GCE

Economics

Mark Scheme for June 2011

Question			Expected Answer	Mark	Rationale/Additional Guidance
1			**State two factors of production that are used to produce pu'er tea and give an example of each.**		
			One mark for each correct factor stated up to a maximum of two factors, plus a further one mark for each of two appropriate examples.		
			Various possibilities including:		
			Land – natural resource of soil, leaves, tea plants		Reference to tea leaves been 'grown' is acceptable as an example of land
			Labour – farmers/workers to cultivate tea bushes, pick tea leaves, harvest the tea		
			Capital – tractors, diggers, etc		Reference to 'farms' is acceptable as an example of land
			Enterprise – risk-taking in deciding whether to plant tea or vegetables		
			Award one mark for correct identification plus one further mark for an appropriate example (x2).	**[4]**	

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2	(a)		**Draw a production possibility diagram to show the effect of moving resources from the production of staple foods to the production of pu'er tea.** Pu'er tea T_2 T_1 Y X PPC 0 C_2 C_1 Corn & Rice/Staple foods Up to 4 marks. A diagram only is required. Award marks as follows - correctly labelled axes (1) - reduction in corn and rice produced, increase in tea production clearly shown on axes e.g. T1 to T2, C1 to C2(1) - convex or straight line PPC (1) - movement along PPC, eg Y to X or sequential lettering on the PPC (1)	**[4]**	Allow this diagram as an alternative Pu'er tea Corn & Rice/Staple foods 4 marks can be achieved here as long as reduction in corn & rice produced, increase in tea production clearly shown on axes e.g. T1 to T2, C1 to C2(1) For full marks we are looking for correct annotation on the **axes** <u>AND</u> on the **PPC**
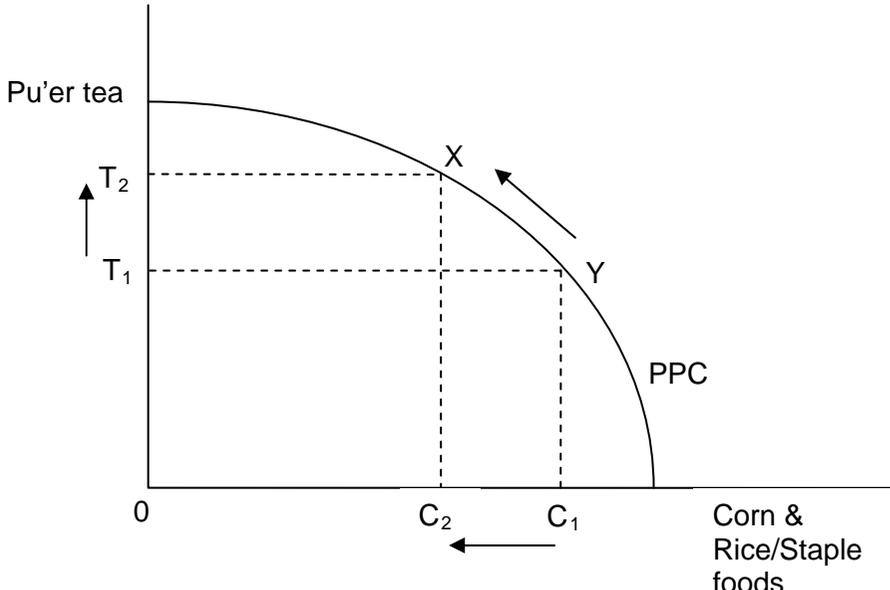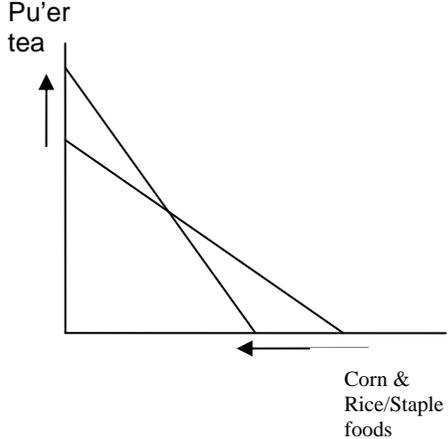
Question			Expected Answer	Mark	Rationale/Additional Guidance
2	**(b)**		**It is a simple principle of economics that if demand is increasing and supply is inelastic, prices should continue to rise. Comment, using a demand and supply diagram, the extent to which an increase in demand will cause price to rise.** Up to 4 marks for a diagram. 1 mark for inelastic S 1 mark for shift to right of D to D^1 1 mark for new equilibrium position, showing goods traded 1 mark for clearly showing increase in price, eg P_2 or arrow. Up to four marks for relevant comment such as: - increase in price depends on the elasticity of supply - increase in price depends upon the extent of the shift of D - It assumes all the other influences in the market remain unchanged - the existence of a maximum or minimum price in the market will restrict the extent of charge. One point, well argued can gain three marks.	**[8]**	Accept a diagram which has a completely inelastic short run supply curve. The supply curve MUST be inelastic, this can be identified on the axes by ensuring that the price change is greater than quantity change/the curve must be steeper than 45° Unlabelled/wrong curves cannot access marks for the diagram Reference to change in determinants of demand such as income/subs/comps/fashion can be relevant explanations as to why price may not rise
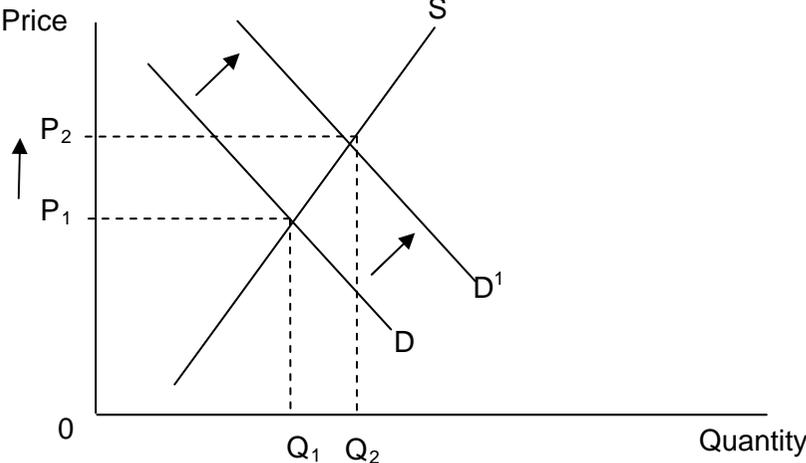
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3	(a)		**Define the term 'allocative efficiency'** Up to 2 marks for a simple but clear definition such as 'where consumer satisfaction is maximised' or 'where consumer welfare is maximised' or 'where quantity supplied is equal to the quantity demanded' or 'where the market is in equilibrium'. (A2 students may answer in terms of where 'price is equal to marginal cost'.) Award 1 mark for an incomplete definition where consumers are happy/satisfied	**[2]**	Be careful not to accept 'equalised' Reference to consumer 'wants' is (1 mark) Do not accept 'needs' Price helps to distribute scarce resources in the most efficient way (1 mark)
3	(b)		**Using the information provided, explain whether the market for pu'er tea is working efficiently.** Answers **should** draw upon the case material and be in terms of the above definition. Award 1 mark for statement that the market was **not** working efficiently/allocatively inefficient Award 1 mark for each relevant reference to the case material (x2) OR 1 mark for a development of inefficiency i.e. overproduction/scarcity Award up to 1 mark for linking evidence in the case material to allocative **inefficiency**. For example, producers are hoarding sacks of tea, prices are rising faster than demand, the market is volatile for example reference to volatility.	**[4]**	For example: 'For a good number of years demand has increased at a slightly faster rate than supply' (lines 6-7) 'Supply was increasing but not at quite as fast a rate as the increase in demand.' (lines 10-11) 'Irresponsible wholesalers hung onto their seemingly precious stocks' (lines 12-13). 'one reason was an increasing number of farmers adding to supply at a much faster rate than before 2004' (lines 18-19) Explicit or paraphrase

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4	(a)		**Define the term 'price elasticity of supply'.**		
			Up to two marks For a clear definition such as: 'the responsiveness of **quantity** supplied to a change in the price of a product' (2) A correct formula is acceptable (2). Award one mark for a general but less precise understanding eg supply rather than quantity supplied.	**[2]**	
4	(b)		**Using the information in Fig 1, comment on the business relevance for farmers of the changes in the price elasticity of supply of pu'er tea between 2003 and 2006 (Your answer must include calculations of price elasticity of supply).** Up to two marks can be awarded for calculations, any 2 from (0.6, 0.75, 1.6, 2.0) which show an increase in the price elasticity of supply over time. Identification of which ones Inelastic (1 mark) and elastic (1) MAX four marks for this first section Up to three marks for comments such as - supply tends to be price inelastic in the short term where it is difficult to switch production - over time supply is becoming (more) price elastic - the application of PES figures may be more or less useful depending on changes in other factors - PES changes along the supply line - Businesses do not usually consider PES - Simple statement about figures being estimates (1 mark maximum), expansion with reference to other factors which affect the estimates e.g. cetaris paribus (+1 mark) One comment elaborated can get 3 marks. Max 7 marks overall.	**[7]**	Fractions acceptable Watch out for % after figures (0 marks) Please show the marks as (2/2/3)

Question			Expected Answer	Mark	Rationale/Additional Guidance
5	**(a)**		**Define the term 'producer surplus'.** Up to two marks Award two marks for a clear definition such as: 'the additional revenue gained by a producer over that which is expected' OR 'the difference between the market price and the price that producers are willing to accept.' OR 'Price below the market/current price which producers are willing to accept' Award one mark for a general understanding or statement that it is 'the area above the supply curve and below the price line.'	**[2]**	Needs to be price or revenue must refer to *price* or *revenue* not a 'physical amount' = 0 marks

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5	(b)		**Using a diagram, show how producer surplus changes with a fall in the price of pu'er tea.** Up to four marks. Original producer surplus is P_1 E P New producer surplus is P_2 F P Up to four marks for a correct diagram showing - correctly sloping supply curve (1) - original producer surplus P, P1, E (1) - new producer surplus P2, F, P OR shaded area (1) - reduced producer surplus P1, P2, F, E **OR** arrows, labels or annotation (1) Accept alternative diagrams which show a fall in price, eg with a downward shift of D or with a shift to the right of S with D included (3 maximum)	**[4]**	No marks can be awarded if S not labelled Areas need to be clearly identified either with a label or key Watch out for new and reduced
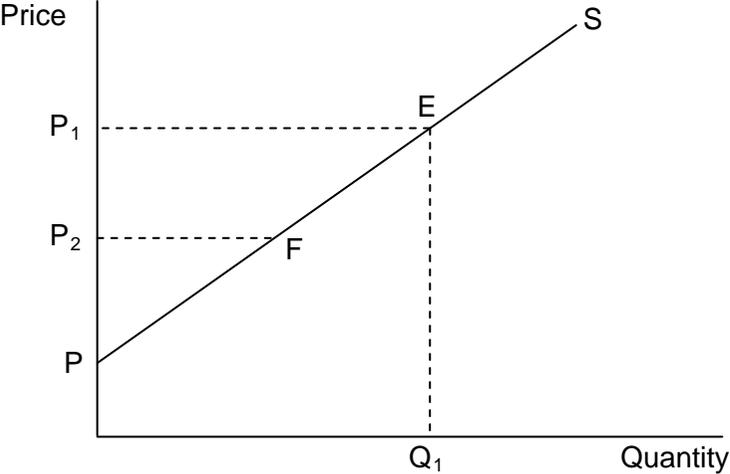
Question			Expected Answer	Mark	Rationale/Additional Guidance
6	(a)		**What is meant by the term 'positive externality'?** Up to two marks Award two marks for a definition to include a benefit (1) and to a third party/spill over effect/side effect (1) Benefits not included in price (2 marks) Where social benefit are greater than private benefits (2 marks)	**[2]**	Positive spill over effect (1 mark) Positive does not constitute benefit
6	(b)		**Using an example from the case study, explain one positive externality arising from the increasing production of pu'er tea.** One mark for identification of correct third party example plus up to a further two marks for an explanation of how the positive externality has arisen Various positive externalities referred to are: - **Business benefits** to hotels and restaurants due to tea merchants visiting Menghai - **National/community health system** benefit from lower health costs - **Local business benefits** for designer clothing retailers and garages as a result local farmers becoming richer	**[3]**	Beware of answers which list several examples rather than developing ONE point Mark this question by identifying the third party for the first mark, with the elaboration for the other two marks i.e. Beware of answers listing PRIVATE benefits instead of external e.g. reduced cholesterol is a private benefit to the individual

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7			**Discuss the extent to which a subsidy given to producers might encourage an increase in the consumption of a product such as pu'er tea which generates positive externalities.**
			
			Content:
			A simple subsidy diagram, explained, can be expected to enhance the analytical content. Reference to merit goods is relevant. The effects of subsidies on consumers MUST be recognised.
			
			Case for subsidies with respect to consumption:
			Provide an incentive for producers; reallocate production in line with government policy; reduce the market price of products which generate positive externalities; assist poor families; external benefits to health and productivity
			
			Case against subsidies with respect to consumption:
			An answer here MUST focus on the consumption aspect:
			Points might include:
			   • Price elasticity of demand
			   • Size of the subsidy
			   • Whether producers pass it on
			   • Other factors than price which determine demand for the product
			     Some groups in the community could afford to pay more
			   • Subsidy is not easy to determine
			   • Opportunity cost
			   • Not easy to determine effectiveness
			   • Information failure
			   • Government failure
					NB the question is about **positive externalities** and **subsidies** and therefore no credit should be given to answers which focus on negative externalities and indirect taxation NAQ
					
					You may need to read the question in full before annotating as some answers are not logically structured and have L4 material before making clear both aspects of L3
					
					Be careful not to expect content which is beyond the scope of the AS specification.

Question			Expected Answer	Mark	Rationale/Additional Guidance
			L4 **For a discussion of policies which encourage the production and consumption of products that generate positive externalities.** **(13–18)** All answers at this level must be underpinned with appropriate theoretical concepts. For 16–18 marks, the answer should form some overall assessment. This is likely to consider alternatives and/or make an overall judgement about the extent to which subsidies will increase consumption For 13-15 marks, the answer will include a discussion of points for and against subsidies on consumption *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.*		**EE** top band of L4, 16-18, here the candidate will consider alternatives and/or show judgement

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			L3 **For an analysis of the use of subsidies which encourage the production and consumption of products that generate positive externalities.** **(9–12)** Such answers must have relevant analytical underpinning of how policies, eg subsidies, can address this problem of market failure. For 11-12 marks Analysis of how giving the subsidy to producers = **lower costs** = fall in price = **increase in consumption/demand** (with or without a diagram) *Annotate with second L3* For 9-10 marks Analytical explanation of a subsidy leading to a fall in price and increase in quantity (with or without a diagram) OR Positive externality diagram explained **No mention of consumption** *Annotate with first L3* *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.* **L2** **For an application of knowledge of subsidies.** **(5–8)** Answers at the top of this level are likely to be largely framed around a series of examples as to how subsidies can/cannot be used to solve market failure. For 7–8 marks several correct assertions For 5–6 marks simple assertions of applied knowledge *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.*		(MAX two L3 annotations)

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			L1 **For a knowledge and understanding of a subsidy.** **(1–4)**		
			Such answers will be shallow in terms of knowledge of policies. For 3–4 marks it will be necessary to understand the simple impact on consumers as well as producers.		
			Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.	**[18]**	

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