

GCSE

Economics

Unit **A591**: How the Market Works

General Certificate of Secondary Education

Mark Scheme for June 2014

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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.

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1. Annotations

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Unclear
	Benefit of the doubt
	Irrelevant
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Own figure rule
	Noted but no credit given.
	Too vague
	Repeat

Highlighting is also available to highlight any particular points on the script.

'BP' to be inserted on every blank page and in every question space where NR is the mark insert 'Seen'.

2. **Subject-specific Marking Instructions**

Some questions may have a 'Level of Response' mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (d) of each question.

Level 4:

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the subject matter. There may be few, if any, errors of spelling, punctuation and grammar

Level 3:

Relatively straight forward ideas have been expressed with some clarity and fluency. There may be some errors of spelling. Punctuation and grammar, but these are to be obtrusive or obscure marking.

Level 2:

Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, which may be noticeable and obtrusive.

Level 1:

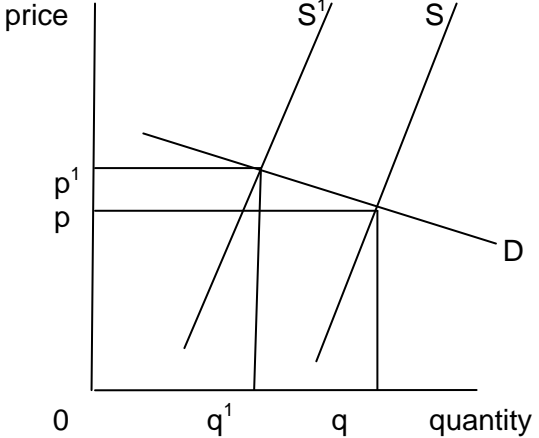
Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar, of which some may be noticeable and obtrusive.

Question			Answer	Marks	Guidance
1	(a)	(i)	'The process of combining scarce resources to make an output'	1	For one mark. Accept only the correct tick on its own.
		(ii)	'The output per unit of labour employed per period of time'	1	For one mark. Accept only the correct tick on its own.
	(b)	(i)	Total Cost £2400 Fixed Cost <u>£ 500</u> Variable cost £1900	2	Up to two marks. Give one mark for the correct figures in a subtraction sum, but the incorrect answer. Give two marks for (£)1900, even if no working shown. £ sign not required.
		(ii)	$\frac{\text{Total Cost } £5000}{\text{Units } £500} = £10$	2	Up to two marks. Give one mark for the correct figures for the division sum, but incorrect answer. Give two marks for £10, even if no working shown. £ sign not required.

Question		Answer	Marks	Guidance	
	(c)	<p>Possible methods include:</p> <ul style="list-style-type: none"> • higher pay • piece rates • improve workers' skills • specialisation (so long as it is clearly different from improvement)/division of labour • employ more/better capital equipment • further education/training • improve working conditions • job rotation etc • bonus/perks • promotion <p>Exemplar responses: Higher pay [1]. Workers would be more motivated [1] and prepared to work harder leading to greater output [1].</p> <p>Employ better quality equipment [1]. By giving workers newer and better quality computers, they will be able to work faster [1].</p>	6	<p>One mark for each correct identification up to a maximum of two identifications, plus up to a further two marks (one for application and one for analysis) for an explanation.</p> <p>Allow any valid reason.</p> <p>Beware of repetition of 'increased productivity'. As this is in the stem to say that e.g. higher wages will increase productivity' is worth just 1 mark for the 'higher wages'.</p> <p>Do not allow replacement of workers by machines or sacking workers.</p> <p>Candidates may muddle identification with application. Please award so as to benefit the candidate using ticks to show where marks were awarded.</p> <p>NB This question is marked out of six.</p>	
Question		Answer	Marks	Guidance	
	(d)	<p>If Clucas Industries Ltd grew then it could gain economies of scale. It would be able to employ specialist managers and spread marketing costs across a greater output. In addition growing in size would enable Richard and Barbara to diversify and spread the risks, thus increasing the business' a chance of survival. In addition, growing in size is likely to lead to greater profits and a bigger market share. [L2]</p>	8	<p>Content</p> <p>Benefits may include:</p> <ul style="list-style-type: none"> • increased profits • increased market share • better known • can gain and apply new ideas • could eliminate competition • economies of scale <p>Costs may include:</p> <ul style="list-style-type: none"> • worker alienation/boredom • loss of managerial control 	<p>Levels of response</p> <p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly considers a number of both benefits and costs and comes to a supported conclusion/ offers comment. Answers at the bottom may have a conclusion which</p>

Question	Answer	Marks	Guidance
	<p>Growing the business could mean that Richard and Barbara will need more finance and will need to sell shares to other people, thus losing some control. Clucas Industries Ltd could become too large so that communications break down and workers become cut off from the managers leading to diseconomies of scale. Employing specialist managers will increase the costs, which could lead to dissatisfaction or they could be scarce and not available causing problems of poor management. [L3]</p> <p>Although there are dangers for a business in growing larger, the benefits are greater. This is because so long as the business does not grow too quickly, then it will have time to deal with potential problems, while benefiting from higher profits and greater economies of scale, as well as more sales. [L4]</p>	<ul style="list-style-type: none"> • poor communications • loss of ownership – NB Clucas Industries Ltd • costs of internal growth, eg. new equipment, more labour, training, etc. • diseconomies of scale <p>For both allow any other valid idea.</p> <p>To reach Level 4 there must be discussion of benefits and costs. Just stating that benefits are good etc is not L4</p> <p>NB. A <u>relevant</u> discussion of economies and diseconomies of scale will be at Level 4.</p> <p>Linking points to e.g. lower average costs is likely to be analysis.</p>	<p>is not clearly supported.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of factors. At the top this analysis must cover both benefits and costs.</p> <p>Level 2 [3-4 marks] Candidates are able to apply both benefits and costs. At the top both must be considered. Answers and/or development of points are likely to be brief.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of benefits and/or costs. Good answers focusing entirely on competitive markets will be at this level.</p> <p><i>Quality of Written Communication</i> is assessed on this question. Please see page 5 for guidelines.</p>

Question		Answer	Marks	Guidance
2	(a)	Supply is the quantity a producer is willing and able to produce at a given price in a given period.	2	One mark for each correct identification up to a maximum of two identifications. Give one mark for each correct word in the right place. These are the only acceptable answers.
	(b)	<p>Possible factors include:</p> <ul style="list-style-type: none"> • increase in the number of firms in the market (this could also be in terms of a rise in the price of plants leading to more firms entering the market) • increased productivity • subsidies – unlikely, but allow • good weather [not just weather]/time of the year • fall in costs of production • fall in corporation tax if linked to investment • better technology • increased training for producers • reduction in VAT • more land for planting • better use of fertilisers etc <p>Exemplar responses: An increase in the number of firms [1] would mean that the total supplied should increase [1].</p> <p>Good weather [1] would mean plants would grow better and thus more would be available [1].</p>	4	<p>One mark for each correct identification up to a maximum of two identifications, plus a further mark for development up to a maximum of four.</p> <p>Allow any valid point.</p> <p>Do not allow a pure repeat of the question, i.e. supply of plants will increase or a decrease in supply.</p> <p>Max 1 mark for an answer that claims increased demand leads to more supply. This may be the case in the long run hence 1 mark, but it is not strictly a supply factor.</p> <p>NB Better technology must be clearly linked to the growing/supply of plants to gain more than one mark.</p>

Question	Answer	Marks	Guidance
(c) (i)	Increase [1] by more than 10% [1]	2	<p>Up to two marks.</p> <p>One mark for each correct idea up to a maximum of two.</p> <p>Candidates may use a range of words as long as they have the correct meaning e.g. Increase [1] as (percentage) change in quantity will be greater than (percentage) change in price [1]</p>
(ii)	 <p>One mark for an elastic demand line and one more mark for labelling it D. Allow perfectly elastic.</p>	2	<p>Up to two marks.</p> <p>If the demand line is not labelled, then maximum one mark.</p> <p>Labelling D/demand'/D¹/etc. is worth 1.</p> <p>Give one mark if the demand curve is incorrect – must be shallower than 45 degrees - but it has been correctly labelled.</p> <p>There is no mark available if the demand line is not drawn, but instead P and Q are indicated.</p> <p>There is no requirement to draw p/q lines, but they can be useful to show $\% \Delta Q > \% \Delta P$ 45 degree lines are zero for the line. If in doubt give BOD.</p>
(iii)	<p>One mark for the price has risen/increased</p> <p>One mark for the quantity has fallen/decreased</p>	2	<p>One mark for each correct identification up to a maximum of two identifications.</p> <p>OFR applies to the demand line if it is not elastic/gently sloping in part (ii) if applicable, this must be shown on the script. The change in P and Q must relate to the demand line drawn on the diagram.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Clearly with gardening the weather is an important factor as bad weather will reduce the demand for plants as people cannot plant them. Buying more plants is likely to depend on people's income. If this rises then they are likely to spend more to make their gardens pretty [L2]. It is also important that Ayesha should promote Eden Garden Centre so that people know about it and visit. Once there they are likely to buy, especially if she has made it an attractive place with, for example, activities for children, a café and gardening supplies, etc. [L3].</p> <p>Poor weather would shift the demand curve to the left giving lower sales. The other factors above would shift demand to the right with greater sales at a higher price [top L3].</p> <p>Overall, although the weather is to some extent important over a year, factors such as income and making Eden Garden Centre well known and attractive will be more important [L4].</p>	8	<p>Possible points to consider:</p> <ul style="list-style-type: none"> • weather – people unable to get in the garden and/or not willing to visit a garden centre • (real) income • promotion/advertising • population • complements and substitutes • competition • price <p>Allow any valid ideas.</p> <p>The question states 'business such as', so there is no need to refer to Eden or to garden centres.</p> <p>Candidates may assume that it is a very big garden centre where people come to buy all sorts of non-plants/plant related goods and/or to have food, coffee, etc. This is a valid approach.</p> <p>L4 cannot be achieved unless there is some analysis. Analysis may include: elasticity; diagrams; good use of economic concepts beyond the factors affecting demand; etc</p> <p>NB This part of the question states 'to what extent'.</p>	<p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly considers both weather and other factors and addresses 'to what extent'. Answers at the bottom may reach a supported conclusion without addressing the extent.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse the weather as a factor, together with a number of others. Answers at the bottom will only consider a very narrow range of factors. A diagram correctly explained is analysis.</p> <p>Level 2 [3-4 marks] Candidates are able to apply a number of factors. Answers and/or development of points are likely to be brief.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of relevant factors or may just define demand.</p> <p><i>Quality of Written Communication</i> is assessed on this question. Please see page 5 for guidelines.</p>

Question		Answer	Marks	Guidance
3	(a)	<p>Resources are limited/scarce [1], but wants are unlimited [1].</p> <p>Accept also for two marks: What to produce, how to produce and for whom to produce – all of this is needed</p> <p>Give one mark for:</p> <ul style="list-style-type: none"> • opportunity cost, or • choice, or • scarcity 	2	<p>Up to two marks.</p> <p>Allow any answer that clearly has the idea of scarce resources, but unlimited wants for two marks.</p> <p>Candidates who state opportunity cost or define it can be awarded one mark.</p> <p>Candidates may talk in terms of demand and supply.</p>
	(b)	<p>Possible objectives include:</p> <ul style="list-style-type: none"> • profit [maximisation]/reduce costs • sales maximisation/revenue maximisation • increase market share/gain monopoly power • break-even • provide a quality service • provide returns for shareholders/partners/owners/increase in share prices • grow in size • ethical/environmental 	2	<p>One mark for each correct identification up to a maximum of two identifications.</p> <p>Allow any valid idea.</p> <p>NB No mark for survival.</p> <p>Allow increase in sales/revenue</p>

Question	Answer	Marks	Guidance
(c) (i)	<p>Possible points include:</p> <ul style="list-style-type: none"> • large number of firms/suppliers • large number of buyers • new firms/suppliers can easily enter the market • perfect knowledge of competitors • easily able to compare prices and products <p>Exemplar response: A competitive market is one with a large number of suppliers [1] and buyers [1]. A market where lots of different firms [1] produce very similar products [1]</p>	2	<p>Up to two marks.</p> <p>Allow any valid point.</p> <p>One possible answer for two marks is: Large number of both buyers and sellers [just stating 'a number of' is worth 1 mark]. A perfect competition like response can also gain 2 marks.</p> <p>Possible answers for one mark are: A market where many firms operate and compete with each other. Where buyers and sellers meet</p> <p>NB just stating e.g. where there is more than one company' is too vague and worth zero.</p>
	<p>(ii)</p> <p>Possible advantages:</p> <ul style="list-style-type: none"> • more choice/variety • greater innovation/improvement of products • better service including opening hours, etc • lower prices <p>Possible disadvantages:</p> <ul style="list-style-type: none"> • small firms restricted in economies of scale • higher prices due to higher average costs • confused over choice, etc • lower quality – unable to afford/use better technology • greater costs <p>Negative externalities can be accepted.</p> <p>Exemplar responses: Greater choice [1]. Consumers are able to choose between many different firms [1]. These firms will try to attract them by offering lower prices and/or better quality</p>	6	<p>One mark for each correct identification up to a maximum of two identifications, plus up to a further two marks (one for application and one for analysis) for an explanation. The application mark can be given for a clear process by which the advantage/disadvantage comes about.</p> <p>Allow any valid point.</p> <p>Candidates must identify and explain one advantage and one disadvantage and not, for example, two advantages. In the explanation one mark can be given for the process.</p> <p>Do not allow 'small firms cannot gain economies of scale'.</p> <p>NB 'to consumers' so no marks for advantages etc to firms. Please watch this very carefully.</p> <p>If a candidate gives e.g. two advantages in the same part, accept the first one, but the second one can be credited if it</p>

Question	Answer	Marks	Guidance
	[1]. There is too much choice [1] which makes consumers confused as to which is best [1]. This leads to consumers not buying the best product for them [1]		becomes part of the development e.g. more choice/lower prices – accept more choice, but if the answer says more choice could lead to lower prices then give development credit. NB This question is marked out of six.

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>If Salmon, Pike and Roe decided to specialise this could lead to its staff earning more [L1] as they would become more knowledgeable and specialised in one part of the law. Customers would be prepared to pay more for this as the demand for its services becomes more inelastic. In addition, staff becomes more motivated as their expertise is recognised. [L2]</p> <p>There is a danger, however, that workers become bored as they only deal with one type of law instead of being more wide ranging, thus leading to a decline in their skills. This will mean that some staff may have to move firms in order to continue working more widely. [L3]</p> <p>Overall, the increase in earnings and recognition is likely to be of greater benefit to workers, especially as each case is unique, even if the law is the same, thus countering the boredom factor. [L4]</p>	8	<p>NB 'Effects on workers', i.e. answers which talk about the advantage of specialisation to a firm, etc. are worth zero.</p> <p>Candidates may base their answers on either Salmon, Pike and Roe or on any business.</p> <p>Possible effects:</p> <ul style="list-style-type: none"> • higher pay • improvement of skills • greater motivation • do not have to know about a range of skills/areas of law • boredom/alienation • decline in wider skills • replacement by machinery (for solicitors they might lose their job/have to move firm as they do not specialise in that area of the law) • reduces occupational mobility <p>Allow any valid suggestion.</p> <p>Analysis could be shown by a diagram, good linked argument using economic concepts, etc</p>	<p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly discusses a number of effects. Answers at the top will clearly refer to both advantage(s) and disadvantage(s).</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of points. To reach the top candidates must either consider a range of effects or cover at least one advantage and one disadvantage.</p> <p>Level 2 [3-4 marks] Candidates are able to apply knowledge of the effects of specialisation on workers. To reach the top there must be more than two effects. Answers and/or development of points are likely to be brief.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of effects or they may define the term specialisation related to firms, not workers.</p> <p><i>Quality of Written Communication</i> is assessed on this question. Please see page 5 for guidelines.</p>

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