



# **General Certificate of Secondary Education**

## **Economics 3144**

### **Paper 1      Higher Tier**

## **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.

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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: 35 marks**1 (a) (i) **one** consumer good produced by China*(1 mark)*

Any one from: computers (1), cd players (1) and refrigerators (1).

Max 1 mark

1 (a) (ii) **one** capital good produced by China.*(1 mark)*

Tractors (1).

1 (b) (i) Using **Item A**, identify and explain the **main** production advantage which China has over the USA.*(2 marks)*

Low wages (1).

About 1/20<sup>th</sup> of the cost per hour (1) or other evidence from Item A.

1 (b) (ii) Explain the advantages to China of specialising in the production of computers.

*(4 marks)*

Computers are a global product so benefits include:

- export earning as can sell anywhere in the world;
- better skilled/trained workforce therefore quality products, able to compete with competitors through lower costs, especially wages;
- economies of scale – lower average costs;
- enjoy comparative advantage in a global mass market.

2x2

1 (c) If the resources mentioned in **Item A** were scarce, what economic decisions would need to be considered by the Chinese Government.*(4 marks)*

Any two of the following substantially developed (or one thoroughly):

Efficiency, equity, sustainability, production possibilities, ie what to produce, how to produce it etc.

Identification of opportunity cost (1) plus development, eg example (1).

1 (d) What is meant by the term 'economic growth'?

*(2 marks)*

Increase in value (1) of goods and services (1).

Increase in (real) GDP over period of time (2).

1 (e) Using **Item B**, identify and explain **one** advantage of economic growth. (2 marks)

Rising incomes (1), luxury goods (1). Explanation relating advantage to living standards (1).

Max 2 marks

1 (f) Using **Item B**, identify and explain **one** external cost of China's economic growth. (3 marks)

Any one from: obesity (1), environmental damage (1) poverty (1). Max 1 mark.  
Explanation shows mal effect on economy with example (2) can include international impact, eg global warming.

1 (g) Discuss whether or not it is important for an economy to grow rapidly. (8 marks)

**Level 3 (6 – 8 marks)**

Candidates consider de-merits and benefits of (rapid) economic growth.

**Level 2 (3 – 5 marks)**

Candidates link features of rapid growth to higher goals, ie living standards, national prestige, relative standing or they look at the de-merits, eg external costs and distribution problems, inflation.

**Level 1 (1 – 2 marks)**

Candidates explain features of rapid growth, ie investment growth, exports, or de-merits, but do not go beyond that. Vague description on the speed of growth generally.

1 (h) The Chinese Government is trying to develop partnerships with overseas companies. Discuss whether overseas companies should enter into such partnerships. (8 marks)

Relevant points – Chinese Government access to products, expertise R&D of established company; gain access to large market, increased profit for the overseas company.

**Level 2 (5 – 8 marks)**

Candidates give balanced answers showing benefits to overseas companies and/or the Chinese Government.

**Level 1 (1 – 4 marks)**

Candidates deal with a partnership in a superficial or one sided way.

Reward candidates for use of economic concepts, eg short-run and long-run.

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

2 (a) What is a 'monopoly'?

*(2 marks)*

Any two from:

- control of market (1);
- at least 25% legally (1);
- sole provider (1);
- high market share (1).

Max 2 marks

2 (b) Explain **two** advantages to Sky TV of having an 'exclusive deal'.*(4 marks)*

Relevant points – monopoly power re prices/output, excess profits, no competition.

2 marks for basic knowledge and 2 marks for application.

One very well developed point can secure full marks.

2 (c) Suggest **two** reasons why consumers might be unhappy when there is a monopoly.*(4 marks)*

Relevant points:

- no choice;
- price rises;
- lack of quality.

2 marks for basic knowledge and 2 marks for application.

One very well explained argument can gain full marks.

2 (d) (i) What is meant by the term 'market failure'?

*(2 marks)*

Failure to allocate resources effectively.

Market not competitive, with imperfections. Government interference, ie tax/subsidy.

Credit 1 point developed for 2 marks.

2 (d) (ii) How might Government intervention in a market lead to market failure?

*(4 marks)*

Intervention via taxes/subsidies (1) distorts prices leading to (1) misallocation of resources (1).

Expansion of either of these explanations (1).

- 2 (e) Apart from the price fixing mentioned in **Item D**, name one other anti-competitive activity which cartels use. (1 mark)

Answers could include any **one** of these:

- market shared up to create regional monopoly (1);
- exchange of commercially sensitive information (1) etc;
- restriction on output (1).

Max 1 mark

- 2 (f) Explain how price fixing works for the benefit of the companies in a cartel. (4 marks)

Relevant points:

- all firms supply at same/similar price;
- price agreed by those colluding;
- effects on profits;
- production costs (no need for competitive advertising).

**Level 2 (3 – 4 marks)**

Candidates directly link the activity to the benefits, eg lack of competition = guaranteed profits.

**Level 1 (1 – 2 marks)**

Candidates explain how price fixing works but do not look at the beneficial effects. Candidates who explain what a cartel is.

- 2 (g) What are the disadvantages of cartels? (4 marks)

Relevant points:

- limited choice (re suppliers);
- higher prices to consumers;
- excess profits – misallocation of resources;
- lack of competition.

If interpreted as a disadvantage to the cartels, candidates can be awarded up to 4 marks.

2 x 2: each developed point worth 2 marks.

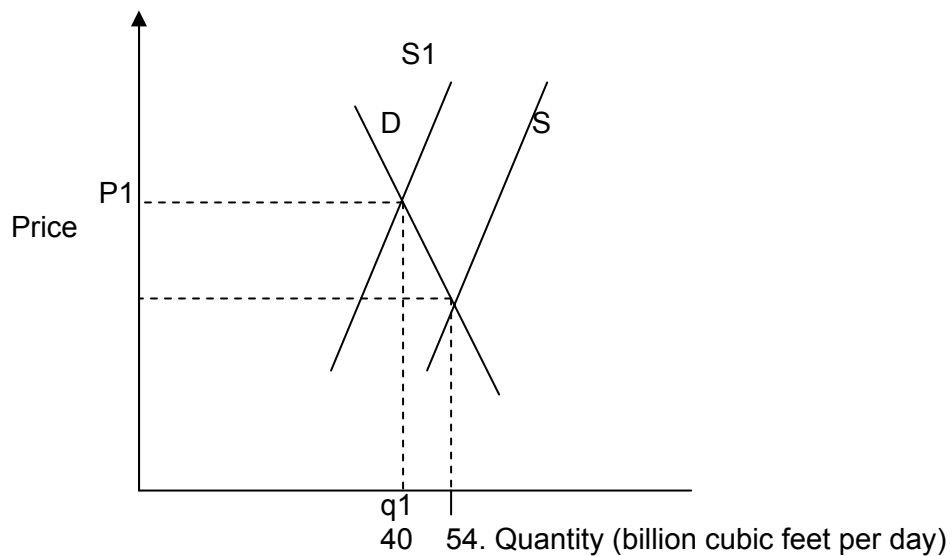
**3****Total for this question: 30 marks**

3 (a) Using **Item E** identify **two** trends in the supply of energy. (2 marks)

Supply falls (1) local production falls slowly (1) existing imports fall rapidly (1). More imports than home production (1).

Max 2 marks

3 (b) (i) Using the data in **Item E**, show on the above diagram the changes in supply predicted for 2015. Label all of your changes. (4 marks)



Correct new price P1 (1).  
 Correct new quantity 40 (1).  
 Higher price indicated (1).  
 Correct labels S1 or q1(1).

3 (b) (ii) Explain the changes to the price and quantity that you have shown in the diagram. (2 marks)

Price has risen because demand exceeds supply (1).  
 Impact on quantity depends on size of shift and elasticity shape (1).

1 mark for price explanation and 1 mark for quantity.



- 3 (c) In **Item E**, the information after the year 2005 is a forecast. Discuss why the forecasts about the UK energy market might not be correct. (8 marks)

Any relevant factors:

- new discovery of energy;
- change in consumer habits/spending;
- changes in imports;
- changes in local production;
- energy prices;
- economic situation (recession or boom);
- bias of source.

**Level 3 (7 – 8 marks)**

Discussion/comparison of impact of different factors.

**Level 2 (3 – 6 marks)**

Some explanation of at least two factors in each case relating them to either supply or demand, ie new discoveries lead to increased supply and depressed prices.

**Level 1 (1 – 2 marks)**

Some knowledge/application of at least one factor, eg predictions can be wrong.

- 3 (d) (i) Using a supply and demand diagram, analyse how **one** of the reasons in **Item F** might cause a rise in the price of gas. (4 marks)

Unexpected cold weather – increase demand (1) – shift in demand curve (1) appropriate diagram (2).

**OR**

Costs rise / less to EU supply – fall in supply (1) – shift in supply curve (1) appropriate diagram (2).

Maximum of 2 marks if no supply and diagram given.

Max of 4 marks

- 3 (d) (ii) The supply of gas, in the short run, is perfectly inelastic. Explain what this statement means. (4 marks)

2 points worth 2 marks each.

Short run in time period (1) where at least one factor of production is fixed (1) or recognition of differences in the long-run.

Inelastic – quantity supplied is unchanged (1). If the price rises in the long run; supply becomes less inelastic (1). Necessity/no alternative (1) with development (1). Inelastic explained (rather than perfectly inelastic) up to 2 marks.

- 3 (e) Discuss why the price of energy may vary so much between two countries, such as the UK and the Netherlands. *(6 marks)*

Relevant points:

- different tax (subsidy) regimes;
- variations in demand;
- different production costs/efficiency;
- role of government re public/private sector provision;
- population size.

**Level 3 (4 – 6 marks)**

Candidates can discuss two reasons for the differences.

**Level 2 (2 – 3 marks)**

Candidates are able to explain one reason.

**Level 1 (1 mark)**

Candidates show some knowledge/awareness.

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

- 4 (a) Using **Item G**, describe what has happened to the inflation rate in the UK between 2003 and 2006. (2 marks)

The rate has risen then fallen (1) erratically (1). Rise or fall with accurate percentage change (2). Remained above the government target (1).

- 4 (b) Explain **one** possible reason why RPI data excludes pensioners receiving state benefits. (2 marks)

Pensioners/high earners are untypical (1) so distort the average (1). Pensioners are on fixed incomes (1).

- 4 (c) Using **Item H**, describe how inflation in Europe has differed from that in the UK between 2003 and 2006. (3 marks)

Higher level in UK (1) and decreasing (1) Europe same level with peak (1).

- 4 (d) Explain **two** possible reasons for the differences between European and UK inflation. (4 marks)

Different measurement index (1), housing costs in RPI (1), European data is average of 12 (1) so likely to be less volatile (1). Cheaper price goods/services in Europe (1), more efficient or any other credible reason (1).

2 explained reasons for 2 marks each.

Demand pull or cost push explanations up to 2 marks for each explanation.

- 4 (e) Explain why governments have an inflation target. (4 marks)

### **Level 2 (3 – 4 marks)**

Candidates outline the need for targets as part of the greater goal of economic management.

### **Level 1 (1 – 2 marks)**

Candidates recognise that higher inflation is a bad thing because of its adverse economics effects.

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|--|
| 4 (f) In July 2006, European inflation was lower than inflation in the UK. Discuss whether this might cause a problem for the UK economy.<br><i>(10 marks)</i> |
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Lower prices in Europe – exports to the UK – elasticity – impact on Balance of Payments/jobs/profits/investment.

Relative living standards – higher prices – wage demands – general problems of inflation.

Lower EU prices – lower costs – lower prices – improved living standards in the UK.

**Level 3 (7 – 10 marks)**

Candidates see both the problems and the benefits for the UK and explain both. To achieve maximum marks, a conclusion must be made.

**Level 2 (4 – 6 marks)**

Candidates explain more than one problem and its impact  
**or** explain just one problem and one benefit.

**Level 1 (1 – 3 marks)**

Explanation of one problem and its impact on the UK economy.

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

5 (a) Using **Items I, J and K** and your knowledge of economics, discuss whether the changes in retailing have benefited the customer. *(10 marks)*

Indicative content:

Better for customer:

- supermarket monopoly and consequences that may benefit;
- lower prices;
- improved quality;
- better service;
- innovation;
- many independents remain.

Worse for customer:

- Tesco dominance – increasing profits;
- spurious diversity;
- independents closing down;
- less choice;
- misleading special offers;
- squeezing suppliers.

### **Level 3 (7 – 10 marks)**

Candidates offer points from both sides (four minimum) and reach a conclusion.

Maximum 9 marks if no conclusion.

Candidates must use all three items to reach this level.

### **Level 2 (3 – 6 marks)**

For candidates who use two points from either side of the argument (or from one side)

3 – 4 marks.

For candidates who use three points (at least one from each side of the argument) 5 – 6 marks.

### **Level 1 (1 – 2 marks)**

Candidates list items without explanation 1 – 2 marks.

5 (b) Discuss whether the National Grocery Market should be made more competitive. (15 marks)
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Indicative content:

- OFT decisions re selling off stores;
- limits to big 4 expansion;
- problems in market, ie independents closing, suppliers squeezed, less choice for consumers;
- supermarkets and lower prices;
- more competition-effect on prices;
- Tesco monopoly;
- consumer benefits.

**Level 3 (11 – 15 marks)**

Candidates are able to compare/contrast reasons for the National Grocery Market being more competitive and reach a reasoned conclusion. Maximum 13 marks without a reasoned conclusion.

**Level 2 (6 – 10 marks)**

Candidates are able to outline arguments for UK competition without considering drawbacks or they consider the advantages/disadvantages of the large supermarkets dominance.

**Level 1 (1 – 5 marks)**

Candidates are able to describe two benefits of greater competition. Maximum of three marks if answer is not in context.

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

- 6 (a) Using **Items L, M and N** and your knowledge of economics, discuss how well the Government is managing its revenue and spending. *(10 marks)*

Indicative content.

Doing well:

- 1997 – 2000 tight control;
- extra spending – growth;
- extra funding for public services, ie education;
- lower percentage on debt interest;
- selling off public assets.

Doing badly:

- budget deficit in 2005 – 2006;
- £39bn deficit;
- selling off public assets has long term impact on finances;
- large spending increases – deficits;
- tax revenue/burden is growing.

**Level 3 (7 – 10 marks)**

Candidates offer some points from both sides and reach a conclusion. Max 9 without a conclusion. Need to bring in some evidence to achieve the maximum marks. Candidates need to bring in evidence from all three items.

**Level 2 (3 – 6 marks)**

Candidates use at least two points which they can relate to the question (3–4 marks). Candidates use at least three points which they can relate to the question (5–6 marks).

**Level 1 (1 – 2 marks)**

Candidates list items without explanation.

- 6 (b) Governments can use several policies to manage the economy. Discuss whether fiscal policy is the best way of managing the economy. *(15 marks)*

Indicative content:

- budget issues, eg use of taxation, spending, fiscal drag and budget deficits in order to influence macro-economic objectives;
- alternative policies, eg monetary policy (particularly use of interest rates), trading policies, direct controls;
- main macro-economic objectives, eg inflation, unemployment, growth, balance of payments;
- supply side.

**Level 3 (11 – 15 marks)**

Candidates are able to compare/contrast fiscal policy and one other viable alternative policy in context of macro-economic objective. For 13+ marks a reasoned conclusion is needed.

**Level 2 (6 – 10 marks)**

Candidates are able to explain the relationship of fiscal policy (or an alternative policy) to at least two macro-economic objectives, to reach 8 – 10 marks.

If only one objective is considered then maximum of 7 marks can be awarded.

If candidates look at two different policies with examples – max 7 marks.

**Level 1 (1 – 5 marks)**

Candidates make some points with little explanation of any relationship.