

GCE 2004  
*June Series*



## Mark Scheme

### Economics (Advanced Extension Award) *(Subject Code 6841)*

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Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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**AQA ADVANCED EXTENSION AWARD ECONOMICS****MARK SCHEME JUNE 2004****Section A (Data Response Question)**

Different parts of **Question 1** are marked in different ways.

Parts (a) and (b) are marked using a ‘points’ marking scheme. Candidates are rewarded for the relevant points identified and their ability to develop the points they make.

Parts (c), (d) and (e) are marked using the ‘Levels of Response Mark Band Descriptors’ given on the next page. Marks should be awarded according to whether the answer demonstrates the skills indicated in the grid on the next page. Marks are to be allocated for:

- Knowledge and Understanding
- Application
- Analysis
- Synthesis and Evaluation

When marking the candidate’s answer, the examiner must indicate where evidence of each of the four skills is demonstrated by using the following key:

<b>K</b>	Knowledge and Understanding
<b>Ap</b>	Application
<b>A</b>	Analysis
<b>E</b>	Synthesis and Evaluation

Each answer will be marked holistically and the level chosen will be the one which **best fits** the answer provided by the candidate.

The mark scheme for the individual parts of the data response question summarises the information, issues and economic ideas that candidates are likely to include in their answers.

<b>Levels of Response Mark Band Descriptors (Question 1: Data Interpretation)</b>		
<b>Level 3</b>	<p>The candidate demonstrates an in-depth knowledge and understanding of relevant economic concepts and theories throughout and applies them with precision and confidence.</p> <p>The candidate selects and uses a variety of appropriate theories and models to analyse problems and issues. An awareness of the inter-relatedness of economic ideas is shown.</p> <p>The candidate effectively synthesises complex information and ideas and constructs coherent arguments to reach well-reasoned, supported judgements and conclusions.</p> <p>The candidate is able to demonstrate the value and limitations of more complex economic concepts and theories and an understanding of the tentative nature of explanations.</p> <p>Complex information and ideas are communicated in a highly effective manner making use of the most appropriate form and style.</p>	<p><b>14 – 20 marks</b></p> <p><i>Mid-point 17</i></p>
<b>Level 2</b>	<p>The candidate demonstrates sound knowledge and understanding of most of the economic concepts and theories employed to help answer the question and applies them effectively.</p> <p>The candidate selects and uses appropriate theories to analyse problems and issues. An awareness of the inter-relatedness of economic ideas is shown.</p> <p>The candidate synthesises information and ideas and constructs coherent arguments to reach reasoned judgements and conclusions.</p> <p>The candidate is able to demonstrate the value and limitations of economic concepts and theories and an awareness of the tentative nature of explanations.</p> <p>Complex information and ideas are communicated effectively in an appropriate form and style.</p>	<p><b>10 – 13 marks</b></p> <p><i>Mid-point 12</i></p>
<b>Level 1</b>	<p>The candidate makes use of relevant economic concepts and theories but understanding is sometimes confused or incomplete. Some ability to apply economic concepts to the question is demonstrated.</p> <p>The candidate selects appropriate economic theories and shows some ability to use these theories to analyse problems and issues. However the analysis is sometimes confused.</p> <p>The candidate shows some ability to construct a coherent argument to reach judgements and conclusions.</p> <p>Some appreciation of the value and limitations of economic concepts and theories may be demonstrated but little awareness of the tentative nature of economic explanations will be shown.</p> <p>Straightforward information and ideas are expressed clearly with some appreciation of an appropriate form and style.</p>	<p><b>1 – 9 marks</b></p> <p><i>Mid-point 5</i></p>

**Sections B and C (Essay Questions)**

The essay questions in Sections B and C (**Questions 2–5**) are marked using the levels of response mark band descriptors given on the next page. Marks should be awarded according to whether the answer demonstrates the skills indicated in the grid on the next page. Marks are to be allocated for:

- Knowledge and Understanding
- Application
- Analysis
- Synthesis and Evaluation

When marking the candidate's answer, the examiner must indicate where evidence of each of the four skills is demonstrated by using the following key:

<b>K</b>	Knowledge and Understanding
<b>Ap</b>	Application
<b>A</b>	Analysis
<b>E</b>	Synthesis and Evaluation

Each answer will be marked holistically and the level chosen will be the one which **best fits** the answer provided by the candidate.

The mark scheme for the individual questions summarises the information, issues and economic ideas that candidates are likely to include in their answers.

<b>Levels of Response Mark Band Descriptors (Questions 2 – 5: Essay Questions)</b>		
<b>Level 3</b>	<p>The candidate demonstrates an in-depth knowledge and understanding of relevant economic concepts and theories throughout and applies them with precision and confidence.</p> <p>The candidate selects and uses a variety of appropriate theories and models to analyse problems and issues. An awareness of the inter-relatedness of economic ideas is shown.</p> <p>The candidate effectively synthesises complex information and ideas and constructs coherent arguments to reach well-reasoned, supported judgements and conclusions.</p> <p>The candidate is able to demonstrate the value and limitations of more complex economic concepts and theories and an understanding of the tentative nature of explanations.</p> <p>Complex information and ideas are communicated in a highly effective manner making use of the most appropriate form and style.</p>	<p><b>28 – 40 marks</b></p> <p><i>Mid-point 34</i></p>
<b>Level 2</b>	<p>The candidate demonstrates sound knowledge and understanding of most of the economic concepts and theories employed to help answer the question and applies them effectively.</p> <p>The candidate selects and uses appropriate theories to analyse problems and issues. An awareness of the inter-relatedness of economic ideas is shown.</p> <p>The candidate synthesises information and ideas and constructs coherent arguments to reach reasoned judgements and conclusions.</p> <p>The candidate is able to demonstrate the value and limitations of economic concepts and theories and an awareness of the tentative nature of explanations.</p> <p>Complex information and ideas are communicated effectively in an appropriate form and style.</p>	<p><b>20 – 27 marks</b></p> <p><i>Mid-point 24</i></p>
<b>Level 1</b>	<p>The candidate makes use of relevant economic concepts and theories but understanding is sometimes confused or incomplete. Some ability to apply economic concepts to the question is demonstrated.</p> <p>The candidate selects appropriate economic theories and shows some ability to use these theories to analyse problems and issues. However the analysis is sometimes confused.</p> <p>The candidate shows some ability to construct a coherent argument to reach judgements and conclusions.</p> <p>Some appreciation of the value and limitations of economic concepts and theories may be demonstrated but little awareness of the tentative nature of economic explanations will be shown.</p> <p>Straightforward information and ideas are expressed clearly with some appreciation of an appropriate form and style.</p>	<p><b>1 – 19 marks</b></p> <p><i>Mid-point 10</i></p>

**1****Total for this question: 80 marks**

**1(a)** Explain the change that has occurred in the relative prices of salmon and cod over the last thirty years (**Extract A**, lines 1 – 4). *(10 marks)*

**For candidates who:**

identify from the data or from their economic knowledge that the relative prices of salmon and cod have reversed, with cod switching from being relatively cheaper to becoming relatively more expensive:

**1 mark**

explain the change in terms of an increase in the supply of salmon resulting from salmon farming:

**Up to 3 marks**

explain the change in terms of a decrease in the supply of cod resulting from overfishing:

**Up to 3 marks**

explain the change in terms of a decrease in the supply of cod because, unlike salmon cod cannot be farmed:

**Up to 3 marks**

introduce and explain any other relevant point, for example a factor shifting the demand curve for salmon or cod:

**Up to 3 marks per point**

include formal supply and demand analysis, either in diagrams or writing, to explain or illustrate the relative price change in terms of a rightward shift in the supply curve of salmon and a leftward shift in the supply curve of cod:

**Up to 6 marks****Maximum of 5 marks for diagrams with no accompanying written explanation****UP TO AN OVERALL MAXIMUM OF 10 MARKS**

**1(b)** “For some resources, such as oil, the market mechanism has encouraged consumers to economise and producers to search for and to develop new sources of supply”  
(**Extract C**, lines 2-4). Explain this statement. *(10 marks)*

**For candidates who:**

explain how a rise in the price of an oil product such as petrol creates the incentive for consumers to economise by reducing their demand for petrol and to substitute other, relatively cheaper goods in its place:

**Up to 5 marks**

illustrate and explain this effect on an appropriate supply and demand diagram:

**Up to 4 marks**

**Maximum of 6 marks if the answer only explains consumers economising**

explain how a rise in the price of crude oil creates the incentive for producers to search for and develop new sources of supply:

**Up to 5 marks**

illustrate and explain this effect on an appropriate supply and demand diagram:

**Up to 4 marks**

Maximum of 6 marks if the answer only explains producers searching for and developing new sources of supply

Within the above totals, reward answers that relate consumers’ and/or producers’ behaviour to (i) the signalling, incentive and allocative (rationing) functions of prices, and (ii) utility and profit-maximising objectives.

**UP TO AN OVERALL MAXIMUM OF 10 MARKS**



**1(c)** Using the data and your economic knowledge, discuss the view that the pursuit of self-interest inevitably works against the public interest. *(20 marks)*

Candidates should use the data to help them answer the question. The data provides plenty of prompts and most candidates will argue that in the case of ‘hunter-gathering’ fishing, the pursuit of self-interest clearly does not generally result in the achievement of the public interest. Good answers might draw on the tragedy of the commons. The best answers might argue that there are nevertheless some situations in which the pursuit of self-interest does result in the achievement of the public interest e.g. in the context of properly organised conservation of stocks, fish farming, and for ‘hunter-gatherers’, when fishing technology is primitive and fish stocks are vast. The best answers might include a clearly-stated interpretation of the two terms: self-interest and public interest.

**Issues, analysis and areas for discussion include:**

- The meaning of self-interest
- The meaning of the public interest
- How pursuit of self-interest is consistent with maximising the public interest
- How pursuit of self-interest may fail to maximise the public interest
- Scarce resources, opportunity cost, resource depletion and resource degradation
- Fish stocks as a non-renewable resource and as a renewable resource
- Market failure
- The public good and/or private good properties of the oceans
- Negative externalities and fishing
- Appropriate examples other than fish stocks

**Candidates should be rewarded for using diagrams to support their analysis.**

**Use the Levels of Response Mark Band Descriptors (Data Interpretation) to award marks for this question.**

**Maximum of 12 marks if the data is not used.**

**MAXIMUM OF 20 MARKS**

**1(d)** In the light of the information in the data, evaluate the view that a sudden collapse of the sea fishing industry will have little adverse effect on the United Kingdom economy. (20 marks)

Extracts E and F provide significant prompts, and there is a brief prompt in Extract D. However, to write a full and developed answer, candidates must use their economic knowledge. For example, while Extract F provides details of output and employment in the UK fishing industry, knowledge of national output and employment is necessary for a candidate to assess the relative importance of fishing in the national economy. A good answer will separate the microeconomic effects in regions such as north-east Scotland from macroeconomic effects on the UK economy as a whole.

**Issues, analysis and areas for discussion include:**

- The importance of fishing and related industries in particular UK regions
- The importance of fishing and related industries in the national economy
- Effects on output
- Effects on employment and unemployment
- Short, medium and long term effects
- Regional multiplier effects
- National multiplier effects
- Balance of payments effects
- Criteria for evaluating possible adverse effects
- Possibilities for future recovery
- The extent to which UK government policy can offset adverse effects
- The extent to which the EU Common Fisheries Policy can offset adverse effects
- The extent to which market forces will offset adverse effects
- Quality of overall discussion

**Candidates should be rewarded for using diagrams to support their analysis.**

**Use the Levels of Response Mark Band Descriptors (Data Interpretation) to award marks for this question.**

**Maximum of 12 marks if the data is not used.**

**MAXIMUM OF 20 MARKS**

**1(e)** Evaluate possible economic policies which might reverse the depletion of North Sea fish stocks. (20 marks)

Candidates should use the data and their economic knowledge to help them answer the question. The data provides plenty of prompts and candidates should evaluate at least two ways in considerable depth, or three or more ways in commensurately less depth. Good answers must discuss the advantages and disadvantages of each of the ways discussed in which the depletion of North Sea fish stocks might be reversed. The best answers might argue that unless very effective and possibly drastic action is taken immediately, the equilibrium shift mentioned in the passage might occur, rendering the depletion irreversible. Very good answers might go beyond discussing and evaluating policies that are already being used and which are mentioned in the text, by, for example, discussing policies not currently used such as the EU creating national fishing waters from which the fishing vessels of other EU countries could be excluded.

**Issues, analysis and areas for discussion include:**

- The meaning of depletion
- Causes of depletion of fish stocks
- Discussion of whether depletion is restricted to one or a few fish species.
- Discussion of whether the problem is a local or a global problem
- Discussion of whether the problem is tractable and capable of solution
- Analysis and explanation of two or more of possible policy solutions: e.g. tougher EU quotas, limits of the number of days when fishing is allowed; limits on net sizes to allow young fish to survive, the UK leaving the EU and imposing its own territorial waters restricted to UK boats, the possibility of farming fish
- Market failure considerations
- Government failure considerations
- Public interest versus public choice theory considerations
- Use of evidence
- Overall evaluation

**Candidates should be rewarded for using diagrams to support their analysis.**

**Use the Levels of Response Mark Band Descriptors (Data Interpretation) to award marks for this question.**

**MAXIMUM OF 20 MARKS**

**SECTION B: Markets and Market Failure****2**

Evaluate the view that, because of its lack of realism, perfect competition is not a useful economic model. *(40 marks)*

All candidates are expected to display a sound knowledge of perfect competition as a market structure, and most will draw diagrams to illustrate perfect competition, at the level of the whole market and the firm within the market, and to show short run and long run equilibrium. Candidates must explain the lack of realism in the model. Good answers will discuss the ways in which the model is useful or less useful. The best answers might discuss whether a model should be judged by the realism of its assumptions, or by its predictive power, and/or its usefulness as a benchmark or yardstick.

**Issues, analysis and areas for discussion include the following:**

- The purpose of economic models
- The ways in which an economic model may be useful
- The main features of the model of perfect competition
- The extent to which the model is realistic or unrealistic
- The nature of competition in a perfectly competitive economy
- The nature of perfect competition in comparison to imperfectly competitive and monopoly markets
- The predictive powers of the model
- Perfect competition and economic efficiency: productive, allocative, static, dynamic
- The perfectly competitive model as a yardstick for evaluating real world markets
- The ideological usefulness of the model of perfect competition
- The significance of the model for judging market contestability
- The significance of the model for government microeconomic policy, especially competition policy
- Use of evidence
- Overall evaluation of the arguments

**Candidates should be rewarded for using diagrams to support their analysis.**

**Use the Levels of Response Mark Band Descriptors (Essays) to award marks for this question.**

**OVERALL MAXIMUM OF 40 MARKS**

3

“Regulation protects consumers and workers from exploitation and injury but deregulation creates greater opportunities for them.”

Should there be more or less government regulation? Justify your answer. (40 marks)

All candidates are expected to display a sound knowledge of the meaning of both regulation and deregulation. Some candidates will restrict their answers to a relatively narrow consideration of regulation and deregulation, in terms of just one context e.g. competition policy, labour markets, financial markets, privatised industries, or the correction of market failures associated with externalities, merit goods or demerit goods. Other candidates might range over two or more of these contexts. Either approach is acceptable. But to earn a high mark, a narrow answer must examine the chosen context in more depth. Good answers might conclude that some or much regulation is necessary, but that when over-regulation or unnecessary regulation occurs, there is a case for at least some deregulation.

**Issues, analysis and areas for discussion include the following:**

- The meaning of regulation
- The distinction between government regulation and self-regulation
- Why regulation is needed
- Examples of regulation
- Distinction between necessary and unnecessary regulation
- How regulation can improve economic performance e.g. preventing monopoly abuse
- How regulation can lead to poorer economic performance e.g. by raising costs
- The roles of regulatory bodies such as those regulating privatised industries
- Regulations as a barrier to market entry
- Regulatory capture
- The meaning of deregulation
- Examples of deregulation
- How deregulation can improve economic performance e.g. by creating market-based incentives
- How deregulation can lead to poorer economic performance e.g. through resulting negative externalities
- Relevant reference to market failure and/or government failure
- Application of public interest theory and public choice theory
- The use of real world examples

**Candidates should be rewarded for using diagrams to support their analysis.**

**Use the Levels of Response Mark Band Descriptors (Essays) to award marks for this question.**

**OVERALL MAXIMUM OF 40 MARKS**

**SECTION C: The National and International Economy**

4

Since 1997, the UK inflation rate has been within the target range set by the UK government. Evaluate the view that this success has been solely due to monetary policy. *(40 marks)*

All candidates are expected to display a sound knowledge of the policy framework within which UK monetary policy has been implemented since 1997. Candidates must explain how monetary policy might have contributed to the fact the inflation rate has generally been within the target range set by the UK government. Good answers will explain and analyse factors other than monetary policy that may have helped to reduce the rate of inflation. The best answers will evaluate the significance of these factors in relation to the success of monetary policy.

**Issues, analysis and areas for discussion include the following:**

- The meaning of monetary policy
- The objective(s) and instruments of UK monetary policy since 1997
- The policy making framework i.e. the roles of the Treasury, the Bank of England and the MPC
- Evidence of the success or lack of success of UK monetary policy
- The accuracy of the measure of inflation that is targetted
- Relevant application of inflation theory
- How monetary policy affects expectations
- The importance of policy credibility
- Relevant application of monetary theory
- Identification of factors other than monetary policy that might have contributed to reducing the rate of inflation e.g. supply side policies, fiscal policy, favourable outside or exogenous shocks, benign or favourable international conditions, luck
- Explanation and analysis of some of the above
- Use of evidence
- Discussion of other countries' experience
- Overall evaluation of the arguments

**Candidates should be rewarded for using diagrams to support their analysis.**

**Use the Levels of Response Mark Band Descriptors (Essays) to award marks for this question.**

**OVERALL MAXIMUM OF 40 MARKS**

5

Through national policy decisions and international agreements, governments have generally encouraged a greater international mobility of capital. However, governments have not generally encouraged a greater international mobility of labour. Evaluate the economic case for encouraging a greater international mobility of **either** capital **or** labour. (40 marks)

All candidates are expected to display a sound knowledge of the meaning of factor mobility, in the context of their chosen factor of production: capital or labour, and of factors that can make capital or labour immobile. In the case of capital, candidates may explain how, through international agreements and national policy decisions, capital has become more internationally mobile. In the case of labour, they may explain why governments have often not encouraged greater international labour mobility, and why it is relatively immobile. While these explanations are not essential, it is essential to explain and analyse economic arguments for and against greater capital or labour mobility. The best answers will discuss both the 'for and against' arguments, and will come to a justified conclusion as to whether international mobility is beneficial. Good answers may argue that it is impossible to discuss labour mobility in isolation from capital mobility, or vice versa. For instance, they might argue that because labour is relatively immobile, and because the disadvantages of making labour more mobile may be deemed to be greater than any advantages, it is better to take capital to labour, rather than vice versa. In the case of labour mobility, very good answers might discuss whether, in relation to the roles of immigration and investment by multinational companies, it is possible to separate economic from non-economic arguments.

**Issues, analysis and areas for discussion include the following:**

- The meaning of mobility and immobility of a factor of production such as capital or labour
- Causes of capital or labour mobility and immobility
- How international agreements e.g. trading blocs and trade agreements promote capital mobility
- How national governments promote capital mobility e.g. by encouraging FDI
- Factors outside government control that encourage capital mobility e.g. ICT and globalisation
- Why governments discourage labour mobility e.g. problems caused by immigration and emigration
- Factors outside government control that encourage labour mobility e.g. pursuit of self-interest
- Factors outside government control that discourage labour mobility e.g. language and cultural ties
- Why governments may encourage labour mobility e.g. to import skills or key workers
- Relevant application of market theory
- Relevant application of aspects of trade theory e.g. comparative advantage and strategic trade theory
- Relevant application of human capital theory, and endogenous growth theory
- Discussion in relation to globalisation
- The use of real world examples
- Overall evaluation of the case for and against

**Candidates should be rewarded for using diagrams to support their analysis.**

**Use the Levels of Response Mark Band Descriptors (Essays) to award marks for this question.**

**OVERALL MAXIMUM OF 40 MARKS**

