



Advanced Extension Award

Economics

6841

Mark Scheme

2008 examination - June series

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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June 2008**6841****AQA ADVANCED EXTENSION AWARD ECONOMICS****Mark Scheme****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:

| | |
|-----------|-----------------------------|
| K | Knowledge and Understanding |
| Ap | Application |
| A | Analysis |
| E | 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.

| Levels of Response Mark Band Descriptors (Question 1: Data Interpretation) | | |
|---|--|---|
| Level 3 | <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>14 – 20 marks</p> <p><i>Mid-point 17</i></p> |
| Level 2 | <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>10 – 13 marks</p> <p><i>Mid-point 11/12</i></p> |
| Level 1 | <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>1 – 9 marks</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:

| | |
|-----------|-----------------------------|
| K | Knowledge and Understanding |
| Ap | Application |
| A | Analysis |
| E | 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.

| Levels of Response Mark Band Descriptors (Questions 2 – 5: Essay Questions) | | |
|--|--|---|
| Level 3 | <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>28 – 40 marks</p> <p><i>Mid-point 34</i></p> |
| Level 2 | <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>20 – 27 marks</p> <p><i>Mid-point 23/24</i></p> |
| Level 1 | <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>1 – 19 marks</p> <p><i>Mid-point 10</i></p> |

Total for this question: 80 marks

| |
|---|
| <p>1(a) Explain two possible economic reasons for the changes in the UK grocery market that are described in Extract A. <i>(10 marks)</i></p> |
|---|

Extract A mentions the following changes in the UK grocery market:

- An increase in total sales of nearly 17% in real terms
- An increase in total sales of 26% in real terms at supermarkets
- An increase in total sales of 19% in real terms at convenience stores
- An increase in total sales of 1% in real terms at specialist grocery stores
- A fall in the real price of food of around 7%
- A fall in the total number of grocery outlets
- A fall of 2% in the number of supermarket stores
- A fall of 8% in the number of convenience stores
- A fall of 7% in the number of specialist grocery stores
- A more than doubling of the number of stores operated by the four largest grocery retailers

For candidates who:

identify accurately a change:

1 mark

Explain an economic reason for one of the changes in Extract A:

Up to 5 marks

Identification can be implicit in the explanation. Economic reasons for particular changes include:

- Grocery products as a normal good / importance of income elasticity of demand
- Competitive advantages of supermarket chains
- Supermarkets buying up convenience stores etc., e.g. Tesco Metro and Tesco Express
- The benefits supermarket chains enjoy as a result of economies of scale
- Supermarket chains using their market power to buy goods at lower prices
- The effect of exchange rate changes, globalisation etc., on grocery prices

UP TO AN OVERALL MAXIMUM OF 10 MARKS

1 (b) Extract B provides information on the structure of the UK grocery market in 2006.

Explain **two** ways in which a business operating in the grocery market may compete for market share. **(10 marks)**

For candidates who:

define market share: **1 mark**

state that the UK grocery market is dominated by relatively few firms
or that a market such as that in Extract B is dominated by relatively few firms: **1 mark**

state that six supermarket chains dominate the UK grocery market
or that a market such as that in Extract B is likely to be dominated by supermarkets: **1 mark**

state that the UK grocery market is an oligopoly or oligopolistic: **1 mark**

provide any other relevant definition or statement: **1 mark**

For statements and/or definitions: **Maximum of 2 marks**

identify a method/way of competition: **1 mark**

explain the method of competition: **up to 4 further marks**

Methods of competition include:

- Price competition
- Quality competition
- The use of limit pricing and/or predatory pricing
- Product range competition
- Competition in relation to acting in an ethically and/or environmentally responsible way
- Fairtrade competition
- Advertising (and brand image) competition
- Convenience competition
- Prime site competition
- Internet sales competition
- Standard of service competition

Maximum of 6 marks if only one method of competition is identified and explained

Maximum of 6 marks if the methods of competition are not related to market share

UP TO AN OVERALL MAXIMUM OF 10 MARKS

1 (c) Evaluate the view expressed in **Extract D** that fairtrade schemes disadvantage **all** farmers.
(20 marks)

Extract C has already stated that the aim of fairtrade is to address ‘the injustice of low prices’, by guaranteeing that farmers in poor countries receive a fair price for their goods. It means paying producers an above-market fairtrade price for their produce, provided they meet particular labour and production standards. But **Extract D** argues that paying a guaranteed fairtrade premium or subsidy, both prevents the signalling function of prices from operating, and that by increasing the short run average price paid for coffee, too many farmers enter the market. This then drives down the world price of coffee, which means that most, if not all, farmers end up being disadvantaged. According to this argument, fairtrade does not address the basic problem of too much coffee being produced in the first place. Indeed, fair-trade may encourage even more production.

An answer which addresses only fairtrade **or** non-fairtrade farmers (and not **all** farmers) should be restricted to Level 1, though a very good answer can reach Level 2. An answer that addresses both, but in a superficial way (for example by mainly copying out the data) can reach Level 2. Good use of the prompts, and more sophisticated argument and reasonable evaluation, will reach Level 3.

Issues, analysis and areas for discussion include:

- Distinguishing between the meanings of fair-trade and non-fairtrade
- How non-fairtrade farmers may suffer from fairtrade prices
- Why, even if they don’t suffer, some fairtrade farmers may gain little benefit from fairtrade prices
- How fair-trade farmers may eventually suffer from fair-trade prices
- Long run versus short run issues
- Relevant focus on the word ‘all’ in the question

Also give credit for:

- Relevant use of data and/or candidate’s knowledge;
- Relevant use of evidence;
- Overall assessment.

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

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

UP TO AN OVERALL MAXIMUM OF 20 MARKS

**1 (d) ‘Supermarkets sell fairtrade food at premium prices, with profit margins to match’
(Extract E, lines 9-10).**

Evaluate the view that the UK government should regulate the prices charged **and** the profits earned by supermarkets on **all** their products. (20 marks)

This question extends away from the data, requiring candidates to focus on whether or not UK competition policy should intervene in a market to regulate profit margins. Candidates can make use of the prompt in the question about premium prices and high profit margins in the case of fairtrade products, but they don’t have to use this prompt. Answers restricted to either prices or profits should be restricted to Level 1. Answers which discuss both but which don’t address the word **all** in the question, should be restricted to Level 2. Candidates may argue that both prices and profits should be regulated; that only one should be regulated; that neither should be regulated; or that one or both should be regulated on some but not all products sold by supermarkets.

Issues, analysis and areas for discussion include:

- Evidence of profit margins and prices indicated in the data
- The case for intervention, e.g. to control the monopoly power of the supermarket chains;
- How the supermarket chains exercise their monopoly power;
- How the UK government might intervene, e.g. through competition policy;
- The difficulties encountered if profit margins and/or prices are regulated, e.g. resulting from the fact that so much regulation is required;
- The case against government intervention
- The case for partial regulation, i.e. regulating *some* but not *all* profit margins;
- Methods of intervention other than profit regulation;
- Market failure arguments;
- Government failure arguments
- Relevant focus on the word ‘all’ in the question.

Also give credit for:

- Overall assessment.

Candidates should be rewarded for using appropriate diagrams to support their analysis. Use the Levels of Response Mark Band Descriptors (Data Interpretation) to award marks for this question.

UP TO AN OVERALL MAXIMUM OF 20 MARKS

1 (e) Assess the extent to which supermarkets improve the **macroeconomic** performance of high-income countries such as the UK. *(20 marks)*

To reach the top end of Level 1, candidates should provide a reasonable definition of macroeconomic performance. This may be defined in terms of a country's ability to achieve one or more of the standard macroeconomic policy objectives: fuller employment, economic growth, satisfactory distribution, control of inflation and a competitive international trading position. To reach Level 2, candidates must suggest how the activities of supermarket chains improve macroeconomic performance. To reach Level 3, this must be followed by assessment of the case for and against the issue posed by the question.

Issues, analysis and areas for discussion include:

- The meaning of macroeconomic performance;
- How supermarket chains can improve macroeconomic performance, eg through creating jobs, promoting economic growth, raising labour productivity, helping to control inflation;
- How supermarket chains can reduce macroeconomic performance, eg through destroying jobs using monopoly power to raise prices, eliminating local retail entrepreneurs;
- How supermarket chains can improve certain aspects of macroeconomic performance, eg reducing the rate of inflation, while worsening others, eg increasing unemployment
- How macroeconomic performance may be improved by low prices, reliable products, widening choice, 'one-stop' shopping
- How macroeconomic performance may be adversely affected by supermarkets contributing to the decline of local shops and city centres, reducing choice, contributing to environmental pollution and traffic congestion, reducing suppliers' incomes.

Also give credit for:

- Relevant use of evidence;
- Overall assessment.

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.

UP TO AN OVERALL MAXIMUM OF 20 MARKS

SECTION B: Markets and Market Failure

- 2** ‘An individual neither intends to promote the public interest, nor know how much he is promoting it...He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention...It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love.’

Source: adapted from ADAM SMITH, *An Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776

Do you agree that the ‘invisible hand’ of the market always ensures an efficient **and** equitable allocation of society’s scarce resources? Justify your answer. (40 marks)

The invisible hand is Adam Smith’s metaphor to illustrate how an individual pursuing his or her own good, tends also to promote the good of the community. The invisible hand ensures that those activities most beneficial and efficient will naturally be those that are most profitable. Smith believed that the free market system provides the mechanism for this outcome. Within the free market system, self-interest and greed drives consumers and producers to behaviour that ultimately benefits all.

The prompt to the question, suggests, but does not explain, the ‘invisible hand’ principle. An answer which explains the principle, but without addressing the two key words in the question (‘efficient’ and ‘equitable’) can reach the lower end of Level 2. A good explanation of the principle, together with relevant focus on **either** efficient **or** equitable can reach the top of Level 2. To reach Level 3, both must be addressed in ways that are relevant to the question, and the word ‘always’ must be addressed.

Issues, analysis and areas for discussion include the following:

- Understanding the ‘invisible hand’ principle;
- Explanation and illustration of the principle;
- Relating the ‘invisible hand’ principle to prices and markets
- Relating the principle to self-interest and to social interest (the good of all);
- The meaning of efficiency in the context of resource allocation and misallocation;
- The meaning of equity in the context of resource allocation and misallocation;
- Possible breakdown of the ‘invisible hand’ principle, for example in monopoly markets and when externalities are generated;
- Short-term versus long-term considerations;
- Market failure issues.

Also give credit for:

- Relevant use of the prompt and the candidate’s knowledge;
- Relevant use of evidence;
- Overall assessment.

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 'Climate change presents a unique challenge for economics: it is the greatest and widest-ranging market failure ever seen. Reducing the adverse economic effects of climate change requires the international management of common economic resources to avoid free riding.'

Source: adapted from the *Stern Review of The Economics of Climate Change*, October 2006

Critically evaluate the views expressed in this statement.

(40 marks)

If all or most major economies were to pursue effective national policies to reduce carbon emissions, then the adverse effects of climate change could be reduced, possibly by as much as multilateral or international cooperation could achieve. However, free-riding, together with the fact that some governments are in denial about global warming and climate change, make it unlikely that strictly national action can reduce climate change significantly. But would multilateral or international action necessarily be any more effective, given the possibility/likelihood that significant polluting countries might opt out? And there is also the view that the market mechanism can correct the problem (for example when market incentives generate new technologies), in which case the issue of market failure may be begged. The question provides plenty of scope for debate and assessment. Some candidates may also argue that greenhouse gases will affect the world decades and even centuries ahead.

Issues, analysis and areas for discussion include the following:

- Identifying the causes of climate change;
- Discussing whether, and to what extent, these are adverse;
- The extent to which climate change is a market failure or a problem that markets can correct;
- Explaining climate change in terms of common economic resources;
- Policies that might manage common economic resources and reverse climate change, or reduce the rate at which it is occurring;
- The nature of the free-riding problem;
- Global warming as a problem which a national government has little ability to influence;
- Arguing that the 'supra-national' nature of global warming means that international cooperation and policy implementation is needed;
- Discussing the practicality of effective international cooperation;
- Awareness that the best that might be achievable is the slowing down, rather than the reduction, of climate change.

Also give credit for:

- Relevant use of the prompt and the candidate's knowledge;
- Relevant use of evidence;
- Overall assessment.

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 'Inflation is always and everywhere a monetary phenomenon.'

Source: MILTON FRIEDMAN, *The Counter-Revolution in Monetary Theory*, 1970

Discuss whether monetary growth is the sole cause of inflation.

(40 marks)

The statement reflects Milton Friedman's view, expressed towards the end of the Keynesian era, that Keynesian policies had caused inflation because the Keynesians ignored the effect of the monetary expansion resulting from fiscal policy and deficit financing. Friedman was trying to focus attention on the inflationary effect of the monetary expansion, and thence on the need to control the growth of the stock of money in the economy (the money supply) in order to control inflation. An answer which does not address the word 'sole' in the question cannot reach Level 3.

Issues, analysis and areas for discussion include the following:

- Definition of inflation;
- Measurement of inflation
- Recognition that in a trivial sense, the statement is true by definition;
- Discussion of whether the statement means that the underlying cause of inflation is always a prior increase in the money supply or stock of money in the economy;
- The possibility of reverse causation;
- Relevant discussion of demand-pull causes of inflation;
- Relevant discussion of cost-push causes of inflation;
- Use of the equation of exchange and/or the quantity theory of money;
- Application of the AD/AS macroeconomic model.
- Long run versus short run considerations
- The role of expectations
- Monetary growth in an accommodating monetary policy

Also give credit for:

- Relevant use of the prompt and the candidate's knowledge;
- Relevant use of evidence;
- Overall assessment.

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 “In 1971, the US Treasury Secretary told a delegation of European politicians, who were worried about the effect of a fall in the dollar’s exchange rate against European currencies, that ‘the dollar is our currency, but your problem’. This statement is just as true today as it was in 1971.”

Evaluate the view that a significant fall in the dollar’s exchange rate causes more problems for countries such as the UK than it does for the USA. (40 marks)

Answers that go no further than explanation and evaluation of the effect of the dollar’s fall on the trading competitiveness of the US and other countries are unlikely to reach Level 3. A good Level 3 answer should go further, discussing and evaluating issues such as the effect of America’s relative self-sufficiency, the effect on international liquidity and the possible collapse of a reserve currency, and the effect on international capital flows. The dollar is the world’s main reserve currency, providing the principal source of international liquidity from which other countries benefit. Candidates must introduce a range of relevant issues and evaluate their significance in the light of the issue posed by the question.

Issues, analysis and areas for discussion include the following:

- How the dollar’s fall makes US exports more price competitive in other countries;
- How the dollar’s fall makes imports into the US less price competitive;
- How this reduces the competitiveness in the US market of European goods etc.:
- Price elasticity of demand implications, Marshall-Lerner condition etc.;
- How the dollar’s fall may feed into inflationary pressures in the US;
- How other countries can benefit from a fall in the prices of goods such as oil, which are priced in dollars;
- The implications of the dollar’s role as a world reserve currency and as a source of liquidity
- The US trades mostly with itself and thus is relatively self-sufficient, whereas other countries often depend on exports to the US market;
- The problems impacting on the UK and the US as a result of action taken by countries such as China that have built up large holdings of dollar assets;
- Particular problems posed for the US;
- Particular problems posed for the UK.

Also give credit for:

- Relevant use of the prompt and the candidate's knowledge;
- Relevant use of evidence;
- Overall assessment.

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