixing
- mergers / takeovers can be blocked



**UK specific:**

In the UK, the Office of Fair Trading is charged with protecting the 'public interest' (1 mark)

and can refer firms to the Competition Commission (1 mark) and investigate possible mergers/takeovers (1 mark). Firms can be fined up to 10% of their turnover (1 mark). A firm is classed as having monopoly power if it has more than 25% market share (1 mark) and is classed as a 'dominant' firm if it has over 40% market share (1 mark)

**(iii) With reference to the article, comment upon the effectiveness of competition policy in this case. (4)**

Up to 2 marks for why it may be effective: For example, the O.F.T. has significant powers which it could use and any fines (eg £3.5 million or £10,000 per school) which it introduces will act as a deterrent to anti-competitive behaviour. In other words, firms have an incentive to avoid abusing their market position as otherwise they will gain unwelcome publicity.

1 mark for simple statement such as "it is effective because it has identified price fixing" but lacking further development.

Up to 2 marks for relevant evaluation / identification of possible problems of UK competition policy from the article.

One point which is well explained can gain both marks. For example:

- It is a very long / time consuming process. This means that any action taken will need to be applied retrospectively and that, potentially, the anti-competitive behaviour can continue until the investigation ends
- Investigations can be very expensive to undertake. This, in turn, implies that there is an opportunity cost involved.
- What size should the fine be? If it is too small then the dominant firm could just ignore this and continue with their anti-competitive practices

**\*(d) The information provided states that the government may subsidise the supply of products which generate positive externalities.**

**Discuss the effectiveness of subsidies as a solution to market failure arising from positive externalities. (12)**

<b>Level 4</b>	For a discussion of the effectiveness of subsidies.	7-12 marks
<b>Level 3</b>	For an analysis of how subsidies can correct market failure.	5-6 marks
<b>Level 2</b>	For an application of knowledge and critical understanding of how subsidies may be used.	3-4 marks
<b>Level 1</b>	For knowledge and understanding of what a subsidy is / description only.	1-2 marks

For a level 4 answer, candidates will be expected to evaluate the effectiveness of subsidies and discuss where they may not be effective. This might include reference to the following points:

- What size should the subsidy be? Ideally it should be set equal to the external benefit but this is extremely difficult to measure. Too large a subsidy and there will be overproduction, whilst too small a subsidy will result in underproduction remaining
- Any subsidy will involve an opportunity cost as the government will have to pay for it which may mean foregoing spending elsewhere.
- Where the product has inelastic demand then the subsidy will be much less effective in raising the level of output/production of the good.
- The effectiveness of a subsidy may be limited by the fact that there is time lag involved – it takes time for the firm to increase production and for these goods to become available.
- It depends exactly what the subsidy is used for. If it is just used to increase a firm's profits (with output remaining unchanged) then the subsidy will be ineffective in correcting market failure
- If subsidies result in firms being less efficient (or there being less incentive to be efficient) then market failure will not be solved

For a level 3 answer, some analysis of how subsidies will work is needed. For example, reference to the fact that a production subsidy will lower the costs of production and therefore shift the supply curve to the right. Equally, an accurate diagram can gain up to 6 marks.

Basic analysis may involve the recognition that subsidies will lower the price of goods and services and therefore result in an extension of demand for the product

**Level 2** answers will involve some basic application of knowledge – for example, relevant examples of where subsidies could be used.

**Level 1** answers will include basic knowledge of what subsidies are – for example a simple definition without any further development.

## Specification Grid

	a (i)	a (ii)	b (i)	b (ii)	b(iii)	b (iv)	c (i)	c(ii)	c (iii)	(d)	Total
<b>AO1 13-14</b>	2		2	1	2	2		3		2	14
<b>AO2 13-14</b>		2		2		4	3			2	13
<b>AO3 9</b>		2				4			2	2	10
<b>AO4 9</b>									2	6	8
<b>Spec.</b>	5.2.2	5.2.2	5.2.2	5.2.2	5.2.2	5.2.2	5.2.2	5.2.3	5.2.3	5.2.3	

# 2883 The National & International Economy

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**Time will tell what Iceland's economic performance will improve and whether it will become an EU member.**

**(a) Identify three macroeconomic policy objectives. (3)**

- 1 mark for economic growth.
- 1 mark for low inflation (price stability).
- 1 mark for full employment (low unemployment).
- 1 mark for balance of payments equilibrium.
- 1 mark for more even distribution of income.

(Maximum 3 marks)

**(b) (i) Using Table 1, describe the relationships between interest rates and inflation rates for the countries shown. (4)**

- 1 mark for interest rate is higher than the inflation rate in four out of five countries.
- 1 mark for Japan is the exception.
- 1 mark for countries with the highest interest rates have the highest inflation rates.
- 1 mark for some supporting evidence of this point.
- 1 mark for Iceland has the highest interest rate and inflation.
- 1 mark for Japan has the lowest interest rate and inflation.
- 1 mark for the gap between the rate of interest and inflation is greatest in Iceland
- 1 mark for the gap between the rate of interest and inflation is smallest in Japan

(Maximum 4 marks)

**(ii) Explain how a rise in the rate of interest may reduce inflation. (5)**

- 1 mark for a rise in the rate of interest is likely to reduce aggregate demand.
- Up to 3 marks for explaining how each component of aggregate demand is likely to fall.
- For example, 1 mark for consumption is likely to decline as borrowing will be more expensive.
- 1 mark for the reward for saving will increase.
- 1 mark for discretionary income will fall.

**(c) Explain how a European country's pattern of trade might change if it joined the European Union. (2)**

- 2 marks for an explanation that it will trade more with EU countries and less with other countries.
- 1 mark for will trade more with EU countries.
- 1 mark will trade less with other countries.

**(d) (i) Define the term 'exchange rate' (line 4). (2)**

- 2 marks for the price/value of a currency in terms of another currency or currencies.
- 1 mark for the price of a currency.
- 1 mark for example e.g. £1 = \$1.8.

**(ii) Explain two factors that could cause a fall in a country's exchange rate. (6)**

1 mark each for identification of two possible factors:

For example, 1 mark for a rise in inflation rate.

1 mark for speculation.

1 mark for current account deficit.

1 mark for fall in quantity of products.

1 mark for reduction in FDI.

1 mark for outflow of hot money

1 mark for government intervention.

1 mark for cut in interest rate

Up to 2 marks for explanation in each case e.g. a rise in inflation would make domestic products less price competitive. This would reduce demand for exports (lowering demand for the currency) and increase demand for imports (increasing supply of currency).

(Note: for just a fall in demand for the currency and increase in supply of currency a maximum of 2 marks).

**(e) (i) Describe two benefits of economic growth. (4)**

1 mark each for identification of two possible benefits:

For example, 1 mark for increased living standards.

1 mark for increased employment.

1 mark for increased public services.

1 mark for reduction in poverty.

1 mark for each description e.g.

living standards can rise if more consumer goods and services are produced  
tax revenue will rise and some of this extra revenue can be spent on improving education and/or health care.

**(ii) Comment on the effectiveness of one supply-side policy in promoting economic growth. (7)**

1 mark for identification of a relevant supply-side policy e.g. education, training, privatisation, deregulation, cut in income tax.

Up to 3 marks for explanation of how policy may promote economic growth. For example, 1 mark for improved education should raise labour productivity. Higher labour productivity will increase the productive capacity of the economy and so cause long term economic growth.

Up to 3 marks for discussion of the advantages and disadvantages or limitations of the policy e.g. improving education may increase economic growth for some time, may also increase international competitiveness but may be expensive, can take a long time to have an effect, may not produce the desired response.

**(f) Discuss the benefits of a fall in the rate of inflation. (12)**

**L4** For a discussion of the benefits of a fall in the rate of inflation. (7 – 12)

- A fall in the rate of inflation will be more beneficial if inflation stays low. This is because a low and stable inflation rate creates greater certainty, making it easier for firms and households to plan ahead. If firms are able to predict the future with certainty, they are more likely to invest and by doing so they will increase the

country's productive capacity. If the inflation rate fluctuates, however, investment may be discouraged. A fall from a 15% rate to 3% which is then followed by a rise to 16% is likely to have a detrimental effect on the economy.

- A fall in the inflation rate may make firms' products more internationally competitive but it will depend on the country's relative inflation rate. A country's inflation rate may fall but still be higher than rival countries' inflation rates. Even if it is lower than other countries' inflation rate, the prices of the firms' products may still be higher. The impact of a lower inflation rate may also be offset by a higher exchange rate.
- There is a risk that the inflation rate may fall too low. An inflation rate of, for instance, 0.5% may mean that the general price level is actually falling. If this is the case, there is a danger that the country will experience a downward deflationary spiral with firms and households postponing purchases in expectation that prices will be lower in the future.
- The effect of a lower inflation rate will be influenced by its cause. A fall in cost-push inflation may prove to be more beneficial than a fall in demand-pull inflation. A reduction in the rise of costs of production may lead to a rise in international competitiveness. In contrast a fall in the growth of aggregate demand may lead to a rise in unemployment if the productive capacity of the economy increases at a more rapid rate than aggregate demand.

**L3** For an analysis of the benefits of a fall in the rate of inflation. (5 –6)

- A fall in the rate of inflation will mean that firms will not have to change prices in catalogues, on websites, in shops so frequently. This will reduce firms' costs and lower consumers' resentment. They will also save time and money as they are less likely to have to move money around in search of the highest rate of interest. In periods of high inflation, firms cannot afford to leave money idle as it will be losing its value quickly. Money coming into a firm on a Monday which will be paid out to workers on a Friday, cannot be left on the premises or in a bank account not earning interest.
- Firms and households are likely to make more efficient choices during a period of lower inflation. There will be less inflationary noise and so it should be easier for firms to find the cheapest source of raw materials and for consumers to decide on the best buys. With less distortion of price signals, there is more chance of achieving an efficient allocation of resources.
- Lower inflation should mean there is less risk of fiscal drag occurring. Money wages will rise more slowly, reducing the chance of workers' pay being dragged into higher tax brackets just because of inflation.
- The chances of an unplanned distribution of income will be reduced. Real interest rates are likely to be positive so that people will be rewarded for saving and borrowers will have to repay more in real terms. There is also more chance that wages and pensions will be adjusted in line with inflation.
- A lower inflation rate may encourage firms to invest as they will be more certain about future costs and revenue and will make it easier for households to plan ahead. A low inflation rate may make the country's products more internationally price competitive and so improve the country's trade in goods and services balance.



**L2** For an application of knowledge and critical understanding of the benefits of a fall in the rate of inflation. (3 – 4)

- A fall in the rate of inflation will reduce menu costs, shoe leather costs, administrative costs, inflationary noise, fiscal drag and lessen the chances of an unplanned redistribution of income.
- A lower inflation rate may also create greater certainty, encourage investment and raise international competitiveness.

**L1** For knowledge and understanding of inflation.

(1 – 2)

Inflation is a sustained rise in the general price level.

A fall in the rate of inflation means that the price level is increasing at a slower rate.

## Specification Grid

	a(i)	b(i)	b(ii)	c	d(i)	d(ii)	e(i)	e(ii)	(f)	Total
<b>AO1 13-14</b>	3		1	2	2	2	2		2	14
<b>AO2 13-14</b>		4	2			2	2	1	2	13
<b>AO3 9</b>			2			2		3	2	9
<b>AO4</b>								3	6	9
<b>Total</b>	3	4	5	2	2	6	4	7	12	45
<b>Subject</b>	5	5	5	5	5	5	5	5	5	
<b>Content</b>	3	3	3	3	3	3	3	3	3	
<b>Ref</b>	1	3	3	2+3	4	3	1	2+3	1	

# 2884 Economics of Work and Leisure

## 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) Use Table 1 to identify two major trends in TV audience shares between 1990 and 2005. [2]

1 mark each for each valid trend identified. Fall in share of BBC1/ITV1, and rise in share of Other are likely to be the most common. 2 marks maximum.

- (b) (i) Using Table 1 and Extract 1, compare the changes in audience viewing patterns between the UK and the US. [2]

1 mark each for each valid point made, but it must be expressed comparatively. Examples might include that the fall in share of terrestrial “free” channels happened in US as in Britain - though it was earlier, and to a greater extent. Also big rise in non-terrestrial in both cases. 2 marks maximum

- (ii) With reference to Extract 1 (lines 17-20), explain how two of the strategies identified would be likely to enable the traditional US ‘big three’ to maintain their profitability in the face of the growth of cable TV competitors. [4]

In each case, up to 2 marks for explanation - which must be linked to profitability. The strategies are to move into cable themselves, to expand their own production of TV programmes, and to move into overseas markets. In each case, 1 mark for an explanation of how the strategy operates plus 1 mark for explicitly stating how it ought to increase or maintain profitability.

- (c) Comment on whether the mergence of Setanta (Extract 2) is evidence that TV broadcasting in Britain has become more contestable. [4]

The emergence of Setanta implies some freedom of entry. So 1 mark for meaning of contestability plus 1 mark for explanation of this as being more contestable than previously. 4 marks maximum

Some comment is required for the other 2 marks - this could perhaps doubt the extent of greater contestability, or refer to the changes in technology which are making greater contestability more feasible, for example. Equally, a comment to the effect that things have moved on since the article was written, with Setanta entering other markets too, would be fine.

- (d) (i) Explain one possible economy of scale in TV broadcasting. [2]

1 mark for explanation of economy of scale in general, plus 1 for application in TV broadcasting. For full 2 marks, a link to fall in average cost must be made.

- (ii) Discuss whether a merger between ITV and five would improve economic efficiency in the TV broadcasting market. [6]

A full answer would identify and explain the possible benefits of the merger in terms of economic efficiency, following on from part (i), and then go on to discuss whether or not such benefits would be likely to outweigh any possible disadvantages – e.g. loss of consumer choice.

The allocation of marks should be up to 2 marks for consideration of benefits, up to 2 marks for consideration of downsides, plus up to 2 marks for evaluative discussion, which must link to economic efficiency applied to the TV broadcasting market.

N.B. for an answer which only explains economic efficiency award a maximum of 2 marks.

**2 (a) Explain why women's pay continues to be less than that of a man. [10]**

Explanation of determination of relative pay via supply and demand forces. Identification and explanation of factors influencing low levels of women's pay - linked to supply and demand. Factors identified are likely to include such things as discrimination, low productivity, glass ceiling effects, concentration of women in part-time work. A good answer will make clear how each factor mentioned affects women's pay through its impact on S and/or D – eg that low productivity means lower D for women workers, or that greater women's concern for non-monetary net advantages means greater S for women in some occupations.

**L3** - For explanation clearly linked to associated supply and/or demand differences (only 1 factor, maximum up to 7 marks) (7 – 10)

**L2** - For application of knowledge and critical understanding, explaining relevant factors though without reference to impact on supply and/or demand (only 1 factor, maximum upto 4 marks) (4 – 6)

**L1** - For knowledge and understanding only, describing some differences eg full-time/part-time differences perhaps (1 – 3)

**(b) Assume that the UK government wished to improve significantly the relative earnings of women. Discuss the view that it should concentrate its efforts on improving the quality of education and training available to them. [15]**

Identification of effects of improved education and training available to women, and explanation of the likely impact on women's relative earnings. Explanation of other possible policies to achieve the same effect - eg legislation, persuasion, example set by state as an employer. Evaluative discussion - whether or not the proposed policy would be effective, and/or relative effectiveness of different policies.

**L4** - For a discussion of (9 – 15)

- (a) whether improving the quality of education and training would improve the relative earnings of women (maximum of 12 marks if only this is discussed)  
 (b) whether it is the best policy (i.e. compared with at least one other.) (maximum of 15 marks if both (a) and (b) are discussed)

**L3** - For an analysis of how improving the quality of education and training might improve the relative earnings of women (6 – 8)

**L2** - For application of knowledge and critical understanding of how any one relevant policy might improve the relative earnings of women (3 – 5)

**L1** - For knowledge and understanding of education/training policy only (1 – 2)

NB Candidates may use this question to demonstrate their knowledge of the effect of minimum wage legislation. Credit is only likely to be given up to the top of L2, unless there is clear analysis and evaluation of such a policy, targeted solely at women, relative to the stated policy of education/training.

- 3 (a) **Explain how the concept of opportunity cost can be used to analyse a worker's choice between work and leisure.** [10]

Explanation of the concept of opportunity cost, as value of next best option forgone. Income from work as the opportunity cost of leisure, given the work/leisure trade-off. Explanation of the income and substitution effects of a change in the wage/opportunity cost, linked to the choice made by an individual worker between work and leisure. So a worker will choose more leisure if his/her income effect (ie more leisure when better off) exceeds substitution effect (ie less leisure when it becomes more expensive), for example.

**L3** - For an explanation of work - leisure choice, linked to opportunity cost, with the income and substitution effects clearly and correctly integrated into the explanation. (max of 8 marks if opportunity cost is not correctly applied) (7 – 10)

**L2** - For application of knowledge and critical understanding of the work-leisure trade-off, without clear link to opportunity cost. May regard income and substitution effects as separate cases. (4 – 6)

**L1** - For knowledge and understanding only of the concept of opportunity cost (1 – 3)

- (b) **Discuss the possible consequences of an increase in holiday entitlements for workers in the UK.** [15]

For a discussion of possible consequences, both for the workers involved and also for employers/the economy overall, an answer should consider both advantages and potentially harmful consequences to gain more than 12 marks.

Explanation of increase in holiday entitlements - paid or unpaid - comparison may be made between UK position and that in other comparable countries. If unpaid, link to part [a], with taking up of greater holiday entitlement meaning choice of more leisure and less income; explanation of possible consequences - for the individuals involved, for employers or for the economy as a whole. Consideration of possible incentive effects - cf the link to productivity quoted in the stem. [If paid, the issues are rather different - costs to firms and the economy, incentive effects, as previously - but also the possibility of choice made to change hours worked further, given that the extra paid holiday entitlement is equivalent to a pay rise]

**L4** - For a 2-sided discussion of the possible consequences of an increase in holiday entitlements for workers in the UK (9 – 15)

**L3** - For an analysis of one possible consequence of an increase in holiday entitlements for workers in the UK, e.g. increased productivity effects or work-leisure choices. (6 – 8)

**L2** - For application of knowledge and critical understanding of the possible consequences of an increase in holiday entitlements for workers in the UK in terms of higher costs for firms, lower total output. (3 – 5)

**L1** - For knowledge and understanding of the meaning of an increase in holiday entitlements for workers in the UK (1 – 2)

NB An OFR should be applied here. If an answer confuses the terms income and substitution effects with each other in part (a) do not penalise in part (b) for the same mistake.

4 (a) Explain possible ways of measuring both absolute and relative poverty. [10]

Meaning of absolute poverty, in terms of a basket of goods/amount of money, and how to measure - as a proportion of the population not having access to that amount. Meaning of relative poverty, in terms of percentage of average income, and measurement as proportion below that percentage.

**L3** - For clear explanation of each concept and of how it can be measured (7 – 10)

**L2** - For application of knowledge and critical understanding of the two concepts, though lacking link to method(s) of measurement (4 – 6)

**L1** - For knowledge and understanding only of just one poverty concept (1 – 3)

(b) Discuss how a UK government might best reduce inequality between rich and poor. [15]

The meaning of inequality. Explanation of possible policies to reduce inequality - eg through increased progression in taxation; through government expenditure; through minimum wage policies; longer term, through education and training. For each policy considered, there should be an explanation of how it is designed to work to reduce inequality, and also discussion of possible side-effects and of relative effectiveness.

**L4** - For a discussion of how a UK government might best reduce income inequality between rich and poor. Up to 12 for an evaluation of one policy, but up to 15 if compare at least two (9 – 15)

**L3** - For an analysis of one method of how a UK government might reduce income inequality between rich and poor (6 – 8)

**L2** - For application of knowledge and critical understanding of how a UK government might reduce income inequality between rich and poor (3 – 5)

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



# 2885 Transport Economics

## 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) Use the information provided to explain two economic reasons why the demand for transport by cars has increased over the last decade. (4)**

Price of substitute increasing (1), e.g. bus, coach, train fares (1)

Fall in own price (1), cost of motoring falling (1)

Increased car ownership (1), resulting from an increase in income or greater (1)

One mark for each correct identification up to a maximum of two marks, plus a further one mark for each of two explanations. (Explanation does not have to be of reasons from information e.g. income increasing.)

Credit further elaboration, e.g. real prices, relative prices where accurate.

- (b) The time drivers spend in traffic jams could rise 20% by 2010.**

- (i) State two costs, other than the value of time, associated with traffic congestion. (2)**

Vehicle operating costs (1) Accident costs (1) Reduced fleet efficiency for freight or public

transport (1) Cost of increased negative externalities such as noise and air pollution (1)

If two operating costs are identified but are distinct, e.g. increased cost of car use and increased costs to freight or public transport operators, reward both.

One mark for each correct identification up to a maximum of two.

- (ii) Comment on the problems of estimating the value of time lost due to increased traffic congestion. (4)**

*Value of time estimated by using concept of opportunity cost of working time for a work related journey. Reduced value given to leisure journeys including travel to work.*

*Explanation of such and evaluation in terms of lack of precise data etc.*

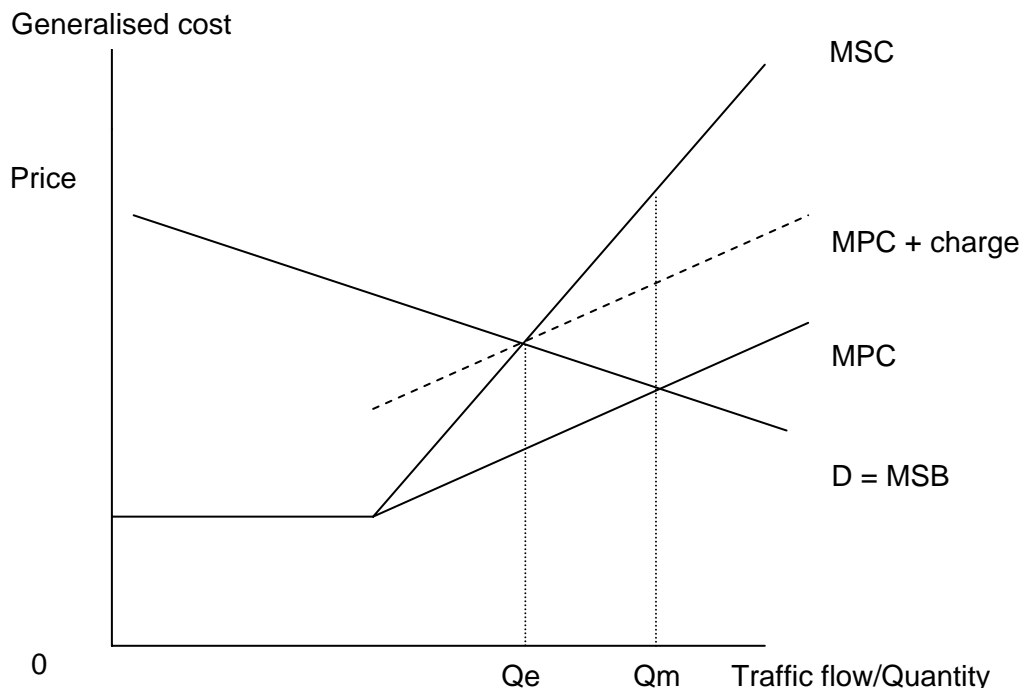
Level 2      Commentary on problems of estimating value of time e.g. difficulties of putting precise monetary values with appropriate reasoning; idea of opportunity cost, e.g. uses economic concepts in evaluation.

(3-4)

Level 1      Explanation/critical understanding of either how the value of time is estimated or problems of such estimation

(1-2)

- (c) (i) With the aid of a diagram, explain how a road charging scheme can correct the market failure caused by traffic congestion. (4)



$Q_m$  = market equilibrium;  $Q_e$  = socially efficient traffic flow; ab charge required to remove market failure.

2 marks for diagram. A demand and supply diagram without divergence can also gain up to two marks but must include MPC and MSC. 2 marks for explanation of diagram.

*For full marks reference must be made to the market failure in terms of overconsumption/overuse of the road infrastructure as well as how the road charge can move equilibrium towards the socially efficient level of road use where  $MSB=MSC$ .*

- (ii) Discuss whether the national road charging scheme outlined in the article is the best means of reducing road congestion. (6)

*Explanation in terms of 'those causing the congestion will pay'; charge variable to reflect differing levels of congestion on different roads and at different times. Discussion in terms of problems with implementation, costs of policing, political will, need for alternatives such as increased subsidy for public transport, inelastic demand for road use, need for information for scheme to work effectively.*

- |         |  |       |
|---------|--|-------|
| Level 3 | Discussion reaching judgements on the scheme supported by appropriate economic theory. | (5-6) |
| Level 2 | Consideration with relevant explanation of both benefits and problems of the scheme    | (3-4) |
| Level 1 | Explanation/analysis of benefits and/or problems of the scheme                         | (1-2) |

## Section B

**2 Concern continues to be expressed at the increased market share of some local bus companies since deregulation.**

- (a) Explain how an increased market share for a firm might reduce the economic efficiency of that industry. (10)**

*Understanding of increased market share perhaps in terms of concentration ratios. Increased market share resulting in increased barriers to entry and, therefore, less competition/contestability and efficiency. Reference to productive (lowest average cost) and allocative efficiency ( $P=MC$ ); approaches using dynamic or X efficiency also acceptable. Explanation could cover efficiency concerns such as rising average costs (productive) and resource misallocation (allocative) with oligopoly or monopoly – either approach acceptable.*

- Level 3 For an explanation of how an increased market share might reduce economic efficiency. (7-10)
- Level 2 For an application of knowledge and critical understanding of how an increased market share might reduce economic efficiency. (4-6)
- Level 1 For knowledge and understanding of increased market share and/or economic efficiency. (1-3)

- (b) Discuss the extent to which the local bus industry in Britain has become an oligopoly since deregulation. (15)**

*Understanding of impact of local bus deregulation; removal of licence requirement, etc. to make market more contestable. Subsequent consolidation of industry towards regional monopoly/national oligopoly with reasons for consolidation such as economies of scale. Possible competition and contestability in some areas. Possible competition with other transport modes. Consideration of degree to which market is contestable; barriers to entry (licences, cost of bus fleets, branding, ticketing); concept of sunk costs; reward local examples where relevant.*

- Level 4 For a discussion of the extent to which the local bus industry has become an oligopoly since deregulation. (9-15)
- Level 3 For an analysis of the impact of deregulation on the local bus industry. (6-8)
- Level 2 For application of knowledge and critical understanding of the local bus industry. (3-5)
- Level 1 For knowledge and understanding of oligopoly/local bus industry. (1-2)

- 3 (a) Explain the main factors that have influenced the increased demand for air passenger transport. (10)**

*Explanation of factors; reward use of demand function but expect other less rigorous approaches; price (budget airlines and high PED); price of complements (general tourism) and substitutes (including rail); income (high YED); tastes and preferences (again linked to alternatives via convenience, speed, etc.) Use of concept of derived demand.*

- Level 3 For an explanation of the main factors influencing the demand for air passenger transport (reward good use of applied economic analysis). (7-10)
- Level 2 For an application of knowledge and critical understanding of the factors influencing the demand for air passenger transport. (4-6)
- Level 1 For knowledge and understanding of the factors influencing the demand for air passenger transport. (1-3)

**(b) Discuss the extent to which government policy can influence the supply of air passenger transport services. (15)**

*Government policy through regulation/deregulation and taxes/subsidies. Government influence via use of CBA to help make decisions about infrastructure. Possibility of public sector provision. Otherwise private sector influenced by profitability (and, therefore, trends in demand) and costs of provision. Costs can be affected through taxes and subsidies (for various reasons) and regulation/deregulation. Discussion could cover the effectiveness of such policy with appropriate underpinning analysis, e.g. deregulation of services in Europe, taxes on aviation fuel and aircraft movements.*

- Level 4 For a discussion of the extent to which government policy can influence the supply of air passenger transport services. (9-15)
- Level 3 For an analysis of how government policy can influence the supply of air passenger transport services. (6-8)
- Level 2 For an application of knowledge and critical understanding of factors influencing the supply of air passenger transport services. (3-5)
- Level 1 For knowledge and understanding of government policy on air passenger transport services. (1-2)

**4 (a) Explain the main factors determining a manufacturer's choice between modes of freight transport. (10)**

*Explanation of how factors such as speed, convenience, network coverage, cost, image of company, etc. will influence modal choice for freight. Also view that for a private sector manufacturing company it is ultimately profitability that will be the main factor, but this will involve revenue considerations (perhaps from using more environmentally sound transport) as well as costs.*

- Level 3 For an explanation of the main factors determining a manufacturer's modal choice for freight. (7-10)
- Level 2 For application of knowledge and critical understanding of the main factors determining a manufacturer's modal choice for freight. (4-6)
- Level 1 For knowledge and understanding of the factors influencing modal choice for freight. (1-3)

**(b) Discuss the ways in which the government can promote more sustainability in UK freight transport policy. (15)**

*Explanation of sustainability (in terms of intergenerational resource use) as applied to freight transport to perhaps cover issues such as food miles. Link to integrated system and also need for integrated transport policy. Explanation of latter regarding efficiency/capacity utilisation and environmental issues; emphasis on using non-renewable resources more efficiently. Analysis of government policy in influencing modal choice for freight, i.e. use of regulation and subsidies/taxes to encourage greater sustainability. Evaluation could consider problems associated with such policies and their relative effectiveness.*

Level 4	For a discussion of how government can promote more sustainability in UK freight transport.	(9-15)
Level 3	For an analysis of how government can promote more sustainability in UK freight transport or analysis of whether freight transport is sustainable.	(6-8)
Level 2	For an application of knowledge and critical understanding of sustainable freight transport and/or government policy regarding freight transport.	(3-5)
Level 1	For knowledge and understanding of sustainability and/or UK freight transport.	(1-2)

## Specification Grid

Question 1							Questions 2,3,4			
	a	bi)	bii)	ci)	cii)	Total	a	b	Total	Overall
AO1	2	2				4	3	2	5	9
AO2	2			2		4	3	3	6	10
AO3			2	2	2	6	4	3	7	13
AO4			2		4	6		7	7	13

**Specification Section**      **Q1 5.5.1, 5.5.3 & 5.5.4**  
    **Q2 5.5.2**  
    **Q3 5.5.1 & 5.5.1/4**  
    **Q4 5.5.1 & 5.5.4**



# 2886 Economics of Development

## 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,

(i) Summarise Botswana's progress between 1966 and 2002. [3]

GDP levels per capita have risen (1), about 10 times (1), no longer relies on aid or aid as % of GDP fallen (1)

By 30+% of GDP (1). Any 3 points x 1 mark each.

(ii) Explain one possible reason for the relationship between the two variables shown. [2]

Higher income per head linked to reduction in % aid (1) + less need for aid (1), no longer qualifies for aid (1), seen as less urgent case (1). Maximum 2 marks.

Candidates are unlikely to argue that reduced aid raises GDP per capita but credit greater independence and incentive arguments if offered. Accept approaches based on changing statistical values.

(b) Comment on the extent to which the claims for Botswana's progress are supported by Tables 1 and 2. [5]

HDI value suggests progress until 1990 (1), by 2003 falling value and ranking / worsening life expectancy (1); but improvement in literacy / GDP per capita (1) overall improvement in HDI value (1).

Conclusion: limited support (1). Max 3 marks for one side  
2 marks are for evaluative comment.

(c) State and explain two additional pieces of information which would allow a fuller judgement to be made of the level of development in Botswana. [4]

Distribution of income (1) development requires that all sections benefit (1)  
Availability of essential services, e.g. clean water (1), contribution to acceptable living standards (1)

Extent of poverty (1), contribution to self esteem (1)

Information must be linked through its contribution to idea of development. Maximum 4 marks.

(d) Discuss whether other Sub-Saharan African countries should follow the same economic policies as Botswana. [6]

Policies are market oriented, favour the private sector and rely on government responsibility. They involve reduced regulation and a supply side approach. Help via incentive and efficiency.

They appear successful in growth terms with improved education, the approach should encourage efficiency.

They have failed in health terms, may require different priority, may bring market failures. Other economies may have different problems and potential.

Up to 2 marks for analysis of the nature of the policies, up to 4 marks for evaluation of their effectiveness and relevance to other Sub-Saharan African countries.

- 2 (a) **Explain how low income economies, such as Bangladesh and Sierra Leone, differ from transition economies, such as Poland and the Czech Republic. [10]**

A low income economy has an income per capita below \$875. They are the largest group of countries with the lowest levels of development. Living standards are low and they suffer from the greatest levels of deprivation. Sub-Saharan Africa furnishes many examples. Transition economies are those former command economies which have adopted market systems. These are predominantly the ex-Soviet bloc countries but also include a small number of Asian economies. Their standards of living are higher; they are usually middle-income countries and some are developing rapidly towards western European standards. They are more technologically advanced and internationally competitive. The basis of classification differs, one is based on income, the other on the type of economic system.

**L3** - For an explanation of the distinction between low income and transition economies. (7-10)

**L2** - For an application of knowledge and critical understanding of the different features found in low income and transition economies. (4-6)

**L1** - For knowledge and understanding of one or both of low income and transition economies. (1-3)

- (b) **Discuss the effectiveness of state planning in promoting economic development. [15]**

State planning involves significant government ownership and direction of the allocation of resources. A development plan is usually formulated with targets set over a five year period. It may refer to the whole or only part of the economy. It is argued that the market system is less suitable in the developing economy context and that the problems of instability, inequality and short-termism can be overcome by intervention to improve the level of development. Clear targets may also give a psychological boost and encourage foreign aid. The Asian Tiger economies made use of directed state aid in support of market incentives. However, state planning has not generally been successful, hence the move to free markets. Government failure has replaced market failure. Plans have been over ambitious, the planning frame has been inadequate, insufficient skills and data have been available.

A higher level four answer will refer to particular cases.

**L4** - For a discussion of the effectiveness of state planning in promoting economic development. (9-15)

**L3** - For an analysis of the impact of state planning in promoting economic development. (6-8)

**L2** - For the application of knowledge and critical understanding of the operation of state planning. (3-5)

**L1** - For knowledge and understanding of the elements of state planning. (1-2)

- 3 (a) Explain how Lewis' model of structural change accounts for rural to urban migration. [10]**

The Lewis two sector model concerns structural transformation in a developing economy and is based on the pattern of Western development. In making this change labour transfers from rural to urban areas. Workers transfer from a traditional, subsistence economy, with low or zero marginal productivity, to a modern, urban industrial economy with rising productivity. Higher wages (+30%) attract workers. The process is self sustaining as the profits of entrepreneurs are reinvested and expansion continues until surplus labour in the rural economy is absorbed.

- L3** - For an explanation of the relevance of Lewis' model to migration within developing economies. (7-10)
- L2** - For an application of knowledge and critical understanding of the elements of Lewis' model. (4-6)
- L1** - For knowledge and understanding of the sectors of an economy. (1-3)

- (b) Discuss whether rural to urban migration is beneficial to a developing economy. [15]**

Migration supplies labour to work where there is higher productivity. This may be the basis for growth and development. The growth of cities may create external economies of scale. Remaining workers in rural areas may have more work opportunity and income. Urban workers may remit incomes to the families in rural areas. Against this, rural areas may lose the most productive of their workers and face reduced output, so harming food production. Oversupply of labour may cause unemployment and underemployment. Overall productivity may fall. There may be the growth of the informal sector. Housing, health and education facilities may be inadequate, so harming welfare. The growth of cities may have environmental impacts both nationally and internationally. Development may be harmed in material and non-material terms. Higher level four answers will be aware of impacts in both sectors.

- L4** - For a discussion of the impact of increasing urban migration on developing economies. (9-15)
- L3** - For an analysis of the benefits or problems of increasing migration on developing economies. (6-8)
- L2** - For the application of knowledge and critical understanding of the effects of migration (3-5)
- L1** - For knowledge and understanding of the nature and direction of migration. (1-2)

**4 (a) Explain why some developing countries have a foreign debt crisis. [10]**

A debt crisis implies the inability to repay and the possibility of default. Recent examples have included Argentina and Mexico. The debt results from the countries inability to fund development themselves because of savings and currency gaps and the need to borrow and repay with interest. Wasteful and unproductive use of loans, rising interest rates, declining export revenues, unsound lending practices and the withdrawal of sources of funds contribute towards debt becoming unmanageable.

**L3** - For an explanation of the behaviour and factors which have resulted in of a debt crisis. (7-10)

**L2** - For an application of knowledge and critical understanding of the position of developing countries which may cause a debt crisis. (4-6)

**L1** - For knowledge and understanding of the nature of a debt crisis (1-3)

**(b) Discuss whether the cancellation of foreign debt is likely to solve the problem of underdevelopment. [15]**

Debt "forgiveness" has become one plank of international development policy and has resulted in the HIPC and MDR initiative. These are restricted to a limited number of the poorest economies and is based upon achievement of minimum standards. Ideally cancellation would release funds for productive economic and social purposes, provide a more stable basis for progress, boost confidence for future finance and place a discipline upon economic policy. However, the weaknesses to the approach are its limited scope, its conditional nature, the fact that it appears to be more cosmetic (bookkeeping adjustment) than real, and that it may encourage moral hazard. Most fundamentally the range of problems faced by developing economies is unlikely to be solved by a single action, although progress may result. A higher level four answer will show awareness of recent proposals.

**L4** - For a discussion of the impact of debt cancellation on the promotion of development. (9-15)

**L3** - For an analysis of the benefits or limitations of debt cancellation as a means to promote development. (6-8)

**L2** - For the application of knowledge and critical understanding of the purpose of debt cancellation in promoting development. (3-5)

**L1** - For knowledge and understanding of the nature of debt cancellation. (1-2)

# 2887 The UK Economy

## 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) State two functions of money. (2)**
- |                                     |              |
|-------------------------------------|--------------|
| Medium of exchange/means of payment | 1 mark       |
| Unit of account / measure of value  | 1 mark       |
| Store of value                      | 1 mark       |
| Standard of deferred payment        | 1 mark       |
| A means of deferred payment         | 1 mark       |
| A means of offering credit          | 1 mark       |
|                                     | <b>2 max</b> |
- (b) (i) Using Fig. 1, describe the trend in broad money (M4) growth in relation to the 'equilibrium rate of growth of M4' between 2000 and 2006. (2)**
- |   |        |
|---|--------|
| Growth rate starts lower – finishes higher                                      | 1 mark |
| Fluctuations in M4 are more volatile  | 1 mark |
| Trend in both series is upwards (only just in case of equilibrium growth of M4) | 1 mark |
| After middle of 2000, equilibrium rate of growth of M4 is relatively steady     | 1 mark |
| Widening gap at end of period   | 1 mark |
| Maximum 1 mark if answer not related to equilibrium rate of growth              |        |
- (b) (ii) Explain how the behaviour of banks and building societies could contribute to a rapid growth in broad money (M4). (2)**
- |   |              |
|---|--------------|
| Definition of M4 – cash and bank deposits   | 1 mark       |
| Increased volume of deposits (liabilities of banks/building societies)                | 1 mark       |
| Increased lending by banks and building societies                                     | 1 mark       |
| Appropriate reference to credit multiplier, developed perhaps using numerical example | 2 marks      |
| Increased saving with banks and building societies                                    | 1 mark       |
|   | <b>2 max</b> |
- (c) (i) Using the Quantity Theory of Money comment on the significance for UK inflation if broad money (M4) growth persistently exceeds its 'equilibrium rate of growth'. (4)**
- |  |               |
|--|---------------|
| Accurate statement of QTM $MV = PQ$ or $MV = PT$ or $MV = PY$                                | 1 mark        |
| Explanation via QTM  | up to 2 marks |
| Commentary e.g. short run instability in $V$ , variations in $Q$ , definition of $M$ and $P$ |               |
| Other influences of inflation/other factors offsetting inflation                             | up to 2 marks |
| Up to 2 marks for analysis   |               |
| Up to 2 marks for commentary Eg. How much does M4 exceed equilibrium rate of growth.         |               |
| One point of commentary well developed can score 2 marks.                                    | <b>4 max</b>  |
- (d) (i) State and explain two reasons why inflation 'much above' the 2% target would be viewed as undesirable (line 3). (4)**
- |   |              |
|---|--------------|
| Costs of inflation – menu costs, shoe-leather costs, distributive impact, increased uncertainty |              |
| Less internationally competitive loss of confidence may lead to less investment.                |              |
| High inflation may undermine money's ability to perform its functions.                          |              |
| Inflationary noise  |              |
| Up to 2 marks for relevant application  |              |
| Up to 2 marks for explanation   | <b>4 max</b> |

- (d) (ii) **Using Fig.2, discuss the performance of the Bank of England since 1997 in meeting the government's inflation targets.** (6)

**L3** - For an overall evaluation of the Bank of England performance considering both success and failure (5 - 6) marks

**L2** - For a discussion of how well the Bank of England has performed (3 - 4) marks

**L1** - For an explanation of how well the Bank of England has performed (1 - 2) marks

- 2** **In 2005, GDP per worker in the UK was over 20% lower than in the USA, about the same as in Germany and over 10% higher than in Japan. UK policy aims to raise labour productivity through maintaining macroeconomic stability and microeconomic reforms to the supply side of the economy.**

- (a) **Explain why labour productivity may vary between countries.** (10)

Candidates should define labour productivity and then consider how it might vary because of differences in capital/labour ratios, the quality of physical and human capital and the stage of the economic cycle. Credit candidates who recognise that labour productivity per hour is a valid alternative measure of productivity and will be affected by the number of hours worked, which in turn will be influenced by technical, social and legal factors. Productivity can be measured by output per labour unit and/or output per labour hour.

**L3** - For an explanation of why labour productivity may vary between countries (7 - 10) marks

2 reasons must be explained to get a L3 mark

**L2** - For an application of knowledge and critical understanding of factors which influence labour productivity (4 - 6) marks

A maximum of top L2 for only one reason considered.

**L1** - For knowledge and understanding of productivity (1 - 3) marks

- (b) **Discuss the likely effectiveness of using supply side policies to increase productivity in the UK.** (15)

Candidates should define supply side policies and identify those that could be most likely to increase productivity, such as policies to increase capital investment, improve the quality of factor inputs (including human capital). Discussion of the likelihood of these being successful in increasing UK productivity should then be related to whether this would be sufficient to improve the UK's international productivity performance and the consequences for economic performance if this is not achieved.

**L4** - For a discussion of likely effectiveness of using supply side policies to increase productivity in the UK. Discussion must be concerning the impact on productivity (9 -15) marks

**L3** - For analysis of the effects of supply side policies on productivity. Link must be explicit. (6 - 8) marks

**L2** - For application of knowledge and critical understanding of supply side policies (3 - 5) marks

**L1** - For knowledge and understanding of supply side policies (1 - 2) marks

**3 In 2006, estimates suggested that for nearly a decade the average value of sterling in the foreign exchange markets had been overvalued by over 10%. The harm this imposed on the UK economy was particularly severe for the UK manufacturing sector.**

**(a) With the aid of a diagram explain how the exchange rate is determined in a free market. (10)**

Candidates should explain a standard supply and demand diagram with adequate coverage of both sides of the FOREX market. Since the question is about a free market, candidates who refer to central bank intervention should not be credited but neither should they be penalised.

**L3 -** For an explanation with a diagram on how exchange rates are determined in a free market. For L3 candidates must offer reasons for D+S of the currency. At least 2 reasons for D or S plus at least one for the other. (7 - 10) marks

**L2 -** For an application of knowledge and critical understanding of factors which influence the exchange rate in a free market (4 - 6) marks  
Diagram plus one reason for currency demand and /or supply L2 max

**L1 -** For knowledge and understanding of exchange rates (1 - 3) marks  
No diagram. L1 Max.

**(b) Discuss the extent to which an overvalued currency may harm the performance of the UK economy. (15)**

Candidates should explain how an overvalued exchange rate can harm an economy in terms of the impact of reduced international price competitiveness. They should then consider the benefits of a strong currency in terms of, for example, access to cheaper foreign goods and services (for consumers and companies), lower inflation and the spur to become more competitive. Size of overvaluation can also consider the wider impact on unemployment and economic growth.

**L4 -** For a discussion of the extent to which an overvalued exchange rate necessarily harms an economy (9 -15) marks

**L3 -** For analysis of the effects of an overvalued exchange rate (6 - 8) marks

**L2 -** For application of knowledge and critical understanding of high or rising exchange rates (3 - 5) marks

**L1 -** For knowledge and understanding of changes in the exchange rate of a currency (1 - 2) marks

- 4 The UK's tax revenues as a share of GDP rose to 37.2% in 2005, according to the Organisation for Economic Cooperation and Development (OECD). This increase, from 36% in 2004, was the third biggest of any OECD member. The UK's 'tax burden' became slightly higher than the OECD average.**

- (a) Explain how growth in GDP can lead to a rise in direct and indirect tax revenues. (10)**

Candidates should define direct and indirect taxation and explain how growing GDP is likely to be associated with increasing income, profits and wealth – hence, direct tax revenues will rise unless the tax system is adjusted to take account of growth in these variables. Increased income will result in higher levels of spending which, ceteris paribus, will lead to higher revenue from indirect taxation.

- L3 -** For an explanation of how growth in GDP can lead to an increase in direct and indirect tax revenue (7 - 10) marks  
For L3 candidates must consider both direct and indirect tax revenue.

- L2 -** For an application of knowledge and critical understanding of the relationship between growth and tax revenue (4 - 6) marks  
Maximum L2 if only one type of tax explained.

- L1 -** For knowledge and understanding of tax and/or GDP (1 - 3) marks

- (b) Discuss the consequences for the UK economy of a rising 'tax burden'. (15)**

There are many possible approaches to this – although the focus should be on the UK economy overall, there are some valid microeconomic points that can be made. Credit should be given for the quality of the discussion rather than its breadth.

The consequences will depend partly on the causes of the rising burden and the ways in which the extra tax revenue is deployed. Some advantages include: reduced easing in government's fiscal constraints (resources potentially available for public services or financing/repaying deficit/debt without breaking fiscal rules), automatic stabiliser effects reducing any overheating pressures, improved resource allocation (indirect taxation affecting spending patterns). Some disadvantages include: the impact on incentives (workers and companies) and the 'shadow' economy, the impact on international competitiveness, compliance costs, possible relocation of companies and workers to countries with a lower tax burden.

There will also be distributive effects - indirect taxes are, in general, regressive, whereas the direct tax system is more progressive, although this feature is undermined by fiscal drag.

- L4 -** For a discussion of the extent to which this rising 'tax burden' may undermine the performance of the UK economy (9 -15) marks

- L3 -** For analysis of the economic effects of a rising tax burden. (6 - 8) marks  
L3 maximum for a one sided answer.

- L2 -** For application of knowledge and critical understanding of the effects of rising taxation (3 - 5) marks

- L1 -** For knowledge and understanding of rising taxation and/or economic performance (1 - 2) marks

# 2888 Economics in a European Context

## Subject-specific Instructions

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

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

### Level 4

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

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

### Levels 2 and 3

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

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

**Level 1**

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

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

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

- 1 (a) Using the data in Extract 1, summarise the performance of the Bulgarian economy 2000 – 2005.

[6]

### Synoptic knowledge

Module 2883 – Section 5.3.1

A broad overview of government policy objectives for the macro-economy, the meaning of real and nominal values, the use of data to measure economic performance

### Outline of content

Summary statement	Quantification
<ul style="list-style-type: none"> <li>Overall increase in GDP</li> </ul>	<ul style="list-style-type: none"> <li>GDP at current prices increased by 56% 2000 - 2005</li> </ul>
<ul style="list-style-type: none"> <li>High rates of real GDP growth</li> <li>Growth rate of GDP fluctuates</li> </ul>	<ul style="list-style-type: none"> <li>Approximation of the average growth rate (e.g. approx 5%)</li> </ul>
<ul style="list-style-type: none"> <li>Overall reduction in the rate of inflation</li> </ul>	<ul style="list-style-type: none"> <li>Inflation rate reduced by 50%</li> </ul>
<ul style="list-style-type: none"> <li>Consistent reduction in the unemployment rate throughout the period</li> </ul>	<ul style="list-style-type: none"> <li>Rate of unemployment reduced by almost 40% 2000 - 2005</li> </ul>
<ul style="list-style-type: none"> <li>Consistent increase in investment throughout the period</li> </ul>	<ul style="list-style-type: none"> <li>Investment increased by over 100% in nominal terms</li> <li>Investment as % of GDP increased from 15% to 23%</li> <li>50% increase in share of GDP</li> </ul>
<ul style="list-style-type: none"> <li>FDI increased over whole period</li> </ul>	<ul style="list-style-type: none"> <li>In nominal terms by almost 50%</li> <li>Increased from 8% of GDP to 12% of GDP (2004)</li> </ul>

**1 mark for additional over view of performance and /or statement on issues related to stability.**

1 mark for each summary point

1 further mark for each quantification

Max of 6 marks

- (b) Using an AD/AS diagram, analyse why raising investment and productivity are necessary for long-term economic growth. [9]

### Synoptic knowledge

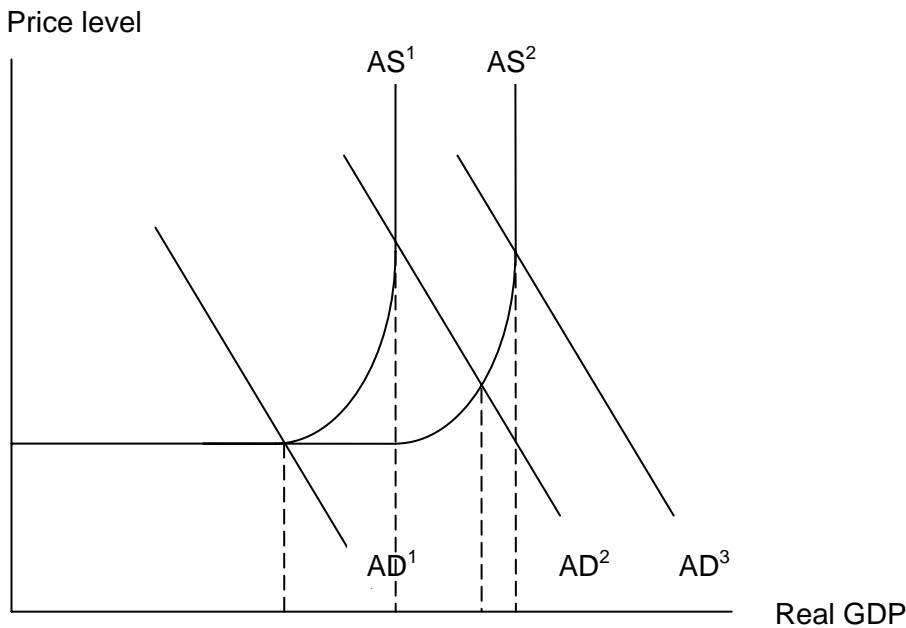
Module 2883 – Section 5.3.2

The constituents of, and influences upon, aggregate demand – investment

The factors which influence aggregate supply - land, labour, capital and changes in technology.

How aggregate demand and supply analysis can be used to illustrate macro-economic problems and issues.

### Outline of content



*Growth in the short term is constrained by the capacity of the economy (vertical AS). Investment raises AD<sup>1</sup> to AD<sup>2</sup> (rightward shift) in the short term, but shifts AS<sup>1</sup> to AS<sup>2</sup> in the long-term (rightward shift). Productivity improvements also shift AS right. Consequently, in the long run increases in investment and productivity increase both the actual and potential growth rate of an economy (AD can rise to AD<sup>3</sup>). Accept variants of the above diagram eg. LRAS, SRAS. etc*

### Knowledge marks

- 1 for correct macro labelling of axes (accept price index, real income, real output, CPI/RPI)
- 1 for drawing and labelling downward sloping AD
- 1 for drawing and labelling AS (SR or LR)

### Application marks

- 1 for rightward shift of AD (either on diagram or words)
- 1 for rightward shift of AS (either on diagram or words)
- 1 for comparison of equilibrium real GDP (either on diagram or words)

### Analysis marks

Up to 3 marks for analysis of WHY raising investment and productivity is necessary for long-term economic growth. Textual explanation of the shifts alone can only be awarded 1 mark (ie reasons why curves shift)



For full marks there must be some justification of why the shift in AS is necessary (eg capacity constraint, distinction between short run and long run or actual and potential growth). Contextual analysis of the case of the Bulgarian economy (projected decrease in population of working age) is equally acceptable for full marks so long as it is related to the AD/AS diagram.

**2 Comment on the possible economic benefits of foreign direct investment (FDI) for the Bulgarian economy. [10]**

*Benefits of FDI are suggested in the Extracts – no prior knowledge of FDI is necessary, since the Introduction and stimulus material prompts further investigation of the issues. What is important is that the benefits identified by candidates are analysed using the economist's toolkit of concepts and theories developed during the study of the AS units and the optional A2 units. Expect, therefore, a variety of approaches with different degrees of emphasis on the micro and macroeconomic benefits of FDI.*

**Synoptic knowledge**

Module 2881 – Sections 5.1.1 and 5.1.3

Concepts of opportunity cost and the production possibility curve.

Market operations of firms. The spectrum of competition - main forms of market structure: monopoly, monopolistic competition and oligopoly.

Module 2882 – Sections 5.2.1 and 5.2.2

Competition and the efficient allocation of resources.

The causes and consequences of why markets may not work - market dominance.

Module 2883 – Sections 5.3.1, 5.3.2 and 5.3.4

A broad overview of government policy objectives for the macro-economy with respect to employment and unemployment, inflation, the balance of payments account and economic growth.

How aggregate demand and supply analysis can be used to illustrate macro-economic problems and issues.

The nature of the benefits from trade.

**Outline of content**

*Benefits which could be identified, applied and analysed include:*

- *higher employment*
- *higher incomes*
- *multiplier effects*
- *spill-over effects – positive externalities*
- *increase in GDP through increases in investment (AD)*
- *cost reductions (EoS) and productivity improvements (AS)*
- *improvements in economic efficiency through increased competition for domestic firms*
- *improvements to BoP current account through increased exports*
- *improvements to BoP capital account from capital inflow*

*Commentary should seek to establish the scale and significance of these benefits, or consider potential costs.*

*Some candidates might seek to establish on what the benefits depend.*

Valid points of evaluation might include::

- scale of FDI – relative to GDP
- nature of FDI – asset acquisition or additional?
- time scale – short term or long-term?
- which sectors? (domestic vs external)
- labour or capital intensive?
- profit repatriation (GDP vs GNP considerations)
- impact on competition and market structure
- impact on current account via increased imports
- 

Level 4	For a commentary on the possible economic benefits, either by consideration of potential costs or scale and significance of benefits, of FDI for the Bulgarian economy.	(8 - 10) marks
Level 3	For an analysis of the possible economic benefits of FDI for the Bulgarian economy.	(5 - 7) marks
Level 2	For an application and critical understanding of the possible economic benefits of FDI for the Bulgarian economy.	(3 - 4) marks
Level 1	For knowledge and understanding of the possible economic benefits of FDI for the Bulgarian economy.	(1 - 2) marks

**NB** Where the response shows some critical understanding of the possible economic benefits of FDI but offers no supporting economic analysis, a Level 2 mark should be awarded.

**3** Comment on the economic consequences for the EU15 of the migration of labour to them from new member states, such as Bulgaria. **[15]**

*Commentary should be informed and supported by explicit economic analysis for Level 4 marks to be awarded. Without such explicit use of the economist's toolkit responses are, at best likely, to show only a critical understanding of the issues and should not be rewarded above Level 2 of the mark scheme. Candidates should be well versed in the economics of immigration and avoid the ill-informed commentary typical of the 'populist press' – they should be thinking as economists!*

### Synoptic knowledge

Module 2881 – Sections 5.1.1, 5.1.2, 5.1.3

Economic resources and the nature of factors of production.

Factor Markets. Application of demand and supply to factor markets. Market equilibrium, particularly in labour markets.

The costs of firms.

Module 2882 – Section 5.2.2

The causes and consequences of why markets may not work efficiently - factor immobility.

Module 2883 – Sections 5.3.1, 5.3.2, 5.3.3

A broad overview of government policy objectives for the macro-economy

The meaning of Gross Domestic Product (GDP). Measurement through the output, income and expenditure methods.

How aggregate demand and supply analysis can be used to illustrate macro-economic problems and issues.

The nature of supply-side economics and the scope of supply-side policies.

**Outline of content**

*Consequences might include:*

- *potential output expanded*
- *increased supply of labour*
- *impact on wages rates, labour costs and price of output*
- *reduction in labour shortages*

*Commentary might include:*

- *benefits reduced by restrictions on immigration*
- *benefits for whom? – impact on wage rates*
- *dependent on who migrates – ie skills profile*
- *consequences for social housing and benefits*
- *context of ageing population / population of working age*
- *extent to which there is an optimal population size*
- *distinction between the impact on GDP and GDP per capita – eg making the economy larger as opposed to making it richer*

Level 4 For a commentary on the economic consequences for existing EU member states of the migration of labour to them from new member states, such as Bulgaria.  
(10 - 15) marks

Level 3 For an analysis of the economic consequences for existing EU member states of the migration of labour to them from new member states, such as Bulgaria.  
(5 - 9) marks

Level 2 For an application and critical understanding of the economic consequences for existing EU member states of the migration of labour to them from new member states, such as Bulgaria.  
(3 - 4) marks

Level 1 For knowledge and understanding of the economic consequences for existing EU member states of the migration of labour to them from new member states, such as Bulgaria.  
(1 - 2) marks

**NB Where the response shows some critical understanding of the economic consequences for the EU15 of the migration of labour to them but offers no supporting economic analysis, a Level 2 mark should be awarded.**

**4 “Two thirds of Bulgarians surveyed said they expected EU membership to improve their economic prosperity.”**

**Discuss the extent to which Bulgaria might benefit economically from membership of the EU. [20]**

**Synoptic knowledge**

Module 2888 – Sections 5.8.1, 5.8.2, 5.8.3

The meaning and nature of economic integration. Levels of integration.

An economic analysis of trade and integration. Application of comparative advantage and the gains from trade.

Customs union theory - the static and dynamic effects of customs unions. Factor market integration.

The Single European Market - the removal of non-tariff barriers.

**Outline of content**

Benefits to include trade creation, access to EU Single Market, greater investment, dynamic effects of membership, access to funds

Micro and macroeconomic analysis of the benefits

Discussion in terms of potential costs – ability to compete in EU Single Market, nature of absolute and comparative advantages, short term vs long-term, scale and significance of effects

- Level 4 For a discussion of the extent to which Bulgaria might benefit economically from membership of the EU. (12 - 20) marks
- Band 1 12-16 marks
- For a discussion of costs and benefits of membership
- Band 2 17-20 marks
- For judgements on the scale and significance of costs and benefits.
- Level 3 For an analysis of the economic benefits to Bulgaria arising from membership of the EU. (5 - 11) marks
- Level 2 For an application and critical understanding of the benefits and costs to Bulgaria arising from membership of the EU.. (3 - 4) marks
- Level 1 For knowledge and understanding of the economic benefits to Bulgaria arising from membership of the EU. (1 - 2) marks

**NB Where the response shows some critical understanding of the economic benefits of membership of the EU but offers no supporting economic analysis, a Level 2 mark should be awarded.**

## Specification Grid

AO	Question 1		Question 2	Question 3	Question 4	TOTAL
	(a)	(b)				
AO1	3	3	2	2	2	12
AO2	3	3	2	2	2	12
AO3		3	3	5	7	18
AO4			3	6	9	18
<b>TOTAL</b>	<b>6</b>	<b>9</b>	<b>10</b>	<b>15</b>	<b>20</b>	<b>60</b>

# Grade Thresholds

Advanced GCE Economics (3812/7812)  
January 2008 Examination Series

## Unit Threshold Marks

Unit		Maximum Mark	A	B	C	D	E	U
2881	Raw	45	32	28	24	21	18	0
	UMS	90	72	63	54	45	36	0
2882	Raw	45	34	30	26	22	19	0
	UMS	90	72	63	54	45	36	0
2883	Raw	45	32	29	26	23	20	0
	UMS	120	96	84	72	60	48	0
2884	Raw	45	33	30	27	24	22	0
	UMS	90	72	63	54	45	36	0
2885	Raw	45	33	30	27	25	23	0
	UMS	90	72	63	54	45	36	0
2886	Raw	45	33	30	27	24	21	0
	UMS	90	72	63	54	45	36	0
2887	Raw	45	29	25	22	19	16	0
	UMS	90	72	63	54	45	36	0
2888	Raw	60	49	43	38	33	28	0
	UMS	120	96	84	72	60	48	0

## Specification Aggregation Results

Overall threshold marks in UMS (ie 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	9.6	35.7	57.0	79.4	95.6	100	288
7812	13.2	43.4	75.5	96.2	100	100	56

## 344 candidates aggregated this series

For a description of how UMS marks are calculated see:

[http://www.ocr.org.uk/learners/ums\\_results.html](http://www.ocr.org.uk/learners/ums_results.html)

Statistics are correct at the time of publication.

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