

GCSE 2004

June Series



Mark Scheme

Economics

(3144/1H)

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

General Marking Guidance

Whilst every effort is made to give clear guidance, the marking 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. Usually the situation is anticipated by the structure of the marking scheme, but examiners should feel able to withhold access to a level should the spirit of the marking scheme appear to have been breached.

Responses suggested in this scheme are not exhaustive. The marking 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.

Quality of Written Communication

Quality of Written Communication		
Level 4	Information is clearly and logically presented using an appropriate form. The text is legible. Candidates spell, punctuate and use the rules of grammar accurately, enabling the meaning to be clearly understood.	6-7 marks
Level 3	Information is presented in an appropriate form. The text is legible. Candidates generally spell, punctuate and use the rules of grammar accurately, although there may be some errors. The meaning is clear.	3-5 marks
Level 2	Some of the information presented is in an appropriate form. Generally the text is legible. Although there are errors in spelling, punctuation and grammar, candidates' meaning can be understood.	1-2 mark
Level 1	Candidates have failed to reach the standard required for the award of a mark.	0 marks

1

Total for this question: 32 marks

(a) (i) Why are resources scarce?

(1 mark)

Insufficient to meet wants. Give the mark for any answer which shows evidence of understanding scarcity.

(ii) What is meant by **market forces**?*(2 marks)*

Supply (1), demand (1), the way in which price is determined in a market (1).

(b) (i) Using **Item A**, give **two** examples of a private cost.*(2 marks)*

eg labour; capital; but allow electricity; petrol.
2 x 1

(ii) Using **Item A**, give **one** example of an external cost of running a car.*(1 mark)*

Air pollution is the only answer.

(iii) Explain why visual pollution by windmills is an example of an external cost. *(2 marks)*

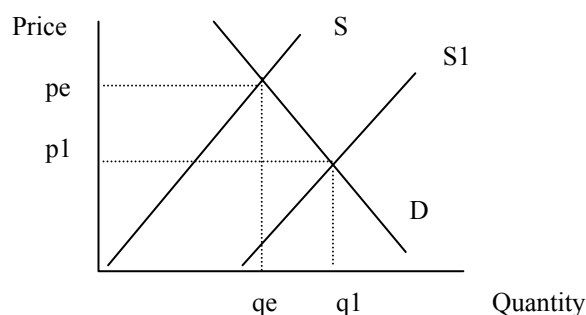
eg 'The windmills spoil the view of people (1) who are not recompensed for this' (1) etc. Give 1 mark for the statement plus one for relationship to external cost.
1+1

(c) (i) Why do governments give subsidies to producers?

(3 marks)

Give 1 mark for: to reduce the price; to increase output; increase consumption; etc.
Either 3x1 or 1x3 etc. Credit each point or each development of a point.

(ii) On the diagram below, show how a government subsidy would affect the supply and price of nuclear energy

(3 marks)

Give 1 mark for the correct shift, labelled, in the S curve.

Give 1 mark for increase in quantity.

Give 1 mark for fall in price.

(d) Discuss whether or not motorists should be charged for using roads. (6 marks)

For: higher price thus less demand; encourage use of public transport etc.
 Against: depends on whether alternatives available; diversion of traffic; etc.
 Better candidates may offer some idea of elasticity.

Level 3	Candidates are able to explain and discuss points both for and against with, at the top, some idea of a supported conclusion. Answers may include elasticity.	5-6 marks
Level 2	Candidates can explain both sides. Answers that only address one will gain a max of 3 marks.	3-4 marks
Level 1	Candidates list or outline a few points or offer a weak explanation of one side only.	1-2 marks

(e) (i) What is meant by **productivity**? (2 marks)

Output per unit of factor of production - allow a named factor of production probably labour.
 Give 2 marks for a clear/precise answer.
 Give 1 mark for an answer which has some idea,

(ii) How might improved productivity benefit business? (4 marks)

eg lower cost per unit; greater profits; greater market share; please shareholders and other stakeholders; etc.
 Give 1 mark for the basic point and then up to 3 more for development.
 A list of points is worth a max of 2.
 2x2 or 1x4

(iii) Discuss whether or not the Government should subsidise wind farms to produce low cost electricity. (6 marks)

For: preserve scarce resources; less pollutant; provide low-cost energy; prevent global warming; etc.
 Against: low-cost implies greater use which may mean resources are used up in the applications using the electricity; loss of jobs in energy sector; visual pollution; etc.

Level 3	Candidates are able to discuss whether or not governments should pursue this policy. They understand the concepts of 'renewable' and 'sustainable' although these may be implicit.	5-6 marks
Level 2	Candidates explain points for and/or against - fail to discuss - or clearly do not understand 'renewable' and 'sustainable'.	3-4 marks
Level 1	Candidates list or describe some points or do not really answer the question.	1-2 marks

2

Total for this question: 32 marks

(a) (i) What is meant by economic growth ?	<i>(1 mark)</i>
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eg 'Increase in the productive capacity of the economy' or 'an outward shift in the PPC' or 'an increase in real GDP' or 'increase in natural output' etc.

(ii) Using Item C , how has economic growth changed between 1994 and 2002 ? <i>(2 marks)</i>
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Risen (1) at a falling (1) or changeable (1) rate. An accurate transposition of the data is worth a maximum of 1 mark. Sensible use of data (1). Max 2 marks.

(iii) Explain two ways in which a government could try to increase economic growth. <i>(4 marks)</i>

Allow both short run and long run ways, eg greater government expenditure; more investment; tax breaks for firms; more education and training; privatisation; etc.

Give 1 mark for each method plus 1 mark for development.

2x2

(iv) Why would a government want a high level of economic growth? <i>(4 marks)</i>
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eg improve standard of living; remain competitive in the global economy; maintain low unemployment; keep inflation low; etc. Allow any valid ideas.

Level 2	Candidates can clearly explain why a government would want high growth. They may explain one or more points.	3-4 marks
Level 1	Answers consist of lists or a confused idea of why.	1-2 marks

(b) (i) Using Item C , how have prices changed between 1994 and 2002 ? <i>(2 marks)</i>

Risen (1) by a small amount (1) or a similar development eg prices have remained fairly stable or change in prices has fluctuated.

1+1

(ii) Using Item C , describe the relationship between inflation and economic growth for the period 1988 to 1994 . <i>(3 marks)</i>
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Candidates who state that as inflation fell/rose economic growth did the opposite and offer some data will get up to 2 marks. For the third they need to offer some further point about the relationship eg inverse, etc.

Eg. "As inflation fell economic growth rose" (1).

Eg. "Inflation fell from 9% to 2% between 1990 and 1994 as growth rose from -2% to 5%" (2).

This shows an inverse relationship (1).

Mark as below:

Give up to 2 marks for reference to the information; give up to 2 marks for the discussion/reasoning for this. Maximum **3 marks**.

Candidates who either start with economic growth or do both aspects should also be rewarded in a similar way.

(c) (i) Suggest **one** reason why low inflation could help economic growth. (2 marks)

eg 'Low inflation keeps UK goods competitive (1) which encourages investments and growth (1)'.
Give 1 mark for the basic idea and 1 mark for development.

1+1

(ii) What is **monetary policy**? (2 marks)

The use of the price (1) and quantity of money (1) to control the economy (1).
Max 2 marks.

(iii) How could monetary policy help to lower inflation? (4 marks)

Expect: interest rates linked to dearer money, therefore less consumption and investment, etc.

Level 2	Candidates clearly show how monetary policy leads to low inflation.	3-4 marks
Level 1	Candidates show some knowledge without clear links.	1-2 marks

(d) Economic growth and low inflation are two of the four major **macroeconomic** objectives.
(i) Name **two other** major **macroeconomic** objectives of a government. (2 marks)

Low unemployment/full employment (1); balance of payments balance/surplus (1).

(ii) Discuss how an increase in consumer spending on goods and services could affect any **two** of the major government **macroeconomic** objectives. (6 marks)

NB If candidates have named incorrect objectives in (c)(i) and then choose to discuss these then they must still be rewarded if this is possible.

Unemployment - reduce this, depending on size of increase and the ability of people to take the jobs on offer - could lead in the short run to technological unemployment.

Balance of payments - likely to lead to higher imports and thus worsen balance of payment, but, in the long run, more demand leading to more investment could improve quality of goods.

Inflation - likely to lead to a rise in inflation unless there is spare capacity.

Economic growth - likely to stimulate this.

Level 3	Candidates are able to offer supportive discussion of both objectives in relation to an increase in aggregate demand.	5-6 marks
Level 2	Candidates can either explain how a rise in aggregate demand will affect both objectives, only one explained max 3 marks; or will only discuss one of the objectives.	3-4 marks
Level 1	Candidates list or outline a few points or offer a weak explanation of one objective only.	1-2 marks

3

Total for this question: 25 marks

(a) The demand for labour is said to be a **derived demand**. What does this mean? (2 marks)

A clear explanation which shows understanding of derived demand in terms of no independent demand for a factor or produce is worth 2 marks.

Give 1 mark for an answer with some basic idea.

(b) (i) To prevent the pay of public sector workers from falling in real terms, explain the lowest pay award the government could have made in 2002. (3 marks)

2.1% (1) 'Because workers want their standard of living to rise (1) and an increase below inflation will lead to a fall' (1).

1 mark for a basic idea plus 2 marks for development.

(c) Explain **one** factor that might result in a large pay rise for a group of workers. (2 marks)

Candidates may mention: short-run, inelastic, supply; increase in demand; strong unions; increase in productivity; etc. Allow any valid point.

Give 1 mark for the basic point plus 1 mark for development

1x2

(d) Using **Item D** and your knowledge of economics, discuss what factors would be likely to influence the pay of firefighters. (6 marks)

Information - max other pay rise is 25%, 40% is much higher. Statement implies no reform of working practices which the Government clearly wants.

Elasticity - PES will be elastic because 'there are plenty of people'.

On the other hand: in the short-run supply could be inelastic; power of TU; etc.

Level 3	Candidates are able to discuss points both for and against and, at the top, offer a supported answer.	5-6 marks
Level 2	Candidates are able to explain points for and/or against.	3-4 marks
Level 1	Candidates describe or list a few points.	1-2 marks

(e) The NHS is having to pay doctors more than other staff. The diagram below shows a possible demand and supply situations for doctors in the NHS.

Show on the diagram what might happen as a result of increasing demand for healthcare.

Explain your diagram in the space provided.

(6 marks)

Give 1 for new demand line to the right of DD, and labelled.

Give 1 mark for indicating new W.

Give 1 mark for indicating new Q.

Max 3 marks for the diagram.

Give up to 4 marks for the explanation, eg if demand rises from D to D1 (1); there is a shortage of doctors (1); this leads to a rise in wage to encourage more supply (1); recognise correct PES (1); recognise effect of training (1); etc.

Max 6 marks.

(f) Discuss why “wages differ from region to region” for similar types of workers. (6 marks)

Expect candidates to mention: differences in supply and demand; some regions: have lower cost of living; have higher quality of life; have more housing (more affordable); there are more competing jobs in some regions; different elasticities of supply and demand in different regions; etc.

Level 3	Candidates can explain a number of factors and can discuss why wages differ.	5-6 marks
Level 2	Candidates are able to explain a number of factors and may offer unsupported discussion. Answers that ignore ‘similar types’ can get a max of 3.	3-4 marks
Level 1	Answers consist of a list or a weak supply and demand answer.	1-2 marks

4

Total for this question: 26 marks

(a) (i) Give two objectives which the company is pursuing.	<i>(2 marks)</i>
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Increase in sales (1) and to maximise its revenue (1).

(ii) Why might a 'new' company have these objectives?	<i>(2 marks)</i>
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Sales - to gain market share and/or increase revenue/profit or gain economies of scale, etc.

Revenue - to increase profits/reduce loss; provide money for further investment; etc.

Give 1 mark for each basic statement - max 2

(b) Assume further research and development leads to an improvement in the company's products. Using a supply and demand diagram, explain how this might affect the market for the company's products.	<i>(6 marks)</i>
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Give 1 mark for drawing and labelling the axes.

Give 1 mark for drawing and labelling the original S and D lines.

Give 1 mark for shifting correctly either the S or D line, and labelled.

Give 1 mark for an explanation of the diagram.

4 marks max for the diagram.

Give up to 4 marks for comment on how R and D could increase demand eg R and D will result in new/improved products. Consumers demand these and are willing to pay a higher price especially if they are the only supplier (protected by patents).

Candidates can achieve 6 marks in different ways.

(c) Growth of a company can lead to economies of scale. (i) Give one economy of scale that a firm could gain.	<i>(1 mark)</i>
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Risk taking/more products; managerial/more experts; financial; bulk buying; technological; marketing.

(ii) Explain how the economy of scale in (i) above might affect a firm.	<i>(2 marks)</i>
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Even if c (i) is incorrect the candidate can gain both marks here.

Give 1 mark for a basic idea plus 1 mark for development.

(d) A patent is a way in which a firm prevents others from copying its ideas. Patents are one way of trying to establish greater control of the market. Discuss why a firm, such as <i>Newlands Scientific plc</i> , might wish to gain greater control of the market.	<i>(4 marks)</i>
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eg increase sales; increase profits; reduce competition; etc.

Level 2	Candidates can construct an argument why a firm might want greater control.	3-4 marks
Level 1	Candidates can list and explain some points.	1-2 marks

(e) (i) Give an example of a fixed cost.

(1 mark)

eg rent, interest, administration, etc.
Accept any valid suggestion.

(ii) Using **Item F**, calculate the loss for *Newlands Scientific plc* for 2001-2002. Show your working. (2 marks)

$\pounds(580000 - 2250000) (1) = \pounds1670000 (1)$. 2 marks for correct answer.

(iii) Discuss the importance of profits for a firm.

(6 marks)

eg. Provides money for re-investment; encourages people to invest in the company; encourages expansion etc.

Level 3	Candidates are able to explain and discuss a number of points.	5-6 marks
Level 2	Candidates are able to explain one or more points and may provide unsupported discussion.	3-4 marks
Level 1	Answers consist of a list, or description, of points.	1-2 marks

5

Total for this question: 25 marks

(a) Using **Items G, H and I** and your knowledge of economics, discuss how well the UK manufacturing sector is doing. *(10 marks)*

In a poor state:

- output now lower than any time since 1997 (indeed since 1994) (G)
- Output has fallen in both September and October (G)
- Competition from cheap imports (G)
- Firms transferring production to other countries (G)
- Cannot compete in Europe due to UK outside the euro-zone (G)
- Growth in manufacturing output negative since mid-2000 (H)
- 45% of firms have orders below normal (I)
- 24% of firms expect output to fall (I)
- Investment fell by c50% in 2001 (I)
- Firms having to cut prices (I)

But

- 13% of firms had orders above normal (I)
- 23% of firms expected output to rise (I)
- Cutting prices may increase sales (I)
- Fall in output getting smaller (H)
- Fall in output in September and October due to 2 industries, implies others must have grown

Candidates may make reference, also, to their own knowledge.

Level 3	Candidates are able to use all three items, and own knowledge, to discuss how well the UK's manufacturing sector is doing. Do not necessarily expect very much on the 'positive' side. Answers that fail to refer to all three items can get a max of 8 marks.	7-10 marks
Level 2	Candidates are able to explain how well the UK's manufacturing sector is doing. Answers that fail to refer to all three items can get a max of 5 marks.	4-6 marks
Level 1	Candidates state some information from one or more of the items, or offer some knowledge with no reference to the items, or both.	1-3 marks

(b) Discuss ways in which UK manufacturers could be more successful. Evaluate which way would be best. *(15 marks)*

Possible points: reduce prices; better promotion/sales techniques; improve quality; more R and D; find new markets; improve quality of labour and capital; exploit comparative advantages; UK joins the euro; world economic growth; etc.

Allow any sensible suggestions.

Level 3	Candidates are able to explain a number of ways and to discuss which would be best.	11-15 marks
Level 2	Candidates can explain one or more ways and may make an unsupported judgement.	6-10 marks
Level 1	Candidates list or describe one or more ways.	1-5 marks

6

Total for this question: 25 marks

(a) Using **Items J, K and L** and your knowledge of economics, discuss whether or not the Government should increase spending *(10 marks)*

The candidate may mention some of the following points:

Item J

- Need to improve education
- Need to improve the NHS
- Transport system
- Housing
- Need for greater productivity
- More investment in defence
- More expenditure on international development
- Strong public finances, low unemployment, low inflation, economic stability allow more government spending
- Actual figures from Item K

Item L

- National Insurance increase will hit workers and employers
- Profits are falling as a result of higher taxes
- Taxes may have to rise again - effects of this?
- Positive economic outlook allowing taxes to pay for spending

Candidates may make reference, also, to points from their own knowledge.

Level 3	Candidates are able to use all three items, and own knowledge, to discuss whether or not the government should increase its expenditure. Do not necessarily expect too much depth. Answers which fail to refer to all three items can get a max of 8 marks.	7-10 marks
Level 2	Candidates are able to explain the points for and/or against the increase in government spending. Answers which fail to refer to all three items can get a max of 5 marks.	4-6 marks
Level 1	Candidates state some information from one or more of the items, or offer some knowledge with no reference to the items, or both	1-3 marks

(b) Discuss how the Government could try to increase its revenue. Evaluate which method would be the best *(15 marks)*

Candidates may mention:

- Various direct taxes: income tax; national insurance; capital gains etc.
- Various indirect taxes: VAT, Excise Duties
- Generate greater growth and thus taxes
- New taxes eg congestion charges
- Increase borrowing
- Allow any sensible suggestion

Level 3	Candidates are able to explain a number of ways and to discuss which would be best.	11-15 marks
Level 2	Candidates can explain one or more ways and may make an unsupported judgement.	6-10 marks
Level 1	Candidates list or describe one or more ways.	1-5 marks