

Economics

Advanced GCE A2 H461

Advanced Subsidiary GCE AS H061

Mark Schemes for the Units

January 2010

HX61/MS/R/10J

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

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

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CONTENTS

Advanced GCE Economics (H461)

Advanced Subsidiary GCE Economics (H061)

MARK SCHEMES FOR THE UNITS

Unit/Content	Page
F581 Markets in Action	1
F582 The National and International Economy	3
F583 Economics of Work and Leisure	12
F584 Transport Economics	33
F585 The Global Economy	56
Grade Thresholds	74

F581 Markets in Action

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 The Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 5 The quality of written communication will be assessed in the answer to the final part question.

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

Level 4

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

Levels 2 and 3

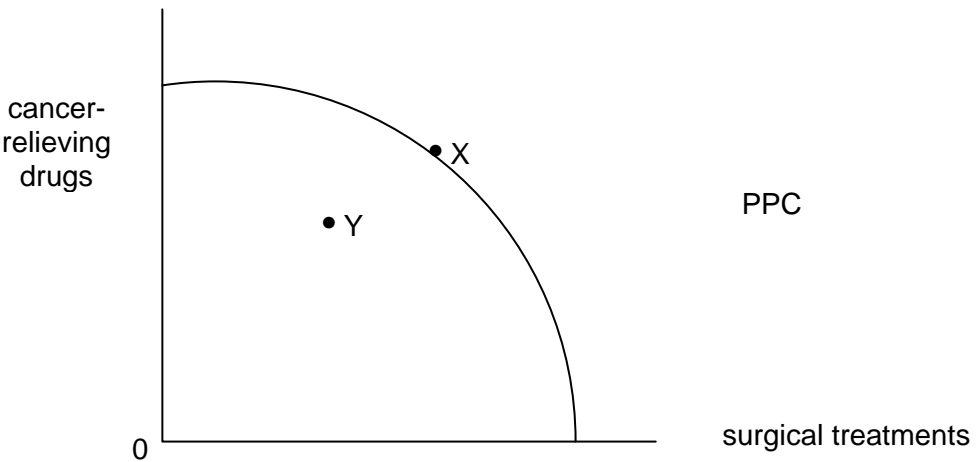
Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar,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

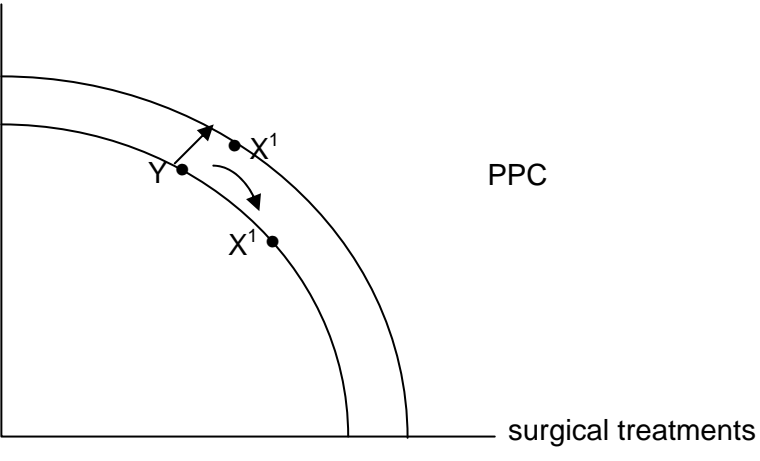
Level 1

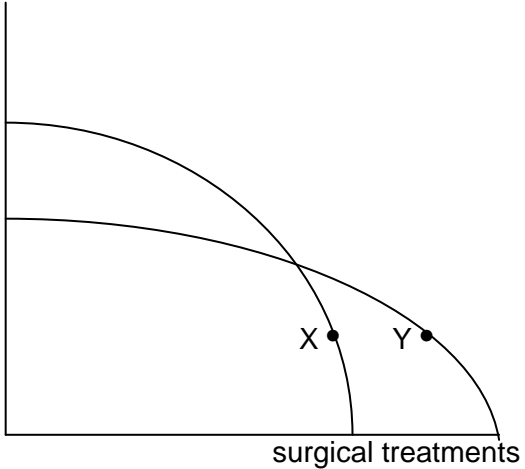
Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive.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

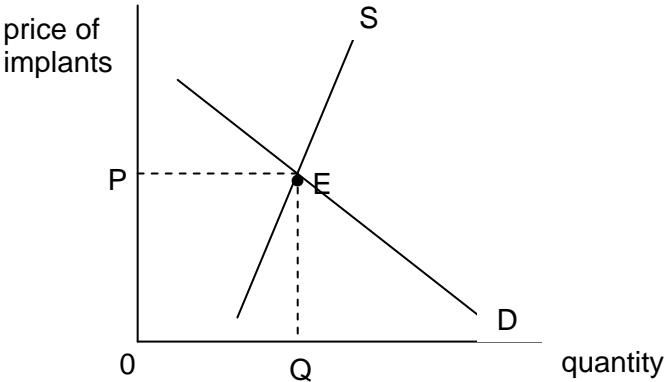
Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question.

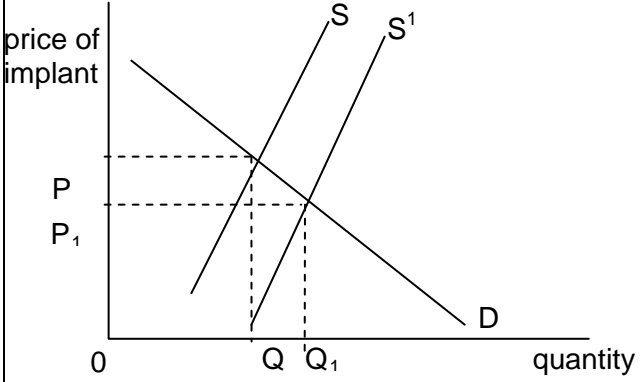
Question	Expected Answer	Marks	Guidance
1	<p>(a) Up to 2 marks for a correct definition of the economic problem such as 'how to allocate scarce <u>resources</u> among alternative uses.'</p> <p>Award 1 mark for a statement of scarcity or choice only.</p> <p>Up to 2 marks for application to health care - limited resources, choice and unlimited wants.</p> <p>Award 1 mark where this application is only that of scarcity or choice.</p>	[4]	<p>Use a green tick to identify</p> <ul style="list-style-type: none"> - limited resources/scarcity - unlimited wants/choice <p>Watch out for 'need' – not the same as 'want'.</p> <p>Only one side of the economic problem has been addressed.</p> <p>Use green ticks again to indicate where both aspects are applied.</p> <p>Application can be either from the case or more widely with respect to health care.</p> <p>Accept 'quantity and quality' as application of choice.</p> <p>Watch out for demand and supply answers – not relevant.</p>
	<p>(b) Various possibilities including:</p> <ul style="list-style-type: none"> • an increase in throughput/output • a wider range of services become available • an increase in efficiency • better use of labour which increases productivity. • Improvement in quality <p>NB: The question does not ask for a definition of specialisation.</p>	[2]	<p>The question is a general one and not in context. Although reference to maternity services can be credited.</p> <p>Accept economies of scale and reduced costs as this may be given by A2 candidates.</p> <p>A typical 1 mark answer might be 'more efficient' (1); for 2 marks 'the decision to concentrate resources means there is a larger unit so more patients can be treated more efficiently'.(2)</p>

Question	Expected Answer	Marks	Guidance
<p>2</p> <p>(a)</p>	<p>For example:</p> 	<p>[2]</p>	<p>Use a green tick to identify whether the points inserted are correct.</p> <p>One mark for each correct point label.</p> <p>Y can be anywhere inside the PPC, with or without a point.</p> <p>X must specifically be on the PPC.</p>
<p>(b)</p>	<p>X which is on the PPC (1) represents a point of maximum output or productive efficiency (1).</p> <p>All resources are being fully used (1)</p> <p>Y which is inside the PPC (1) since it is possible to produce more drugs without sacrificing surgical treatments (2)</p> <p>No opportunity cost (1) of producing more output (1)</p> <p>(No marks for efficiency)</p>	<p>[4]</p>	<p>OFR might apply exceptionally if X and Y in part a are the wrong way round.</p>

Question	Expected Answer	Marks	Guidance
(c)	<p>0</p>  <p>0</p>		<p>NB Accept a pivot diagram also.</p>
	<p>Various possibilities</p> <ul style="list-style-type: none"> • a movement along the PPC Y to X¹ towards the maximum number of surgical treatments • a shift outwards of the PPC to coincide with an overall increase in resources available for both treatments • a pivot from the original point on the cancer relieving drugs axis, indicative of an increase in efficiency of surgical treatments (not shown above) • a movement from a point within the PPC to one where there are more surgical treatments • a re-allocation of potential output (see guidance) 	<p>[4]</p>	<p>Diagram – award 1 mark for original position plus 1 mark for position indicating more surgical treatments; 1 mark only for change of PPC showing potential for producing more surgical treatments.</p> <p>No marks if only one position indicated.</p>

Question	Expected Answer	Marks	Guidance
	<p>Award 2 marks for correct new diagram. Award up to 2 marks for an appropriate explanation. Give 1 mark for a less than clear explanation.</p> <p>(1 mark if pivot only with new position not indicated)</p>		<p>Explanation for 1 mark should make clear that the outcome is more surgical treatments.</p> <p>1 mark for explaining why; impact on quantity of cancer relieving drugs (1) re-allocating resources (1).</p> 

Question	Expected Answer	Marks	Guidance
3 (a)			
	<p>Award 1 mark each for</p> <ul style="list-style-type: none"> • downward sloping D • upward sloping S • correct equilibrium point/position, labelled. 	[3]	<p>Accept diagram with shift of D if original equilibrium position is OK.</p> <p>Use a green tick in each case to identify each of the adjacent points.</p> <p>If S and D are wrong way round, then award 1 mark for correct equilibrium position.</p>

Question	Expected Answer	Marks	Guidance
(b)	<p>Various possibilities including:</p> <ul style="list-style-type: none"> • a fall in their price • an increase in real income of consumers • an increase in fashion awareness or taste • an increase in the price of alternatives/availability of alternatives • an increase in population/market <p>Award 1 mark for a valid reason; 1 mark for some elaboration such as:</p> <ul style="list-style-type: none"> • implants are now more affordable • discretionary income has increased • benefit of implants now better known and understood • increase in price of dentures. 	<p>[4]</p>	<p>The determinant should broadly coincide with what is to be found in text books.</p> <p>Do not accept 'lower cost'.</p> <p>Advertising can be an appropriate explanation of the fashion/taste factor.</p> <p>Beware of 'quality' explanations – 0 marks.</p> <p>Use a green tick to identify each correct point.</p>
(c)	 <p>2 marks for new diagram showing shift of S and new equilibrium position.</p> <p>Up to 3 marks for an analysis. An increase in the number of dentists leads to a shift to the right of S (1); this results in a fall in price (1) and an increase in the quantity (1).</p>	<p>[5]</p>	<p>Use a green tick to show where the diagram marks have been awarded.</p> <p>Accept reference back to diagram for increase in supply; no marks for simple 'increase in supply'.</p>

Question	Expected Answer	Marks	Guidance
4	<p>Award up to 4 marks for an understanding of income elasticity and interpretation of the data. These marks can be awarded for :</p> <ul style="list-style-type: none"> • correct definition (2) or formula (2) • normal goods (1) superior goods (1) • elastic (1) inelastic (1) • numerical interpretation of data (2) • interpretation of elasticity or type of good (1x2) <p>Up to 4 marks for a relevant comment such as the high positive estimate for above average income earners is good news for implant dentists. They can expect the demand for implants to increase in the future, assuming real incomes increase. Maybe not as strong a market at the time of a recession. Dentists could target their services to the above average income group. It should be remembered that the data are only estimates and that given the sensitive nature of both income and health issues, there is likely to be some misreporting from respondents to the survey.</p>	[8]	<p>A typical explanation of income elasticity of demand is 'the response of demand to a <u>change</u> in income'. Give 1 mark where the <u>change</u> aspect is not made clear.</p> <p>Two comment points are required for full marks. Likely to consist of a comment on the use of the data and its accuracy.</p> <p>One comment point well done can get 3 marks.</p> <p>Use green ticks throughout to indicate all marks awarded.</p> <p>Watch out for answers in terms of price elasticity of demand, for example in the comment part of the answer – 0 marks.</p>

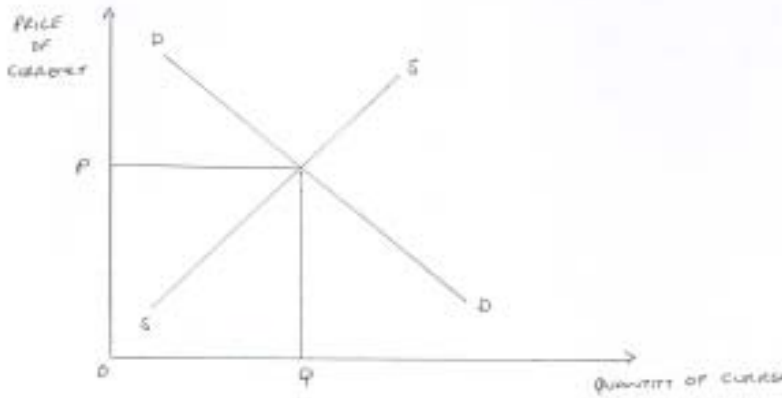
Question	Expected Answer	Marks	Guidance
5	<p>Award 2 marks for a clear understanding of information failure (the lack of information only 1 mark) to include some reference to the effects of this form of market failure in terms of not maximising welfare.</p> <p>Award up to 2 marks for application to the case of sausages, bacon and other red meat and why consumers are not aware of the dangers of over consumption or where advertising of these products is not necessarily in the best interests of consumers. Reference to de-merit goods (1), explanation with respect to information failure (1). Examples of why consumers are not fully aware; e.g. complexity of labelling, lack of nutritional education (2).</p> <p>Award 2 marks for an appropriate comment either in terms of the inequality of information between producers and consumers or why many consumers do not bother to find out or are not even bothered about the health properties of what they eat. Time to transmit information. Lack or inadequacy of government provision (2), confusing or limited evidence (2), how information failure might be reduced (2). Award 1 mark if these points are just a hint.</p>	[6]	<p>First time of asking so try to be generous on the comment aspect especially. Accept asymmetric information in the definition.</p> <p>Either of these two instances of information failure can get 2 marks – 1 mark for the context, 1 mark for the effect on consumers.</p> <p>Accept answers that say it is because of market failure or an inefficient allocation of resources.</p>

Question	Expected Answer	Marks	Guidance
6	<p>This question requires a discussion of the arguments for and against the provision of health care by the government or the private sector. Answers should be in context, although some theoretical principles, particularly with respect to merit goods, need to be included at all levels.</p> <p><i>The case for providing health care in the UK as a merit good is well established and stems from the view that a national system of health care provides more private benefits for consumers than they actually realise. Merit goods such as health care also have positive externalities for the economy in terms of increased output and for the community as a whole. (It is not in anyone's interest to have a lot of sick people around.) The problem for the government is that it has to make various judgements on the information available to it – this information is not available to the same degree to the vast majority of the population. Reference the opportunity cost of government spending on health is relevant.</i></p> <p><i>A very good answer is likely to question whether there really is such a thing as a merit good, arguing that for a personal thing such as health care, individuals should be left to decide what is best for them. In many other countries, this controversially is the case – private health insurance is absolutely essential in such 'pay as you consume' situations. In the absence of such insurance, certain groups in the population will go without certain types of health care as they are unable to afford it. This has wider macroeconomic implications on the supply side.</i></p> <p><i>A very relevant point is that increasingly in the UK the private sector is providing for some what the NHS is unable to provide for all. So, in some respects, health care is already provided by a combination of the public and private sectors.</i></p>	[18]	<p>Weaker answers that do not answer in terms of merit goods are unlikely to get beyond L2.</p> <p>Discussion on the opportunity cost of government spending is relevant.</p>

Question	Expected Answer	Marks	Guidance
	<p>L4 For a <u>discussion</u> of whether health care should be provided by the government or the private sector. (13-18)</p> <p>A balanced answer is required, with a discussion of some of the points stated above.</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured using appropriate terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>L3 For an <u>analysis</u> of why health care may be provided by the government or the private sector. (9-12)</p> <p>Answers should be underpinned with relevant analysis.</p> <p>For 11+ marks, the analysis should have some depth and are likely to include an explained diagram showing under consumption or positive externalities.</p> <p>Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.</p>		<p>Band 3 17-18 marks For a two sided discussion which makes clear whether health care is best provided by the government or by the private sector. A second case is where the answer questions whether health care is really a merit good.</p> <p>Band 2 15-16 marks A good balanced discussion but not reaching that bit further.</p> <p>Band 1 13-14 marks An unbalanced discussion or one that is a weak discussion.</p> <p>Band 2 11-12 marks Must include relevant theory of merit goods and/or efficiency case for private sector.</p> <p>Band 1 9-10 marks Weak analysis of merit goods and/or relative efficiency of private sector.</p>

Question	Expected Answer	Marks	Guidance
	<p>L2 For an <u>application</u> of knowledge as to why some healthcare is provided by the government. (5-8)</p> <p>These answers will consider the various reasons why, in the UK, health care has traditionally been provided by the government.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p>		<p>Band 2 7-8 marks Simple explanation e.g. merit goods and some application to healthcare or why healthcare is provided by the government.</p> <p>Band 1 5-6 marks Application of benefits of healthcare.</p>
	<p>L1 For a <u>knowledge and understanding</u> of the government and private sector. (1-4)</p> <p>These answers will be shallow in scope and depth, containing a few simply made points.</p> <p>Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.</p>		<p>Band 2 3-4 marks Clearer understanding of government and private sector.</p> <p>Band 1 1-2 marks Limited understanding of government or private sector.</p>

F582 The National and International Economy

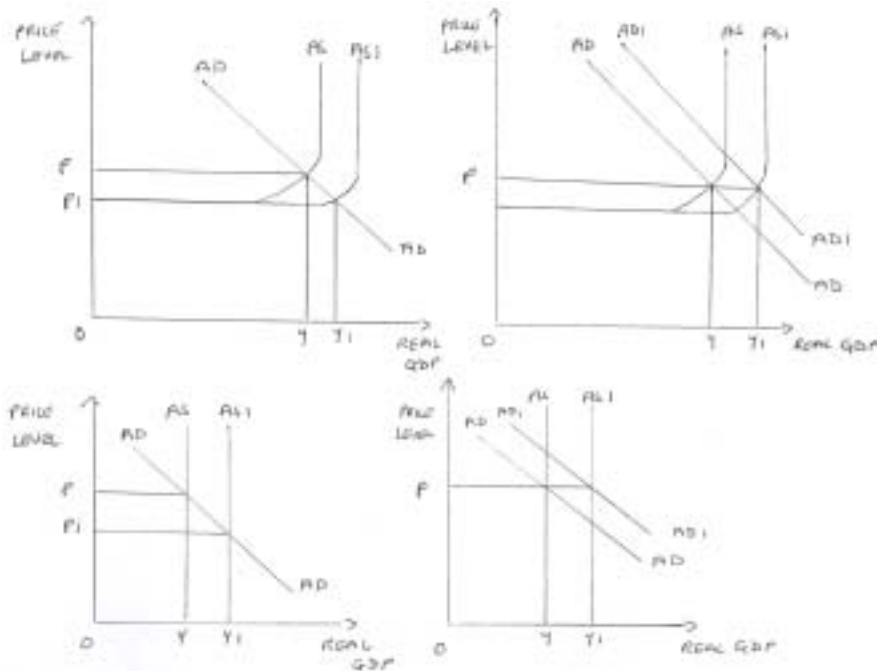
Question	Answer	Marks	Guidance
1 (a)	2 marks for the price of one currency in terms of another currency/currencies. 1 mark for price/value/worth of a currency/one currency compared to another currency/currencies. 1 mark for example.	2	£1 = \$2 or equivalent would be awarded 1 mark as an example – not explicitly mentioning that it is the price of the currency. Nothing for just ‘rate’ of a currency.
1 (b)	 <p>1 mark for demand curve correctly labelled. 1 mark for supply curve correctly labelled. 1 mark for equilibrium shown.</p>	3	Accepting straight line demand and supply curves and curved demand and supply curves. The equilibrium can be shown by price and quantity lines (linked to P and Q or price and quantity on the axes) or by an explicitly indicated equilibrium point. An answer which shifts one of the curves can still get three marks if the curves are correctly labelled and an equilibrium is shown.

Question	Answer	Marks	Guidance
2 (a)	<p>Up to 3 marks for analysing data:</p> <ul style="list-style-type: none"> • Abu Dhabi had a lower inflation rate • Abu Dhabi had a higher real GDP/larger contribution to UAE,s real GDP • Abu Dhabi had a higher real GDP per capita as real GDP is higher and population is lower • Abu Dhabi had a larger trade surplus. <p>Up to 3 marks for evaluation:</p> <p>* Conclusion that most of the information supports the view that Abu Dhabi was performing better.</p> <ul style="list-style-type: none"> • Dubai had a higher growth rate – this does not support the view. • Reference to other information needed eg the unemployment rate, other years' data. <p>Maximum of 5 marks.</p>	5	
2 (b)	<p>1 mark for identification and 1 mark for description x 2 e.g.</p> <ul style="list-style-type: none"> • risk of double counting (1) as using the output method, raw materials must not be counted twice (1) • need to exclude transfer payments (1) as only incomes earned in producing products must be included (1) • the existence of undeclared economic activity (1) may mean that real GDP figures understate the true level of the country's output (1) • the need to measure inflation accurately (1) as nominal (money) inflation has to be adjusted to get real GDP. (1) <p>Maximum of 4 marks</p>	4	<p>Nothing for problems of interpreting real GDP as a measure of living standards e.g. real GDP may not be evenly distributed.</p> <p>1 mark for recognising real GDP has to be adjusted for inflation.</p>

Question	Answer	Marks	Guidance
3	Up to 2 marks: 1 mark for the contribution has fallen/diversified into other areas. 1 mark for it declined most rapidly at the start of the period/less rapidly at the end of the period. 1 mark for it declined by 49% points/98% over the period. 1 mark for at the start of the period it accounted for half of the country's output whereas by the end its contribution was expected to be minimal. 1 mark for recognising 2010 is only a forecasted figure but nothing just for reference to forecasted figure. Maximum of two marks.	2	Nothing for it declined by 49%.
4 (a)	1 mark for exports or investment as an injection. 1 mark for imports or tax or foreign workers sending money home as a leakage.	2	
4 (b)	2 marks for the process by which any change in a component of AD results in a greater final change in real GDP. (Also accept the formula $1/mpw$ for 2 marks, but remember this is not required at this level.) 1 mark for idea that a change in spending has a knock on effect/affected by injections.	2	Also accept any change in an injection/leakage results in a greater final change in real GDP/AD and change in income/change in injection for 2 marks

Question	Answer	Marks	Guidance
5 (a)	<p>1 mark for each of two ways stated eg reduction in/abolition of tariffs, increase in quota levels or abolition of quotas, removal of embargoes, removal of subsidies, joining an international organisation or trade bloc that promotes free trade.</p> <p>Plus up to 2 marks each for each explanation of how the ways would reduce protectionism, eg</p> <ul style="list-style-type: none"> • a reduction in tariffs would lower the price of imports on the domestic market. (1) This would make them more price competitive relative to home produced goods. +(1) • increase in quota levels would allow more imports into the country. (1) If these imports are cheaper or better quality, demand for domestically produced products is likely to fall. (1) 	6	<p>Each of these examples need a clear exemplification of the second explanatory mark.</p> <p>Allow one explanatory mark in each case for explaining the nature of the protectionist measure e.g. explaining a tariff.</p> <p>Nothing for retaliation to force countries to reduce protectionism.</p> <p>Note if no marks are given for one part but two ways are given in the second part, they can be rewarded as two.</p>
5 (b)	<p>Up to 3 marks for analysing the effects eg:</p> <ul style="list-style-type: none"> • exports are a component of aggregate demand./injection into the circular flow • an increase in exports will raise aggregate demand. • higher aggregate demand will encourage firms to expand output. • to raise production, firms may employ more workers/increases employment. <p>Up to 3 marks for evaluating effects eg:</p> <ul style="list-style-type: none"> • the impact on employment will depend on whether exports rise by more than imports. • another component of aggregate demand may fall. • higher output could result from improved productivity or capital investment and so employment may not rise. • if the economy is operating at full employment, it may not be possible to increase employment. • final effect one employment may be greater than the initial impact due to the multiplier effect. 	6	<p>3 evaluative marks can be gained for one point one well made but: 1 evaluative mark maximum for 'will depend on how much exports increase by'.</p> <p>Maximum 6 marks</p>

Question	Answer	Marks	Guidance
6 (a)	2 marks for 53% ($0.85m/1.6m \times 100 = 53.125\%$) 1 mark for calculating that the size of Dubai's labour force in 2007 was 0.85m or for the correct method but inaccuracy in the answer.	2	
6 (b)	Accurate diagram = up to a maximum of 5 marks. 1 mark for axes correctly labelled (ie macro labels). 1 mark for AD and AS curves are correctly labelled. 1 mark for shift of AS curve to the right. 1 mark for shift of AD curve to the right. 1 mark for original equilibrium. 1 mark for new equilibrium.	8	Labels: for vertical axis, accept general price level, price level, CPI, RPI or RPIX but not inflation; for horizontal axis, accept real GDP, national output, country's output and aggregate output. Equilibriums to be shown by lines to price level and real GDP and indicated by P and Y.



Question	Answer	Marks	Guidance
	<p>Accurate explanation = up to a maximum of 5 marks.</p> <p>1 mark for recognising that a higher labour force will increase aggregate supply.</p> <p>2 marks for explaining that a higher labour force will increase aggregate supply by raising productive capacity.</p> <p>1 mark for noting that if the extra workers gain employment, AD will increase/ higher population will increase AD.</p> <p>1 mark for noting it will increase potential economic growth.</p> <p>1 mark for noting it may increase actual economic growth/higher GDP</p> <p>1 mark for explaining the effect on the price level.</p> <p>1 mark for explaining that the effect on the price level will depend on the relative shift of the AS curve and AD curve.</p> <p>1 mark for explaining effect will depend on whether there is <u>net</u> immigration/scale of <u>net</u> immigration/age of immigrants.</p> <p>Up to 2 marks for explanation that the effects on the price level and output will depend on the initial relationship between AD and AS.</p> <p>Maximum of 8 marks.</p>		

Question	Answer	Marks	Guidance
7	<p>This question requires a discussion of how a reduction in the rate of interest may affect consumer expenditure and investment. A reduction in the rate of interest will make it cheaper for consumers and firms to borrow and reduce the return from saving. It will also mean that consumers and firms will have to pay less on past loans. Answers should recognise that the effect will depend on a number of factors and that there are other influences on consumer expenditure and investment.</p> <p>Level 4 (13 – 18 marks) For a discussion of the extent to which a reduction in the rate of interest can be effective in increasing consumer expenditure and investment. Answers should evaluate the extent to which a reduction in the rate of interest may affect consumer expenditure and investment. Examples of L4 answers:</p> <ul style="list-style-type: none"> • Changes in the current and expected profit level may have more impact on investment than changes in the rate of interest. Firms will not want to invest even if the rate of interest falls very low if it is thought that investment will not be profitable. • If consumer confidence is low, a fall in the rate of interest may not encourage higher consumer expenditure. • If business confidence is low, firms are unlikely to invest. • Consumer expenditure and investment may not change if it is thought that the lower interest rate will not last. • Borrowers will gain from a lower interest rate whilst lenders will lose. Such a redistribution of income may still lead to higher consumer expenditure and investment as borrowers tend to spend more than lenders. • If the rate is already very low, a cut may have little impact. • A large reduction is likely to have more of an impact than a small cut . 	18	<p>Evaluation must be underpinned by relevant analysis.</p> <p>Note: if a candidate ignores investment or shows a confused understanding of investment, the maximum mark they can gain is 13 (10 for strong analysis on C and a maximum of 3 on evaluation). Note: if a candidate discusses how an increase in the rate of interest might reduce consumer expenditure and investment, award up to a maximum of 8 based on the quality of the answer.</p> <p>For 18 marks, a candidate must have two good evaluative arguments, or three reasonable evaluative points, or one good evaluative argument, one reasonable evaluative argument and one brief evaluative argument. For 16 marks, a candidate must have one good evaluative argument, plus one brief evaluative argument or two reasonable evaluative arguments.</p>

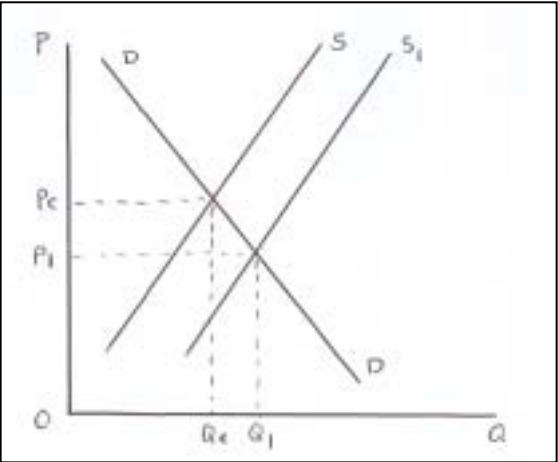
Question	Answer	Marks	Guidance
7 cont.	<p>For 16+ marks, the discussion must have some depth to the factors influencing the effects and their relative likelihood. For 13 – 15 marks, a discussion that does evaluate but which lacks depth or is relatively narrowly focused. Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any errors of spelling, punctuation and grammar.</p> <p>Level 3 (9 – 12 marks) For an analysis of a reduction in the rate of interest and how it might increase consumer expenditure and investment. Answers should analyse the link between a change in the rate of interest and consumer expenditure and investment. Examples of L3 answers:</p> <ul style="list-style-type: none"> • A cut in the rate of interest may increase investment as the opportunity cost of investing will fall, it will be cheaper to borrow to invest and firms may anticipate higher consumer expenditure. • A lower interest rate may increase consumer expenditure as it will be cheaper to borrow, saving will be less rewarding and borrowers' discretionary income will be higher. <p>For 11+ marks there should be some depth of analysis on both consumer expenditure and investment. For 9 –10 marks the impact on only consumer expenditure or only on investment may be analysed. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though some may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure in meaning.</p> <p>Level 2 (5 – 8 marks) For an application of knowledge and understanding of how a reduction in the rate of interest may affect</p>		<p>For 12 marks there should be both some depth and width of analysis on both consumer expenditure and investment. For 11 marks there should be some depth and width of analysis on either consumer expenditure or investment and some depth or width on the other. For 10 marks there should be some depth and width on either consumer expenditure or investment . For 9 marks there should be some depth or width on either consumer expenditure or investment. (Width = two reasons why C/I may increase.</p>

Question	Answer	Marks	Guidance
7 cont.	<p>consumer expenditure and investment. Answers should recognise how and briefly why a lower interest rate would be likely to affect consumer expenditure and investment. Examples of L2 answers:</p> <ul style="list-style-type: none"> • A reduction in the rate of interest would be likely to encourage consumers to spend more as less return from saving • A reduction in the rate of interest would be expected to increase investment as cheaper to invest.. <p>For 7+ marks, the answer should recognise the effect of a lower interest rate on both consumer expenditure and investment. For 5 – 6 marks, answers may recognise the effect of a lower interest rate on either consumer expenditure or investment. Some simple ideas have been expressed in appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>Level 1 (1 – 4 marks) For knowledge and understanding of consumer expenditure and investment. These answers will show some awareness of the terms. Examples of L1 answers:</p> <ul style="list-style-type: none"> • Consumer expenditure is spending by households on consumer goods and services. • Consumer expenditure is a component of aggregate demand. • Investment is spending by firms on capital goods. • Investment is a component of aggregate demand. <p>For 3+ marks, there will be both knowledge and understanding of both consumer expenditure and investment. For 1 – 2 marks, the answer will show knowledge and understanding of either consumer expenditure or investment. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>		<p>For 8 marks the answer should identify consumer expenditure would be expected to increase as well as one reason why and investment would be expected to increase as well as one reason why. For 7 marks the answer should identify that both C and I should increase and identify one reason why either may increase. For 6 marks the answer should identify that both C and I should increase. For 5 marks the answer should identify that either C or I should increase.</p>

F583 Economics of Work and Leisure

Section A			
Question	Expected Answer	Mark	Rationale
1	Static caravan holidays are <u>one</u> sub market in the camping holiday industry.		
(a)	<p>Using the information provided, identify <u>two</u> other sub markets within the camping holiday industry.</p> <p>Any two reasonable suggestions acceptable for one mark each. Tenting (1), Caravanning (1) the Mobile Home market (1), Ready erected tents (1), Camping equipment (1), 'Environmentally friendly holidays' (1), short term breaks (1).</p>	[2]	<p>Candidates do not need to mention mobile caravans to gain a mark.</p> <p>Candidates may offer two valid sub-markets within the same section of the response – e.g. tents and caravans</p>
(b)	<p>Explain <u>two</u> likely reasons for the increase in demand for camping holidays in the summers of 2008 and 2009.</p> <p>1 mark for a correct statement plus 1 mark for an appropriate explanation.</p> <p>A fall in the real cost of camping (1) would encourage an increase in demand for this type of holiday as it is financially more accessible for more people. (1)</p> <p>An increase in the price of alternative forms of holiday e.g. hotels home and abroad (1) would lead to a shift in demand for camping. (1)</p> <p>The general fall in Incomes, (1) may cause an increase in demand for the cheaper holiday alternative that camping can provide. (1)</p> <p>A favourable change in taste in favour of camping.(1) This may be due to a change in fashion, successful advertising, consideration of the environment or a greater appreciation of the benefits such a healthy active holiday can provide. (1)</p> <p>A weakening of the pound against the euro (1) may lead to an increase in demand for camping (1).</p>	[4]	<p>We expect candidates to highlight a change in an element of the demand function – we will accept substitutes and compliments as two separate reasons. The reference to the increase in demand for camping may be implicit and does not necessarily need to be explicitly stated.</p> <p>Do not give credit for two examples of one element of the demand function. E.g. two substitutes or two references to income.</p>

Question	Expected Answer	Mark	Rationale
(c)	<p>Using the information provided, comment on the extent to which <u>one</u> identified trend is likely to continue in the future.</p> <p>Candidates may select anyone of a number of trends reflected by the data. The trends described in the material presented spell good news for the camping industry as a whole.</p> <p>Not only do campsite owners and camping holiday organisers benefit from such trends but also the materials suppliers of related equipment are likely to benefit e.g. tent makers, caravan producers, equipment, manufacturers etc. If the UK economy continues to suffer economic recession it is likely that this growth trend will continue. However, holiday maker's tastes are fickle, and the UK weather could have a serious part to play. Camping in good weather is enjoyable, healthy and very conducive to successful family holidays. Cold wet summers of recent experience could soon reverse the trend, even if the economy remains weak. Should the economy recover quickly the domestic camping industry will have to have done much to improve its image if it is to keep its new found converts. Otherwise this temporary favourable change in tastes could quickly be reversed.</p> <p>1 to 2 marks for a one sided answer suggesting that camping is or is not likely to continue to enjoy increasing popularity.</p> <p>3 marks for a one sided answer with an evaluative comment.</p> <p>4 to 5 marks if the above is offered with some qualification of the statement and/or makes a clear judgement regarding the extent to which the identified trend is likely/not likely to continue.</p>	[5]	<p>Identify a trend, look for supporting evidence from the information provided and an evaluative comment as to the likelihood (or otherwise) of this trend continuing.</p> <p>For 4 marks the candidate is likely to offer a point of qualification of the statement, but will not develop this point. For example, "the pound may strengthen in the future".</p> <p>For 5 marks, there must be a development of a point of qualification.</p>

Question	Expected Answer	Mark	Rationale
(d)	<p>Analyse the impact an increase in the capacity of campsites may have on the UK camping holiday industry.</p> <p>A simple demand and supply diagram, correctly labelled showing a rightward shift in supply of campsite capacity can score up to 2 marks. A poorly drawn diagram would score 1 mark. An explanation of the potential impact on the UK camping industry will secure up to a further three marks subject to the overall maximum of 4 marks. For example, a rightwards shift/increase in supply (1) due to an excess of supply over demand (1) leads to a fall in price (1) and an increase in the quantity bought and sold (1).</p> <p>The increase in capacity should bring about an increase in the opportunity to camp in the UK (1). The increase in supply may put downward pressure on prices (1) and lead to more demand (1). The increase in popularity should lead to an increase in demand for labour thus increasing employment opportunities (1). Higher profits may be available to entrepreneurs in the UK holiday market (1). This may lead to an increase in investment (1). An increase in demand for complimentary goods (1).</p> 	[4]	<p>If candidates label the curves as AD and AS then the diagram is worth a maximum of 1 mark (assuming the correct shift of the supply curve).</p> <p>Full marks may be achieved without a diagram.</p>

Question		Expected Answer	Mark	Rationale
	(e) (i)	<p>State two characteristics of a contestable market.</p> <p>1 mark each for any two characteristics:</p> <ul style="list-style-type: none"> • no brand loyalty • no/low barriers to entry • no/low barriers to exit • no long-run abnormal profits/supernormal profits • good knowledge of existing technology • no significance to the number of firms in the market • susceptible to hit and run tactics • no/low sunk costs • long run economic efficiency • allocative efficiency • productively efficiency 	[2]	<p>Do NOT accept:</p> <ul style="list-style-type: none"> • a stated number of firms • differentiated products • homogenous products • reference to concentration ratios • non-price competition • price rigidity • price takers. <p>Candidates may offer two valid characteristics within the same section of the response e.g. "low/no barriers to entry/exit". This is worth 2 marks.</p>

Question	Expected Answer	Mark	Rationale
(ii)	<p>Discuss the extent to which the camping holiday industry may be considered an example of a contestable market.</p> <p>The camping industry as a whole displays a considerable degree of evidence to suggest that it may be considered quite contestable. The industry appears relatively easy to enter, there do not appear to be a great many barriers to entry especially when starting an operation e.g. many farmers in recent years have looked to camping as an alternative extra source of income. The amount of sunk cost necessary for such an undertaking appears to be small, and consequently should a particular firm exhibit signs of making abnormal profits; one imagines firms outside the market would quickly enter to compete away such extra gains.</p> <p>On the other hand article two does suggest in the sub-market of ready erected tents, two firms dominate; 65% of the market shared by Eurocamp and Keycamp. Clearly this is strong evidence of a Duopoly. Do they attempt to erect barriers through advertising campaigns? It is difficult to imagine that barriers to entry due to scale economies do not exist in the manufacture of some camping equipment goods or perhaps the production of caravans and mobile homes. We have no evidence as to the structure of other sub-markets within the industry. It may be that there are chains of campsites all owned by one firm thus significantly reducing the amount of competition in the market.</p> <p>On the basis of the evidence provided above, the market would appear to be displaying more evidence to support the view that this is a market that is tending towards a contestable market as an industry as a whole. However, in a number of sub-markets this is not necessarily the case. Without more evidence to confirm, one must be careful of making too positive a judgement in the absence of such information.</p>	[8]	

Question	Expected Answer	Mark	Rationale
	<p>1 to 2 marks for a one sided approach.</p> <p>3 marks maximum for a one sided approach with a judgement that the camping holiday industry is/is not a contestable market.</p> <p>3 to 4 marks if the answer is clearly two sided with no judgement made.</p> <p>5 to 8 marks if the answer offers discussion followed by a clearly evaluative judgement as to the extent to which the camping industry as a whole may be considered to be an example of a contestable market.</p>	<p>[8]</p>	

Section B			
Question	Expected Answer	Mark	Rationale
2	(a)		
	<p>Analyse using examples how the immobility of labour may lead to labour market failure.</p> <p>Labour immobility comes in two main forms, one is geographical immobility and the other is occupational immobility. Candidates are then likely to go on to explain in depth these two different types. Labour market failure occurs when the market forces of supply and demand do not produce an efficient allocation of resources. Evidence of such failure occurs in a number of forms and for a number of reasons and immobility is one of those reasons. This can be illustrated using supply and demand analysis. Markets which are experiencing an increase in demand for labour will face a supply curve that is less elastic than otherwise would be the case in the absence of mobility problems (this is a key point of analysis). Consequently wages will be pushed to a higher level than would otherwise be the case and costs to firms will increase causing potential productive inefficiency.</p> <p>Level 3 (9-15 marks) For an explanation of how immobility may lead to market failure in the labour market. For a 13+ mark candidates must offer clear analysis of both types of immobility.</p> <p>10 maximum if candidates only consider one type of immobility.</p> <p>Level 2 (5-8 marks) For an application of knowledge as to how immobility may lead to market failure in the labour market.. For a 7+ mark candidates must offer a clear real world application.</p> <p>Level 1 (1-4 marks) For knowledge and understanding of how immobility may lead to market failure in the labour market or for a simple explanation of geographical or occupational immobility.</p>		

Section B			Mark	Rationale
Question	Expected Answer			
			[15]	

Question	Expected Answer	Mark	Rationale
(b)	<p>Discuss the extent to which government intervention can reduce labour market failure caused by the immobility of labour.</p> <p>This question can be tackled in a number of ways adopting a wide or narrow focus. As long as the required assessment objectives are covered, either approach is acceptable. Candidates might be expected to build up an answer along the lines of the example offered below.</p> <p>One or a number of types of government intervention can be explained and analysed. For example, government measures to achieve a more flexible labour force, government training initiatives, regional policy and measures to overcome information failure. The policies chosen for illustration must be analysed and then questioned as to their effectiveness, perhaps using some illustrative evidence from the real world. This approach would satisfy the need for a balanced approach to the answer.</p> <p>Finally candidates should directly address the question of effectiveness of policy and are likely to draw a conclusion that intervention can go some way to alleviating problems caused by immobility of labour. However, in a dynamic economy it is difficult for labour to keep pace with the ever changing requirements of the labour market and perhaps the best steps taken by government are those to improve labour flexibility.</p> <p>Level 4 (a) (16-20 marks) For a discussion that includes a judgement of the extent to which government intervention can reduce market failure caused by immobility of labour. The judgement must be clear as to the degree to which government intervention can reduce market failure caused by immobility.</p>	[20]	

Question	Expected Answer	Mark	Rationale
	<p>Level 4 (b) (11-15 marks) For a balanced discussion of government intervention to reduce market failure caused by immobility of labour. A discussion lacking balance should receive no more than 13 marks.</p> <p>Complex issues 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 constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 (5-10 marks) For an analysis of how government intervention can reduce market failure caused by immobility of labour. For 8+ marks there should be an in-depth analysis of at least one case of active involvement targeting a form of immobility.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2 (3-4 marks) For an application of knowledge and understanding of government intervention to reduce market failure caused by immobility of labour.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive.</p>		<p>A balanced discussion with a limited focus can score 13 marks (i.e. equal to a good unbalanced answer).</p> <p>11-12 marks for a one sided approach with only simple analysis and evaluative comment.</p> <p>A maximum of 13 still applies to a good one sided, analysed and evaluative response.</p>

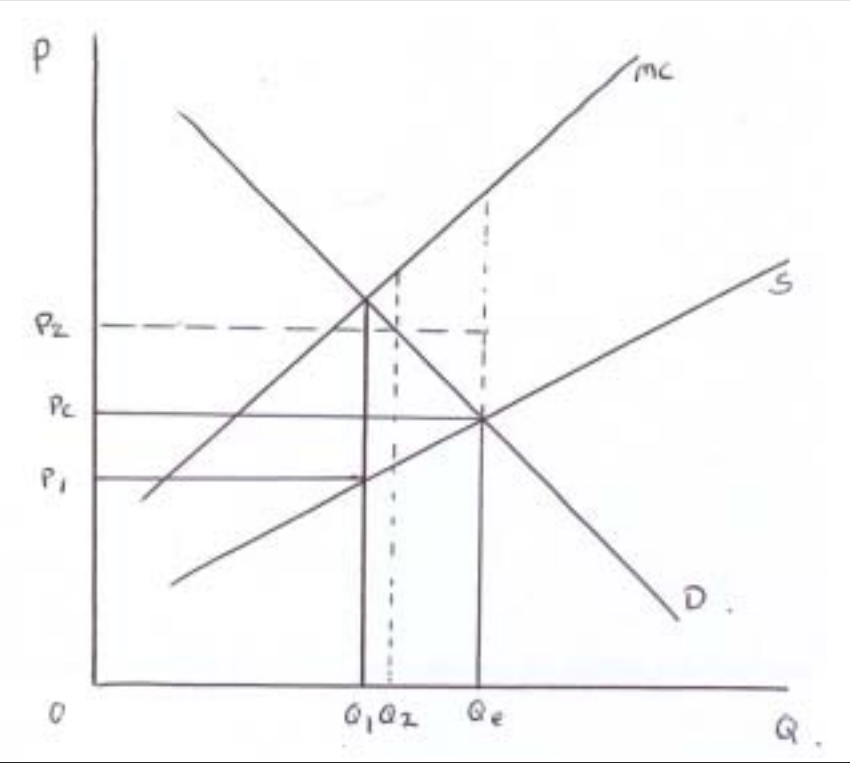
Question	Expected Answer	Mark	Rationale
	<p>Level 1 (1-2 marks) For a knowledge of government intervention to reduce market failure caused by immobility of labour . Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.</p>		

Question		Expected Answer	Mark	Rationale
3	(a)	<p>Analyse how, in theory, wages are determined in a competitive labour market.</p> <p>Candidates will be expected to explain a competitive labour market and analyse how wages are determined in such a market. Simple demand and supply analysis will be sufficient to achieve a level 3 score. However, in order to gain top marks reference to marginal productivity theory is desirable.</p> <p>There will be ample opportunity for candidates to display their skills of using market diagrams.</p> <p>Candidates might be expected to build up an answer along the lines of the example offered below.</p> <p>In a competitive labour market, the demand for and the supply of labour play key roles in determining wages. Wages are likely to be high when demand is high and inelastic and supply is low and inelastic. In contrast wages are likely to be low when demand is low and elastic and supply is high and elastic.</p> <p>Clearly a diagram opportunity does arise here and an occasion when candidates may illustrate using real world examples eg cleaners and high court judges. Then analysis may be taken further to consider changes in demand and supply. More sophisticated analysis may consider demand or supply in greater depth e.g. the marginal productivity theory applied to the demand for labour or income and substitution effects on the supply of labour.</p>	[15]	

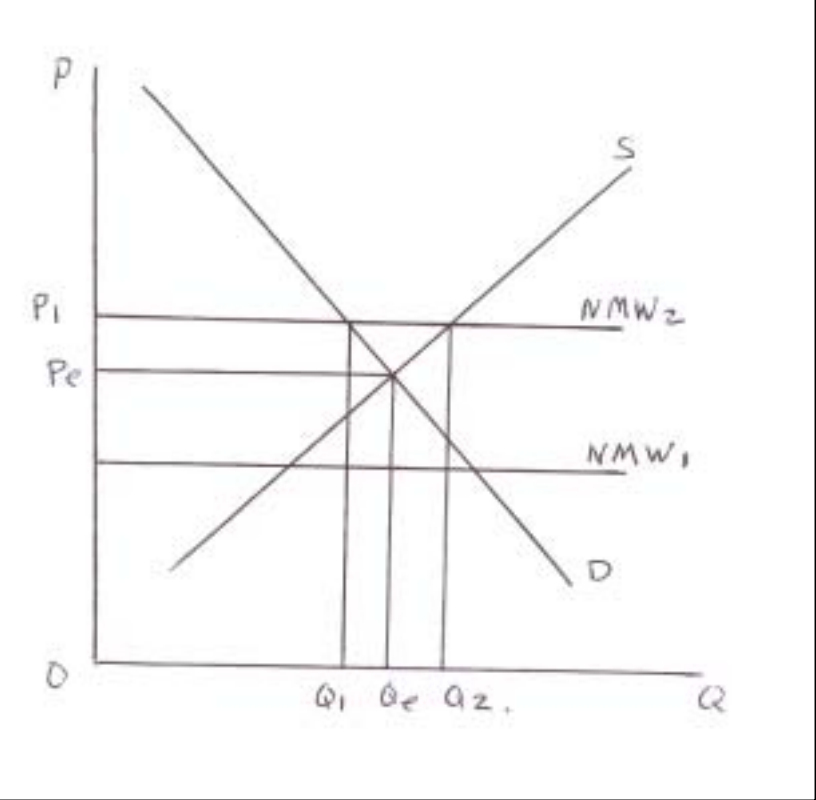
Question	Expected Answer	Mark	Rationale
	<p>Level 3 (9-15 marks) For an explanation of how, in theory, wages are determined in a competitive labour market. For a 13+ mark candidates must offer clear analysis using the marginal productivity theory of how wages are determined in a competitive labour market.</p> <p>Level 2 (5-8 marks) For an application of knowledge of how wages are determined in competitive labour markets. For a 7+ mark candidates must offer a clear real world application.</p> <p>Level 1 (1-4 marks) For knowledge and understanding of how competitive labour markets work.</p> <div data-bbox="432 794 1308 1390" style="border: 1px solid black; padding: 10px; margin-top: 20px;"> </div>		<p>Reference to the individual supply curve is not deemed relevant analysis and thus should be given no credit. The focus is on MARKET supply.</p>

Question	Expected Answer	Mark	Rationale
(b)	<p>Discuss the extent to which the competitive labour market model is useful in explaining wage determination within contemporary, real world, labour markets.</p> <p>A good discussion of the question in point would probably bridge the content of part a) into part b) without wasteful repetition of the content of part a). The real world scenarios that candidates choose to consider are of course of their own choice, however the suggested approach is one that easily lends itself to a display of the appropriate skills required for a top level 4 mark.</p> <p>In the contemporary real world markets for labour tend to be less competitive than those referred to in section a). Indeed one extreme case might be a market in which a monopsony employer is negotiating with a monopoly trade union. Using an appropriate diagram the candidate could then offer a sophisticated analysis of the possible outcome of negotiation between the two parties. The balance of power in such situations being likely to determine how close wage settlements eventually arrive at a level closer to the upper or lower limits of negotiation.</p> <p>An alternative approach might be the introduction of a minimum wage above the equilibrium which will then interrupt the operation of a competitive labour market.</p> <p>Candidates will then go on to consider to what degree this and other or alternative scenarios depart from the competitive model, and what that means for its usefulness in the first place.</p> <p>A final conclusion evaluating the degree to which the model is useful in 2010 should then be made.</p>	[20]	

Question	Expected Answer	Mark	Rationale
	<p>Level 4 (a) (16-20 marks) For a discussion that includes a judgement of the extent to which the competitive model works as an explanation. The judgement must be clear as to the degree of usefulness of the model.</p> <p>Level 4 (b) (11-15 marks) For a balanced discussion of the usefulness of the model. A discussion lacking balance should receive no more than 13 marks.</p> <p>Complex issues 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 constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 (5-10 marks) For an analysis of how useful the model can be when applied to the real world. For 8+ marks there should be an illustration of a more sophisticated use of the model, not a repeat of the model used in the first section.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2 (3-4 marks) For an application of knowledge and understanding of how the competitive model can be used.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive.</p>		<p>A balanced discussion with a limited focus can score 13 marks (i.e. equal to a good unbalanced answer).</p> <p>11-12 marks for a one sided approach with only simple analysis and evaluative comment.</p> <p>A maximum of 13 still applies to a good one sided, analysed and evaluative response.</p>

Question	Expected Answer	Mark	Rationale
	<p>Level 1 (1-2 marks) For a knowledge of how the competitive model can be used.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.</p> 		

Question		Expected Answer	Mark	Rationale
4	(a)	<p>Analyse the effects on the UK labour market of an increase in the National Minimum Wage.</p> <p>Candidates will be expected to produce an accurate diagram illustrating the impact of the national Minimum Wage (NMW) on the UK labour market. Better answers will provide a full and accurate explanation and clearly illustrate that the NMW will only disturb the operation of the market mechanism if it is imposed above the existing equilibrium.</p> <p>Another approach or additional piece of analysis that may be considered is the impact that the higher NMW may have on worker motivation and consequently worker productivity and hence the MRP.</p> <p>This rightward shift in demand may then allow the payment of higher wages and the same or even an enhanced level of employment, rather than the more simplistic conclusion that the NMW will inevitably lead to unemployment.</p> <p>Reference to actual UK NMW rates will help to secure application marks.</p> <p>Level 3 (9-15 marks) For an explanation of how, the minimum wage will affect the UK labour market. For a 13+ mark candidates must offer an analysis of an increase in the NMW as opposed to merely analysing the imposition of a NMW.</p>	[15]	<p>For up to 12 marks candidates are likely to offer a clear analysis using the standard diagram showing that the NMW will only disturb the market mechanism is imposed ABOVE the market equilibrium.</p> <p>Candidates MUST consider BOTH demand and supply effects for 12 marks.</p>

Question	Expected Answer	Mark	Rationale
	<p>Level 2 (5-8 marks) For an application of knowledge of how the minimum wage will affect the UK labour market. For a 7+ mark candidates must offer a clear real world application to the UK labour market.</p> <p>Level 1 (1-4 marks) For knowledge and understanding of how the NMW affects the labour market.</p> 		<p>Max of 6 marks if there is valid application of knowledge, but no reference is made to the UK labour market.</p>

Question	Expected Answer	Mark	Rationale
(b)	<p data-bbox="439 236 1211 304">Discuss the extent to which an increase in the National Minimum Wage is likely to reduce poverty.</p> <p data-bbox="439 336 1317 472">Candidates may tackle this question in a number of ways, no single approach is necessarily better than any other. What is crucial is that candidates demonstrate the necessary skills that are required to secure marks in the relevant level.</p> <p data-bbox="439 504 1290 711">One approach may be to start by considering what is meant by poverty. A distinction can be made between absolute and relative poverty. This must then be applied to the question. Next it would seem sensible to consider the impact of a rise in the NMW. Clearly this will only benefit those in employment, and on wages below the newly established level.</p> <p data-bbox="439 743 1317 951">Also the size of the increase of the NMW is also of considerable significance that may be open to discussion. Analysis may be in the form of graphical presentation, perhaps showing supply and demand curves of differing elasticity, and changes in NMW of differing amounts. This in itself may offer an opportunity for discussion of the policy effectiveness.</p> <p data-bbox="439 983 1323 1222">An additional or alternative approach may consider that this policy will have no immediate impact on the registered unemployed, the retired, those below the age of work or others who are part of the economically inactive workforce. In other words the potential impact on the most disadvantaged in the population may be restricted to only a fraction of the total considered to be living in conditions of poverty.</p> <p data-bbox="439 1254 1272 1412">Alternative or additional policy options may be considered e.g. introduction or increase in supplementary benefit allowances, Increase in base rate tax thresholds, subsidised housing, food tokens or any number of other possible approaches to removing poverty from our economy.</p>	[20]	

Question	Expected Answer	Mark	Rationale
	<p>A final concluding section must make a clear judgement as to the effectiveness of the NMW in tackling poverty issues, be they absolute or relative.</p> <p>Level 4 (a) (16-20 marks) For a discussion that includes a judgement of the extent to which the NMW is likely to reduce poverty. The judgement must be clear as to the degree of usefulness of the policy.</p> <p>Level 4 (b) (11-15 marks) For a balanced discussion of the usefulness of the NMW in reducing poverty. A discussion lacking balance should receive no more than 13 marks.</p> <p>Complex issues 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 constructed, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 (5-10 marks) For an analysis of how NMW is likely to reduce poverty. For 8+ marks there must be a clear explicit analysis of how the NMW is likely to reduce poverty.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p>		<p>A balanced discussion with a limited focus can score 13 marks (i.e. equal to a good unbalanced answer).</p> <p>11-12 marks for a one sided approach with only simple analysis and evaluative comment.</p> <p>A maximum of 13 still applies to a good one sided, analysed and evaluative response.</p>

Question	Expected Answer	Mark	Rationale
	<p>Level 2 (3-4 marks) For an application of knowledge and understanding of how the NMW is likely to reduce poverty.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling punctuation and grammar, some of which may be noticeable and intrusive.</p> <p>Level 1 (1-2 marks) For a knowledge of how the NMW is likely to reduce poverty.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may lack legibility.</p>		

F584 Transport Economics

Section A

Question	Expected Answer	Marks	Rationale
1 (a)	The data in Fig. 1 shows a clear rise in the use of cars over the period 1981-2006.		
(i)	State three possible reasons for the rise in the use of cars over this period	[3]	<i>Please use a tick to show each time a mark is rewarded</i>
	<p>1 mark for any relevant factor, for example:</p> <ul style="list-style-type: none"> • increased price of substitute goods (eg trains) / increased price of public transport OR a reduction in the number of available substitutes to cars OR poor quality substitute goods • lower prices of cars OR lower taxes OR increased affordability • lower real prices of running cars • increased disposable incomes / GDP / wealth (making cars more affordable) • changes in tastes and fashion (away from public transport to cars) • people travelling further to work OR shop • increased employment levels • lower fuel prices / lower running costs • population growth or greater immigration • increased car ownership (which, in turn, enables greater use) • accept references to the road building programme <p>3 marks maximum.</p>		<p>Accept any relevant, plausible factors</p> <p>If two valid answers are given under “Point 1” of answer booklet then award 2 marks still</p> <p>NOTE: question asks for any POSSIBLE factor so it does not need to have actually happened!</p> <p>DO NOT accept reference to the greater convenience of cars as this has always been the case, so cannot account for the change!</p> <p>Simple statement that there is ‘derived demand’ unless further developed = 0</p>
(ii)	Identify one other trend shown in Fig. 1	[1]	
	<p>1 mark for stating that there was a rise in air travel.</p> <p>1 mark for stating that overall there was a rise in rail travel.</p> <p>1 mark for stating that there was a rise in bus and coach travel</p> <p>Maximum of 1 mark available.</p>		<p>Accept any comment related to a subsection of data eg only 1986-1996</p>

Question	Expected Answer	Marks	Rationale
(b) (i)	Identify two possible negative externalities arising from increased road congestion	[2]	
	<p>1 mark for identifying each possible externality to include:</p> <ul style="list-style-type: none"> • environmental damage • visual pollution / blight • noise pollution • air pollution • lost business to firms • time lost: workers late for work and hence lost output / lower productivity OR simple reference to increased journey times • increased accidents • increased stress • accept reference to the fact that motorists face increased costs due to congestion • increased health problems • wear and tear (accept this as it could be a cost imposed upon others too) • increased costs to firms / businesses • damage to buildings OR infrastructure • reduced house prices near areas of congestion <p>2 marks maximum.</p>		<p>Again, accept any relevant factors</p> <p>Accept two different examples of pollution for 2 marks eg noise and air pollution will gain 2 marks</p> <p>If two valid answers are given under ‘point 1’ in answer booklets then still reward 2 marks</p> <p>Accept simple reference to “pollution” for 1 mark but don’t award a second mark if second statement is “air pollution”</p>

Question	Expected Answer	Marks	Rationale
(ii)	Explain why road congestion represents an example of market failure	[5]	
	<p><u>Up to 3 marks are available for knowledge:</u></p> <p>It is a cost / negative externality / impact imposed upon a 3rd party OR $SC > PC$ (Accept a diagram which clearly shows $SC > PC$) (1 mark)</p> <p>There will be overproduction / overconsumption (1 mark).</p> <p>This represents <u>allocative</u> inefficiency OR any reference to the fact that resources will not be allocated efficiently OR a definition of market failure relating to imperfect or non optimum allocation of resources (1 mark)</p> <p>There is a misallocation of resources (1 mark)</p> <p>A maximum of 3 marks are available for knowledge</p> <p><u>Up to 2 marks are available for application:</u></p> <p>Consumers don't pay the full / true cost of their actions OR they ignore external costs OR don't internalise external costs / negative externalities OR don't take into account the full social cost OR the free market ignores the impact upon the 3rd party (1 mark)</p> <p>Price paid is therefore lower OR products underpriced OR price is too low. (Accept a clear diagram showing that the free market price will be lower) (1 mark)</p> <p><u>Too many</u> scarce resources being used to produce goods and services (1 mark)</p> <p>A maximum of 2 marks are available for application</p>		<p>No knowledge mark for simple idea of lower efficiency without clear reference to allocative inefficiency</p> <p>Note: a purely theoretical answer without any application will only gain 3 marks</p>

Question	Expected Answer	Marks	Rationale
iii	Comment upon whether a national road-pricing scheme would reduce congestion	[6]	
	<p>1 mark for simple knowledge of what road pricing is. For example:</p> <p>A direct charge for using the road (1 mark)</p> <p>The price for using the road (1 mark)</p> <p>This involves drivers paying to drive along the roads (1 mark)</p> <p>Where drivers are charged for the journey / per mile driven / charged varying amounts throughout the day (1 mark)</p> <p>An extra cost for using the road (1 mark)</p> <p>Up to 2 marks are available for analysis of how this would work:</p> <p>1 mark for stating that the supply curve shifts <u>to the left</u> (if not already shown on a diagram)</p> <p>1 mark for recognising that there will be a contraction of / lower demand for car use OR people switch to other modes of transport OR people don't drive as much OR it puts people off driving</p> <p>1 mark for recognising that this reduces the overconsumption</p> <p>1 mark for recognising that here the 'polluter pays'.</p> <p>1 mark for stating that the road charge will force the polluter to internalise the external costs of their actions</p> <p>Alternatively, award 2 analysis marks for an accurate diagram: 1 mark for leftwards shift of supply and 1 mark for reduction in equilibrium quantity</p>		<p>3 parts to this question:</p> <p>1) Knowledge of what it is</p> <p>2) Analysis</p> <p>3) Relevant comment/evaluation.</p>

Question	Expected Answer	Marks	Rationale
	<p>Up to 3 marks are then available for comment/evaluation of road-charging.</p> <p>One point of evaluation which is well developed can gain all 3 marks as can 3 evaluative points which are not developed.</p> <p>Possible evaluative points include:</p> <ul style="list-style-type: none"> • Charging on motorways may just displace traffic on to side roads/‘A’ and ‘B’ roads and therefore may only move the congestion • At times of rising incomes, road charging will have less impact due to greater prosperity • With inelastic demand for car use, demand will fall very little • There needs to be an alternative for road users to switch to otherwise there will be no change in demand for car use OR an alternative to car use needs to exist such as public transport. Therefore revenues raised from road pricing should be hypothecated (into alternatives) • If people see the public transport alternative as unpleasant then they won’t switch to it • A flat rate charge may not be effective in deterring high income groups from driving but would deter low income groups • Ultimately the size of the charge will determine how effective it is. • The costs of the scheme could be very significant. To be effective, the government may well incur huge set up costs • To be effective such a scheme must be enforced • Significant enforcement costs may also exist 		<p>Once any relevant point of evaluation has been recognised, award a second mark where there is basic, but valid, development of this</p> <p>Do not reward the idea that road pricing may give rise to privacy issues and concerns over undue intrusion as neither of these points directly relate to the use of road pricing in correcting road congestion.</p> <p>Likewise, do not award the simple statement that it may be regressive BUT do reward comments that high income groups may not be deterred from driving by it.</p>

Question	Expected Answer	Marks	Rationale
(c)	Discuss whether giving increased subsidies to firms providing bus services would correct the market failure arising from urban road congestion	[8]	
	<p>Up to 3 marks for simple analysis of the impact of production subsidies:</p> <p style="padding-left: 40px;">Such a subsidy effectively lowers costs of production (1 mark)</p> <p style="padding-left: 40px;">This will shift the supply curve for bus services to the right OR increased supply / quantity / production / increased number of services / increased bus provision(1 mark)</p> <p style="padding-left: 40px;">Subsidies will therefore result in lower prices OR lower fares OR lower charges (1 mark)</p> <p style="padding-left: 40px;">There is an extension of demand OR greater consumption OR more people use buses OR greater use of public transport (1 mark)</p> <p style="padding-left: 40px;">(An accurate diagram which shows increased supply, lower price and increased quantity can gain all 3 analysis marks).</p> <p>Up to 5 marks are available for relevant discussion/evaluation to include:</p> <ul style="list-style-type: none"> • Inelastic PED <u>for buses</u>- subsidy has to be very big to have an noticeable impact on demand. Do not accept PED for cars • Impact also depends upon Cross Elasticity of Demand (XED) which needs to be positive and also, ideally, highly elastic • The cost of such a subsidy to the government may well mean that this policy will be ineffective (possible opportunity cost issues?) • Size of subsidy? If too small then fares will not fall sufficiently • If some forms of public transport are perceived to be inferior goods (with negative income elasticity of demand) then lower prices will not help to raise demand significantly during times of rising incomes 		<p>Accept capital subsidy arguments as well as fare subsidies. Here 3 analysis marks for:</p> <ol style="list-style-type: none"> 1. cheaper capital costs 2. new OR improved vehicles 3. increased demand <p>Note: reward simple definitions of subsidies if there is reference to increased production and/or increased consumption and/or lower price</p> <p>Two points of evaluation, can gain all 5 evaluation marks</p> <p>Reward 1 mark for each relevant factor identified and then 1 mark for basic elaboration of these and a 3rd if the point is clearly elaborated/developed</p> <p>For example, simple reference to the role played by PED gains a mark. Simple reference to XED gains a mark too.</p> <p>One point of evaluation which is well developed can therefore gain 3 marks</p>

Question	Expected Answer	Marks	Rationale
	<ul style="list-style-type: none"> • Production subsidies may not be passed on to consumers with firms simply increasing their profit margins • What specifically is the subsidy used / spent on? If it is spent on older rolling stock then this may not increase usage at all. More buses may not necessarily mean greater usage. • It also depends upon which services are being subsidised • Production subsidies may encourage firms to be complacent and inefficient, thus potentially removing the benefit of lower costs. • Non price factors may also be important (eg quality / reliability / convenience issues). These mean that fare subsidies may have less impact which may make people see buses as a poor substitute for cars and therefore not result in any reduction in car use • Award explicit reference to the fact that subsidies will be more effective if used as part of an <u>integrated</u> policy • If incomes are rising then subsidies will have less effect on demand 		

Section B

Question	Expected Answer	Marks	Rationale
2 (a)	Analyse how and why economists forecast future growth of transport demand	[15]	
	<p>Answers should give a balanced approach explaining both how demand is forecasted and also why this is so crucial in transport economics.</p> <p>How?</p> <p>The Department for Transport will look at numerous statistics in deciding upon future transport trends. These include:</p> <ul style="list-style-type: none"> • Past information and historical data • GDP (and income elasticity of demand also) • fuel prices • Price Elasticity of Demand (accept as relevant for modal switch) • population growth • the number of different households within the UK • the level of car ownership • the number of goods imported in to the country • the level of industrial output <p>From this data, the DfT will calculate a high and a low forecast and from this will work out what the average forecast is.</p> <p>Why?</p> <ul style="list-style-type: none"> • Forecasts are used to determine the future network requirements (the so called 'predict and provide' approach) which whilst rejected by some still fulfils a role in transport policy in that it estimates where the greatest congestion bottlenecks will be in the future. • Forecasting plays an important role within CBA enabling decision makers to estimate the importance of particular projects by looking at how bad future congestion will be and therefore what the benefits of a particular project will be. In this way, forecasting is vital if the govt is to accurately see the impact of different policies. • Forecasting also helps the government to see how effective transport policies will be in the future – helping them to see which policies should be introduced today 		<p>Answers which analyse both how AND why will gain 13-15 marks</p> <p>Where answers only analyse one aspect (ie how OR why) then 9-12 marks will be rewarded (ie lower L3)</p> <p>Therefore even where only one factor is analysed, a Level 3 response is gained</p>

Question	Expected Answer	Marks	Rationale
	<p>Level 3 [9-15 marks] For an analysis of the how the government use transport forecasts and/or why these are used.</p> <p>For 13+ marks there must be CLEAR analysis of BOTH HOW AND WHY.</p> <p>11-12 for basic analysis of both how and why OR good analysis of one of these (how OR why)</p> <p>9-10 marks where there is only basic analysis of one side</p> <p>HOW? Rather than simply listing which factors are used, to get in to Level 3, answers will need to <u>explain</u> why each factor is used in forecasting. For example, the DfT will use GDP data as higher economic growth will result in increased demand for car use and more cars on the road. They will look at population data as population growth will increase the number of car drivers in the country etc.</p> <p>A simple list of factors which the government uses will be treated as application of knowledge (L2) unless they are developed in terms of how they will be used</p> <p>WHY? A simple answer which states that the government needs such data to decide where roads should be built OR to decide upon future transport policy will gain Level 2.</p> <p>For Level 3, candidates will be expected to analyse the role which the information plays eg by forecasting demand the government will be able to identify where bottlenecks are and therefore where road priorities are. This ensures that scarce resources are allocated in the best possible way</p> <p>Answers may also analyse the role of forecasting within CBA – here forecasting techniques help to identify where the demand will be greatest and therefore where the benefit will be greatest</p>		<p>HOW? The distinction between analysis and application is that an answer which simply lists which factors are used gains L2 whilst an answer which goes on to explain WHY each factor is important gains L3</p> <p>eg “the govt. use GDP data to make forecasts” = L2</p> <p>BUT “the govt use GDP data as a rise in income will lead to increased demand” = basic L3</p> <p>WHY? The distinction between L2 and L3 is the level of explanation given.</p> <p>eg “the government can use this data to see where roads should be built” = L2</p> <p>“the government. use this data to see where roads should be built by identifying where demand is highest OR seeing where the need is greatest OR where bottlenecks will be worst” = basic L3</p> <p>In other words, L2 identifies the use and L3 gives an explanation of how forecasting can be used in this</p>

Question	Expected Answer	Marks	Rationale
	<p>Level 2 [5-8 marks]</p> <p>For an application of knowledge and understanding of how and/or why the government use traffic forecasting.</p> <p>This may well take the form of some examples of why the government needs to forecast levels of traffic growth, for example to decide whether or not new roads need building, but there is no clear analysis in terms of the exact role which traffic data play in this decision.</p> <p>For 7+ marks BOTH THE HOW AND WHY aspects need to be addressed.</p> <p>An answer which only addresses the how OR why aspect of the question will be rewarded 5-7 marks.</p> <p>Level 1 [1-4 marks]</p> <p>For a basic knowledge and understanding of forecasting and the relevance of this but lacking relevant application or analysis. For example, a basic definition</p>		<p>A relevant level 2 response would be to explain how the government will take high and low forecasts and use the central one. This shows some knowledge and understanding of HOW</p> <p>Basic knowledge only as to what forecasting is</p>

Question	Expected Answer	Marks	Rationale
(b)	Discuss the effectiveness of different methods used by economists to attach monetary values to the external costs and benefits arising from the use of transport services	[20]	
	<p>Candidates will be expected to explain the different methods used by economists in order to place monetary values on costs such as loss of life, accidents, environmental impacts (including pollution, blight and traffic noise), loss of output resulting from congestion and time lost.</p> <p>Several methods can be used to gain accurate monetary values:</p> <ol style="list-style-type: none"> 1. Compensation criteria (ie how much would it cost to remove the noise pollution by fitting triple glazing) or the cost to repair damage done as a result of an accident. 2. Attaching monetary values to life is extremely difficult and usually involves an attempt to measure the loss of output which the person would have produced if they had lived and their lost income/earnings. Accident costs also include a monetary valuation of the police time used at the scene of the accident and a value for the cost imposed upon the NHS. 3. Congestion costs can be calculated by estimating how many working hours a year are lost due to road congestion and then multiplying this by the average hourly wage. 4. Relevant external benefits include the difficulty of measuring local multiplier effects and the difficulties of measuring the environmental benefits of greater bus/train use. Attempts to measure these may well include increases in regional economic growth (although clearly proving causation of factors will be a significant issue). 5. Simple price comparisons (eg house prices before and after an airport is built) can be used to see the decline in value as an external cost <p><i>As an alternative approach, accept analysis and criticism of CBA and other methods of attaching net cost / benefit figures.</i> <i>NOTE: CBA approach gains a maximum of 15 marks</i></p>		<p>Answers which refer to congestion charging will receive a maximum of 7 marks:</p> <p>For charging approach, to gain L3 (6-7) answer needs to <u>analyse</u> impact of charge in shifting the supply curve to the left</p> <p>Answers which use the Cost-Benefit Analysis approach will gain a maximum of 15 marks on part (b)</p>

Question	Expected Answer	Marks	Rationale
	<p>Relevant discussion may focus upon a number of factors including:</p> <ul style="list-style-type: none"> • The subjective nature of such valuations. For example, the value attached to the loss of a scenic view due to the building of a motorway may be extremely high for one person but very low for another. Likewise, the benefit gained from greater public transport use is incredibly difficult to measure as it will involve attempts to measure environmental gain • Difficulties attaching values to uncertainties eg if a person died we couldn't be sure how much they would earn for the rest of their lives • Proving causation – just because a business loses custom at the same time as there is a rise in congestion does not mean that the two factors are correlated. Likewise, if the local economy grows more rapidly following an expansion of public transport in the locality, there is no definite proof that one has caused the other. • Relevant problems of using CBA such as the subjective nature of the process, what costs / benefits to include, what discount rate to use. Evaluation of CBA must include reference to WHY it is difficult to attach monetary values here. Therefore the simple comment that there are flaws to CBA as it is difficult to attach monetary values is insufficient until this is developed (eg in terms of subjectivity, changes in monetary values over time etc). Accept criticism of CBA in terms of political bias and other limitations of the process. 		

Question	Expected Answer	Marks	Rationale
	<p>Level 4 (a) [16-20] For a discussion which includes a judgement as to how effective such measures are for estimating external costs and benefits. Such an answer will develop clear explanations of the difficulties of measurement and then conclude whether or not such methods are indeed effective.</p> <p>Level 4 (b) [11-15] For a basic discussion of some of the difficulties involved in trying to estimate external costs OR benefits which may only develop one or two relevant problems of measurement without actually forming a relevant judgement as to whether these are significant problems or not.</p> <p>A clear, two sided discussion will be given 13-15 marks, otherwise 11-12 marks for a basic discussion where there is only a hint of evaluation</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing which is appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 [5-10] For an analysis of how estimates for such external costs and benefits may be derived. Candidates analyse how monetary estimates may be attained without offering any relevant criticism/evaluation of such methods.</p> <p>Accept analysis of CBA. For a one sided answer which simply analyses the different stages within CBA OR states how the decision is taken (ie SB>SC) then a maximum of 7 marks will be awarded. If both of these are referred to but no criticisms are introduced then 8-10 marks will be given</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p>		<p>Level 4 (b) – for this level, there must be a two sided discussion of methods of attaching monetary values</p> <p>Award 13-15 marks where there is clear, balanced discussion of both sides (ie explaining clearly how such methods work and then their limitations)</p> <p>Award 11-12 marks where there is only basic discussion. For example, following clear analysis of how such measurements can be made there is then basic criticism (or vice-versa)</p> <p>Where only one method of measuring costs or benefits is analysed then 7 marks maximum. If two or methods analysed then 8-10 marks</p> <p>For CBA approach: simple analysis of stages of CBA with no further analysis gains a maximum of 7 marks</p> <p>Likewise, CBA which just lists costs / benefits used is 7 maximum</p>

Question	Expected Answer	Marks	Rationale
	<p>Level 2 [3-4]</p> <p>For an application of knowledge and understanding of how estimates could be obtained. Answers in this level will identify the different measurement methods which could be used to gain monetary values for specific external costs or benefits but fail to explain how these could be used.</p> <p>If measures to value both costs and benefits are considered then 4 marks will be rewarded</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>Level 1 [1-2]</p> <p>For knowledge and understanding of how monetary estimates can be gained, for example using the value of lost output but failing to develop this in terms of which cost it estimates.</p> <p>Alternatively, answers which simply state examples of external costs and benefits here will gain up to 2 marks OR simple definitions of what external costs / benefits are</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>		<p>Examples of external costs and benefits in the real world can receive 4 marks</p> <p>Definitions of external costs/benefits only receive 2 marks</p>

3 (a)	Analyse the economic arguments for rail privatisation	[15]	
	<p>Candidates should analyse clear arguments for the privatisation of rail:</p> <p>Whilst some latitude can be allowed in discussing the privatisation of rail services in other countries (and therefore need not be specific to British Rail), candidates should discuss the reasons why privatisation of <u>rail</u> services may be beneficial. Such arguments may include:</p> <ul style="list-style-type: none"> • The need to attract greater private sector investment to generate new capital investment • A reduction in government spending (and borrowing?) • The introduction of greater competition with firms bidding against each other to win the right to operate a franchise. The benefits of increased competition should be developed including increased productive efficiency, innovation, dynamic efficiency gains and a reduction in 'X' inefficiency as well as the benefits of price and non price competition for consumers. Hence there should also be a better quality service provided to the public • Benefits of increased contestability and the <u>threat</u> of competition • The theory that private sector management may be more motivated to provide a better quality service. <p>Level 3 [9-15]</p> <p>For an explanation of the reasons why the government privatised British Rail to include clear, detailed analysis of each factor.</p> <p>For 13+ marks, the benefits of increased competition must be developed fully, using clear economic analysis. Accept relevant diagrams which are used to analyse the benefits of increased competition (including theory of the firm)</p>		

Question	Expected Answer	Marks	Rationale
	<p>Level 2 [5-8]</p> <p>For an application of knowledge and understanding of the reasons why British Rail was privatised. Candidates in this level will correctly identify reasons why the government privatised British Rail but fail to develop them in any detail.</p> <p>For 7+ marks more than one factor will be developed.</p> <p>Level 1 [1-4]</p> <p>For knowledge and understanding of what privatisation is, but lacking any clear knowledge of the reasons behind rail privatisation.</p> <p>For 3+ marks, clear detail of how British Rail was privatised is needed.</p>		

Question	Expected Answer	Marks	Rationale
(b)	Discuss the extent to which a monopoly provider of transport will always increase economic efficiency	[20]	
	<p>Answers should develop the theory of natural monopoly. Due to the nature of infrastructure provision in transport with extremely high fixed costs, there is the scope for massive economies of scale and therefore the Minimum Efficient Scale for infrastructure provision in transport is extremely high. Therefore, in order to maximise the benefits of economies of scale, there should be one provider producing at a very large level of output. Hence in this context, a monopolist provider of transport infrastructure will be able to produce at lower average costs and hence will be able to maximise productive efficiency.</p> <p>In addition, monopoly may result in greater economic efficiency if abnormal profits provide the incentive to innovate and therefore raise allocative efficiency. Abnormal profits, when made, may be used to increase investment levels and innovation ie dynamic efficiency gains</p> <p>Possible discussion includes:</p> <ul style="list-style-type: none"> • Traditional monopoly theory states that there will be productive and allocative inefficiency in this market • If the monopoly is too large then it may start to suffer from diseconomies of scale with output levels being too high and hence the firm will suffer from higher average costs ie inefficiency • In addition, monopolists may suffer from 'X' inefficiency (organisational slack with higher costs than in a competitive market) and also lose potential dynamic efficiency gains (innovation, R & D) • The threat of contestability – if the govt threatens monopoly with greater competition / removing legal barriers then this may force it to be more efficient (eg contestability arising from deregulation) 		

Question	Expected Answer	Marks	Rationale
	<p>Level 4 (a) [16-20]</p> <p>For a discussion as to whether or not a monopoly will raise economic efficiency. Include clear judgement which attempts to weight the evidence</p> <p>Level 4 (b) [11-15]</p> <p>Discussion of whether or not monopoly provision raises efficiency.</p> <p>An answer which analyses one side very clearly (eg it is efficient) and then hints in a very basic manner at the other side (eg not efficient) gains 11-12</p> <p>An answer which develops both sides in some depth but fails to introduce a judgement gains 13-15 marks</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing which is appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 [5-10]</p> <p>Analysis of why monopoly providers of transport will raise economic efficiency – a purely one sided answer</p> <p>Answers which fail to analyse specific types of economic efficiency will gain 7 marks maximum</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p>		<p>Level 4 (b) – for this level, there must be a two sided discussion of whether monopoly raises economic efficiency.</p> <p>Award 13-15 marks where there is clear, balanced discussion of both sides</p> <p>Award 11-12 marks where there is only basic discussion. For example, following clear analysis of one side there is only a simple evaluative statement made giving the opposite viewpoint</p> <p>Level 3: An answer which only considers why a monopolist <u>will</u> increase economic efficiency can gain up to 10 marks maximum for analysis.</p>

Question	Expected Answer	Marks	Rationale
	<p>Level 2 [3-4]</p> <p>For the application of knowledge and understanding of why monopoly may increase economic efficiency.</p> <p>Answers in this level may simply identify types of efficiency or identify some of the characteristics of a monopoly</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>Level 1 [1-2]</p> <p>For knowledge and understanding of monopoly and/or economic efficiency only eg general definitions of monopoly or efficiency</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>		<p>Level 2 answers may simply identify the costs or benefits of monopoly without making any reference to efficiency</p>

Question	Expected Answer	Marks	Rationale
4 (a)	Analyse, using examples, what is meant by a more ‘sustainable’ transport policy	[15]	
	<p>The Bruntland Commission’s definition of sustainability (1987) is development “which meets the needs of the present without compromising the ability of future generations to meet their own needs”. In practice, when applied to transport, this would involve a ‘carrot and stick’ approach being taken – using economic policies to provide incentives to use low emission forms of transport whilst also penalising those who continue to use high polluting modes of transport. Overall, these policies should be used together and an integrated approach adopted.</p> <p>Candidates are expected to develop examples of such policies, for example higher taxes on high polluting cars through a graduated system of V.E.D., the possibility of road pricing whereby road users are charged more during rush hour and in congested areas and also the use of subsidies to encourage greater use of public transport. Explanation of integration in terms of policies to ensure a seem less transfer between different modes of transport through greater investment in infrastructure and the operation of ‘through ticketing’ is also relevant.</p> <p>Level 3 [9-15] For a clear explanation of exactly what is meant by a ‘sustainable’ transport policy with use made of relevant examples.</p> <p>For 13+ candidates will be expected to <u>clearly</u> analyse at least two possible policies.</p> <p>11-12 marks – basic analysis of two policies OR thorough analysis of one</p> <p>9-10 marks – basic analysis of one policy (in terms of behaviour changing or some idea of the policy resulting in modal change)</p> <p>Only answers which clearly analyse how such policies actually work will be in this level</p>		<p>L3 must explain why each policy is sustainable ie why does car demand fall or public transport use rise? This reference to change is what is needed for analysis ie any explanation of how the policy works</p> <p>As soon as 2 policies are analysed 13+</p>

Question		Marks	
	<p>Level 2 [5-8]</p> <p>For an application of knowledge and understanding of what a 'sustainable' transport policy means. Answers in this level will include relevant examples of possible policies which could be used but will fail to develop these. For 7+ marks, answers must refer to at least two policies.</p> <p>NOTE: Where there is no reference to specific policies but to only general principles eg "the government will aim to move people from cars to public transport" then this is Level 2 but can receive a maximum of 8 marks only</p> <p>Level 1 [1-4]</p> <p>For knowledge and understanding of what 'sustainability' is but lacking any clear/relevant application.</p>		<p>NOTE: Award a maximum of 8 marks if no specific policies are given but there is a simple understanding of needing to move people from cars to forms of public transport</p>

Question	Expected Answer	Marks	Rationale
(b)	Discuss whether recent government transport policies could be deemed to be more 'sustainable'	[20]	
	<p>There is huge scope here for candidates to evaluate recent government transport policy. A broad definition of 'recent' should be applied to include discussing of the government's 'Ten Year Plan' (2000), the White Paper launched in 2004 ('The future of Transport'), moves to promote integration but also much earlier policies such as bus deregulation and privatisation.</p> <p>Policies which promote the concept of sustainability include a graduated scale for V.E.D., the incentives introduced for local authorities to introduce local road-user charging schemes, the attempts made to integrate different modes of transport, the commitment of significant government resources to long term capital projects / public transport infrastructure, the continued use of subsidies in the transport sector and recent scrappage schemes which have the effect of introducing more low polluting vehicles.</p> <p>Nevertheless, criticisms of government policies remain. With a greater role for the private sector, it is arguably harder to achieve a national, co-ordinated and most importantly integrated solution to congestion issues. This is because the transport sector is much more decentralised with private sector firms arguably more interested in maximising profit rather than achieving an integrated network.</p> <p>Criticisms of privatisation and deregulation in terms of loss of cross-subsidy and vertical disintegration are relevant. Furthermore, several government policies have been deemed to be unpalatable and have been quietly sidelined (eg a national road pricing scheme). The abolition of the fuel tax escalator in 2000 could also be discussed.</p> <p>Accept relevant criticisms of individual policies too eg limitations of road user-charging and subsidies are valid here</p> <p>Level 4 (a) [16-20] For discussion of whether or not recent government transport policy is sustainable. There is also a clear judgement which attempts to weigh the arguments.</p>		Accept non UK policies as well

Question	Expected Answer	Marks	Rationale
	<p>Level 4 (b) [11-15] For a discussion of whether or not government policy is sustainable. Complex ideas have been expressed clearly and fluently using a style of writing which is appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3 [5-10] For analysis of recent govt transport policy in terms of sustainability but lacking any clear discussion as to whether or not this is the case. If only one policy is analysed then a maximum of 7 marks will be given.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2 [3-4] For the application of knowledge and understanding of recent government policy. Answers in this level will explain recent transport policies but will fail to analyse whether or not they are sustainable.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>Level 1 [1-2] For knowledge and understanding of what sustainability is or an answer giving basic examples of recent govt policies but failing to develop these.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>		<p>Award 11-12 marks where only basic criticism / discussion is introduced based upon analysis of how policies will work. In other words a mainly one sided answer but with basic discussion</p> <p>Award 13-15 mark where there is clear discussion (ie a balanced two-sided answer)</p> <p>L3 requires simple analysis of why each policy would be sustainable eg why it reduces car use or increases the use of public transport</p> <p>If only one policy is analysed then 7 maximum</p> <p>Level 2: accept general reference to policies aiming to move people out of cars and onto public transport</p>
	Section B Total: [35 marks]		
	Paper Total: [60 marks]		

F585 The Global Economy

Question Number		Answer	Max Mark	Rationale/Additional Guidance
1	(a)	<p>Describe what is meant by economic stability.</p> <p>Economic stability refers to a environment which enhances long term macroeconomic performance by reducing uncertainty and promoting business and consumer confidence and investment. The result is a higher rate of long term economic growth.</p> <p>In particular economic stability relates to the avoidance of volatility in:</p> <ul style="list-style-type: none"> • economic growth rates; • inflation; • employment and unemployment; • exchange rates. <p><i>Synoptic knowledge: AS Unit F582, The national economy Government economic policy objectives and indicators of national economic performance</i></p> <p>1 mark for a definition of economic stability or the outcome of economic stability in terms of macroeconomic performance 3 marks for any of the aspects of economic stability in the bullets above</p>	[4]	<p>There must be a definition along these lines which describes the link between economic stability and the performance of the economy in the long run. No marks for reduced uncertainty, promoting confidence and investment on their own.</p> <p>Answers which simply list these characteristics should be awarded a maximum of 3 marks (1 mark for each indicator). Accept 'avoidance of volatility', 'little fluctuation', little variation', 'steady', 'target BAND for inflation (eg 1 – 3%)' BUT NOT 'stable' or 'low'</p> <p>Answers which talk of 'stable' inflation, growth etc can be awarded a maximum of 2 marks on the basis that candidates are being asked to describe what stability is!</p> <p>No marks to be awarded for '<u>low</u> inflation', <u>low</u> unemployment' etc as these do not get to the heart of stability</p>

Question Number		Answer	Max Mark	Rationale/Additional Guidance
1	(b)	<p>Analyse how inflation targeting, such as that used in the UK, can help promote economic stability.</p> <p>The UK inflation target is symmetrical – the central target is 2%, with an ‘upper ceiling’ of 3% and a ‘floor’ of 1%. As a result, built into the target is a belief that low inflation is as much a concern as high inflation. The costs of high inflation include: the impact on long-term planning; increased risks and borrowing costs; the misallocation of resources; and the impact on the distribution of income. Given the difficulties of measuring the rate of inflation, a low rate of inflation risks a low rate of economic growth. The advantage of a symmetrical inflation target, then, is that interest rate changes are likely to be less frequent and of a lower amount. In this way, a symmetrical inflation target is likely to promote economic stability. In addition, the objectives of this aspect of macroeconomic policy are clear and transparent. This has an impact on inflationary expectations, considered to be a key determinant of inflation in modern macroeconomics. Furthermore, the UK inflation target acts as a constraint on fiscal policy – policy makers are aware that any fiscal expansion which is likely to compromise the inflation target is likely to be met by monetary policy tightening. In short, inflation targeting reduces macroeconomic instability created by manipulation of monetary and fiscal policy for short term political objectives and ensures that monetary policy decisions are not unduly influenced by current macroeconomic conditions. Implicitly, inflation targets recognise the time-lags inherent in monetary policy.</p> <p><i>Synoptic knowledge: AS Unit F582, The national economy The application of macroeconomic policy instruments.</i></p>		<p>Award application marks as follows:</p> <p>1 mark for setting a specific target, such as 2% in the UK</p> <p>1 mark for setting a target band such as 1 – 3% in the UK</p> <p>1 mark for inflation targets can be symmetrical or asymmetrical</p> <p>Max 2 marks for application</p> <p>In awarding analysis marks it is important to distinguish between responses which simply give reasons WHY inflation targets promote stability and those that explain HOW inflation targets promote stability.</p> <p>So, statements of reasons only are to be awarded 2 marks (annotate with green ticks)</p> <p>Relevant reasons which can be credited include:</p> <ul style="list-style-type: none"> • reduced inflationary expectations • constraint on fiscal expansion • clear and transparent objectives of monetary policy • avoidance of deflationary bias – low inflation matters as much as high inflation, monetary policy is ‘flexible’, maintains economic growth at stable rate • keeps inflation within a band / keeps inflation stable • businesses and consumers can confidently plan for the future • can help achieve stable inflation

Question Number	Answer	Max Mark	Rationale/Additional Guidance
	<p>Up to 2 marks for an understanding of the nature of inflation targets such as those in the UK.</p> <p>Up to 4 marks for an analysis of how inflation targets may promote economic stability by reducing the costs of inflation, promoting certainty and reducing inflationary expectations.</p>	[6]	<p>Explanation of HOW should be awarded an additional 2 marks (annotate with green tick +)</p> <p>Analysis is likely to include use of ‘connectives’ eg ‘this is because’, ‘this will result in’, ‘the consequence will be’ (it may be useful to highlight these phrases). Link to stability is needed for 2 marks, can get 1 if explains how confidence promotes investment etc</p> <p>Max of 4 marks for green ticks only</p>

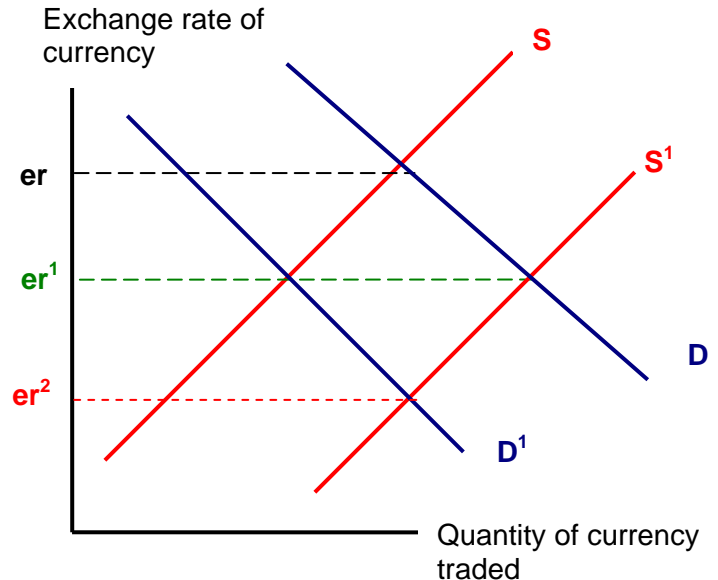
Question Number	Answer	Max Mark	Rationale/Additional Guidance
1 (c)	<p>Comment on the effectiveness of using expansionary monetary policy during a downturn in the economic cycle, such as that experienced in the UK in 2008.</p> <p>Monetary policy involves central bank and / or government decisions on interest rates, the money supply and the exchange rate. An expansionary monetary policy would involve reductions in the rate of interest, increases in the money supply and measures designed to bring about a fall in a country's exchange rate.</p> <p>Extract 2 clearly focuses on the effectiveness of reductions in the interest rate and this is how the vast majority of candidates are likely to approach the question. However, credit must be given in an identical way to those candidates who choose to comment on the effectiveness of increases in the money supply and / or reductions in the exchange rate.</p> <p>Candidates are expected to show an ability to analyse the monetary policy transmission mechanism and how reductions in interest rates might be effective in a downturn in the economic cycle. For example, a reduction in the central bank's official (base) rate of interest will lead to market rates of interest being reduced. This will have an effect on domestic and net external demand. A lower interest rate reduces the incentive to save, raises consumption and investment (by reducing the cost of borrowing) and raises export demand and lowers import demand by leading to a fall in the exchange rate. The overall effect is to increase aggregate demand, thereby cushioning the impact of the economic slowdown or reversing it.</p>		<p>Responses to this question should be annotated using the L1, L2, L3, L4 tools in Scoris consistent with the level descriptors below</p> <p>Analysis and commentary should relate EXPLICITLY to the effectiveness of monetary policy in promoting GROWTH of AD and / or GDP</p> <p>Level 4 answers MUST show how monetary policy should work to raise AD and / or GDP AND reasons why it might not be effective in this respect</p> <p>Where reasons why monetary policy might not be effective are simply stated and not explained a maximum mark of 8 should be awarded</p> <p>Accept as L4 response the argument that cuts in interest rates were not effective as BoE had to supplement this kind of expansionary monetary policy with quantitative easing</p> <p>Accept recognition of the time lag in monetary policy as a point of evaluation</p> <p>Accept explanation of why fiscal policy may be more effective as a point of evaluation for L4 marks</p> <p>Do not accept inflationary consequences of lower interest rates as commentary on effectiveness as it is not in context</p>

Question Number	Answer	Max Mark	Rationale/Additional Guidance
1 (c)	<p>Commentary on the effectiveness can take different forms, but is most likely to focus on the extent to which the monetary policy transmission mechanism operates as expected. Extract 2 provides context on the behaviour of LIBOR, which candidates could usefully comment upon. Reductions in base rates may not lead to reductions in market rates of interest and therefore expansionary monetary policy may not be effective. Candidates should recognise that this is a special case limiting the effectiveness of expansionary monetary policy as it relates to the circumstances of 2008 where the banking crisis had made banks wary of lending to each other without a significant 'risk premium'. Expansionary monetary policy is more effective at other times. Candidates could also make judgements about the benefits of expansionary monetary policy in terms of the ability to make a rapid response to the downturn because of the absence of time lags in monetary policy decisions.</p> <p>Developed commentary should seek to examine other weaknesses in the monetary policy transmission mechanism. For example, reductions in interest rates may not stimulate spending and investment during an economic downturn – the interest elasticity of demand for loans may be inelastic. Firms are unlikely to increase investment expenditure in an economic downturn just because borrowed funds are cheaper. They are much more likely to delay investment plans whilst they expect the downturn to continue. Similarly, consumers are unlikely to borrow money to fund consumption if they have been made unemployed or fear that they will be. During an economic downturn, expectations may be a more important determinant of the overall level of aggregate demand than the interest rate. The impact of lower interest rates on net</p>		<p>Level 4 [7 – 10 marks] For a commentary on the effectiveness of expansionary monetary policy during a downturn in the economic cycle, such as that experienced in the UK in 2008. Commentary should be supported by explicit economic analysis of the monetary policy transmission mechanism and the circumstances in which it may not operate effectively.</p> <p>Level 3 [4 – 6 marks] For an analysis of expansionary monetary policy during a downturn in the economic cycle, such as that experienced in the UK in 2008.</p> <p>Responses at the top of this level should make explicit use of more than one component of AD to analyse cause and effect of expansionary monetary policy / a reduction in interest rates.</p> <p>Level 2 [2 – 3 marks] For an application of knowledge and understanding of the causal links between expansionary monetary policy and the level of economic activity. Responses in this level, however, will lack any clear economic analysis of the impact of expansionary monetary policy on the components of AD.</p> <p>Level 1 [1 mark] For knowledge and understanding of expansionary monetary policy and / or an economic downturn only, but which shows no understanding of the causal link between the two.</p>

Question Number	Answer	Max Mark	Rationale/Additional Guidance
	<p>external demand depends on the extent of any fall in the exchange rate and the price elasticities of demand for exports and imports. In a time of global slowdown, foreign income may be a more important determinant of the demand for exports than the price of exports. The timing and size of interest rate reductions would also have an impact on their effectiveness.</p> <p><i>Synoptic knowledge: AS Unit F582, The national and international economy</i> <i>Aggregate demand and aggregate supply and their interaction.</i> <i>Government economic policy objectives and indicators of national economic performance</i> <i>The application of macroeconomic policy instruments.</i></p> <p>Level 4 [7 – 10 marks] For a commentary on the effectiveness of expansionary monetary policy during a downturn in the economic cycle, such as that experienced in the UK in 2008. Commentary should be supported by explicit economic analysis of the monetary policy transmission mechanism and the circumstances in which it may not operate effectively. At the top end, candidates should comment on more than one factor limiting the effectiveness of expansionary monetary policy and reach a reasoned conclusion.</p> <p>Level 3 [4 – 6 marks] For an analysis of expansionary monetary policy during a downturn in the economic cycle, such as that experienced in the UK in 2008.</p>		

Question Number		Answer	Max Mark	Rationale/Additional Guidance
1	(c)	<p>Responses at the top of this level should make explicit use of more than one component of AD to analyse cause and effect of expansionary monetary policy / a reduction in interest rates.</p> <p>Level 2 [2 – 3 marks] For an application of knowledge and understanding of the causal links between expansionary monetary policy and the level of economic activity. Responses in this level, however, will lack any clear economic analysis of the impact of expansionary monetary policy on the components of AD.</p> <p>Level 1 [1 mark] For knowledge and understanding of expansionary monetary policy and / or an economic downturn only, but which shows no understanding of the causal link between the two.</p>	[10]	

Question Number	Answer	Max Mark	Rationale/Additional Guidance
2 (a)	<p>Explain the role of the International Monetary Fund (IMF).</p> <p>The IMF aims to create international financial stability and, in doing so, promote global economic growth and international trade.</p> <p>Global economic growth and economic stability is compromised when countries run into balance of payments problems, particularly when this leads to massive short term selling of a currency (a run on the currency) and capital flight.</p> <p>To avoid these problems, the IMF will lend money to countries which face severe balance of payments problems in return for agreements to put in place economic policies which the IMF believes will return economic stability to a country. The IMF also regularly monitors the economic performance and policy of its members and advises them on policies which, in its view, are necessary to achieve stability in exchange rate and economic growth. By helping to achieve more stable economic conditions globally, the IMF believes that is creating greater certainty which encourages investment (thereby raising long term rates of economic growth) and trade between nations.</p> <p>Up to 2 marks for a description of the role of the IMF, which may include an example.</p> <p>Up to 2 marks for an explanation of the role of the IMF in terms of how its activities are believed to contribute to global economic growth, economic stability of international trade.</p>	[4]	<p>Use green ticks to indicate where a candidate is describing WHAT the IMF does (2 max)</p> <p>Descriptive points include:</p> <ul style="list-style-type: none"> • creates international financial stability / global monetary co-operation • promotes global economic growth and international trade • lends money to countries with BoP problems • places conditions, such as greater reliance on market forces, on loans to prevent reoccurrence of problems • advises on macroeconomic policies to promote growth • annual surveillance / reports <p>Use green tick with + to indicate where a candidate is explaining WHY the IMF does what it does (2 max)</p> <p>Explanation may include:</p> <ul style="list-style-type: none"> • impact of BoP problems • impact of capital flight • impact of protectionism • how IMF policies promote international and domestic stability • consequences of global stability <p>Reward candidates who give examples of things such as conditions / advice etc where these are linked to the aims of the IMF.</p> <p>Be on the look out for responses which confuse the role of the IMF with the role of the World Bank</p>

Question Number	Answer	Max Mark	Rationale/Additional Guidance
2 (b)	<p>Using a diagram, analyse the causes of the depreciation of the Hungarian forint which occurred during 2008.</p>  <p>Freely floating exchange rates are an interaction of the demand for and supply of the currency on the foreign exchange markets. A currency can depreciate if the demand for the currency falls and / or the supply of the currency increases.</p> <p>In the case of Hungary, Extract 3 suggests that the forint depreciated because of the emergence of a growing and unsustainable current account deficit. This led to the withdrawal of capital from the country. An increase in capital outflows shifts the supply of the currency from S to S', causing the exchange rate to depreciate from er to er^1.</p>		<p>Indicate all marks awarded by use of the green tick tool</p> <p>Place ticks alongside parts of the diagram to indicate AO1 and AO2 marks</p> <p>At this level it is expected that candidates will label axes correctly – so do not award axes mark if vertical axis labelled price only (price of forint is OK, but price of \$ or any other currency is NOT). It is OK for horizontal axis just to be labelled quantity.</p> <p>Demand and Supply curves must also be labelled accurately (eg D / S not AD / AS) to access application marks eg shift and equilibrium.</p> <p>For analysis marks it must be explicit that shifts in D and S relate to the demand and supply of the CURRENCY</p> <p>Acceptable reasons for depreciation include (1 mark to be awarded for identification of the reason):</p> <ul style="list-style-type: none"> • Current account deficit (not lack of demand for exports) = either reduction in demand or increase in supply depending on cause of deficit • Withdrawal of capital / capital flight = increase in supply • Reduction in capital inflows / FDI = fall in demand • Reduction in Hungarian interest rate (either relative or absolute) = reduction in demand and / or increase in supply

Question Number	Answer	Max Mark	Rationale/Additional Guidance
2 (b)	<p>Candidates may argue that the growing current account deficit would increase the supply of the currency (a higher value of imports) or reduce the demand for the currency (lower value of exports).</p> <p>Some candidates may analyse the depreciation in terms of both a reduction in demand and an increase in supply of the currency.</p> <p><i>Synoptic knowledge: AS Unit F581, Markets in action Competitive markets and how they work – the impact of changes in demand and supply on equilibrium Synoptic knowledge: AS Unit F582, The national and international economy Government economic policy objectives and indicators of national economic performance – an understanding of how exchange rates are determined</i></p> <p>Analysis marks [1 – 2 marks] Up to 2 marks for an analysis of the cause of the shift in supply and/or demand. For marks to be awarded for analysis there must be an explicit explanation of the shift(s) of demand and/or supply in terms of the growing current account deficit and/or capital flight.</p> <p>Application marks [1 – 2 marks] 1 mark for a rightward shift in supply of Hungarian forint. 1 mark for leftward shift in the demand for Hungarian forint. 1 mark for new exchange rate equilibrium. Max 2 marks</p> <p>Knowledge marks [1 – 2 marks] 1 mark for correctly labelled axes. 1 mark for correctly drawn and labelled demand and supply curves.</p>	[6]	<p>Award an additional analysis mark where this reason is correctly linked to D or S</p> <p>Do not award analysis marks for simple description of the shifts in the curves – there must be explanation in terms of the determinants of D and S of the currency</p>

Question Number	Answer	Max Mark	Rationale/Additional Guidance
2 (c)	<p>Comment on the extent to which a deficit on the current account of the balance of payments, such as that in Hungary and the UK, is a sign of economic weakness.</p> <p>The current account of the balance of payments measures flows of money in and out of a country arising from:</p> <ul style="list-style-type: none"> • trade in goods; • trade in services; • net flows of profit, interest and dividends; • transfers. <p>It follows that a deficit on the balance of payments can occur because of a deficit in any one or more of these which is not compensated for by surpluses elsewhere.</p> <p>A current account deficit on the balance of payments can be a sign of economic weakness where high levels of domestic consumption result in excessive spending on foreign-produced goods and services. This might indicate that domestic firms have lost competitiveness in global markets due to a lack of investment, high labour costs or low productivity. Such a deficit would be structural and would be a sign of economic weakness.</p> <p>However, the extent to which a deficit on the current account of the balance of payments is a sign of economic weakness depends on the cause of the deficit. In the case of a deficit on trade in goods and services, there are other reasons apart from a lack of international competitiveness which might explain the deficit. For example, high growth in domestic demand could be considered to be a sign of economic strength rather than of weakness. In this case, the deficit would be considered cyclical rather than structural. Alternatively, there may be high levels of investment taking place in the economy, resulting in imports</p>		<p>The rationale of the question is to get candidates to explore which of the possible causes of a current account deficit are related to fundamental weaknesses in the macroeconomy and which are not.</p> <p>The key to a successful response, then, is an explicit consideration of what is meant by economic weakness as well as the different causes of a current account deficit.</p> <p>Responses to this question should be annotated using the L1, L2, L3, L4 tools in Scoris consistent with the level descriptors below</p> <p>Analysis and commentary should relate EXPLICITLY to both the causes of a current account deficit and to why this may or may not indicate economic weakness</p> <p>Answers that lack this explicit focus are likely to consider the CONSEQUENCES of a current account deficit and / or whether it is a problem. Such responses are unlikely to get a mark beyond L2 of the mark scheme.</p> <p>There will be the inevitable responses which confuse a current account deficit with a budget deficit. Such responses should be awarded 0 marks at this level and in the light of the pre-release of the stimulus material.</p>

Question Number	Answer	Max Mark	Rationale/Additional Guidance
2 (c)	<p>of capital goods. This would not be a sign of economic weakness since such investment would generate greater efficiency and competitiveness in the future. The deficit would be viewed as temporary. A current account deficit in either case may not be a sign of weakness so long as the country attracts sufficient long term capital flows to finance the deficit.</p> <p>A country that attracts large capital flows will find that there will be a net outflow of profit, interest and dividends which might cause a current account deficit. Despite the deficit, the economy may be considered successful, depending on whether the capital flows were in the form of foreign direct investment, what attracted the FDI and its duration.</p> <p>Without knowledge of the causes of the current account deficit, it is not possible to conclude whether the deficit is a sign of economic weakness or strength. There may be better indicators of the weakness or strength of an economy, such as unit labour costs.</p> <p><i>Synoptic knowledge: AS Unit F582, The national and international economy</i> <i>Government economic policy objectives and indicators of national economic performance – the causes and consequences of a deficit on the current account of the balance of payments</i></p> <p>Level 4 [7 – 10 marks] For a commentary on the extent to which a deficit on the current account of the balance of payments is a sign of economic weakness. At the top end of this level, candidates' commentaries will clearly identify the factors that determine whether or not a current account deficit is a sign of economic weakness.</p>		<p>Analytical answers will include relevant economic concepts – expect to see reference to REASONS for a lack of competitiveness which might include:</p> <ul style="list-style-type: none"> • low productivity • high wages (wage growth) • poor quality • high unit labour costs <p>Level 4 [7 – 10 marks] For a commentary on the extent to which a deficit on the current account of the balance of payments is a sign of economic weakness. At the top end of this level, candidates' commentaries will clearly identify the factors that determine whether or not a current account deficit is a sign of economic weakness.</p> <p>Level 3 [4 – 6 marks] For a one-sided analysis of the extent to which a deficit on the current account of the balance of payments is a sign of economic weakness. Candidates in this level will analyse why a deficit on the current account could be considered a sign of weakness or why it might not but not both perspectives. There will be no commentary on the extent.</p> <p>Level 2 [2 – 3 marks] For an application of knowledge and understanding of the likely causes of current account deficits.</p> <p>Level 1 [1 mark] For knowledge and understanding of the meaning of a current account deficit or of what economic weakness might involve, but there will be no attempt to link the two.</p>

Question Number	Answer	Max Mark	Rationale/Additional Guidance
	<p>Level 3 [4 – 6 marks] For a one-sided analysis of the extent to which a deficit on the current account of the balance of payments is a sign of economic weakness. Candidates in this level will analyse why a deficit on the current account could be considered a sign of weakness or why it might not but not both perspectives. There will be no commentary on the extent.</p> <p>Level 2 [2 – 3 marks] For an application of knowledge and understanding of the likely causes of current account deficits or of the structure of the BoP (eg current account deficit offset by financial account surplus) or of deficit as % of GDP</p> <p>Level 1 [1 mark] For knowledge and understanding of the meaning of a current account deficit or of what economic weakness might involve, but there will be no attempt to link the two.</p>	[10]	

Question Number	Answer	Max Mark	Rationale/Additional Guidance
3	<p>Discuss the impact of globalisation on developing economies.</p> <p>Globalisation refers to the increasing economic integration of national economies into the global economy through:</p> <ul style="list-style-type: none"> • international trade; • foreign direct investment; • increased capital flows; • the spread of technology; • migration of people. <p>The result is that national economies are much more interdependent through a global system of production and exchange.</p> <p>The question is, therefore, a wide ranging one. Candidates need not address all aspects of globalisation in their responses, but should focus on at least two, developing breadth in their analysis and evaluation.</p>		<p>The rationale of this question is to get candidates to set the pros and cons of globalisation in the context of developing economies. As such it links two parts of the specification.</p> <p>L4 responses should show a clear ability to balance benefits and costs of globalisation and show how these might impact on economic development.</p> <p>Within L4 it is useful to distinguish ‘bands’ of responses:</p> <p>Band 3 (16 – 20) The discussion is well developed, has depth of reasoning, is clearly set in the context of developing economies and reaches a REASONED judgement on the impact. The judgement should seek to establish what the impact depends upon. Use of country case studies will be effective rather than simply descriptive of points.</p> <p>It is important to use the WHOLE mark range within this band and in particular to award FULL marks for responses which clearly meet the criteria above.</p> <p>USE EE ANNOTATION IN SCORIS TO INDICATE WHERE CANDIDATE IS SHOWING THIS SKILL</p>

Question Number	Answer	Max Mark	Rationale/Additional Guidance
3	<p>The benefits of globalisation for a developing economy should be analysed rather than just stated. Analysis requires an explanation of cause and effect and should be under-pinned by economic theory. So, for example, the benefits of free trade might be analysed using the concept of comparative advantage. Candidates could show how a developing economy, by specialising according to its comparative advantage, would be able to improve resource allocation, consume outside its PPF and enjoy the benefits of lower prices, higher employment and higher rates of economic growth. The benefits of FDI could be analysed using aggregate demand and supply analysis, showing an increase both AD and AS and consequent improvement in real GDP, living standards, employment and the balance of payments. Better responses will be able to illustrate these benefits using examples. In order to provide real focus on the question, candidates should be able to explain why these benefits are particularly important for developing economies perhaps by reference to indicators of development. For example, higher real GDP and living standards associated with globalisation may be responsible for reductions in rates of poverty in countries such as China and India which have embraced globalisation. Developing economies which have not embraced free trade and FDI, such as those in sub-Saharan Africa, have seen little change in poverty over the last 20 years. Other references to the developing economy context might include reduced income inequalities, higher life expectancy, reduced infant mortality Other benefits might include higher tax revenue to fund investment in infrastructure, improved productivity of labour, technology transfer etc.</p>		<p>Band 2 (14 – 15) A developed discussion, with some developing economy context but not reaching that bit further. Expect to see some ref to nature of developing economies and / or explicit use of HDI Responses in this level should consider at least two aspects of globalisation</p> <p>Band 1 (11 – 13) A basic discussion with relatively undeveloped points, limited developing economy context and no judgement. Responses in this level are likely to cover just pros and cons of globalisation without setting this explicitly in the context of developing economies</p> <p>Level 3 [5-10 marks] For a one-sided analysis of the impact of globalisation on a developing economy.</p> <p>Level 2 [3-4 marks] For an application of knowledge and understanding of the impact of globalisation on a developing economy. Marks in this Level will show a total lack of economic analysis of the impacts but will make some valid general points.</p> <p>Level 1 [1-2 marks] For knowledge and understanding of developing economies and / or globalisation only. Responses in this level will not consider what the benefits or costs of globalisation might be.</p>

Question Number	Answer	Max Mark	Rationale/Additional Guidance
3	<p>There is a wide range of evaluations of globalisation which candidates might make which would result in the award of Level 4 marks. These include:</p> <ul style="list-style-type: none"> • primary product dependency and declining terms of trade trapping developing countries in a low level of economic development and giving rise to balance of payments problems; • globalisation does not bring significant benefits to developing economies because of the lack of access to developed economy markets as a result of continued existence of tariffs and subsidies of domestic producers – this is most often argued in the context of agricultural trade; • competition between developing economies to attract FDI results in a lack of social protection, such as minimum wage laws and keeps wages low; • the benefits accrue mainly to consumers in the developed world and multinationals companies originating from such economies; • temporary gains in employment only, especially where foreign firms are footloose; • inappropriate technology introduced to developing countries; • environmental costs arising from poor regulation of the activities of foreign investors; • limits to the benefits of trade created by the continued dominance of intra-regional and intra-industry trade rather than inter-regional and inter-industry trade; • the extent to which economic growth generated by increased trade and FDI results in greater human development; • increased exposure to external economic shock created by a greater dependence on developed economy markets. 		

Question Number	Answer	Max Mark	Rationale/Additional Guidance
3	<p>There should be an attempt to make a judgement on the extent of the impact, either positive or negative. This judgement may include a consideration of the determinants of the impact, for example, or may arise from the candidates' choice of developing economy.</p> <p><i>Synoptic knowledge: AS Unit F582, The national and international economy</i> <i>The application of macroeconomic policy instruments and the international economy - awareness of the general nature and benefits of international trade.</i></p> <p>Level 4 (a) [16-20 marks] For a discussion that includes a judgement on the extent of the impact of globalisation on a developing economy of the candidate's own choice.</p> <p>Level 4 (b) [11-15 marks] For a balanced discussion of the impact of globalisation on a developing economy. This discussion will provide an analytical explanation of benefits and costs of globalisation for a developing economy or consider the determinants of either the benefits or the costs. In this Level candidates will make no attempt to exemplify the impact of globalisation through considering a developing economy of their own choice. A discussion that lacks balance should be awarded a maximum of 13 marks.</p> <p>Complex issues 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 appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p>		

Question Number	Answer	Max Mark	Rationale/Additional Guidance
3	<p>Level 3 [5-10 marks] For a one-sided analysis of the impact of globalisation on a developing economy.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2 [3-4 marks] For an application of knowledge and understanding of the impact of globalisation on a developing economy. Marks in this Level will show a total lack of economic analysis of the impacts but will make some valid general points.</p> <p>There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>Level 1 [1-2 marks] For knowledge and understanding of developing economies and / or globalisation only. Responses in this level will not consider what the benefits or costs of globalisation might be.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar.</p>	[20]	

Grade Thresholds

Advanced GCE Economics (H061 H461)
January 2010 Examination Series

Unit Threshold Marks

Unit		Maximum Mark	A	B	C	D	E	U
F581	Raw	60	46	41	36	31	27	0
	UMS	100	80	70	60	50	40	0
F582	Raw	60	48	43	38	34	30	0
	UMS	100	80	70	60	50	40	0
F583	Raw	60	45	41	37	33	30	0
	UMS	100	80	70	60	50	40	0
F584	Raw	60	45	41	37	33	29	0
	UMS	100	80	70	60	50	40	0
F585	Raw	60	40	35	30	25	21	0
	UMS	100	80	70	60	50	40	0

Specification Aggregation Results

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

	Maximum Mark	A	B	C	D	E	U
H061	200	160	140	120	100	80	0
H461	400	320	280	240	200	160	0

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

	A	B	C	D	E	U	Total Number of Candidates
H061	18.9	47.2	58.8	74.7	86.3	100.0	700

700 candidates aggregated this series

For a description of how UMS marks are calculated see:

http://www.ocr.org.uk/learners/ums_results.html

Statistics are correct at the time of publication.

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