AQA

ASSESSMENT and
QUALIFICATIONS
ALLIANCE

General Certificate of Secondary Education

Economics 3144

3144/1H Paper 1 Higher

Mark Scheme

2006 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.

Quality of Written Communication

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
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
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 marks
Candidates have failed to reach the standard required for the award of a mark.	0 marks

1 **Total for this question: 28 marks**

> (a) Explain why it could be an advantage to AMN Limited to have only a 'few other companies' providing the same service. *(4 marks)*

Candidates may mention: monopoly power; less competition; able to charge higher prices; make more profit; have a large market share; more inelastic demand; etc.

There are 2 marks for basic knowledge and 2 marks for some application to AMN. Candidates may mention 2 basic points and then some development of both, or they may have one point well developed. 2x2 or 1x4

> (b) (i) What is meant by the term 'economies of scale'? *(2 marks)*

Candidates may state that 'it is where as a result of an increase in size there is a fall in the cost per unit of output/average cost'. This is worth 2 marks.
If they have a basic idea and give a sensible example award 2 marks. 1+1
A list of economies of scale or an example alone is worth zero.

> (ii) Discuss how economies of scale could benefit the customers of a firm. *(4 marks)*

Candidates may mention: lower prices; higher profits lead to more Research & Development; etc.

Level 2 (3-4 marks)

Candidates offer some discussion of how economies of scale could benefit customers.

Level 1 (1-2 marks)

Candidates can apply economies of scale and offer some development of the point.

> (c) On the diagram below:
>
> (i) Draw and label the supply curve for skilled workers who are in short supply.
>
> *(2 marks)*

Quantity of Workers

Give 1 mark for an inelastic (does not need to be vertical) supply line drawn correctly, eg S(i) and 1 mark for labelling it 'S/supply.

> (ii) Show the effect on supply of training more skilled workers.   *(2 marks)*

It would either shift the supply curve to the right S(iia) or make the supply curve more elastic S(iib). Either approach is acceptable. Give 1 mark for the line and 1 mark for the correct label.

> (d) Discuss why the Government would want a better trained workforce.   *(6 marks)*

Candidates may draw on their own knowledge/experience. Points which may be made include: reduce unemployment; improve productivity; increase chances of people getting jobs; supplement school education; more flexible re new technology etc.

Level 3 (4-6 marks)

Candidates are able to discuss why. At the bottom any comment is likely to be brief while at the top it should be well developed and/or a conclusion should be reached. A comment on long run versus short run is likely to be at this level.

Level 2 (2-3 marks)

Candidates can offer some application and analysis in terms of explanation.

Level 1 (1 mark)

Candidates show some undeveloped knowledge, eg a list of points.

(e) (i) What is meant by the term 'specialisation'? *(2 marks)*

Specialisation is where a country/region/firm produces a narrow/particular or specific range of products rather than everything.
Give 2 marks for a clear idea and 1 mark for some limited attempt including division of labour.

(ii) Suggest **one** advantage to a company of specialisation. *(2 marks)*

Candidates may mention: greater economies of scale, higher quality goods, workers become more expert, achieve higher sales/profits; etc.
Give 1 mark for the basic idea and 1 mark for some development.

(f) Using an example from **Item C**, explain what is meant by 'opportunity cost'. *(4 marks)*

'AMN to use its money for investment in new machines rather than being tied up in unused stock.' Reference to the above quote from Item C is worth 1 mark.
A clear definition of opportunity cost (OC) is worth 2 marks (some statement about sacrifice foregone or use of alternatives) – a more limited one, 1 mark.
Relating OC to the quote or to AMN is worth up to 2 marks. Max 4 marks.

2 **Total for this question: 26 marks**

(a)	Describe what happened to rail passenger numbers between 1999 - 2000 and 2003 - 2004. *(2 marks)*

Increased (1) by c100m (1).
Give 1 mark for increase and then 1 mark for another valid comment.

(b)	Discuss why the number of rail passengers might increase in the future. *(6 marks)*

Candidates may offer: higher incomes; better services; more business travel; tax on car use; etc. Allow any sensible suggestion.

Level 3 (4-6 marks)

Candidates can discuss why passenger numbers would increase. At the top it should be well developed and a conclusion reached. At the bottom any comment is likely to be a brief. A of discussion of 'whether' will be at the bottom.

Level 2 (2-3 marks)

Candidates can explain why passenger numbers might increase.

Level 1 (1mark)

Candidates can suggest relevant factor(s).

(c)	What is meant by the term 'subsidy'? *(2 marks)*

Money given by government to a firm (1) in order to reduce the cost of production/cut the price to the consumer/increase output/cut negative externalities/improve quality of the product/etc (1). If no mention of government a max of 1 mark.

(d) (i) Why does the Government try to help some regions in the UK? *(4 marks)*

To help particular regions / areas of the country in order to bring their economic performance up to those of better off areas of the country. It does so to relieve unemployment, declining industries, poor infrastructure, cleaning up the enviroment, etc.
Give up to 2 marks for basic statements and up to 3 marks for further development.

Either 2 x 2 or 1 point well developed 1 x 4 Maximum 4.

(ii) Explain how subsidies could improve transport services in some regions.
(4 marks)

Improvements in transport services could refer to either improve the transport infrastructure making the region more accessible / easier to move goods / lower costs / or to changes in transport demand and use.
Either 2 points with some development – 2x2 or 1 point well developed 1x4.

(e) Discuss whether the subsidising of rail services is the best way to reduce road congestion and pollution. *(8 marks)*

Subsidy will make rail travel cheaper and, possibly, more available thus reducing car use. This will depend on both price elasticity and cross elasticity. It is also costly, drawing resources from other uses.

Other possibilities could be; subsidising buses; road charges; congestion charges; park and ride; pedestrianisation; etc.

Level 4 (6-8 marks)

Candidates are able to discuss whether or not subsidising rail services is best. Candidates will consider at least one alternative and at the top will use elasticity. A conclusion will be reached.

Level 3 (4-5 marks)

Candidates will discuss whether or not subsidising rail is best, but not discuss alternatives and/or there is no conclusion.

Level 2 (2-3 marks)

Candidates are able to explain how subsidising rail services would or would not reduce road congestion and pollution.

Level 1 (1 mark)

Candidates offer some relevant knowledge.

3   **Total for this question: 30 marks**

(a) (i)   What is meant by 'fiscal policy'?   *(2 marks)*

Fiscal policy is the use of government revenue (taxation) (1) and expenditure (spending) (1) to control the economy (1). Max 2.

(ii)   Explain how an increase in consumer demand could benefit an economy.
(4 marks)

Increase in consumer demand could lead to firms increasing output (1) which would mean that they need more workers (1) leading to a fall in unemployment (1) and these people can now spend more leading to further growth (1) etc. Candidates may either produce a logical argument along the lines above or similar, ie 1x4 or may make 2 points with some development of each, ie 2x2.

(iii)   Explain how a cut in income tax could result in a rise in inflation.   *(4 marks)*

A cut in income tax would lead to an increase in demand (1) so that prices rise (1) leading to workers demanding more pay (1) and further price rises (1).

Candidates may either produce a logical argument along the lines above, or similar, ie 1 x 4 or make two points with some development of each, ie 2x2.

(b) (i)   What is meant by 'supply side policy'?   *(2 marks)*

A policy which affects aggregate supply/the supply of the economy (1). The second mark can be gained either by an example, eg education and training or by further development of the basic statement.

(ii)   Explain how a cut in income tax could lead to an increase in the number of people willing to seek work.   *(4 marks)*

A cut in income tax would mean that people would keep more of their income (1) so that working would be more worthwhile (1). The cut in income would lead people to demand more goods (1) so to attract workers firms would increase wages (1). This is a 1x4 or 2x2 question.

(c) (i) What is meant by 'monetary policy'? *(2 marks)*

Allow **either**: the use of the rate of interest (1) to control the economy (1), **or** the use of interest rates (1) and the quantity of money (1).

(ii) Explain how monetary policy might lead to an increase in employment. *(4 marks)*

A cut in interest rates would make borrowing cheaper (1) leading to consumers/firms borrowing more money (1). Firms would invest more in expansion (1) leading to them needing more workers (1). Either 1x4 or 2x2

(d) Discuss whether a government should use fiscal or monetary policy to control the economy. *(8 marks)*

Fiscal – direct control via government expenditure and revenue. Expenditure can be directed to particular areas/problems. It can be used to support policy of equity; etc. Difficult to target accurately (stop-go); long time lags; etc.

Monetary – directly influences demand for money; small changes possible to influence the market; proved successful in recent years; etc. Potential time-lags; may need large changes before markets react; etc.

Level 4 (6-8 marks)

Candidates are able to offer discussion/comment on both policies. At the top candidates will show a good awareness of the problems associated with both policies.

Level 3 (4-5 marks)

Candidates are able to offer discussion/comment on one of the policies and will make little or no reference to the other or the level of discussion is very limited or they concentrate on one or more of the macro-economic variables.

Level 2 (2-3 marks)

Candidates are able to analyse one or both policies.

Level 1 (1 mark)

Candidates offer some understanding of the application of the policies.

**NB** There are NO marks for just knowledge (awarded in (a)(i) and (c)(i)).

4   **Total for this question: 31 marks**

(a)   Using **Item H**, give **two** factors that could have reduced the supply of oil.   *(2 marks)*

'The war in Iraq…….' (1) and 'the effect of hurricanes…….'(1).
Allow fall in oil stocks.

(b)   (i)   On the diagram below, label the axes and the original lines and show how a fall in
the supply of oil will affect the price and quantity of oil. Label all changes.
(5 marks)
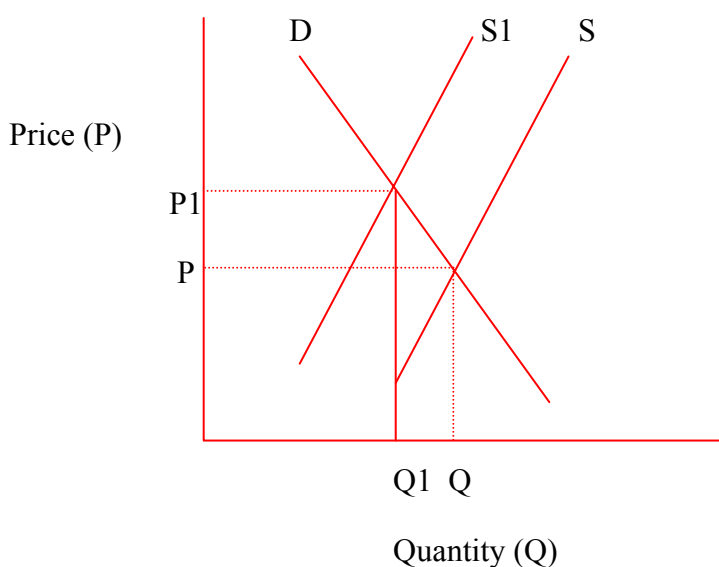
Give 1 mark for labelling the axes correctly, P and Q.
Give 1 mark for labelling the demand line (D) and the supply line (S).
Give 1 mark for shifting the supply line to the left.
Give 1 mark for showing the new P.
Give 1 mark for showing the new Q.

(ii)   If the supply of oil is price inelastic, explain the effect of a 'great increase in
demand by China' on the price and the quantity of oil.   *(3 marks)*

Large rise in price (1), but a small increase in quantity (1). The third mark is to be given for
further development. A correctly drawn and labelled diagram is worth 2 marks. A definition of
inelastic supply is worth 1 mark.

> (c) Profits are one way of measuring business performance.
>
> State **one** other way of measuring business performance. *(1 mark)*

Eg productivity; market share; sales revenue; level of consumer satisfaction; etc. Allow any valid answer.

> (d) Explain **one** reason why some stakeholders would be pleased by the large profits that BP is making. *(3 marks)*

People/groups etc who have an interest in an organisation/business etc.
A definition is worth 1 mark.
Shareholders – larger dividend/ income/rise in share value.
Workers – higher pay.
Managers – large bonuses.
Government – higher tax revenue.
Give 1 mark for basic idea and 2 marks for development.
'Make more money' is worth zero.

> (e) Discuss why BP would want to spend a large amount of money on exploring for oil. *(4 marks)*

Candidates may mention: to prevent them from running out of oil in the future; to find new sources; to increase their control of the market; etc.

Level 2 (3-4 marks)

Candidates can offer some analysis and discussion/comment. Those who offer comment will be at the top level.

Level 1 (1-2 marks)

Candidates can offer some knowledge and application.

> (f) (i) What is meant by a 'cartel'? *(2 marks)*

Cartels are groups of companies who get together (1) to artificially restrict output / increase prices / allocate areas of sales etc (1).
Cartel = 1 firm = 0.

> (ii) Explain why a cartel is an example of market failure. *(3 marks)*

Give up to 2 marks for explaining market failure in terms of inefficient allocation resources/not at socially optimal level.
Give up to 2 marks for explaining how a cartel / monopoly leads to inefficiency etc.
Max 3.

(g) Using a supply and demand diagram, discuss what might happen to the price of oil if there was an increase in both oil production and consumer demand for oil. Label all changes.
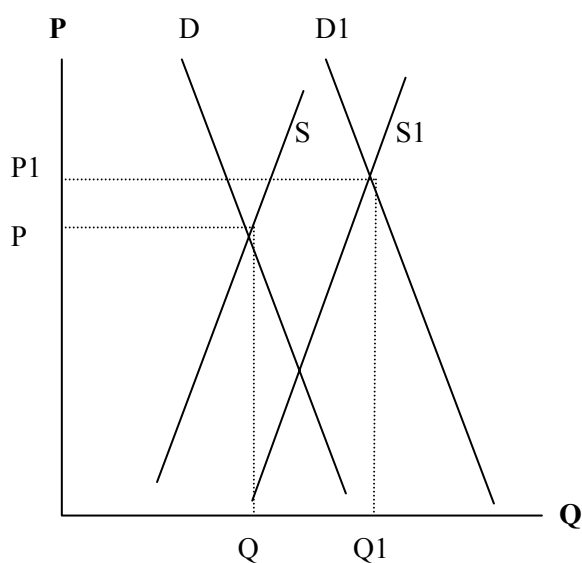
(8 marks)

There is a max of 4 marks (level 2) for a correct diagram only.
There is a max of 6 marks (mid-level 3) for an answer with no/incorrect diagram.

Oil is inelastic in both demand and supply. The answer depends on the relative increase. Candidates can argue for any answer, but expect the very good ones to realise that it does depend on the relative change.

Level 3 (5-8marks)

Candidates are able to discuss whether the rise might lead to a fall or rise in the price and, at the top, that the answer depends on the relative change or on time span. Answers with no correct diagram can get a max of 6 marks.

Level 2 (3-4 marks)

Candidates show some knowledge, application and analysis and/or draw a correct diagram. A correct diagram on its own can get a max of 4 marks.

Level 1 (1-2 marks)

Candidates show some knowledge and application.

5   **Total for this question: 25 marks**

(a)   Using **Items K, L** and **M** and your knowledge of economics, discuss whether house prices will continue to rise.   *(10 marks)*

The letters K, L and M should be clearly shown on the scripts where reference has been made to the items.

For house prices to rise:

K   Over the past year, house prices have increased by 16.8%.
         The high levels of employment will support housing demand.
         Beyond 2005, we expect the market to record small price increases.

L   Candidates will refer to large increases both in the past and forecast: do NOT expect detail.

M   The proportion of mortgages taken out by single women has risen from 9.8% in 1983 to 23.1% in 2003.
         Women now make up 51% of the population and are also continuing to live longer than men.

Will not rise:

K   We predict that house prices in the UK will fall by 2% in 2005.
         Due to the Bank of England's interest rate rises.

L   Rate of increase falling especially in Greater London.

Level 3 (7-10 marks)

Candidates are able to offer some points from both sides and come to a conclusion. It is likely that they will conclude that house prices will rise, but they may have evidence from outside. Answers at the top will use all 3 items (not equally) and show evidence of using knowledge of economics. Answers that discuss, but do not do this can get a max of 8.

Level 2 (4-6 marks)

Candidates use the items and can explain some points. Answers that do NOT use all three items (not equally) can get a max of 5.

Level 1 (1-3 marks)

Candidates do not refer to the items or only list them with no explanation or development.

(b) Discuss ways in which it could be possible to prevent house prices from rising rapidly. Evaluate which way would be the best.   *(15 marks)*

Candidates may mention - increase supply, eg government allows more land for building; builders can cut costs; etc; government taxes second homes/holiday rents etc; more homes are built for let reducing demand; etc. Allow any sensible idea.

Level 3 (11-15 marks)

Candidates offer discussion of the points made. At the top they are able to offer evaluation.

Level 2 (6-10 marks)

Candidates are able to explain a number of ways that house prices could be prevented from rising steeply through the market. There is a max of 8 marks for only one way.

Level 1 (1-5 marks)

Candidates list some points or only offer description.

6   **Total for this question: 25 marks**

> (a)   Using **Items N, O** and **P** and your knowledge of economics, discuss how well the UK
>   economy is performing.   *(10 marks)*

The letters M, N and O should be clearly shown on the scripts where reference has been made to the items.

Good

N   Continuing strong growth of services.
       Better than expected consumer demand.

O   Consumer price index remains low/stable.

P   Britain has grown for each of the past 12 years.
       Unemployment stands at under half the EU average.
       Per capita gross domestic product in Britain is higher at (£16 440), than Germany's
       £15 700 or France's £15 200.

Poor

M   The UK's trade position became worse with the deficit on trade in goods rising from
       £9.6bn to £10.2bn.
       Overvaluation of the pound against the euro.

N   Rising rate of interest.

O   China and India are growing faster.

Level 3 (7-10 marks)

Candidates are able to offer some points from both sides and come to a conclusion. Answers at the top will use all 3 items (not equally) and show evidence of using knowledge of economics and address the issue of how well. Answers that discuss, but do not do this can get a max of 8.

Level 2 (4-6 marks)

Candidates use the items and can explain some points. Answers that do NOT use all three items (not equally) can get a max of 5.

Level 1 (1-3 marks)

Candidates do not refer to the items or only list them with no explanation.

> (b)   Discuss whether the fast growing economies, such as China and India, will benefit or be a disadvantage to the UK economy. Evaluate whether the benefits will be greater than the costs.   *(15 marks)*

Benefits

Large markets for UK exports; produce low cost goods thus keeping inflation down; force UK industry to become more efficient; etc.

Cause problems

Increase imports; increase unemployment; deflect inward foreign investment; etc.

Level 3 (11-15 marks)

Candidates are able to offer discussion. At the top they come to a supported conclusion. One-sided answers will be at the bottom.

Level 2 (6-10 marks)

Candidates are able to explain the effects of competition on the UK economy. One-sided answers will gain a maximum of 8 marks.

Level 1 (1-5 marks)

Candidates list some points or only offer description.