



General Certificate of Secondary Education

Economics 3144

Paper 1 Higher Tier

Mark Scheme

2007 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.

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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: 29 marks

(a) (i) What is meant by a quota? (2 marks)

A quota is a fixed amount (fixed %) (1) allowed into a country (1).

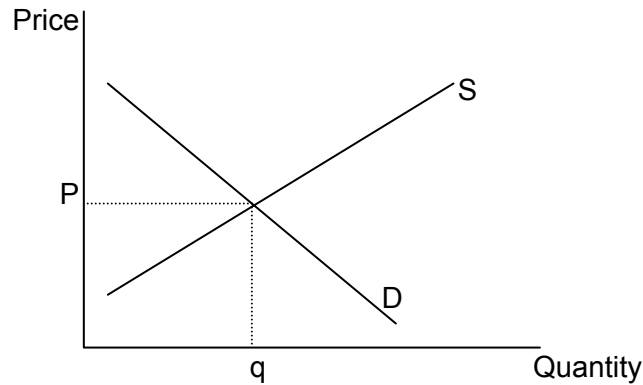
Give marks along these lines. (2)

(ii) Explain **one** other way that a country could reduce imports. (2 marks)

Give 1 mark for tariffs, embargoes, health/safety measures, exchange controls, etc.

Give 1 mark for some development. (2)

(b) (i) Draw and label a supply and demand diagram showing the equilibrium price and quantity of T-shirts. (3 marks)

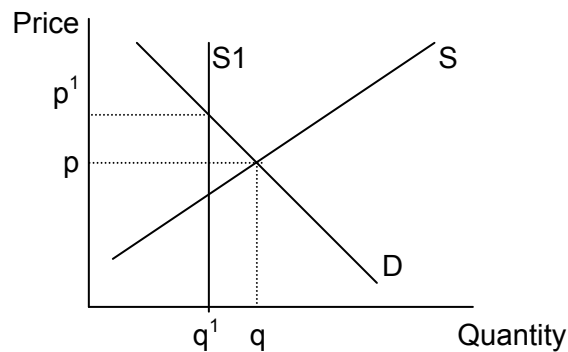


Give 1 mark for drawing the correct S and D lines.

Give 1 mark for correctly labelling them.

Give 1 mark for the equilibrium price and quantity. (3)

(ii) Show the effect on price and quantity of the introduction of a quota. (2 marks)



Give 1 mark for an increase in price.

Give 1 mark for a fall in quantity.

NB there is no need to draw a perfectly inelastic supply line. (2)

(iii) Explain why the introduction of a quota would result in the effects shown on your diagram. (2 marks)

Give 1 mark for stating that a quota reduces supply.

Give 1 mark for development, eg a fall in supply will lead to demand exceeding supply pushing up prices or cheaper imports are replaced by dearer home products, etc. (2)

(c) Explain why European manufacturers might be forced out of business by cheap imports. (4 marks)

Candidates may either give 1 point well explained, ie 1x4 or 2 points with some development, ie 2x2.

Candidates may mention:

- cannot reduce costs sufficiently;
- imports are cheaper and better quality; etc.

Imports are below the costs of EU manufacturers (1) so that if they try to compete they will go bankrupt (1). Labour and materials are more expensive in Europe (1) so it is not possible to reduce costs (1). (4)

(d) Explain why countries should specialise in what they are best at. (6 marks)
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Candidates are likely to mention:

- increase output;
- more efficient use of resources;
- able to gain through trade;
- increase economic growth; etc.

Level 3 (5-6 marks)

Candidates are able to analyse why countries specialise. They will use appropriate economics terms etc. An example could be 'specialising countries use their resources more efficiently thus increasing their total output. This will lead to higher economic growth and more employment.'

Level 2 (3-4 marks)

Candidates can apply the idea of specialisation to countries. An example could be 'countries specialise in what they are best at so as to increase their output.'

Level 1 (1-2 marks)

Candidates show knowledge of specialisation and/or answer in terms of the division of labour.

(e) Discuss whether free trade or protection gives a country greater benefits. (8 marks)

Free Trade – increased choice of goods; greater output; economic growth; etc.

Protection – protects employment; encourages infant industries; provides greater self reliance; etc.

Level 3 (5-8 marks)

Candidates are able to offer a supported discussion of whether free trade or protection gives a country greater benefits. At the bottom the answer is likely to be very one-sided and may only concentrate on the negative points of free trade or protection or the discussion is very limited. At the top expect a supported conclusion.

Level 2 (3-4 marks)

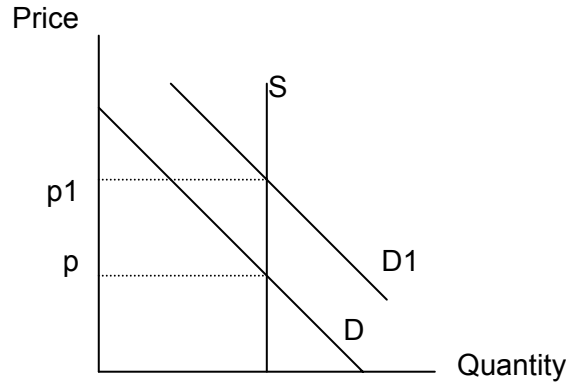
Candidates can explain points for free trade and/or protection. Expect at least two points at the top of the level.

Level 1 (1-2 marks)

Candidates are able offer some knowledge and application. A list of points will be at the bottom.

2**Total for this question: 27 marks**

- (a) (i) Using the diagram, show how a shift in demand could lead to a rise in the price of petrol. (2 marks)



Give 1 mark for the shift in demand.
Give 1 mark for showing increase in price. (2)

- (ii) Explain what has happened to the price and the quantity of petrol. (3 marks)

Give 1 mark for rise in price.
Give 1 mark for no change in quantity.
Give 1 for a further comment in terms of large change in price or inelastic supply. Means no change in quantity.
OFR applies. (3)

- (b) Discuss why the price of unleaded petrol varies between the supermarket and the village garage. (8 marks)

Candidates may mention: size of garage; quantity of sales; location; elasticity of demand; etc.

Level 3 (5-8 marks)

Candidates are able to offer discussion/comment on why petrol is sold at different prices. At the top there will be a clear idea why supermarkets can charge less. At the bottom the answer will be more general or the range of points is very limited or the comment is very brief.

Level 2 (3-4 marks)

Candidates are able to offer analysis as to why prices differ using economic terms and concepts.

Level 1 (1-2 marks)

At the top candidates show knowledge and application. At this level the application is likely to be simple development of points, eg 'because supermarkets are bigger'. At the bottom there is just some points.

(c) (i) Explain why a 'greater market share' is an appropriate objective for a large supermarket. (2 marks)

Candidates are likely to mention:

- they need to compete with rivals;
- they wish to drive smaller sellers out of business;
- managers see this as an appropriate objective for them; etc.

Give 1 mark for a general answer re greater market share.
This is a 1+1 question for a basic point plus development. (2)

(ii) Explain why wanting to 'maximise profits' is an appropriate objective for a village garage. (2 marks)

Candidates are likely to mention:

- need to make profits to survive;
- depend on profits for investing in the business;
- there is no room for growth; etc.

Give 1 mark for a general answer re profit maximisation.
This is a 1+1 question for a basic point plus development. (2)

(d) (i) What happened to the price of petrol between May and November 2005? (2 marks)

Give 1 mark for rise.

Give 1 extra mark for not consistently or for the figures or stating they peak and then a slight fall. Max 2. (2)

(ii) Suggest one reason why this change has occurred. (2 marks)

Candidates may mention:

- tax increase;
- reduction in supply;
- increase in demand.

Allow any valid point. NB 'suggest'.
Give 1 mark for a basic point plus 1 mark for some development. (2)

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|--|
| (iii) Discuss the effect that the change in the price of petrol might have on the rate of inflation.
<p style="text-align: right;"><i>(6 marks)</i></p> |
|--|

Candidates are likely to state that it pushed it up. Better candidates will point out that: the increase is only c12.5%; petrol price is only one element in inflation; etc.

Level 3 (4-6 marks)

Candidates are able to discuss the effects. At the top they will realise that these effects may have been small and/or that the effects could be large if they are passed on through a variety of ways in addition to private motoring. At the bottom the comment is along the line of more/less important.

Level 2 (2-3 marks)

Candidates are able to apply and analyse one or more effects.

Level 1 (1 mark)

Candidates show some relevant knowledge.

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

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|---|
| (a) Using Item E , explain why there has been a fall in the tourist business in the Windermere area. <i>(2 marks)</i> |
|---|

NB 'using Item E'.

Give 1 mark for speed limit and 1 mark for some development, eg has led to a 66% fall in business at water centres.

Candidates who do not use Item E cannot gain credit.

- | |
|---|
| (b) Explain how a hotel could survive when demand is falling. <i>(4 marks)</i> |
|---|

Give 1 mark for knowledge, eg cut costs, reduce employment, borrow money from (banks), etc.

Give up to 3 marks for development along the lines of, eg 1 mark for a basic development of reduce employment, eg to cut costs and then further explanation of how this could help them survive for +2, but allow an answer that casts doubt on the idea, eg fewer people would reduce quality of service.

Alternatively give 2 marks for knowledge and 2 marks for development.

Max 2 marks for knowledge alone.

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|---|
| (c) (i) What is meant by lower economic growth? <i>(2 marks)</i> |
|---|

Candidates can gain 1 mark for showing knowledge of economic growth, eg shown by increase in (real) GDP, and 1 mark for showing knowledge of 'lower', eg growth rate is slowing down, 'Where the rate of growth of GDP (1) is lower than in the previous year (1)'.

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|--|
| (ii) Explain how a rise in unemployment might lead to lower economic growth. <i>(4 marks)</i> |
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Candidates are likely to mention: less consumption; less production; etc.

Level 2 (3-4 marks)

Candidates are able to analyse why unemployment might lead to lower economic growth. One point analysed will be at this level.

Level 1 (1-2 marks)

Candidates offer knowledge and application, eg define unemployment or state that fewer people in work means less output.

Candidates are able to apply knowledge to the relationship. (4)

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|---|
| (d) Explain why the policy of imposing a speed limit on Lake Windermere might cause some hotels to lose customers while others would not be affected. <i>(4 marks)</i> |
|---|

Hotels catering for motor water sports would be affected by the ban – less tourists/users.

Hotels whose customers were not interested in high-speed sports or who used the Lake for other purposes could even gain customers.

Give 2 marks for some knowledge and application, eg along the lines above.

Give 2 marks for some explanation of why – candidates who indicate that different groups of customers have different objectives will fall in to this area. (4)

(e) (i) Using an example, explain what is meant by social benefit?	(3 marks)
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Candidates may either state that: social benefit = private benefit (1) + external benefit (1) or may offer a definition 'social benefit is the total benefit to society arising from an economic action.' (2). Give 1 mark for a more limited attempt. Give 1 mark for an example, eg education or health service etc.

(ii) Using an example, explain what is meant by social cost?	(3 marks)
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Candidates may either state that: social cost = private cost (1) + external cost (1) or may offer a definition 'social cost is the total cost to society arising from an economic action.' (2). Give 1 mark for a more limited attempt. Give 1 mark for an example, eg congestion, pollution etc.

(iii) The Lake District National Park claims that 'the social benefits from its policy exceed the social costs'. Using Items E and F and your knowledge of economics, discuss whether this is likely to be the case.	(6 marks)
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Social benefits:

- remove noisy boat users;
- bring peace and quiet to the area;
- attract sailors and canoeists;
- protects the countryside;
- encourages walkers and sightseers.

Social costs:

- fall in trade;
- empty beds;
- fewer visitors to major attractions;
- unemployment;
- lower economic growth.

Level 3 (4-6 marks)

Candidates are able to discuss the extent to which social benefits do/do not exceed social costs. Answers at the top will consider both private and external benefits/costs. Answers that are one-sided in their discussion in will be at the bottom of the level.

Level 2 (2-3 marks)

Candidates can explain/analyse the social benefits and costs. Answers at the top must indicate that they realise that there are private and external aspects of at least one of these.

Level 1 (1 mark)

Candidates can apply their knowledge of the concepts. NB there are no knowledge marks.

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

(a)	(i)	What is meant by derived demand?	<i>(2 marks)</i>
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Derived demand is where the demand for a factor is dependent on the demand for its output.

Give 2 marks for a clear definition along these lines.

Give 1 mark for a definition that has some idea or just uses an example.

(ii)	Explain how the demand for an Art Gallery Assistant could be an example of derived demand.	<i>(2 marks)</i>
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Art gallery assistants are demanded because people want to visit art galleries (1) and they are needed to help the public (1) – or similar.

NB OFR applies re the definition in the previous question.

(b)	Explain two reasons why the pay of the Area Manager is a lot more than that of the Administrative Services Manager.	<i>(4 marks)</i>
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Candidates may mention:

- more responsibility;
- controls more people;
- handles larger budgets;
- greater demand;
- shortage of suitable people; etc.

Allow any valid points.

Give 1 mark for each reason and 1 mark for each development. 2x2 (4)

(c)	A job advertisement for Information Technology Staff in the Midlands offered £14 468. State and explain two factors that could lead to similar staff in London being offered £16 700.	<i>(4 marks)</i>
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Although there may be some overlap with 4b, this question is about two similar posts in different locations – this must be made clear.

Candidates may mention:

- greater demand in London;
- more suitable people in the Midlands;
- cost of living;
- jobs sound the same, but are different, etc.

Allow any valid idea.

Give 1 mark for each factor and 1 mark for each development. 2x2 (4)

(d) (i) What is meant by productivity?

(2 marks)

Output per worker employed, or inputs to outputs, are worth 2 marks.

An explanation of production or a lack of precision in the definition is worth 1 mark. (2)

(ii) Explain **one** reason why workers whose price elasticity of supply is elastic are likely to be paid less than those with an inelastic supply.

(4 marks)

Candidates will probably mention that inelastic supply indicates scarcity/difficult to get more of in short run while elastic implies the reverse and then go on to explain how this affects pay.

Give up to 2 marks for some basic statements, as above.

Give up to 3 marks for development of one statement.

Max 4 marks.

Do **not** allow the idea that those with inelastic supply deserve more. (4)

(iii) Discuss whether membership of a trade union might lead to workers being paid above the national minimum wage.

(5 marks)

For – trade unions can restrict supply and raise wages; trade unions can bargain better with employers; etc.

Anti – depends on the job; depends on strength of unions as against employers; depends on the state of the economy; etc.

Level 3 (4-5 marks)

Candidates can discuss whether or not membership would push wages above the national minimum wage.

Level 2 (2-3 marks)

Candidates can apply and analyse the effects of trade union membership on wage levels.

Level 1 (1 mark)

Candidates have some knowledge of the national minimum wage.

(e) Discuss why public sector pay has increased faster than private sector pay.

(8 marks)

Candidates are likely to mention:

- public sector can pass on pay rises in taxes;
- increase in public services leads to greater demand;
- shortage of some public sector workers, eg medicine;
- greater competition in private sector leading to cost cuts;
- easier to make workers redundant in private sector; etc.

Allow any valid idea.

Level 3 (5-8 marks)

Candidates will discuss the effects of a number of factors on pay. Answers at the top will discuss a range of factors considering both public and private sector points. Candidates who only offer, eg public sector points will be at the bottom of the level.

Level 2 (3-4 marks)

Candidates can explain/analyse reasons for the pay differences. Those at the top will refer to at least two points.

Level 1 (1-2 marks)

Candidates show knowledge of pay factors, and application to public/private sectors.

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

- (a) Using **Items J, K and L** and your knowledge of economics, discuss whether the goals set by the Energy White Paper are likely to be achieved. *(10 marks)*

Item J

- in the light of the figures given in Item K the figures for renewable here seem unlikely;
- needs major investment – by whom?
- need to persuade all groups to change behaviour.

Item K

- natural gas 40.6% but supplies are problematical;
- nuclear is 8.6% but power stations are old;
- coal is 17.4% - compatibility with sustainable/reduce CO²;
- renewable energy is very small 1.4% + 0.2%.

Item L

- how to cut CO² emissions;
- how to maintain energy supplies;
- how to promote competitive markets;
- how to ensure domestic heating.

Level 3 (7-10 marks)

Candidates are able to offer to discuss the goals and whether they can be achieved. Answers at the top will use all 3 items and refer to the goals (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, eg lists the goals.

(b) Discuss whether investing in renewable energy sources is the best policy for the UK.
(15 marks)

There is no one answer, but candidates are expected to weigh up the evidence using the 3 items and their own knowledge. Reward economic thoughtfulness.

For – climate change; decline of non-renewable sources; dangers of nuclear; promote sustainability; need to increase competition; etc.

Anti – wind power unreliable and could not replace all the other sources; solar power not practical in UK; could decrease competition; too expensive; etc.

Level 3 (11-15 marks)

Candidates offer discussion of the points made. At the top they are able to offer evaluation. One-sided answers, max 12.

Level 2 (6-10 marks)

Candidates are able to explain some reasons for investing or otherwise in renewable energy sources. There is a max of 8 marks for a one-sided answer.

Level 1 (1-5 marks)

Candidates list some points or only offer description.

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

- (a) Using **Items M, N and O** and your knowledge of economics, discuss how well the government is doing in reducing unemployment. *(10 marks)*

Item M

- employment at record levels while unemployment has fallen;
- there are now more people in work than ever before, up by over a hundred thousand in the last quarter alone;
- very successful in helping those who have recently lost their job to find another one quickly;
- helping the long-term unemployed, lone parents and those claiming incapacity benefits to return to work.

Item N

- unemployment falling since 1993;
- fall is slowing down from 2001.

Item O

- unemployment is higher than stated – as much as 4% points higher;
- unemployed are shifted into other categories.

Level 3 (7-10 marks)

Candidates are able to discuss how successful the Government has been in reducing unemployment. 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, eg states unemployment figures.

(b) Discuss whether low unemployment is the most important macro-economic objective. <i>(15 marks)</i>

The 4 macro-economic objectives are:

- low unemployment;
- low inflation;
- good economic growth;
- and a surplus/balance on the balance of payments.

It is likely that candidates will concentrate on the first three. Low unemployment could be seen as very important in social terms and as a pre-requisite for high demand leading to economic growth. Monetarists would claim that low inflation is most important as only then can the economy have sustainable low unemployment and economic growth. Others would argue that economic growth promotes low unemployment.

Candidates who consider equity as a macro-economic objective must not be penalised.

Level 3 (11-15 marks)

Candidates offer discussion of the points made. At the top they are able to offer evaluation. One-sided answers, max 12.

Level 2 (6-10 marks)

Candidates are able to explain some reasons for why low unemployment or another objective is most important. There is a max of 8 marks for a one-sided answer.

Level 1 (1-5 marks)

Candidates list some points or only offer description.