



ASSESSMENT and  
QUALIFICATIONS  
ALLIANCE

# Mark scheme

# June 2003

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## GCSE

### Economics

3144

Paper 1H

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## Economics - Paper One, Higher Tier (3144/1H)

### General Marking Guidance

Whilst every effort is made to give clear guidance, the mark scheme will always require the exercise of judgement in interpreting marginal points, not just occasionally, but continuously throughout the scripts. It should be seen as a set of guidelines, not rigid performance criteria.

One key area of judgement relates to the access to levels. In principle, candidates can ‘come in’ at any level, according to the quality of their response, with Level 1 commonly by-passed. However, problems can arise when, on a higher mark question, the candidate makes, or hints at, one high level point in an otherwise Level 1 (or zero mark) response. Examiners should use their judgement in such cases.

Responses suggested in this scheme are not exhaustive. The mark scheme cannot anticipate all possible responses. **Any valid response should be given full credit**, with reference being made to your team leader where serious doubt arises.

## SECTION A

1

Total for this question: 32 marks

(a) (i) What is meant by **effective demand**? (1 mark)

Demand backed by money or purchasing power etc.

(ii) From the information, give **one** example of **effective demand**. (1 mark)

The shopper with £200. Any sensible reference to the information is worth the mark.

(b) (i) What is meant by **profit**? (1 mark)

‘Difference between Total Revenue and Total Cost’.

(ii) Explain **two** factors which might cause shops to hold ‘post-Christmas’ sales. (4 marks)

eg lack of demand; over-stocking of goods; need to clear shelves for new stock; need to generate more revenue etc.

Give 1 mark for each point and 1 mark for each development. 2 x 2.

(iii) “Sales of winter coats were up by 10 per cent due to the cold weather”. Explain **two other** factors that could lead to an increase in sales of winter coats. (4 marks)

Candidates are likely to refer to the 5 factors leading to a shift of demand: advertising; change in taste or fashion; change in population; change in income; change in the price of other goods.

Give 1 mark for each basic point plus 1 mark for development. 2 x 2.

(c) Suggest **two** reasons why items such as TVs, DVD players, furniture and champagne would be popular buys in the sales. (4 marks)

What is looked for are valid ideas eg offer the largest reductions; they are luxury items that many can only afford in sales etc.

Give 1 mark for each basic idea with 1 mark for some development. 2 x 2.

(d) As the managing director of a large chain of shops, you discover that the demand for many of your goods is **price elastic**.

- (i) What is meant by the demand for goods being **price elastic**? (2 marks)  
 (ii) Draw a simple diagram to illustrate your answer. (2 marks)

This has 2 parts to it. There are 2 marks for the definition and 2 marks for the diagram.

**Definition:** change in quantity is greater than change in price or when price falls total revenue increases.

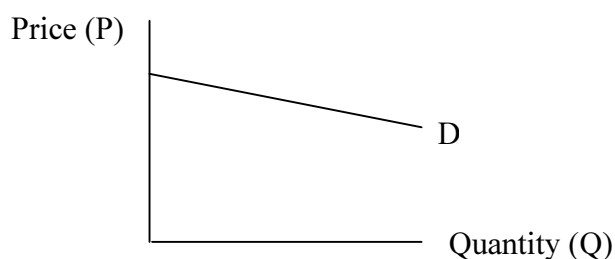
Give 2 marks for a clear idea.

Give 1 mark for an answer which has the basic idea, but is not entirely clear.

**Diagram:**

Give 1 mark for the axes correctly labelled.

Give 1 mark for a correctly drawn and labelled line, which could be horizontal.



(iii) Discuss why knowledge of price elasticity of demand would be useful to the managing director. (6 marks)

Enable the managing director to decide whether to cut price (elastic) or increase price (inelastic) or to leave price alone (unitary) in order to increase sales revenue and, other things being equal, leading to higher profits; the value would indicate the degree of price change available etc.

<b>Level 3</b>	Candidates are able to comment on/discuss why knowledge of price elasticity of demand would be useful.	<b>5-6 marks</b>
<b>Level 2</b>	Candidates can explain the usefulness of price elasticity of demand and start to offer comment.	<b>3-4 marks</b>
<b>Level 1</b>	Answers consist of list of points or the import of the question is ignored.	<b>1-2 marks</b>

(e) TVs and DVD players are **complementary** goods.

(i) What is meant by **complementary** goods?

*(1 mark)*

Two goods which go together (enough) so that a change in price in one causes the opposite effect in the quantity of the other.

(ii) Discuss how a shop which sells both goods could increase its sales.

*(6 marks)*

eg cutting the price of one; promotion; quality of service etc.

<b>Level 3</b>	Candidates can explain how sales could be increased and assess the impact of the policy/policies suggested.	<b>5-6 marks</b>
<b>Level 2</b>	Candidates can explain how sales could be increased and start to offer comment. Candidates who make no reference to both goods, maximum of level 2.	<b>3-4 marks</b>
<b>Level 1</b>	Answers consist of brief statements.	<b>1-2 marks</b>

**2****Total for this question: 23 marks****(a) (i) What is meant by the term Visible Trade?***(1 mark)*

Trade in goods.

**(ii) By how much did the Visible Trade Balance change between 1998 to 2000? Show your workings.***(2 marks)*

(-£20.5) (-£28.2) (1 mark) = £-7.7bn (1 mark)

Give 2 marks for the correct answer, but only 1 mark if no minus sign. Own figure rule applies.

**(iii) Give two examples of items included in the Invisible Trade Balance.***(2 marks)*

eg travel and tourism; banking services; government services; transport etc.

Award 1 mark for each appropriate example. 2 x 1.

**(b) (i) Suggest two reasons why the deficit on the UK's Current Account increased between 1998 and 2000.***(4 marks)*

Candidates may suggest: fall in export value/rise in import value; rising value of the £; UK economy growing faster than other countries; more people taking holidays abroad etc.

Allow any valid point. Give 1 mark for each point + 1 mark for some development. 2 x 2.

**(ii) Discuss whether or not the Government should be concerned about an increasing deficit on the Current Account.***(6 marks)*

For: will lead to a balance of payments deficit; may indicate problems with manufacturing base and/or high inflation; may lead to fall in exchange rate/exchange rate crisis etc.

Against: fall in exchange rate will be self-correcting re current account; offset by capital flows; may just indicate rising exchange rate etc.

<b>Level 3</b>	Candidates are able to offer points on both sides and to reach a supported conclusion.	<b>5-6 marks</b>
<b>Level 2</b>	Candidates either only do one side of the argument or explain both, but fail to offer supported conclusions.	<b>3-4 marks</b>
<b>Level 1</b>	Candidates describe the current account or offer a list of points.	<b>1-2 marks</b>

(c) (i) The North East has always specialised in exporting goods to other regions and countries. Explain **two** benefits of a region specialising in the exporting of goods.

*(4 marks)*

eg economies of scale; skill of workers; reputation etc.

Give 1 mark for each point plus 1 mark for each explanation. 2 x 2.

(ii) Discuss **one** way in which an increase in the number of exporting companies might be important for the economy of the North East.

*(4 marks)*

eg more employment; increased income; new skills; higher living standards; higher growth; multiplier like effects etc.

<b>Level 2</b>	Candidates can analyse one way.	<b>3-4 marks</b>
<b>Level 1</b>	Candidates can explain one way.	<b>1-2 marks</b>

3

**Total for this question: 30 marks**(a) What is meant by the term **market failure**?*(2 marks)*

‘Where the market fails to allocate resources efficiently’ (Teachers Guide). (2 marks)

Give 1 mark for an answer which offers correct examples eg pollution, monopoly etc but fails to provide a clear explanation.

(b) Using the information on the page opposite, discuss whether or not the ice cream market is an example of market failure. *(4 marks)*

Dominated by Walls, but with a number of other potentially big competitors – an oligopoly. Large barriers to entry which have successfully kept the competition out. Walls have successfully eliminated the independent wholesaler. Dominant position in doubt depending on what products are counted. Candidates who talk about monopoly, but are clearly referring to the idea of 25% + can be fully rewarded.

<b>Level 2</b>	Candidates make good use of the passage and fully explain the market structure.	<b>3-4 marks</b>
<b>Level 1</b>	Candidates ignore the passage or only describe the market.	<b>1-2 marks</b>

(c) (i) Using the information on the page opposite, explain how Wall’s has used its market power to maintain its position. *(4 marks)*

Lending freezers on condition that only Wall’s products are sold; forcing out independent wholesalers; making profits and reinvesting in brands and production.

<b>Level 2</b>	Candidates can explain how Wall’s have operated.	<b>3-4 marks</b>
<b>Level 1</b>	Candidates describe Wall’s position.	<b>1-2 marks</b>

(ii) Discuss whether or not Wall’s has a monopoly on the sale of ice cream. *(6 marks)*

Wall’s have 70 % of the market for immediate consumption ice cream ie greater than 25 %.  
They have 23 % if all types are considered ie nearly, but not quite, a legal monopoly.

<b>Level 3</b>	Candidates understand monopoly, explain the situation and offer an assessment.	<b>5-6 marks</b>
<b>Level 2</b>	Candidates understand monopoly and explain the situation.	<b>3-4 marks</b>
<b>Level 1</b>	Answers describe monopoly and/or the situation.	<b>1-2 marks</b>



(d) Consider how economies of scale could enable Wall's to reduce its costs. (6 marks)

Candidates should refer to economies of scale resulting from larger output leading to lower cost per unit. They are likely to then illustrate this by referring to one or more specific economies eg technological – bigger machines etc not needing more labour or marketing – bulk buying etc.

<b>Level 3</b>	Candidates are able to illustrate clearly how economies of scale could lead to lower costs for Wall's.	<b>5-6 marks</b>
<b>Level 2</b>	Candidates start to explain how economies of scale could lead to lower costs for Wall's.	<b>3-4 marks</b>
<b>Level 1</b>	Answers consist of a definition or a basic statement or there is no reference to Wall's.	<b>1-2 marks</b>

(e) Discuss whether or not the Competition Commission should interfere in the ice cream market. (You should consider both sides of the argument.) (8 marks)

Candidates will probably use the passage – need to increase competition versus loss of jobs etc – and their own knowledge from the course eg size of market share, monopoly power, pricing policies, consumer exploitation etc.

<b>Level 3</b>	Candidates can present a number of points and discuss whether or not. Position in the Level will depend on the quality of the answer.	<b>6-8 marks</b>
<b>Level 2</b>	Candidates are likely to explain the two sides. One-sided answers – max. 4. Answers which offer unsupported discussion will be at this level. Candidates who do not clearly refer to the euro – max 4.	<b>3-5 marks</b>
<b>Level 1</b>	A list of points or a confused answer with some merit.	<b>1-2 marks</b>

4

**Total for this question: 30 marks**(a) What is meant by a **horizontal merger**?*(2 marks)*

The joining together of two firms at the *same stage of production*.

Give 2 marks for a clear idea.

Give 1 mark for an answer which has some idea.

(b) Many car manufacturers have used both horizontal and vertical mergers in order to grow in size. Explain **one** advantage of each of these types of merger. *(4 marks)*

**Horizontal:** eg gain access to resources at the same stage; skilled labour; increase economies of scale etc.

**Vertical:** eg gain access to either outlets (forward) or resources (backwards); increased market control etc.

Give 1 mark for each advantage plus 1 mark for some development. 2 x 2.

(c) How could new technology lead to a fall in the cost of producing cars?

*(6 marks)*

Candidates must refer to ‘new technology’ and are thus likely, at the top, to use ideas such as efficiency, eg “new technology will be more efficient in its use of raw materials, power supplies, etc which will mean either directly lower costs or more output per unit of input and thus lower cost per unit” etc.

<b>Level 3</b>	Candidates are able to offer a clear explanation going beyond economies of scale, clearly referring to the car industry.	<b>5-6 marks</b>
<b>Level 2</b>	Candidates start to explain how technology could lead to a fall in cost of producing cars.	<b>3-4 marks</b>
<b>Level 1</b>	Answers consist of a list of points or an answer that talks in terms of technology.	<b>1-2 marks</b>

(d) Discuss how governments can protect firms from foreign competition.

*(5 marks)*

Candidates may refer to: import duties; quotas; exchange controls; health and safety requirements; subsidies etc.

<b>Level 2</b>	Candidates explain clearly how governments can protect firms referring to one or more methods. The position in the band will depend on the quality of the explanation.	<b>3-5 marks</b>
<b>Level 1</b>	Candidates list or describe some method(s).	<b>1-2 marks</b>

(e) Explain how small firms are able to compete in world markets.	<i>(5 marks)</i>
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Candidates may refer to any valid ideas re the ability of small firms to compete. The following may be included: specialisation in small volume goods; high quality products; suppliers to large firms; protection of home markets etc.

<b>Level 3</b>	Candidates are able to explain fully how small firms can compete.	<b>4-5 marks</b>
<b>Level 2</b>	Candidates start to explain how they can compete.	<b>2-3 marks</b>
<b>Level 1</b>	Candidates describe, or list some factors.	<b>1 mark</b>

(f) Discuss whether or not the introduction of the euro is likely to increase competition in Europe.	<i>(8 marks)</i>
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**Pro:** transparency; reduction in transaction costs etc.

**Anti:** transport costs; many goods cannot easily cross distance – size, weight, freshness, ignorance etc.

<b>Level 3</b>	Candidates discuss some points for both sides and use these to come to a supported answer.	<b>6-8 marks</b>
<b>Level 2</b>	Candidates are able to explain some relevant points. At the top they must have both sides and may have an unsupported answer.	<b>3-5 marks</b>
<b>Level 1</b>	Answers consist of: a list of points; description of the euro etc.	<b>1-2 mark</b>

## SECTION B

5

Total for this question: 25 marks

- |   |
|---|
| (a) Using <b>Items A, B</b> and <b>C</b> and your own knowledge of economics, discuss how successful the UK hotel industry has been between 1995 and 2002. <span style="float: right;"><i>(10 marks)</i></span> |
|---|

Prior to 2001 - demand had increased (long term trend?); large building programme; tourism a major UK industry.

2001 - a disaster – foot & mouth; September 11<sup>th</sup>; large losses/cancellations; high value of the £ vis-à-vis the euro.

Oligopoly – big 5 - 65.6%; big 12 – 92.8%, but with a very large number of small players. Candidates should also use own knowledge eg more leisure time, economic growth etc.

<b>Level 3</b>	The candidate makes good use of all three items and demonstrates economic knowledge to reach a judgement re ‘successful’.	<b>7-10 marks</b>
<b>Level 2</b>	The candidate is able to use one or more of the items to offer an explanation. At the top it is expected that all items will be referred to and that economic knowledge is demonstrated. Answers which offer unsupported comments will also be at this level.	<b>4-6 marks</b>
<b>Level 1</b>	Answers which consist of either points from the items with no explanation or own knowledge with no use of the item.	<b>1-3 marks</b>

- |   |
|---|
| (b) Discuss whether or not price cutting is the best way to increase the demand for hotel rooms. <span style="float: right;"><i>(15 marks)</i></span> |
|---|

Candidates are likely to point out that this depends on the price elasticity of demand for rooms, eg tourism elastic, business inelastic. They may argue, also, that people are more interested in quality of service etc and/or that better promotion both overseas and at home is important etc.

<b>Level 3</b>	Candidates assess the argument for cutting prices as the best way to increase demand. At the bottom they may only consider price, but at the top they must consider at least one alternative.	<b>11-15 marks</b>
<b>Level 2</b>	Candidates are able to explain some of the issues, but fail to offer supported assessment.	<b>6-10 marks</b>
<b>Level 1</b>	Answers at this level consist of some relevant points, but these are either a list or descriptive.	<b>1-5 marks</b>

6

**Total for this question: 25 marks**

- |   |
|---|
| <p>(a) Using <b>Items A, B and C</b> and your own knowledge of economics, discuss how government policies and schemes could affect employment. <span style="float: right;"><i>(10 marks)</i></span></p> |
|---|

The Items refer to: government commitment to healthcare and low interest rates – increased employment in health, building and retailing (Item A); failure of making claimants learn about job vacancies (Item B); and the importance of training (Item C).

Candidates should also use own knowledge eg increased National Insurance, privatisation of services etc.

<b>Level 3</b>	The candidate makes good use of all three items and demonstrates economic knowledge to offer an evaluative discussion – they may come to any valid supported conclusion.	<b>7-10 marks</b>
<b>Level 2</b>	The candidate is able to use one or more of the items to offer an explanation. At the top it is expected that all items will be referred to and that economic knowledge is demonstrated. Answers which offer unsupported comment will also be at this level.	<b>4-6 marks</b>
<b>Level 1</b>	Answers which consist of either points from the items with no explanation or own knowledge with no use of the items.	<b>1-3 marks</b>

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| <p>(b) Discuss whether or not training schemes are the best way of reducing unemployment in the UK. <span style="float: right;"><i>(15 marks)</i></span></p> |
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**NB** – this question is about unemployment. Candidates are likely to refer to Item C.

**Points** – increase skills and thus employability; retraining of unemployed; increase profits and thus investment and employment etc.

In the discussion they should refer to other policies, eg more money on education; labour market reforms; government subsidies to industry etc.

<b>Level 3</b>	Candidates are able to discuss the effect of different policies on reducing unemployment and to reach a supportive conclusion. Answers which only refer to training will be at the bottom of the level.	<b>11-15 marks</b>
<b>Level 2</b>	Candidates are able to explain the effects of policy/policies on unemployment, but either fail to discuss the issues or offer unsupported conclusions.	<b>6 - 10 marks</b>
<b>Level 1</b>	Answers at this level consist of some relevant points, but fail to explain the issues.	<b>1-5 marks</b>