

Mark Schemes for the Components

June 2006

1985/MS/R/06

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General Certificate of Secondary Education

Economics (1985)

MARK SCHEMES FOR THE COMPONENTS

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Mark Scheme 1985/01
June 2006

- 1 (a) **Target: to name factors of production.**
1 mark for each factor. Two from land, labour, capital, enterprise.
Accept raw materials and workers. [2]
- (b) **Target: to understand scarcity.**
1 mark for some understanding, e.g. not enough available.
2 marks when in context of unlimited human wants. [2]
- (c) **Target: to interpret a production possibility curve.**
(i) 150 million (accept 150).
(ii) none/zero. [2]
- (d) **Target: to interpret a production possibility curve.**
1 mark if recognises private goods and services are foregone.
2 marks if specifies 100 million private goods and services. [2]
- (e) **Target: to identify public goods and merit goods.**
Public: either defence or street lighting.
Merit: either education or health and care. [2]
- (f) **Target: to interpret a production possibility curve.**
1 mark for stating that more could be produced/ not on PPC.
2 marks where some specific reference to the data, e.g. 100m more private goods are possible. [2]
- (g) (i) **Target: to represent economic growth diagrammatically.**
1 mark for each axis labelled (with any two products).
1 mark for shift in the curve to the right.
NB accept a curve with larger quantities on the axes than Fig. 1. [3]
- (ii) **Target: to understand the methods of achieving economic growth.**
1 mark for each method identified, plus one mark for each explanation.
Also accept 1x1 + 1x3 where explanation worth 3 marks.
Methods could include more investment in capital, developing a natural resource, improving education and training, increasing productivity, inward investment, free trade, more exports, demand-side policies. 1 mark for employing more workers. [4]
- (h) **Target: to evaluate the effects of growth.**
Benefits include more private goods / higher material living standards, more employment opportunities, more public services, improved health, literacy, etc.
Costs may include various forms of pollution, environmental damage, congestion, possible inflation etc.

Level 3 (5-6 marks)

Candidate makes a judgement based on reasoned argument.

Level 2 (3-4 marks)

A good discussion of either costs or benefits.

Level 1 (1-2 marks)

Benefits and/or costs of growth are explained.

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

[6+2]

Total [27]

- 2 (a) (i) **Target: to select from data.**
UK. [1]
- (ii) **Target: to calculate using economic data.**
Germany (3 marks).
24p x 3 = 72p (2 marks). Up to 2 marks for correct method but incorrect answer. [3]
- (b) (i) **Target: to name a tax on petrol.**
VAT or excise duties (accept duty). [1]
- (ii) **Target: to evaluate whether high petrol taxes are justified.**
Arguments for include those based on the demerit good arguments and revenue raising.
Those against include the equity issue (fairness).
- Level 3 (5-6 marks)**
Draw conclusions based on reasoned argument.
- Level 2 (3-4 marks)**
A good but one-sided discussion.
- Level 1 (1-2 marks)**
Arguments for/against high taxation presented. [6]
- (c) **Target: to understand how an indirect tax affects supply, price and sales in a market.**
- (i) 1 mark for supply curve to right.
1 mark for new equilibrium price.
1 mark for new equilibrium quantity.
(Accept candidate's own equilibrium for 2 marks.) [3]
- (ii) 1 mark for stating price falls.
1 mark for stating quantity sold rises. [2]
- (d) **Target: to plot on a graph a fall in supply and explain the effects on price and sales.**
For one mark each:
Correctly labelled axes (p/q acceptable)
Supply curve shifting to the left
New correct equilibrium position labelled
Stating supply has fallen
Stating the rise in price
Stating the fall in sales. [6]

(e) Target: to identify and discuss factors which influence the demand for a product.

Any of the standard conditions of demand could be referred to including incomes, population (age structure), prices of complements (cars, etc.), availability of substitutes (electric cars etc), tastes and preferences, etc. Accept also that price influences the quantity demanded. Answers must be applied to petrol market.

Level 3 (7-10 marks)

Evidence of evaluation, having justified factors as being relevant to demand in this market.

Level 2 (4-6 marks)

Relevant factors applied and discussed.

Level 1 (1-3 marks)

Up to three factors identified or one or two factors briefly applied.

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

[10+2]

Total [34]

- 3 (a) **Target: to identify a firm's objectives.**
Any two from:
Profit
Growth/expansion/higher sales/turnover
Market share/ less competition/ more monopoly power.
(accept greater economies of scale). [2]
- (b) (i) **Target: to evaluate benefits to people in the local community.**
Those who will be employed by the firm will benefit in terms of jobs and incomes. Shoppers will benefit in terms of variety and choice and probably lower prices. Award marks for costs to residents.
- Level 2 (3-4 marks)**
An evaluative answer in which those who benefit are clearly established.
- Level 1 (1-2 marks)**
One or two benefits are presented. [4]
- (ii) **Target: to evaluate costs to people in the local community.**
Local entrepreneurs may lose customers and could lose their businesses, e.g. grocers, bakers.
Nearby residents could suffer from traffic congestion and pollution (24 hours).
Award marks for possible benefits to people.
- Level 2 (3-4 marks)**
An evaluative answer in which those who suffer are clearly established.
- Level 1 (1-2 marks)**
One or two disadvantages are presented. [4]
- (c) **Target: to understand the benefits to a firm of locating within the EU.**
Benefits include access to the single market without any restrictions on exports to other member countries. Accept also lower transport costs to European countries. Free movement of factors of production.
Award all three marks for one reason well explained or for two reasons given. [3]
- (d) **Target: to explain two factors affecting the location of a business.**
Reasons could include government financial aid, lower labour costs, skilled workers, large market within the UK, suitable greenfield site with low costs, close to suppliers.
1 mark for each reason identified plus one mark for each explanation. [4]
- (e) **Target: to identify two countries which use the euro.**
Any two from France, Germany, Spain, Portugal, Belgium, Holland, Luxembourg, Austria, Greece, Italy, Finland, Ireland. [2]
- (f) (i) **Target: to understand the effect of a rise in the exchange rate of imports.**
1 mark for stating the parts will be cheaper, 1 mark for development, e.g. costs will fall, more euros to the £. [2]
- (ii) **Target: to understand the effect of a rise in the exchange rate on exports.**
1 mark for stating monitors will be dearer in export markets, 1 mark for development, e.g. sales will fall. [2]

Total [23]

- 4 (a) **Target: to interpret graphical information.**
(i) 2003
(ii) 1998 [2]
- (b) **Target: to understand the effects of changes in interest rates.**
1 mark for recognising the fall in rates.
1 mark for stating that savers would not be pleased.
1 mark for justification, e.g. their reward for saving has fallen, or use of figures from Fig. 5 to justify. [3]
- (c) **Target: to understand a use of money.**
Candidates are mostly likely to refer to a medium of exchange, although they may not use this term.
1 mark for a use identified.
1 mark for explanation.
'To trade for goods and services' or similar = 2 marks. [2]
- (d) **Target: to interpret graphical information and understand cost of living.**
1 mark for explaining that cost of living rises mean rising prices.
1 mark for some reference to the graph, or
2 marks for clear explanation of the graph, i.e. that prices rise continually throughout the period. [3]
- (e) **Target: to understand how interest rates control inflation.**
Use a flexible mark scheme so there are different routes to 6 marks.
E.g. higher rates reduce demand (1) and thus less pressure on prices (1), saving is more rewarding (1) so people save more (1) and spend less (1), borrowing is more expensive (1) so fewer people buy using credit (1), mortgage interest rises (1), monthly outgoings rise (1), so disposable incomes fall (1), cost of investment rises (1), businesses invest less (1).
Higher rates keep the £ strong (1) so this keeps imports cheap (1). [6]
- Total [16]**

Mark Scheme 1985/02
June 2006

- 1 (a) **For females, how does the popularity of listening to music compare to the other home-based leisure activities?** [2]

Target: to interpret individual time allocations.

More popular (1) + (1) for qualification eg mostly far more popular, exception some reading. Use of figures from the table (1)

- (b) **Explain one possible reason why the popularity of listening to music changes as people become older.** [2]

Target: to distinguish influences on time allocations.

Reason eg wider experience, wider responsibilities, advertising aimed more at younger people (up to 2).

- 2 (a) **Describe the trends in the sales of cassettes between 1973 and 2001.** [2]

Target: to interpret sales trends.

Rise at first (1), then fall (1) use of figures from the table (1).

- (b) **With the help of a demand and supply diagram, explain the effect on the price and sales of CDs of a large fall in the price of iPods.** [5]

Target: to analyse changes within a market.

Diagram

Labels axes correctly (1)

Shift D curve to left (1)

Shows new equilibrium (1)

Explanation

iPods are substitutes (1),
demand for CDs will fall (1)

lower price (1),
reduced quantity (1).

Alternative view that demand will increase for CD's because people will have more money to spend on CD's, due to fall in price of iPods, which they will put on their iPod.

- (c) **Target: to judge possible opportunity cost of an action.**

- (i) **Explain what is meant by opportunity cost.** [2]

Meaning of opportunity cost, precise (2), less precise (1).

Next best alternative (1) forgone (1)

- (ii) **Explain the possible opportunity cost to a teenager of spending £150 on an iPod.** [2]

Naming of alternative expenditure (1), related to financial value (1).

- 3 (a) **Calculate the final selling price of a CD that cost £10 before VAT. Show your working.** [2]

Target: to show impact of VAT imposition.

£10 + 17.5% (1), £11.75 (2).

- (b) **Should VAT be removed from CDs? give reasons for your answer.** [5]

Target: to examine the case for tax reduction.

Reduction would help sales and employment, give more choice to consumers and reduce cost of living pressure (up to 3). Against this are loss of revenue, expenditure cuts and inequity against rival products (up to 3). Reasoned conclusion (1).

- 4 (a) **To what extent was the music industry to blame for falling CD sales? Give reasons for your answer.** [4]

Target: to analyse the causes of falling demand.

Identification of factors beyond industry's control eg economic climate, unemployment, new technology (2).
Consideration of industry's weakness eg poor releases, lack of reaction (2).

- (b) **Discuss how a firm in the music industry could respond to falling CD sales.** [8+2]

Target: to consider possible reaction to changing economic circumstances.

The industry might react by marketing strategies eg advertising, better releases and pricing to boost demand. It might try to become involved in the new technology challenges eg providing music via the Internet. It might press governments to tackle the illegal challenges. It might choose to diversify into wider entertainment activities or alternative diversification. Some will be costly eg diversification, others eg new laws may be ineffective, while in others lack of familiarity may limit success.

Level 3 (5-8 marks)

Candidate examines effectiveness of action.

Level 2 (3-4 marks)

Candidate establishes relevance of policy.

Level 1 (1-2 marks)

Candidate identifies and applies policy.

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

- 5 (a) **Calculate the most money that could have been saved on any one CD bought on the Internet. Show your working.** [2]

Target: to calculate discount on CDs.

£7 (2), calculation (1).

- (b) *Discuss whether the sale of CDs on the Internet is good for the consumer. Give reasons for your answer.* [5]

Target: to consider the effects on the consumer of a new sales channel.

Consumer should benefit in the short-run from more choice, greater convenience and in this case lower prices. This may not be available to all consumers, may encourage extravagance and undermine established companies profits and therefore their investment in new artists or minority music so hurting consumers.

Level 3 (4-5 marks)

Candidate discusses both sides.

Level 2 (3 marks)

Candidate analyses benefits or drawbacks.

Level 1 (1-2 marks)

Candidate recognises and explains effects.

- 6 (a) *Explain two reasons why pop stars earn such high incomes.* [4]

Target: to explain influences on income levels.

Pop stars are in short supply (1) and are not easily replaced (1). They are in high demand (1) and generate high earnings for music companies (1). Accept other reasonable explanations.

- (b) *Should pop stars be paid such high incomes? Give reasons for your answer.* [4]

Target: to consider justification of high earnings.

Yes, if they are based on market value, justified in terms of popularity, unique talent etc (up to 3 marks). No, if they result from market manipulation by companies or are so large to cause resentment or market distortion (up to 3 marks).

- 7 (a) *How would the merger of Sony and BMG have affected competition in the music industry?* [3]

Target: to interpret market share data.

Market share of 19.4% (1), less competitive market (1), still not largest firm (1).

- (b) *Name three possible economies of scale in the music industry.* [3]

Target: to apply economies of scale to music industry.

Purchasing economies of materials, specialised staff eg marketing, superior techniques eg recording systems, financial economies eg raising funds or acceptable alternatives. 1 per case.

- 8 (a) *Discuss whether Steve Jobs is a good example of a successful entrepreneur.*

[6]

Target: to judge the performance of an entrepreneur.

Jobs is a risk taker and innovator. He has been successful with the Apple Mac, iPod and Pixar. This has resulted in a large personal fortune. Only unsuccessful in sacking from company (1985). Apparently a very successful entrepreneur.

Level 3 (6 marks)

Candidate recognises element of failure.

Level 2 (3-5 marks)

Candidate judges the performance of entrepreneur.

Level 1 (1-2 marks)

Candidate understands the role of enterprise.

- (b) *Do you agree that the diagram shows that the UK is the least enterprising of the five countries? Explain your answer.*

[3]

Target: to interpret data on enterprise.

Less enterprising than US (1), but more enterprising than Japan (1) and France (1), not the least enterprising (1).

- 9 *Discuss whether Fig. 9 proves that the UK's standard of living was higher in 2002 than 1952.*

[12+2]

Target: to judge changes in living standards.

The standard of living relates to material (eg car ownership, incomers) and non-material (eg life expectancy, marital bliss) well-being. The data indicates improvements in most material aspects but worsening in some non-material features. Candidates may be expected to comment on income, working hours, life expectancy, foreign holidays, car ownership as favourable and rising living costs, crime and divorce as unfavourable. Some items may be interpreted as either. It would be valid to comment on the limits of the data.

Level 4 (7-12 marks)

Candidate discusses favourable and unfavourable elements.

Level 3 (5-6 marks)

Candidate analyses favourable or unfavourable elements.

Level 2 (3-4 marks)

Candidate applies standard of living concept to data.

Level 1 (1-2 marks)

Candidate understands standard of living.

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 1985/03
June 2006

- 1 (a) **Target: to understand scarcity.**
1 mark for some understanding, e.g. not enough available.
2 marks when in context of unlimited human wants/ demand/ forced to make choices. [2]
- (b) **Target: to calculate opportunity cost.**
50m x 250/500m = 25 million public goods and services (3 marks)
(1 mark for method, 1 for public goods and services specified)
(2 marks if million omitted) [3]
- (c) **Target: to understand efficiency in context of a production possibility curve.**
1 mark for recognising C is less efficient.
1 mark for explaining why.
1 mark for recognising A and B are equally efficient.
1 mark for explaining why. [4]
- (d) **Target: to understand public and merit goods.**
For both (i) and (ii),
1 mark for correct example
up to 2 marks for explanation.
(i) public good explanation and example such as streetlighting, defence [3]
(ii) merit good explanation and example such as health care, education. [3]
- (e) **Target: to understand the methods of achieving economic growth.**
1 mark for each method identified, plus one mark for each explanation.
Also accept 1x1 + 1x3 where explanation worth 3 marks.
Methods could include more investment in capital, developing a natural resource, improving education and training, increasing productivity, inward investment, free trade, more exports, demand-side policies. 1 mark for employing more workers. [4]
- (f) **Target: to evaluate the effects of growth.**
Benefits include more private goods/higher material living standards, more employment opportunities, more public services, improved health, literacy, etc.
Costs may include various forms of pollution, environmental damage, congestion, possible inflation, etc.
- Level 3 (5-6 marks)**
Candidate makes a judgement based on reasoned argument.
- Level 2 (3-4 marks)**
A good discussion of either costs or benefits.
- Level 1 (1-2 marks)**
Benefits and/or costs of growth are explained.
- 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

[6 + 2]

Total 27

- 2 (a) **Target: to evaluate whether high petrol taxes are justified.**
 Arguments for include those based on the demerit good arguments and revenue raising.
 Those against include the equity issue (fairness) and raising costs.
- Level 3 (5-6 marks)**
 Draws conclusions based on reasoned argument.
- Level 2 (3-4 marks)**
 A good but one-sided discussion.
- Level 1 (1-2 marks)**
 Arguments for/against high taxation are identified. [6]
- (b) (i) **Target: to understand price inelastic demand.**
 1 mark for some understanding shown or statement that demand does not change.
 2 marks for a clear statement, i.e. demand changes at a lesser rate than price. [2]
- (ii) **Target: to apply price inelastic demand to a market.**
 1 mark for reason stated.
 2 marks for a clear explanation, e.g. petrol is a necessity for car owners. [2]
- (c) **Target: to explain, with graphical representations, the relationship between changes in demand and supply and equilibrium price and quantity, applied to a specific market.**
- Demand factors include incomes, population (age structure), prices of complements (cars), availability of substitutes (electric cars etc), tastes and preferences (environmental awareness), etc. Supply factors include World price of oil, and any factors affecting it such as availability/discovery of new oil fields or conflicts holding up supplies, costs of production, indirect taxation, etc.
- Level 3 (11-15 marks)**
 A range of demand and supply factors are explained with reasoned argument, applied well to the petrol market, and illustrated with accurate, fully labelled and clearly explained diagrams.
 Max. 12 marks where price/sales changes are shown in diagrams but ignored in the text.
- Level 2 (6-10 marks)**
 Distinction made between demand and supply factors in the context and diagrams are used.
 The diagrams may not be fully labelled and explained.
 Max. 9 marks where only the demand side **or** the supply side is considered.
 Max. 8 marks for fully correct analysis and diagrams but no demand or supply factors given.
 Max. 6 marks where price/sales changes are not shown or incorrectly shown in diagrams and ignored in the text.
- Level 1 (1-5 marks)**
 Reasons stated for price/quantity changes but with little distinction between demand and supply factors. Diagrams may be lacking in key respects. [15]

Total 25

3 (a) **Target: to identify a firm's objectives.**

Any two from:

Profit

Growth/expansion/higher sales/turnover

Market Share/ less competition/ more monopoly power.

(accept greater economics of scale)

[2]

(b) **Target: to evaluate the economic effects on stakeholders of economic activity.**

Residents as stakeholders include prospective workers and their families who will gain jobs and incomes; locals who will shop there and gain convenience, variety and choice and lower prices; and those who will suffer congestion and traffic noise etc. Local shopkeepers will lose customers and perhaps their businesses. Others might gain increased custom. Shareholders will gain profits/dividends and increased share price from successful expansion. Award marks for effects on others, e.g. the council who will gain business rates but may need to improve roads, etc.

Level 3 (9-12 marks)

The economic effects on different types of stakeholder are explained and a judgement is made about favourable and unfavourable economic effects on each type.

Level 2 (5-8 marks)

The economic effects on at least two types of stakeholder are analysed.

Level 1 (1-4 marks)

The effect on one of more stakeholders is applied.

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

[12 + 2]

(c) **Target: to understand the benefits to a firm of locating within the EU.**

Benefits include access to the single market (large population) without any restrictions on exports to other member countries. Accept also lower transport costs to European countries. Free movement of factors of production.

Award all three marks for one reason well explained or for two reasons given. [3]

(d) **Target: to explain two factors affecting the location of a business.**

Reasons could include government financial aid, lower labour costs, skilled workers, large market within the UK, suitable greenfield site with low costs, close to suppliers.

1 mark for each reason identified plus one mark for each explanation.

[4]

- (e) **Target: to explain how changes in the exchange rate affect a business.**
1 mark for imports become cheaper.
1 mark for LG's costs fall or competitor goods are cheaper.
1 mark for exported products become dearer.
1 mark for likely loss of sales.

[4]

Total 27

- 4 (a) **Target: to use data to interpret change in the real rate of interest.**
 1 mark for some understanding of real rate of interest.
 2 marks for an accurate comparison (3-4% in 1997, only around 1% in 2003). [2]
- (b) **Target: to interpret graphical information and understand cost of living.**
 1 mark for explaining that cost of living rises mean rising prices.
 1 mark for some reference to the graph, or
 2 marks for clear explanation of the graph, i.e. that prices rise continually throughout the period. [3]
- (c) **Target: to understand how interest rates control inflation.**
 Use a flexible mark scheme so there are different routes to 6 marks. E.g,
 higher rates reduce demand (1) and thus less pressure on prices (1),
 saving is more rewarding (1) so people save more (1) and spend less (1),
 borrowing is more expensive (1) so fewer people spend using credit (1),
 mortgage interest rises (1), monthly outgoings rise (1), so disposable incomes
 fall (1),
 cost of investment rises (1), businesses invest less (1). [6]
- (d) **Target: to evaluate the effects of a higher rate of inflation.**
 Adverse effects on employment, the balance of payments, distribution of
 incomes, can be discussed as well as the danger of hyperinflation, etc. Also
 shoe leather costs, menu costs, etc. Possible benefits of low rates include
 stimulus to investment, easier for relative prices to adjust in markets, borrowers
 and debtors gain (including government with national debt), value of assets rises
 (e.g. houses).

Level 3 (7-10 marks)

An evaluative answer which clearly recognises the effects of inflation and weighs up their consequences

Level 2 (4-6 marks)

Some effects of inflation are explained.

Level 1 (1-3 marks)

Up to two effects of inflation identified.

[10]

Total 21

Mark Scheme 1985/04
June 2006

- 1 (a) For females, how does the popularity of listening to music compare to the other home-based leisure activities? [2]
- Target: to interpret individual time allocations.**
More popular (1) + (1) for qualification e.g. mostly far more popular, exception some reading. Uses figures from the table (1)
- (b) Explain one possible economic reason for the change in popularity of gardening among males as they get older. [2]
- Target: to analyse influence on demand for leisure activities.**
Higher income (1), allowing wider interest (1), more free time (1) advertising aimed at older people (1)
- 2 (a) Describe the trend in the sales of cassettes between 1973 and 2001. [2]
- Target: to interpret sales trends.**
Rise at first (1), then fall (1) uses figures from the table (1).
- (b) With the help of a demand and supply diagram, explain the effect on the market for CDs of a large fall in the price of iPods. [5]
- Target: to analyse changes within a market.**
Diagram
Labels axes correctly (1)
Shift D curve to left (1)
Shows new equilibrium (1)
- Explanation
iPods are substitutes (1),
demand for CDs will fall (1)
lower price (1),
reduced quantity (1).
- Alternative view that demand will increase for CD's because people will have more money to spend on CD's, due to fall in price of iPods, which they will put on their iPod.
- (c) (i) Explain what is meant by opportunity cost of an action. [2]
- Target: to judge possible opportunity cost of an action.**
Meaning of opportunity cost, precise (2), less precise (1).
Next best alternative (1) foregone (1)
- (ii) Explain the possible opportunity cost to a teenager of spending £150 on an iPod. [2]
- Naming of alternative expenditure (1), related to financial value (1).
- 3 (a) Calculate the final selling price of a CD which cost £10 before VAT. Show your working. [2]
- Target: to show impact of VAT imposition.**
£10 + 17.5% (1), £11.75 (2).

- (b) **Most products but not food and children's clothes have VAT on them. Do you think that all goods and services should have VAT on them? Give reasons for your answer.** [5]

Target: to judge desirability of VAT as tax raiser.

VAT raises large sums, spreads tax burden, is cheap to collect and has limited disincentive. It is regressive, inflationary and a cost to commerce. Some products have been exempt or had lower rates because of their nature.

Level 3 (4-5 marks)

Candidate discussed two sides.

Level 2 (3 marks)

Candidate analyses one side.

Level 1 (1-2 marks)

Candidate recognises operation of VAT.

- 4 (a) **To what extent was the music industry to blame for falling CD sales? Give reasons for your answer.** [4]

Target: to analyse the cause of falling demand.

Identification of factors beyond industry's control e.g. economic climate, unemployment, new technology (2). Consideration of industry's weakness e.g. poor releases, lack of reaction (2).

- (b) ***Discuss how a firm in the music industry could respond to falling CD sales.** [8 + 2]

Target: to consider possible reaction to changing economic circumstances.

The industry might react by marketing strategies e.g. advertising, better releases and pricing to boost demand. It might try to become involved in the new technology challenges e.g. providing music via the internet. It might press governments to tackle the illegal challenges. It might choose to diversify into wider entertainment activities or alternative diversification. Some will be costly e.g. diversification, others e.g. new laws may be ineffective, while in others lack of familiarity may limit success.

Level 3 (5-8 marks)

Candidate examines effectiveness of action.

Level 2 (3-4 marks)

Candidate establishes relevance of policy.

Level 1 (1-2 marks)

Candidate identifies and applies policy.

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

- 5 (a) Calculate the most money that could have been saved on any one CD bought on the internet? Show your working. [2]

Target: to calculate discount on CDs.
£7 (2), calculation (1).

- (b) Should the music industry be allowed to stop companies, such as CD Wow selling CDs at a discount on the Internet? Give reasons for your answer. [5]

Target: to examine restrictions on competition.

The CDs in question are legal and official not counterfeit. Preventing their sale will raise prices to the detriment of consumers. It strengthens the market power of supplier. It may result in excess profits. The sale of fewer CDs officially may encourage more illegal sales. However, the EU protects producer, e.g. Levi jeans, from the same process. This supposedly protects the company's reputation. It may be argued that a minimum level of profit is needed to encourage new artists. Sales of illegal CDs would harm the legitimate producers.

Level 3 (4 – 5 marks)

Candidate examines both sides.

Level 2 (3 marks)

Candidate appreciates one side.

Level 1 (1 – 2 marks)

Candidate recognises and applies an argument.

- 6 (a) Is it fair that those in the Sunday Times' pay list, such as Robbie Williams, earn so much more than Michael Stand, the sound engineer? Give reasons for your answer. [8]

Target: to discuss inequality of income.

The high incomes in these cases are rewards for talents in short supply and high demand. Supply and demand are both relatively inelastic. High incomes can be justified in market terms. Engineers can be trained more easily and are in greater and more elastic supply, other workers with similar skills can switch in to the music industry. A difference in reward is to be expected. An issue is whether the differential is excessive. It can be argued that they are divisive and unnecessary at this level.

Level 3 (5 – 8 marks)

Candidate examines both sides.

Level 2 (3 – 4 marks)

Candidate argues one side.

Level 1 (1 – 2 marks)

Candidate recognises and explains one influence.

- 7 **How would the merger of Sony and BMG have affected competition in the music industry?** [3]

Target: to interpret market share data.

Market share of 19.4% (1), less competitive market (1), still not largest firm (1).

- 8 (a) **Do you agree that entrepreneurs are essential to a market economy? Give reasons for your answer.** [8]

Target: to examine the role of enterprise in market economics.

Entrepreneurs are the risk takers and organisers of the other factors of production. They earn the reward of profit if successful. A market economy has limited government intervention and is guided by the actions of consumers and producers. The entrepreneur reacts to consumers' wishes and directs factors of production. This is essential in tackling the economic problem. Without enterprise other factors of production would not be efficiently employed.

Level 4 (7 - 8 marks)

Candidate judges the importance of enterprise.

Level 3 (5 – 6 marks)

Candidate analyses the contribution of enterprise.

Level 2 (3 – 4 marks)

Candidate explains enterprise within a market economy.

Level 1 (1 – 2 marks)

Candidate understands the terminology.

- (b) **Use the graph to compare the UK and USA as entrepreneurial economies.** [2]

Target: to compare enterprise between countries

UK is weaker (1), but follows same pattern (1), uses figures from the table (1).

- 9 To what extent does the data suggest that the UK is expected to rise more between 2002 and 2052 than it did between 1952 and 2002? Give reasons for your answer. [14 + 2]**

Target: to evaluate economic progress over 100 years.

The standard of living relates to the material and non-material well-being of a community. These are shown for example by incomes, car ownership and life expectancy. Some changes indicate more improvement in the earlier period e.g. faster income growth, less urbanisation, more rapid increase in car ownership, slower growth in living costs while others suggest the latter period e.g. improving life expectancy and higher proportion employed. Some aspects highlight worsening standards e.g. prison population and divorce rates although the rate of change slows between the periods.

Level 4 (9 - 14 marks)

Candidate contrasts the changes between the periods.

Level 3 (5 – 8 marks)

Candidate interprets the change in variables.

Level 2 (3 – 4 marks)

Candidate links changes to standard of living.

Level 1 (1 – 2 marks)

Candidate understands standard of living.

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

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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
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**General Certificate of Secondary Education
Economics (1985)
June 2006 Assessment Series**

Component Threshold Marks

Component	Max Mark	A	B	C	D	E	F	G
1	100			59	51	43	35	27
2	80			46	40	34	28	22
3	100	77	62	47	34			
4	80	55	48	42	35			

Specification Options

Foundation Tier

	Max Mark	A*	A	B	C	D	E	F	G
Overall Threshold Marks	200				115	100	85	70	55
Percentage in Grade					21.2	27.0	22.5	13.5	9.5
Cumulative Percentage in Grade					21.2	48.2	70.7	84.2	93.7

The total entry for the option was 227.

Higher Tier

	Max Mark	A*	A	B	C	D	E	F	G
Overall Threshold Marks	200	161	144	122	100	78	67		
Percentage in Grade		6.8	19.9	31.9	25.4	12.0	2.3		
Cumulative Percentage in Grade		6.8	26.7	58.6	84.0	96.0	98.3		

The total entry for the option was 1078.

Overall

	A*	A	B	C	D	E	F	G
Percentage in Grade	5.6	16.5	24.6	24.6	14.6	5.8	2.3	1.6
Cumulative Percentage in Grade	5.6	22.1	48.6	73.2	87.8	93.6	95.9	97.5

The total entry for the examination was 1305.

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