

**Combined Mark Schemes
And Report on the Components**

June 2005

1985/MS/R/05

OCR (Oxford, Cambridge and RSA Examinations) is a unitary awarding body, established by the University of Cambridge Local Examinations Syndicate and the RSA Examinations Board in January 1998. OCR provides a full range of GCSE, A level, GNVQ, Key Skills and other qualifications for schools and colleges in the United Kingdom, including those previously provided by MEG and OCEAC. It is also responsible for developing new syllabuses to meet national requirements and the needs of students and teachers.

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by Examiners. It does not indicate the details of the discussions which took place at an Examiners' meeting before marking commenced.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

© OCR 2005

Any enquiries about publications should be addressed to:

OCR Publications
PO Box 5050
Annersley
NOTTINGHAM
NG15 0DL

Telephone: 0870 870 6622
Facsimile: 0870 870 6621
E-mail: publications@ocr.org.uk

CONTENTS

General Certificate of Secondary Education

Economics (1985)

MARK SCHEMES FOR THE COMPONENTS

	Content	Page
1985/1	Paper 1	1
1985/2	Paper 2	7
1985/3	Paper 3	13
1985/4	Paper 4	21

REPORT ON THE COMPONENTS

	Content	Page
*	Chief Examiner's Report	28
1985/1	Paper 1	29
1985/2	Paper 2	32
1985/3	Paper 3	34
1985/4	Paper 4	37
*	Grade Thresholds	40

Mark Scheme 1985/1
June 2005

1 (a) Target: to calculate fixed, variable and total costs and total revenue.

Fixed costs = £1000 Variable costs = £1500 Total costs = £3000
Total revenue = £5000 [4]

(b) Target: to construct a break even chart.

1 mark for accurate fixed cost schedule, plus 1 mark for label.
1 mark for accurate total cost schedule, plus 1 mark for label.
1 mark for accurate total revenue schedule, plus 1 mark for label.
(Accept schedules from candidate's own figures.)
(Max 1 mark for labels when schedules are incorrect.) [6]

(c) Target: to identify break even output.

Two batches of cakes. [1]

(d) Target: to identify fixed costs.

Any two; such as rent, rates, wages, interest, electricity, power, water rates, loan repayment etc.
Accept answers such as labour costs. [2]

(e) Target: to calculate price using total revenue information.

$£1000/200 = £5$ (one mark for method). [2]

(f) Target: to evaluate the most suitable level of output.

1 mark for stating five batches.
3 marks for accurate justification, e.g. production of five batches gives a profit of £1500 which is greater than any other level of output. [4]

(g) Target: to identify business objectives.

Any two, such as growth/expansion/higher sales: survival/ at least break-even; good customer service.. [2]

(h) Target: to explain the effects of competition on prices and profits.

Competition (1 max) may reduce her sales (1 mark) and therefore her profits (1 mark).
Jane may reduce prices (1 mark). 1 mark for development of any argument, e.g. prices fall to try to maintain sales/undercut the competitor (1 mark). [4]

Total marks: [25]

2 (a) Target: to describe trends shown in a chart.

2 marks for reference to the fall and later rise in visits.

OR 2 marks for any reference to the degree of change, e.g. a huge decline between 1951 and 1981 followed by lesser recovery. **[2]**

(b) Target: understand the market forces that determine equilibrium price.

(i) 1 mark for new supply curve to the right

1 mark for new equilibrium price

1 mark for new equilibrium quantity **[3]**

(ii) 1 mark for price has fallen, 1 mark for number of cinema visits has risen. **[2]**

(c) Target: understand the market forces that determine equilibrium price.

1 mark for diagram with original equilibrium, 1 mark for shift to the left of demand curve, 1 mark for showing new equilibrium.

1 mark for explaining why demand falls (substitute effect), 1 mark for stating price falls, 1 mark for stating sales fall. **[6]**

(d) Target: apply and evaluate factors that affect demand.**Level 4 (7 – 10 marks)**

Factors are identified, applied well to the cinema market and evaluated within this context. Demand factors could include changes in real disposable incomes, changes in population and age structure; availability and price of substitutes (televisions, videos, DVDs, home cinema systems); availability of substitute leisure activities e.g. sports, music clubs; quality of complementary goods, i.e. the films on release; advertising; quality of cinema provision; etc.

Level 3 (5 – 6 marks)

Factors are analysed in context of the cinema market.

Level 2 (3 – 4 marks)

Relevant factors are identified with some application to the cinema market.

Level 1 (1 – 2 marks)

Some factors identified, e.g. incomes, population; or up to two factors explained. **[10]**

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

[2]

Total marks: [25]

3 (a) Target: to identify the nature of various taxes.

(i) Income tax, national insurance. [2]

(ii) VAT, excise duties. [2]

(iii) Council tax, business rates. [2]

(iv) Income tax, and either national insurance or VAT. [2]

(b) Target: to identify social security benefits.

Any two benefits (including tax credits) such as pensions, job seekers allowance, etc.

Accept dated examples e.g. disability payment, family allowance. Accept, eg payment to unemployed, payment to disabled. [2]

(c) Target: to understand and identify progressive and regressive taxes.

2 marks for accurate explanation of each tax, i.e.

a progressive tax takes a greater percentage from a higher income

a regressive tax takes a greater percentage from a lower income

1 mark for each if some understanding shown, e.g.

a richer person pays more if a tax is progressive.

1 mark for example of each, i.e.

progressive accept income tax, national insurance, corporation tax.

Regressive tax accept excise duties, VAT. [6]

(d) Target: to evaluate the taxing and spending policy of the government.**Level 3 (7 – 9 marks)**

Candidate demonstrates a high level of evaluation by considering both the tax and spending sides of the issue, weighs up some pros and cons and makes an overall judgement. Issues can include the benefits or more health and education services (merit good argument); possibility of extra spending not reaping extra benefits; the effects that tax rises can have which is dependent upon which taxes are raised, e.g. income tax rises could have adverse effects on incentives.

Level 2 (4 – 6 marks)

Candidate considers the tax and/or spending sides of the issue in analysis, e.g. the health service needs more money to cut waiting lists/treat new diseases and people can afford to pay more income tax as their wages are rising.

Level 1 (1 – 3 marks)

Candidate applies the issue of increasing taxes to spending more on health and education, e.g. if we want better schools, more nurses, etc then taxes have to rise to pay for it. [9]

Total marks: [25]

4 (a) Target: to select data from a table.

Italy [1]

(b) Target: to calculate change in price.

£13.70 - £12.24 = £1.46 (1 mark for method) [2]

(c) Target: to analyse price changes information to form a judgement.

2 marks for one reason clearly explained, eg some countries are cheaper than others e.g. USA prices have fallen since 2002 while prices in other countries have risen; so USA is more likely destination choice.

1 mark for e.g. yes because USA is cheaper than before.

Accept answers which argue that factors other than price are important. [2]

(d) (i) Target: to identify the country with a non-Euro currency.

USA [1]

(ii) Target: to explain effects on consumers of changes in the exchange rate.

2 marks for an answer which explains the effect on holiday markers or candidate directly uses the data to answer.

1 mark if simply states a rise in prices. [2]

(iii) Target: to explain effects on firms of changes in the exchange rate.

Their goods become cheaper in Italy (1 mark) so sales are likely to rise (1 mark). [2]

(iv) Target: to explain effects on the balance of trade of changes in the exchange rate.

Exports are cheaper and likely to rise (1 mark).

Imports are dearer and likely to fall (1 mark).

The balance of trade is likely to improve (1 mark). [3]

- (e) **Target: to evaluate the relative advantages and disadvantages to the UK of adopting the Euro.**

Level 4 (8 – 10 marks)

Candidate makes a judgement and weighs up the advantages and disadvantages to the UK, referring to groups in the economy.

Benefits could include reduced currency conversion costs for holidaymakers and greater ease of comparing prices and making buying decisions. Reduced costs for exporters and importers with knock on effects on employment and growth. The likelihood of more direct foreign investment into the UK as exchange rate uncertainty is removed, which will bring more jobs for workers. Disadvantages could include conversion costs to taxpayers and firms (changing the currency, vending machines, etc).

The loss of UK control over interest rates with various implications for the economy such as effects on employment, economic growth and the inflation rate. Regional implications of a European interest rate (one size does not fit all), could adversely affect firms and workers in less developed regions.

Level 3 (6 – 7 marks)

Candidate discusses advantages and disadvantages to the UK with limited evaluation.

Level 2 (3 – 5 marks)

Candidate analyses advantages/disadvantages identified.

Level 1 (1 – 2 marks)

Candidate identifies advantages and/or disadvantages to the UK.

[10]

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

[2]

Total marks: [25]

Mark Scheme 1985/2
June 2005

- 1 (a) Use Fig 1 to describe the state of the airline industry between 2001 and 2003. [3]

Target: to describe data on the economic state of an industry.

The industry is in a weak condition (1). There is falling demand (1), financial losses (1), job losses (1) and bankruptcies (1).

1 mark for statement. Up to 2 marks for supporting evidence.

- (b) (i) Describe the change in the number of air passengers using UK airports 1995 to 2020 shown in Fig. 2. [2]

- (ii) Explain possible reasons for the change. [5]

Target: (i) to describe trend and (ii) suggest reasons for change.

- (i) The trend is continuously (1), upward (1), use of data, eg more than doubling (1). Max 2 marks.

- (ii) Increased incomes leading to more leisure travel (2), globalisation increasing business travel (2), changing attitudes promoting wish to travel (2). Cheaper flights widening prospective travellers (2) or other valid reasons. Reasoned point scores (2) to max of 5.

- (c) Select one headline from Fig. 3. Explain, with the aid of a demand and supply diagram, its effect on the airline market. [6]

Target: to use supply and demand to analyse change within a market.

Demand will fall (1) because of fear of travel or lower activity or income (1) depending upon choice. Diagram axes (1), original D&S curves (1). New D curve (1). New price or quantity (1). Allow other reasonable interpretations.

- 2 Many passengers choose to fly with low-cost airlines but others still use traditional airlines. Do you think it is better for passengers to fly with low-cost airlines or traditional airlines? Use Fig. 4 and Fig. 5 to give reasons for your answer. [10 + 2]

Target: to evaluate patterns of demand for air travel.

For leisure travel in Europe for those with the ability to take advantage of the conditions e.g. the price conscious, those booking ahead, those with flexible travel patterns, low-cost airlines may replace traditional airlines. For others such as business travellers, those valuing services over cost, those needing main airports etc replacement is unlikely. Candidates may use examples to indicate attitudes and may comment on relevance of price elasticity.

Level 3 (6-10 marks)

Candidate discusses consequences of different passenger attitudes.

Level 2 (3-5 marks)

Candidate analyses importance of influences.

Level 1 (1-2 marks)

Candidate recognises different influences.

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	(2)
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	(1)
Candidate fails to reach the threshold standard in all respects.	(0)

- 3 (a) (i) **How much is the cheapest return flight from London to Glasgow?** [1]
 (ii) **Which airline offers this flight?** [1]
 (iii) **When is the most expensive return flight from London to Glasgow?** [1]
 (iv) **Which airline offers this flight?** [1]

Target: to interpret airline price data

(i) £28(1) (ii) Ryanair (1) (iii) August weekend (1) (iv) easyJet (1)

- (b) **What is meant by price elasticity of demand?** [2]

Target: to show knowledge of price elasticity of demand.

PED is a measure of the responsiveness of quantity demanded to a change in the price of the product.

Precise meaning or accurate formula, 2 marks. General idea 1 mark.

- (c) **Discuss why leisure travellers have a more price elastic demand for air travel than business travellers.** [6]

Target: to explain factors affecting price elasticity of demand.

Meaning of more price elastic (1).

Leisure travellers have more freedom to use alternative transport (e.g. rail). They can vary their travel times. Cost is more important to them. They pay cost themselves.

Business travellers must arrive for certain times so high cost flights are a necessity. They rate quality of service more highly than price. Speed of travel means no alternatives. The company pays the cost.

Level 3 (5-6 marks)

Candidate discusses elasticity of two groups.

Level 2 (3-4 marks)

Candidate applies influences to air travel.

Level 1 (1-2 marks)

Candidate knows influences on elasticity.

- 4 (a) How did the merger of Ryanair and Buzz affect competition in the airline industry? [3]

Target: to analyse the change in competition resulting from mergers.

There will be fewer firms (1), Ryanair and easyJet will be similar in size (1), bmibaby will be dwarfed (1), the market would seem to be less competitive (1). Fewer competitors at Stansted OR more competitive between new Ryanair and easyJet (1) stronger company (1) because of combined resources (1). Any three changes, although a comment may merit 2 marks.

- (b) Will this merger benefit airline passengers? Give reasons for your answer. [6]

Target: to evaluate the impact of mergers on consumer interests.

Less competition may mean less choice, higher prices, cutting of routes and more possibility of collusion. This seems unlikely at Stansted. Larger airlines may improve efficiency by cost cutting, economies of scale and the introduction of new routes.

Level 2 (4-6 marks)

Candidate discusses possible outcomes.

Level 1 (1-3 marks)

Candidate clarifies either benefits or drawbacks.

- 5 (a) With the help of Fig 7 and Fig 8 identify one example, in the airline industry, of each of the four factors of production. [4]

Target: to analyse the use of factors of production in the airline industry.

Capital	Aircraft, headquarters
Labour	Pilots, ground crew
Enterprise	Stelios H-I, O'Leary
Land	Airport site, HQ site

1 mark per example. Allow examples outside of data. Allow 1 mark for four factors.

- (b) Use Fig 8 to discuss whether British Airways or Ryanair is the more successful airline. [5]

Target: to compare the indicators of company performance.

Ryanair is more profitable, achieves a higher load factor, has a rising share price and has grown more rapidly. BA is larger (turnover, employees, fleet, passengers etc) but has fluctuating profits and a falling share price. Ryanair seems more successful in the short-run but is a long way from overtaking BA.

Level 2 (3-5 marks)

Candidate compares performance with a conclusion.

Level 1 (1-2 marks)

Candidate identifies relevant data.

- 6 (a) Compare the change in the exchange rates of £ against the \$ and the £ against the euro between 2001 and 2003. [3]

Target: to interpret exchange rate data.

The £ has strengthened against the \$ (1), by approx. 10% (1), the £ has weakened against the euro (1), by approx. 10% (1) OR from other currency perspective. 2 marks for changes. 1 Mark for reference to data.

- (b) Discuss why changes in the exchange rates have major effects on Ryanair's costs. [4]

Target: to assess the influence of exchange rate changes on airline costs.

Ryanair uses foreign currency to pay some costs (1). The particular changes will make \$ costs cheaper i.e. fuel and aircraft (1) and euro costs dearer i.e. airport fees (1). This will affect Ryanair's costs (1). Overall depends on size of impact (1).

- 7 (a) What is shown by a breakeven passenger load factor? [2]

Target: to show understanding of breakeven in airline context.

Breakeven means $TR = TC$ (1). This can be seen in terms of passengers as % of capacity (1).

- (b) Discuss why the trend shown in Fig. 10 is a problem for US airlines. [4]

Target: to interpret the significance of breakeven data.

The trend shows a move to a less than breakeven position (1). Losses are being made (1). Company may be bankrupt (1). New policy is needed (1).

- 8 (a) State two external costs caused by air travel. [2]

Target: to show knowledge of external costs.

Air pollution, noise, visual intrusion, traffic congestion (airports), lower property values, night flights. 1 mark per example.

- (b) To what extent did civil aircraft contribute to the pollution caused by transport between 1989 and 99? Give reasons for your answer. [6]

Target: to interpret the significance of airlines in air pollution.

Civil aircraft make a small (1) but rising (1) contribution to both forms (1). This is far less than road transport (1), or non-specified (1), which are falling (1). Not a large issue at present (1) but one which may grow (1). Any six of these aspects or additional comments.

- (c) Discuss one policy the government might introduce to reduce external costs caused by air travel. [5]

Target: to evaluate a policy to counter an external cost.

The government might introduce a tax on polluting aircraft, set maximum levels of pollution, subsidise less polluting aircraft or introduce pollution permits, night flights might be banned, and airport building might be restricted. Issues, which might be considered, are effectiveness, cost, opposition and side effects.

1 mark for stating method. 1 or 2 marks for its operation. 2 or 3 marks for comment on method.

1 mark for meaning of external cost (not essential).

- 9 Using the information from the case study and your knowledge of economics, discuss whether increasing air travel is good for the UK economy

In your answer, you could refer to international trade, tourism, employment and the standard of living. [14+2]

Target: to assess the impact of increasing air travel.

Benefits include greater trade, tourism, employment, mobility, standards of living, and economic growth and balance of payments effects. Drawbacks include various external costs, disruption and harm to environment and cultures. The position can be viewed from an individual, company or government position. The outcomes need to be explained and evaluated.

Level 4 (9-14 marks)

Candidate discusses the benefits and drawbacks of increasing air travel.

Level 3 (6-8 marks)

Candidate analyses the consequences of increasing air travel.

Level 2 (3-5 marks)

Candidate explains some effects of increasing air travel.

Level 1 (1-2 marks)

Candidate identifies some effects of increasing air travel.

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	(2)
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	(1)
Candidate fails to reach the threshold standard in all respects.	(0)

Mark Scheme 1985/3
June 2005

1 (a) Target: to compile fixed, variable and total costs schedules from data.

Fixed costs £	Variable costs £	Total costs £
1000	500	1500
1000	1000	2000
1000	1500	2500
1000	2000	3000
1000	2500	3500

2 marks for each totally accurate schedule, 1 mark where some inaccuracy. (Accept own figure for total costs.) **[6]**

(b) Target: to construct a break even chart.

1 mark for accurate fixed cost schedule, plus 1 mark for label.
 1 mark for accurate total cost schedule, plus 1 mark for label.
 1 mark for accurate total revenue schedule, plus 1 mark for label.
 (Accept schedules from candidate's own figures.)
 (Max 1 mark for labels when schedules are incorrect.) **[6]**

(c) Target: to identify break even output.

Two batches of cakes. **[1]**

(d) Target: to calculate average cost.

$£3000/4 = £750$ per batch (2 marks)
 $£750/200 = £3.75$ per cake (2 marks) **[4]**

(e) Target: evaluate the extent of benefits of a market economy.

Level 4 (7 – 8 marks)

Candidate makes a judgement which refers to both Jane and her customers.
 E.g. her customers will benefit because they will get variety and choice, low prices and good quality cakes. Jane may not benefit because she will need to reduce prices and therefore her profit in order to compete. (Also accept sound arguments that she will benefit.)

Level 3 (5 – 6 marks)

Candidate makes a judgement but may not consider both Jane and the customers.

Level 2 (3 – 4 marks)

Candidate applies knowledge to Jane's business.

Level 1 (1 – 2 marks)

Candidate demonstrates knowledge of possible benefits of competition. **[8]**

Total: [25]

- 2 (a) **Target: to explain shifts of the demand and supply curves, understand the market forces that determine equilibrium price.**

Level 3 (11 – 15 marks)

Candidate identifies both demand and supply factors applied well to the market, explains them with clear reasoned arguments and illustrates with complete, clearly labelled diagrams. Demand factors include changes in real disposable income; size and age structure of the population; price and availability of substitutes e.g. videos, DVDs home cinema; popularity of other leisure activities; quality of complementary goods particularly films on release; etc. Supply factors include costs of production e.g. wages, technological changes (especially the move to multi-screen cinemas which reduces average costs), new cinema building, possible changes in indirect taxation (VAT), etc. Candidates may refer to the inelastic nature of supply in the short run.

Level 2 (6 – 10 marks)

Candidate distinguishes between demand and supply factors, and explains examples with diagrams.

A maximum of 10 marks for those who show understanding but do not apply it to the cinema market.

A maximum of 7 marks for correct basic explanation with diagrams but with no reasons for changes in demand and supply.

A maximum of 10 marks where only the demand side OR the supply side is considered.

Level 1 (1 – 5 marks)

Candidate selects up to five factors that affect cinema visits or explains up to two factors. Diagrams may be present but errors preclude a level 2 mark.

Note: a level 1 answer may contain some valid material as well as significant analytical error.

NB in diagrams accept both normal and perfectly inelastic supply curves. **[15]**

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

[2]

(b) Target: to evaluate whether a firm can gain from economies of scale.

Level 3 (5 – 8 marks)

Candidate makes a judgement based on reasoned argument which is applied well to large firms operating large multi-screen cinemas.

E.g. the firm could gain from spreading its overheads over a large output in one cinema (such as ticket selling, advertising costs). It could gain financial economies with loans at favourable interest rates and/or the ability to issue shares to the public. It could gain managerial economies by employing experts in that field. It could gain risk-bearing economies by showing many films and switching between them depending on popularity. (Reward candidates who find an opposing valid argument e.g. justify why there may be diseconomies of scale.)

Level 2 (3 – 4 marks)

Candidate attempts to apply and analyse one or two economies of scale in the cinema market, e.g. it can buy popcorn in bulk and receive discounts.

Level 1 (1 – 2 marks)

Candidate applies one or two economies of scale to the cinema market.

[8]

Total: [25]

3 (a) Target: to calculate the budget balance.

£454bn - £429bn = £25bn deficit.

(1 mark for method.) Max 2 marks if deficit not stated or no minus sign.

Max 2 marks if billion omitted.

[3]**(b) Target: to explain a public good, with an example.**

2 marks for clear explanation, e.g. provides for a collective want but cannot be provided individually (reward explanation of free rider problem).

1 mark for some understanding shown.

1 mark for example from Fig. 3, i.e. defence or law and order.

[3]**(c) Target: to explain a reason/reasons for excise duties.**

Up to 3 marks for one reason developed or two reasons explained. E.g. the revenue reasons can be developed by consideration of inelasticity of demand, demerit good argument can be developed.

[3]**(d) Target: to understand and identify progressive and regressive taxes.**

2 marks for accurate explanation of each tax, i.e.

a progressive tax takes a greater percentage from a higher income

a regressive tax takes a greater percentage from a lower income

1 mark for each if some understanding shown, e.g.

a richer person pays more if a tax is progressive.

1 mark for example of each, i.e.

progressive accept income tax, national insurance, corporation tax.

Regressive tax accept excise duties, VAT.

[6]**(e) Target: to evaluate the taxing and spending policy of the government.****Level 3 (7 – 9 marks)**

Candidate demonstrates a high level of evaluation by considering both the tax and spending sides of the issue, weighs up some pros and cons and makes an overall judgement. Issues can include the benefits of more health and education services (merit good argument); possibility of extra spending not reaping extra benefits; the effects that tax rises can have which is dependent upon which taxes are raised, e.g. income tax rises could have adverse effects on incentives.

Level 2 (4 – 6 marks)

Candidate considers the tax and/or spending sides of the issue in analysis e.g. the health service needs more money to cut waiting lists/treat new diseases and people can afford to pay more income tax if their wages are rising.

Level 1 (1 – 3 marks)

Candidate applies the issue of increasing taxes to spending more on health and education, e.g. if we want better schools, more nurses, etc then taxes have to rise to pay for it.

[9]**Total: [24]**

- 4 (a) (i) **Target: to explain effects on consumers of a change in the exchange rate.**
2 marks for an answer which explains the effects on holiday makers or directly uses the data to answer.
1 mark if simply states a rise in prices. [2]
- (ii) **Target: to explain effects on firms of a change in the exchange rate.**
Their goods become cheaper in Italy (1 mark) so sales are likely to rise (1 mark). [2]
- (iii) **Target: to explain effects on the balance of trade of a change in the exchange rate.**
Exports are cheaper and likely to rise (1 mark).
Imports are dearer and likely to fall (1 mark).
The balance of trade is likely to improve (1 mark). [3]
- (iv) **Target: to explain effects on employment of change in the exchange rate.**
Employment is likely to rise (1 mark) as the volume of exports will rise (1 mark) and more workers required to produce the extra goods (1 mark) and the fall in imports will increase demand at home (1 mark). [3]
- (v) **Target: to evaluate effects on inflation of a change in the exchange rate.**
2 marks for explanation of the rise in import prices brought about by the fall in the £. Plus 2 marks for development e.g. increased cost-push effects now imported materials and components are dearer OR house prices rise because export demand rises. 2 marks for basic demand-pull explanation plus up to 2 marks for the development. [4]

- (b) **Target: to evaluate the relative advantages and disadvantages to the UK of adopting the Euro.**

Level 4 (8 – 10 marks)

Candidates make a judgement and weighs up the advantages and disadvantages to the UK, referring to groups in the economy.

Benefits could include reduced currency conversion costs for holidaymakers and greater ease of comparing prices and making buying decisions. Reduced costs for exporters and importers with knock on effects on employment and growth. The likelihood of more direct foreign investment into the UK as exchange rate uncertainty is removed, which will bring more jobs for workers. Disadvantages could include conversion costs to taxpayers and firms (changing the currency, vending machines, etc).

The loss of UK control over interest rates with various implications for the economy such as effects on employment, economic growth and the inflation rate. Regional implications of a European interest rate (one size does not fit all), could adversely affect firms and workers in less developed regions.

Level 3 (6 – 7 marks)

Candidate discusses advantages and disadvantages to the UK with limited evaluation.

Level 2 (3 – 5 marks)

Candidate analyses advantages/disadvantages identified.

Level 1 (1 – 2 marks)

Candidate identifies advantages and/or disadvantages to the UK.

[10]

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

[2]

Total: [26]

Mark Scheme 1985/4
June 2005

- 1 (a) Use Fig 1 to discuss whether the airline industry was in recession in 2001-2003. [4]

Target: to judge data on the state of the airline industry.

Financial losses (1), debt, falling traffic (1), job losses (1) and bankruptcies (1) suggest recession (1).

3 marks for evidence. 1 mark for a conclusion.

- (b) (i) Describe the change in the number of air passengers using UK airports from 1995 to 2020 shown in Fig. 2. [2]
- (ii) Explain possible reasons for the change. [5]

Target: (i) to describe trend and (ii) suggest reasons for change.

(i) The trend is continuously (1), upward (1), use of data (1). Max 2 marks.

(ii) Increased incomes leading to more leisure travel (2), globalisation increasing business travel (2), changing attitudes promoting wish to travel (2), cheaper flights widening prospective travellers (2) or other valid reasons.. Reasoned point scores (2) to max of 5.

- (c) Select one headline from Fig. 3. Explain, with the aid of a demand and supply diagram, its effect on the airline market. [6]

Target: to use supply and demand to analyse change within a market.

Demand will fall (1) because of fear of travel or lower activity or income (1) depending upon choice. Diagram axes (1), original D&S curves (1). New D curve (1). New price or quantity (1). Allow other reasonable interpretations.

- 2 Using Fig. 4 and Fig. 5, discuss how traditional airlines might respond to competition from the low-cost airlines. [10+2]

Target: to evaluate the methods available to respond to competitive pressure.

Possible ideas include imitate rivals, non-price competition, reduce costs, diversify or seek to command particular market sectors. One method may be sufficient although candidates will probably offer more than one. Either approach can gain full marks.

Level 4 (7-10 marks)

Candidate evaluates effectiveness of response to threat.

Level 3 (5-6 marks)

Candidates analyses operation of response to threat.

Level 2 (3-4 marks)

Candidate suggests methods to combat threat.

Level 1 (1-2 marks)

Candidate recognises nature of threat from low-cost airlines.

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	(2)
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	(1)
Candidate fails to reach the threshold standard in all respects.	(0)

3 (a) What is meant by price elasticity of demand? [2]

Target: to show knowledge of price elasticity of demand.

PED is a measure of the responsiveness of quantity demanded to a change in the price of the product.

Precise meaning or accurate formula 2 marks, general idea 1 mark.

(b) Discuss why leisure travellers have a more price elastic demand for air travel than business travellers. [6]

Target: to explain factors affecting price elasticity of demand.

Meaning of more price elastic (1).

Leisure travellers have more freedom to use alternative transport (e.g. rail). They can vary their travel times. Cost is more important to them. They pay for themselves.

Business travellers must arrive for certain times so high cost flights are a necessity. They rate quality of service more highly than price. Speed of travel means no alternatives. Companies pay the cost.

Level 3 (5-6 marks)

Candidate discusses elasticity of two groups.

Level 2 (3-4 marks)

Candidate applies influences to air travel.

Level 1 (1-2 marks)

Candidate knows influences on elasticity.

(c) Is it reasonable that airlines charge different fares for return flights from London to Glasgow? Give reasons for your answer. [6]

Target: to examine the airlines' pricing structure.

Fares vary according to time and length of travel. They also relate to different airports. Charges reflect levels of demand, nature of service, profit levels and costs of provision.

Level 3 (5-6 marks)

Candidate discusses basis of differential fares

Level 2 (3-4 marks)

Candidate analyses influences on fares.

Level 1 (1-2 marks)

Candidate recognises variations in fares

- 4 (a) How did the merger of Ryanair and Buzz affect competition in the airline industry? [3]

Target: to analyse the changing structure resulting from mergers.

There will be fewer firms (1), Ryanair and easyJet will be similar in size (1), bmibaby will be dwarfed (1), and the market would seem less competitive (1). Fewer competitors at Stansted OR more competitive between new Ryanair and easyJet (1) stronger company (1) because of combined resources (1). Any three changes, although a comment may merit 2 marks.

- (b) Will this merger benefit airline passengers? Give reasons for your answer. [6]

Target: to evaluate the impact of mergers on consumer interests.

Less competition may mean less choice, higher prices, cutting of routes and more possibility of collusion. This seems unlikely at Stansted. Larger airlines may improve efficiency by cost cutting, economies of scale and the introduction of new routes.

Level 2 (4-6 marks)

Candidate discusses possible outcomes.

Level 1 (1-3 marks)

Candidate clarifies either benefits or drawbacks.

- 5 Michael O'Leary wants Ryanair to become bigger than British Airways. How successful has Ryanair been in achieving this target? [6]

Target: to evaluate the achievement of a non-profit motive.

Evidence in support includes higher profits and higher stock exchange value. More usual measures employees, capital equipment, turnover and passengers favour BA. Conclusion that Ryanair has made some very limited progress.

Level 3 (5-6 marks)

Candidate gives reasoned conclusion on relative size.

Level 2 (3-4 marks)

Candidate analyses size relevant data.

Level 1 (1-2 marks)

Candidate identifies differences in data.

- 6 For the period 2001 to 2003, explain how the changes in the exchange rate of the £ against
- the euro and
 - the \$ might have affected Ryanair. [8]

Target: to analyse the significance of exchange rate changes to an airline.

The £ strengthened against the \$ and weakened against the euro. The weakening \$ makes costs (fuel and aircraft) cheaper to help Ryanair. It may make alternative travel to USA (not Europe) more attractive hurting Ryanair. A stronger euro increases costs at European airports, which is unhelpful but may encourage Europeans to fly to UK, so raising revenue.

More expensive holidays in Europe may deter customers.

Level 3 (7-8 marks)

Candidate analyses benefits and drawbacks of changes in different cases.

Level 2 (4-6 marks)

Candidate analyses benefits or drawbacks of changes.

Level 1 (1-3 marks)

Candidate understands exchange rate movements.

- 7 Use Fig. 10 to discuss the importance for US airlines of the changes in the breakeven passenger load factor. [6]

Target: to judge the importance of airline passenger levels for profitability.

Pre 2001 US airlines were achieving better than breakeven. Post 2001 they were not breaking even. This requires more passengers or cost cutting to return to profit.

Level 3 (5-6 marks)

Candidate deduces need for action to achieve profit.

Level 2 (3-4 marks)

Candidate applies breakeven concept to data.

Level 1 (1-2 marks)

Candidate understands breakeven in this context.

- 8 (a) To what extent did civil aircraft contribute to the pollution caused by transport between 1989 and 99? Give reasons for your answer. [6]

Target: to interpret the significance of airlines in air pollution.

Civil aircraft make a small (1) but rising (1) contribution to both forms (1). This is far less than road transport (1), or non-specified (1), which are falling (1). Not a large issue at present (1) but one which may grow (1). Any six of these aspects or additional comments.

- (b) Discuss one policy the government might introduce to reduce external costs caused by air travel. [5]

Target: to evaluate a policy to counter an external cost.

The government might introduce a tax on polluting aircraft, set maximum levels of pollution, subsidise less polluting aircraft or introduce pollution permits, night flights might be banned, and airport building might be restricted. Issues which might be considered are effectiveness, cost, opposition and side effects.

1 mark for stating method. 1 or 2 marks for operation. 2 or 3 marks for comment on method.

1 mark for meaning of external cost.

- 9 Using the information from the case study and your knowledge of economics, discuss whether the UK government should encourage the growth of air travel. [15+2]

Target: to discuss the benefits and drawbacks of increased air travel with the emphasis on the UK government's perspective.

Air travel promotes trade and mobility. It creates employment in airlines, airports, aircraft manufacture and servicing and tourism, it encourages economic growth, it raises standards of living for some and may help the balance of payments for some countries. Against this it creates negative externalities (air pollution, noise, visual intrusion and airport traffic congestion) and it may contribute to unwelcome cultural and environmental change. Government may consider its impact in terms of its macro targets but also the need to prevent market failure.

Level 4 (10-15 marks)

Candidate discusses the role of government in regulating increased air travel.

Level 3 (7-9 marks)

Candidate analyses impact of increased air travel.

Level 2 (4-6 marks)

Candidate applies effects of increased air travel to impact on UK.

Level 1 (1-3 marks)

Candidate identifies some effects of increased air travel.

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	(2)
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	(1)
Candidate fails to reach the threshold standard in all respects.	(0)

Report on the Units June 2005

Chief Examiner's Report

GCSE Economics (1985)

General Comments

This was the third examination session for the 1985 specification. The relatively small entry for this examination has unfortunately declined a little further, to 1349 candidates this session. The general standard is a high one, with 80.5% of entries being for the higher tier. The vast majority of candidates were entered for the appropriate tier, although there was at least one Centre where all were entered for a tier that was obviously unsuitable. There were a very small number of candidates on foundation tier who may have achieved a higher grade if entered for the higher tier.

Papers 1 and 3 are in the form of question and answer booklets. Additional lined pages are given at the back of these for candidates to extend any of their answers should they wish to do so. Many take this opportunity. However, in many cases, as in previous years, **candidates fail to notify the examiner that their answer is continued at the back of the booklet.** Teachers are urged to tell their candidates the importance of this. A simple 'see page 15' or 'cont. at back' will do! Please note that next year the total mark for each of paper 2 and 4 will be reduced to 80 marks. Candidates will be given a question and answer booklet for these papers.

GCSE Economics (1985/01)

General Comments

Most candidates were able to display some breadth of knowledge and understanding on this paper, and a reasonable ability to analyse and evaluate within some questions. However, it was apparent that in many cases candidates were more confident with the micro rather than macroeconomic questions. Overall question 1 was answered the most successfully, and parts of question 3 and question 4 caused the most problems. Whilst some weaker candidates did not attempt all parts of questions, the majority were able to attempt all parts of all questions. The quality of written communication was assessed within two questions and nearly all candidates achieved at least half marks for this component.

Comments on Individual Questions

- 1 This presented a table of costs for a small cake-producing business.
- a Candidates were asked to complete the table and most did this successfully, with fixed costs at £1000, variable costs £1500, total costs £3000 and total revenues £5000 for the missing values.
 - b Candidates were then asked to plot fixed and total costs and total revenue on the axes provided. Many did this completely correctly, although some inaccuracies were quite common (often failing to plot between zero and one unit). In this worst cases candidates drew histograms.
 - c The break-even output of two batches of cakes was identified by most candidates although there were quite a few wrong suggestions.
 - d Examiners accepted a wide range of fixed costs for this answer. However, there were too many suggestions which were definitely not fixed costs such as the ingredients for the cakes. A vague 'taxes' was also sometimes given.
 - e Candidates were asked to calculate the price of each cake and most arrived at the correct answer of £5.
 - f Candidates were then asked to suggest how many batches should be produced and why; five batches being the most profitable. Although this was stated and quite often justified, there were a lot of other answers; often suggesting that just breaking even would be the best for the business.
 - g Two business objectives other than making a profit were asked for. This was poorly answered. Standard objectives such as survival (break-even accepted) and growth are required.
 - h Candidates were asked how the business would be affected by new competition. This was well answered with a lot of candidates achieving all four marks.
- 2 The data was in the form of a bar chart showing the trend in cinema tickets over six decades.
- a Most candidates were able to describe the trends for both marks.
 - b Most candidates recognised that the price would fall and the quantity sold would

Report on the Units taken in June 2005

- rise. The most common errors included the failure to draw a new supply curve on the diagram, or shifting supply to the right, or drawing a new demand curve.
- c There were a wide variety of answers to this question, which required a diagram and an explanation. A very common error was to shift both the demand and the supply curves. Nevertheless, most candidates picked up marks on this question.
- d Candidates were asked to discuss the factors which affected the demand for cinema tickets. This was, overall done well, although of course some answers were more thorough than others. Factors suggested included the alternatives available such as DVD's and pirated films, incomes, teenage population, etc, as well as price itself.
- 3 The data was in the form of pie charts showing government taxation and spending.
- a While many candidates named two deductions from wages, and most named income tax as one of these, there were a lot of incorrect suggestions for taxes on spending amongst the correct answers. VAT was the most frequent correct answer. Very few answers named both taxes which provide income for local government, although good numbers of candidates did name council tax. The data showed which taxes collect the most revenue so most answers were correct.
- b Any two social security benefits were acceptable, but too many answers gave other items of government spending such as education and health. In fact, the majority of candidates failed to achieve marks here.
- c Candidates were asked to explain progressive and regressive taxes with examples. This was not well answered on this tier, with a lot of candidates seeming to be unfamiliar with these terms. Of those who did recognise the terms, most talked in terms of the amount of tax taken, rather than the proportion or the rate of tax.
- d Should the government tax more to spend more on health and education? There were a wide variety of answers, nearly all containing some comments of worth. The best answers considered both the taxation and spending side of the issue.
- 4 The table compared the change in prices for holidaymakers in five countries.
- a Nearly all candidates stated that car hire was most expensive in Italy.
- b Most candidates were able to accurately calculate the rise in price of £1.46.
- c Most candidates achieved both marks for interpreting the information.
- d(i) Most candidates named the USE as the country without the euro, although there were other suggestions.
- (ii) Most answers interpreted the data correctly, although many candidates could have made more use of the data than to simply state that prices had risen.

Report on the Units taken in June 2005

- (iii) These questions concerned the effects of the fall of the pound. There were a wide variety of answers. Weaker answers stated that exporters would receive less money. To do well on these questions it is vital that candidates understand that exports will be cheaper in the foreign markets and imports dearer in the UK.
- (iv)
- e This concerned the issue of whether the UK should adopt the euro. Most candidates seemed well aware of this issue and a wide variety of arguments were presented. Some of the weaker answers confused the euro issue with the wider issue of EU membership. Others gave answers such as not having to change money without explaining the advantages. Better answers referred to time and the money costs of changing currencies to holiday makers and firms. Issues such as transparency and certainty, changeover costs and loss of interest rate policy were present in some answers.

GCSE Economics (1985/02)

General Comments

Candidates were able to show economic understanding and data handling skills to varying degrees. All candidates produced some sections which scored well. The longer discursive questions threw up, as might be expected, the most problems with candidates struggling to construct arguments. Generally, the interpretation of numerical data was sound. The inclusion of the supply and demand diagram was also done well. Few candidates failed to convey their meaning in an acceptable way. Some candidates had gaps in their knowledge which resulted in the omission of particular sections, although no general pattern emerged. A small number of candidates scored very high marks and would probably have gained a better grade on the higher level.

Comments on Individual Questions

- 1 a Most candidates were able to select relevant data on the state of the airline industry. Some, however, omitted to give a clear conclusion based on the data.

 b(i) The growth in air passenger use was recognised. The absolute change in the numbers was often given to support the recognition, some simply repeated the data.

 (ii) While influences such as higher incomes and cheaper flights were suggested, only the better answers explained how these affected demand. Candidates need to avoid listing points.

 c Candidates were familiar with demand and supply diagrams and were able to use one correctly here. Some of the diagrams might have been presented more accurately. A small number of candidates made the error of moving the supply curve after offering a demand change analysis.
- 2 This was not well-done. There was excessive copying of the data in making a simple comparison of the advantages and disadvantages of low-cost airlines. The better answers considered the circumstances of air travellers, which would make one or the other a better proposition. Points about income, destination and purpose of travel scored well.
- 3 a (i-iv) Nearly all candidates scored three or four marks. The lost mark was from carelessness, when candidates gave the price rather than the timing of the most expensive journey for (iii).

 b Although some candidates were able to offer a precise definition, many were not very exact and seemed to be trying to formulate the definition in the exam.

 c Candidates showed some appreciation of the influences on price elasticity of demand. There were mentions of the necessity of travel, the ability to choose alternatives and who would pay the cost. Frequently only one of the influences was considered, despite six marks being available.
- 4 a There was a tendency to assert the outcome without using the data to justify the conclusion. Some answers pointed out the reduced number of competitors and the increased competitive strength of Ryanair to gain full marks.

Report on the Units taken in June 2005

- b Most answers were one-sided, seeing only advantages or drawbacks. There were mentions of economies of scale and the need to compete on the one hand and the reduced number of competitors on the other. The impact on price or choice was the usual focus. The better answers suggested either outcome was possible depending on the companies' approaches.
- 5 a This was surprisingly poorly done. Many candidates had no clear idea of the factors of production and some omitted the question. Those who were familiar with the concept struggled to pinpoint enterprise.
- b There were some competent answers with good use of the data. Profit levels and share prices were identified and comments on relative efficiencies were supported with manipulation of the data.
- 6 a The changes in the exchange rates were usually correctly identified, although few candidates gained the third mark for comparing the amount, as opposed to the direction of change. Unfortunately, some answers reversed the direction.
- b Candidates were familiar with the effects of exchange rate changes and there were some good answers, correctly showing cost rises and falls. Some who knew the effects failed to apply them to the case and left the answer in the abstract.
- 7 a Answers here tended to be unable to get away from the term 'breakeven' to clarify what it means. This meant that the answers were almost a rewording of the phrase. Only a few candidates referred to total costs and total revenue.
- b Many candidates were able to set up the question by recognising the move from profit to loss. The next step to consider bankruptcy or the introduction of corrective policies was taken only in the better answers.
- 8 a There was great reliance on the data for the answer here. Nitrogen oxide and carbon monoxide emissions were only awarded one mark. Two marks went to those candidates who added another cause to air pollution. Noise and the destruction of countryside were suggested. A few answers gave private rather than external costs.
- b The candidates who scored best got away from repeating the data. This involved recognising the magnitude and direction of the different contributors to pollution. Those who recognised this gained good marks.
- c While most candidates could name a policy, such as tax on travel or fuel, and indicate how it worked, very few considered how effective it might be. This meant that responses tended not to get above two marks.
- 9 Candidates were often running short of time when they reached the last question. They were inclined to stay very close to the data and much copying resulted. The stronger answers attempted to show both benefits and drawbacks and to discuss why they should be welcomed or discouraged. Candidates did take up the guidelines offered in the question. Generally, the marks scored were quite low, although the occasional candidate wrote an impressive answer.

GCSE Economics (1985/03)

General Comments

The great majority of candidates were able to demonstrate a sound knowledge and understanding of economic concepts and apply them appropriately in order to achieve a good grade. Performance overall was particularly good on question 1, while for some candidates question 4 caused the most problems. There seems to be a tendency once again for candidates to have a greater understanding of micro than macroeconomics, although there were many good candidates who demonstrated strong understanding of the macroeconomic issues in question 4. Weaker candidates did get muddled on the demand and supply analysis question. There were a few candidates who did not attempt to answer some parts of the questions, but the large majority were able to attempt all parts of all questions. There were signs that some were subject to a time constraint and had to rush or did not finish part of question 4; although others chose to write a lot of extended answers in the lined pages at the back of the booklet.

The quality of Written Communications was assessed within two questions and, this year, many candidates achieved maximum marks for this.

Comments on Individual Questions

- 1 This presented a table of costs for a small cake-producing business.
 - a Candidates were asked to complete the table for fixed costs, variable costs and total costs, and most did this successfully.
 - b Candidates were then asked to plot fixed and total costs and total revenue on the axes provided. Many did this completely correctly, although some inaccuracies were present. Occasionally the fixed cost schedule was missing.
 - c Most candidates identified the break-even output of two batches of cakes.
 - d Candidates were asked to calculate the average cost of producing one cake. The majority were able to calculate £3.75. Some only went as far as calculating £750 per batch.
 - e There were many competent answers to this question concerning the extent of benefits of competition, most achieving the higher mark bands. The most common omission was to fail to address the issue of the extent to which the business owner would benefit.
- 2 The data was in the form of a bar chart showing the trend in sales of cinema tickets over six decades.
 - a This was a high tariff question asking for explanation, with diagrams, of demand and supply factors which could cause prices of cinema tickets to change over time. A wide range of responses was the result.

Candidates with a level 1 mark were able to identify some relevant factors but were unable to use economic analysis to explain or illustrate correctly the effect on price and sales. Diagrams were often incomplete or muddled. Sometimes factors which affect demand were confused with those affecting supply. Some candidates thought that a change in price alone would shift a demand or supply curve. Some considered the factors affecting the demand for individual films and not the overall cinema market. Fortunately, most candidates went beyond a level 1 answer.

Those in level 2 were able to demonstrate a reasonable level of understanding, although often with some omission or confusion. Diagrams from candidates at this level were usually correct, although sometimes their explanation did not quite match up to the diagram in the way intended. Another problem was the failure to refer to the effect on price and sales in the explanation, and/or analysis which made no reference at all to the diagrams presented. Some candidates, at this level, were able to identify standard demand and supply factors but with poor application to the housing market. Standard supply factors such as costs, technology and indirect taxes were often missing from level 2 answers.

Answers of level 3 standard had both clear diagrams and explanations which showed and explained the effects on price and sales. Some of these had just two demand factors. Candidates, at this level, were expected to apply the factors successfully; for example, on the demand side discussing prices and availability of substitutes in the form of DVD's, pirated films and other forms of leisure activity, quality of the complementary films, and particular demographic changes.

- b This asked for a discussion of the extent to which a large cinema firm would gain from economies of scale. There were those candidates who thought it was some kind of trick question, and because the firm did not manufacture, there was little scope for economies. A lot of candidates did show a strong knowledge of economies of scale, but limited their mark by a failure to apply to the question; for example talking vaguely about 'machinery' or 'materials'. These candidates were able to produce 'set answers' which limited the mark awarded. The best answers applied economies of scale successfully to the firm in the question; for example, purchasing economies were gained by buying popcorn in bulk. Suggestions of any diseconomies which may arise also rewarded candidates.
- 3 The data was in the form of pie charts showing government taxation and spending.
- a Most candidates were able to calculate the budget deficit of £25 billion. There were a few who failed to note the deficit. Although it was not penalised this time, far too many candidates omitted the £ sign.
 - b This asked for a public good to be named and explained. There were a wide variety of answers. A lot of candidates incorrectly named merit goods, especially health and education. Others put street lighting which could not be accepted because the question specifically asked for an example named in Fig. 4. The best answers named defence or law and order and gave clear explanations. Candidates from many Centres used technical terms which, although not necessary at this level, are quite acceptable!
 - c This was very well answered indeed. Most candidates explained the demerit good argument for high tobacco tax. Others chose the revenue argument.
 - d Candidates were asked to explain progressive and regressive taxes with examples. This was quite well answered on this tier, with most candidates choosing income tax as progressive and VAT as regressive. There were some, however, who 'hedged their bets' with a list of examples some which were incorrect. A lot of candidates failed to attain all of the marks by not giving wholly accurate explanations. Those that did well explained what happened to the proportion or percentage of income taken in tax, not simply the amount.

Report on the Units taken in June 2005

- e Should the government tax more to spend more on health and education? There were a wide variety of answers, nearly all containing some comments of worth. On the whole, candidates on this tier did well on this question, although there was a lot who did not consider both sides of the issue. The best answers considered both the taxation and spending side of the question.
- 4 The table compared the changes in prices with holidaymakers in five countries.
- a(i) Most candidates interpreted the data correctly, although many could have made more use of the data than to simply state that prices had risen.
 - (ii) Parts (ii), (iii), (iv) and (v) concerned the effects of a fall in the value of the pound. For (ii) most recognised that the exports would be cheaper in Italy and sales would rise. Weaker answers stated that exporters would receive less money. While many candidates achieved full marks for (iii), quite a lot omitted to state the overall effect on the balance of payments. Candidates who did well on this also tended to do well on (iv), explaining the effect on employment. The effects on inflation asked in part (v) brought a wide variety of responses. Many of these explained a likely demand-pull effect; other candidates chose a cost-push explanation. Clear explanations of either were rewarded. Some candidates, however, were unable to provide any link in between exchange rate changes and inflation.
 - (iii)
 - (iv)
 - (v)
- b This concerned the topical issue of whether the UK should adopt the euro. Most candidates seemed well aware of this issue and a wide variety of arguments were presented. Some of the weaker answers confused the euro issue with the wider issue of EU membership. Some discussed the disadvantages of losing a 'strong pound' without attempting to explain why this would be a problem. Others gave answers such as not having to change money without explaining the advantages. Better answers referred to time and the money costs of changing currencies to holiday makers and firms. Issues such as transparency and certainty, changeover costs and loss of interest rate policy were present in many answers on this tier. A lot of candidates chose to write at some length, although some of the best arguments were concise.

GCSE Economics (1985/04)

General Comments

There is much to be admired in the way that the candidates coped with a demanding case study. The understanding of economic ideas and the ability to apply them in a current context was very sound. The handling of numerical data was also encouraging. There were some signs of difficulty in allocating time to cover all sections adequately. This should be helped by the introduction of the new format for the question paper, and reduced mark allocation (80 marks in total) for the June 2006 examination. There are, as always, some issues which individual candidates need to address. Principal among these are:

- the need to relate the time spent on a question to its mark tariff
- the need to interpret and manipulate data; rather than copy it
- the need to explain rather than assert ideas
- the need to consider how an issue might be 'discussed'
- the need to follow the precise focus of the wording of the question.

Awareness of these issues should help candidates to improve their performance.

The Quality of Written communication was sound but offered little to lighten the examiner's burden, although the notion of a 'no thrills' airline caused pause for thought!

Comments on Individual Questions

- 1 a Most candidates gained full marks by stating that it was a period of recession for the industry and by selecting supporting evidence from the data.
- b(i) The increase in numbers using UK airports was identified. This was usually accompanied by a reference to either the absolute change or the slowing in the rate of change. Either was equally acceptable. The term 'steady' for the increase was not accepted and direct copying of the data was not given the second mark.
- (ii) A wide range of possible influences was identified. The most common were changes in income, flight availability and attitudes. At least two of the suggestions needed to be explained to gain full marks. Some answers stopped at a list.
- C While the headlines were originally intended to elicit a demand side answer, some candidates were more sophisticated than this and made valid supply side interpretations. It was necessary to give a clear statement of the direction of change with a justification. Diagrams were for the most part well-drawn, although current practice seems to be to prefer P and Q to price and quantity on the axes. Full marks were awarded for an explanation of one possible change.
- 2 This was a rather disappointing section. Relatively few candidates reached the top level. This was the result of relying solely on the data and copying parts of it. The better answers introduced some additional policies but more importantly considered how well they might work (discuss). Significant numbers suggested that traditional airlines might introduce the type of features that they already supply.
- 3 a The definition was known accurately and was often accompanied by the formula. As ever some candidates reversed the causation.

- b Although all of the possible influences were mentioned at some point, it was unusual to find comprehensive treatments by any one candidate. Few also established a precise meaning for price elastic demand. The commonly mentioned influences were: the existence of substitutes, the degree of necessity and the income of the purchaser. The section was, on the whole done competently.
 - C Most candidates thought price differences were justifiable in terms of the operation of market demand, profit maximisation and cost differentials. Those who argued against the differences mentioned unfairness for those who were not in a position to exercise any choice. A small number of candidates misinterpreted the question and considered a price difference for the return section of the journey.
- 4
- a Candidates interpreted the question not just in terms of the competitive structure of the market but also in terms of the competitive strength of the surviving firms. Both were accepted as valid approaches. However time might have been saved had candidates read both sections of the question before starting their response, so avoiding the use of ideas more suited to the subsequent section.
 - b The better answers considered both beneficial and harmful outcomes. Economies of scale and competitive pressure were suggested as leading to better service and lower prices, while collusion and diseconomies were proposed as harmful. Surprisingly, many answers stated that the merger had produced more aircraft and routes to the benefit of customers. Occasionally consideration was given to the loss of favourable characteristics of Buzz as it became part of Ryanair. Sound marks were scored.
- 5
- Most candidates offered a clear conclusion, usually in favour of Ryanair's performance, and supported this with reference to profit levels and stock market value. This was usually contrasted to BA's turnover, passenger and aircraft numbers. Some answers lost the focus on achieving greater size and wrote more towards aspects of efficiency, such as passenger load factor and financial progress, such as share price. This was a less relevant approach. Long descriptions of the data did not score well unless the relevance of the measures was brought out. Michael O'Leary seems to have enjoyed a good press!
- 6
- There was usually correct recognition of the change in the international value of sterling against the other two currencies. This was followed through to analyse the significance for the costs mentioned in the article. This provided competent and knowledgeable answers. Better answers then related this to the profit position of Ryanair or tried to balance the impact of the contrary influences or considered wider implications for passenger revenue. Weaker answers either confused the direction of change or failed to make it clear how they thought the currency had changed.
- 7
- Few candidates identified the meaning of breakeven, although they understood that the position for US airlines involved a loss. Only the best scripts considered the need for policies to check the trend.
- 8
- a Candidates handled the data confidently. They recognised the small but growing contribution of aircraft pollution and contrasted this to the position of car pollution. Some went on to suggest concern about the future significance of

aircraft pollution.

- b This was not as well done as might have been expected. A range of policies was considered, including taxation, pollution permits and flying restrictions. While it was common for candidates to show how these worked to reduce pollution, very few went on to judge their effectiveness. As a result the award of full marks was rare. Some candidates tried to sneak in more than one policy despite the wording of the question. Some answers on pollution permits were impressive.
- 9 The final answer suggested that candidates were under time pressure in completing the paper. There were only a limited number of outstanding answers, although most were competent. There was a lot of copying of the data in a fairly indiscriminate manner. The central issues needed to be extracted and viewed in terms of the macro and micro policy targets of the government, with some evaluation of the policy. The better answers made a case in which the benefits of employment, growth and rising living standards were set against pollution, potential balance of trade effects and dependency issues. Most candidates favoured the encouragement of the growth of air travel.

**General Certificate of Secondary Education
Economics (1985)
June 2005 Assessment Session**

Component Threshold Marks

Component	Max Mark	A	B	C	D	E	F	G
1	100			66	57	49	41	33
2	100			55	46	37	29	21
3	100	81	66	51	39			
4	100	66	57	49	39			

Specification Options

Foundation Tier

	Max Mark	A*	A	B	C	D	E	F	G
Overall Threshold Marks	200				119	102	86	70	54
Percentage in Grade					34.2	38.5	16.5	7.3	3.1
Cumulative Percentage in Grade					34.2	72.7	89.2	96.5	99.6

The total entry for the option was 258.

Higher Tier

	Max Mark	A*	A	B	C	D	E	F	G
Overall Threshold Marks	200	163	145	122	100	78	67		
Percentage in Grade		6.7	19.9	32.1	25	12.7	1.6		
Cumulative Percentage in Grade		6.7	26.6	58.7	83.7	96.4	98.0		

The total entry for the option was 1091.

Overall

	A*	A	B	C	D	E	F	G
Percentage in Grade	5.5	16.1	26	24.6	15.3	4.9	3.1	2.0
Cumulative Percentage in Grade	5.5	21.6	47.6	72.2	87.5	92.4	95.5	97.5

The total entry for the examination was 1349.

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Information Bureau

(General Qualifications)

Telephone: 01223 553998

Facsimile: 01223 552627

Email: helpdesk@ocr.org.uk

www.ocr.org.uk

For staff training purposes and as part of our quality assurance programme your call may be recorded or monitored

Oxford Cambridge and RSA Examinations
is a Company Limited by Guarantee
Registered in England
Registered Office; 1 Hills Road, Cambridge, CB1 2EU
Registered Company Number: 3484466
OCR is an exempt Charity

OCR (Oxford Cambridge and RSA Examinations)
Head office
Telephone: 01223 552552
Facsimile: 01223 552553

© OCR 2005



INVESTOR IN PEOPLE

