



GCE MARKING SCHEME

SUMMER 2016

**ECONOMICS – EC4
1134/01**

INTRODUCTION

This marking scheme was used by WJEC for the 2016 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS - EC4
SUMMER 2016 MARK SCHEME

Question	Answer	Mark allocation	Assessment objective
1 (a)	<p>Using the data explain how the Big Six energy companies may have benefitted from horizontal integration and vertical integration.</p> <p>Understanding of HI and VI (1+ 1)</p> <p>Application to the energy market:</p> <p>HI - bulk buying/technical economies of scale, entry barriers, market power (monopoly or monopsony) (3 max)</p> <p>VI - Control of quality, entry barriers and lower costs, market power (3 max)</p> <p>Both HI and VI – rationalisation, synergies (3 max)</p> <p>Excellent explanation of benefits with application to energy market 3 marks, good explanation 2 marks, weaker undeveloped explanation or mere identification 1 mark</p> <p>Maximum 4 - only HI or VI covered.</p>	8	AO1 4 AO2 4
1 (b)	<p>With reference to the data explain why the conditions in the UK energy market favour the formation of a cartel?</p> <p>Understanding of a cartel. Favourable conditions for a cartel include homogeneous product, few firms in the market, price inelastic demand, high entry barriers, complexity and opacity of market/pricing policies. (Identification 1 + explanation 2 + application 1) Max 4 for each point</p> <p>At least 2 conditions explained and applied for full marks.</p> <p>Maximum 6 for no application to the data.</p> <p>Good explanation or application 3 to 4 marks, partial explanation or mere identification 1 to 2 marks</p>	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
1 (c)	<p>Assess the extent to which the UK energy market is ‘contestable’.</p> <p>Understanding of a contestable market – 1 mark.</p> <p>Energy market is not contestable: dominance of the ‘Big Six’ (use of data): set up costs, economies of scale, VI, HI, high prices/cartel, no new entrant has achieved a large market share, brand loyalty, customer inertia.</p> <p>Identification 1 mark + development 2 marks</p> <p>Minimum of two points explained</p> <p>Max 6</p> <p>Energy market is contestable: Successful entry of new firms (use of data), renewable energy and government policy has helped the entry of new firms, CMA inquiry may make the market more contestable, Labour party policy could make the market work better.</p> <p>Identification 1 mark + development 2 marks</p> <p>Minimum of two points explained</p> <p>Max 6</p> <ul style="list-style-type: none"> • Very good answers (10-12) marks will make two well developed points on both sides of the argument. (3 marks for each point made and developed) • Good answers (7-9) will make fewer points or there may be a lack of development in explanation or evaluation. • Limited answers (4-6) will have partially developed points or will lack evaluation. • Weak answers (1-3) will make few points which are very weak on economic analysis. <p>No evaluation maximum 6 marks</p>	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
1 (d)	<p>Evaluate price and non-pricing strategies that the energy suppliers might use to increase their profitability.</p> <p>Pricing strategies: price competition but danger of price war or raising price but customers then switch to other users (use of kinked demand curve/game theory), cartel but danger of CMA inquiry and fines, limit or predatory pricing but danger of CMA inquiry and may not work anyway.</p> <p>Non-pricing strategies: advertising but difficult with a homogeneous product/other firms retaliate, quality of service (repairs/response to complaints etc) but increases costs, special priced tariffs/contracts but can become too complex, mergers (HI/VI) lowers costs increases market power/share and profits but CMA may investigate and potential for diseconomies of scale, lowering costs due to R&D but costs may be high initially</p> <p>Maximum 3 marks for each well explained point, 2 marks for limited explanation, 1 mark for identification only</p> <p>Maximum 3 marks for each well evaluated point, 2 marks for limited evaluation, 1 mark for identification only</p> <p>General problem of customer inertia or government price controls may affect profitability which may affect either type of strategy. Max 2 marks</p> <ul style="list-style-type: none"> • Very good answers (10-12) will make two well-developed and evaluated points on both types of strategy. (3 marks for each point made and developed) – points must be explicitly linked to profitability • Good answers (7-9) will make fewer points or there may be a lack of development in explanation or evaluation. Either pricing or non-pricing strategies may not be fully covered • Limited answers (4-6) will have partially developed points or will lack evaluation • Weak answers (1-3) will make few points which are very weak on economic analysis <p>Maximum 6 marks no evaluation. Maximum 8 marks if only pricing or non-pricing strategies covered.</p>	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
2 (a)	<p>Using the data briefly describe the current level of economic development in Myanmar.</p> <p>Understanding of HDI as a measure of economic development.</p> <p>Use of figures 2 and 3 showing low HDI (0.524) which is lower than comparable countries but above the average of poor countries. HDI rising though in recent years.</p> <p>Use of other data such as rural poverty, internet and mobile phone access low, undeveloped banking system, energy problems, poor infrastructure.</p> <p>4 marks max for description related to Fig. 2 2 marks max for description related to Fig. 3 4 marks max for description related to the text</p> <p>Good comprehensive description of Myanmar's economic development and use of the data – data use must include 2 from Fig 2., Fig 3. and the text (6-8 marks)</p> <p>Limited/partial description (3-5 marks) Weak description (1-2 marks)</p>	8	AO1 4 AO2 4
2 (b)	<p>Explain why Myanmar may be an attractive location for foreign direct investment.</p> <p>Understanding of FDI.</p> <p>Natural resources- timber, oil, natural gas etc. Untapped markets – consumer goods etc. Need for new infrastructure – roads, railways, energy etc Low wages – lowest wages in Asia Government assistance – end of sanctions/Myanmar Infrastructure Summit Tourist potential High economic growth Lack of employment/other regulations</p> <p>1 mark identification + max 3 marks for development.</p> <p>Minimum 2 issues from the data (4 marks for a good explanation of each) Up to 4 points from the data x 2 marks for a good explanation of each.</p>	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
2 (c)	<p>To what extent is foreign direct investment likely to be beneficial for Myanmar?</p> <p>Definition/understanding of FDI.</p> <p>Beneficial:</p> <ul style="list-style-type: none"> • FDI creates higher GDP/economic growth and employment (increase in LRAS) • Capital inflows can help finance a current account deficit • FDI can lead to higher exports from the host country and boost the current account • Foreign companies generate tax revenue for the host country • Myanmar can benefit from improved knowledge and expertise of a foreign multinational • Investment from abroad could lead to higher wages and improved working conditions, especially if the MNCs take their CSR policy seriously <p>Not beneficial:</p> <ul style="list-style-type: none"> • Multinationals wield too much power within host countries especially LEDCs using their financial strength to gain favourable laws and regulations • Foreign multinationals take advantage of weak laws on anti-competitive practices and environmental protection • FDI does not always benefit recipient countries as it enables foreign multinationals to gain control of raw materials • Multinationals have been criticised for poor working conditions in foreign factories • Profits made in an LEDC are repatriated to the host country • Imports of components/capital goods have a negative effect on the trade balance • Foreign multinationals only employ local labour in the low skill jobs they create 	12	AO3 6 AO4 6

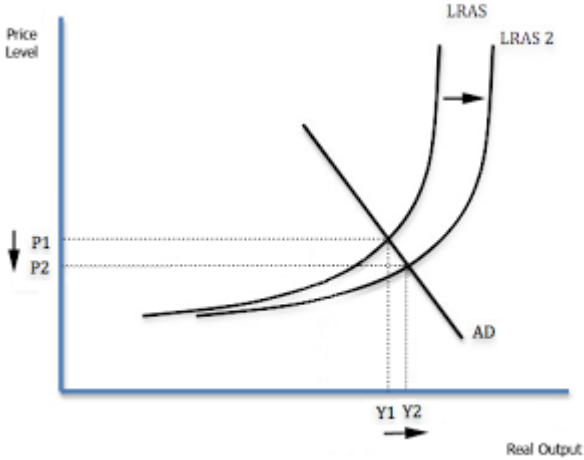
Question	Answer	Mark allocation	Assessment objective
	<p>Very good answers (10-12) marks will make two well developed points on both sides of the argument. (up to 3 marks for each point made and developed)</p> <p>Good answers (7-9) will make fewer points or there may be a lack of development in explanation or evaluation. No reference is made to Myanmar.</p> <p>Limited answers (4-6) will have partially developed points or will lack evaluation.</p> <p>Weak answers (1-3) will make few points which are very weak on economic analysis.</p> <p>Maximum 6 with no evaluation. Reversible answer.</p> <p>Max 9 if there is no direct reference to Myanmar.</p>		

Question	Answer	Mark allocation	Assessment objective
2 (d)	<p>How likely is Myanmar to be ‘at a similar stage of economic development as Thailand by 2025’?</p> <p>Unlikely to be at the same stage of economic development as Thailand:</p> <ul style="list-style-type: none"> • Use of Figure 3 data – a long way behind Thailand in 2013 on all measures and not possible in ten years. • Lack of capital/inefficient banking system. • Insufficient entrepreneurs. • Poor transport system/energy supply poor. • Corruption in the political system. • IT/mobile phone infrastructure is poor. • Lack of education/executive class/entrepreneurs. • A long way behind with tourism. • Very poor rural economy (lines 60-65) <p>Likely to be at same stage of development:</p> <ul style="list-style-type: none"> • Massive influx of FDI may accelerate economic development. • Huge potential to be developed (especially natural resources and cheap labour). • Depends what happens to Thailand by 2025. • Rapidly improving HDI (Figure 3) <p>Very good answers (10-12) marks will make two well developed points on both sides of the argument. (3 marks for each point made and developed)</p> <p>Good answers (7-9) will make fewer points or there may be a lack of development in explanation or evaluation.</p> <p>Limited answers (4-6) will have partially developed points or will lack evaluation.</p> <p>Weak answers (1-3) will make few points which are very weak on economic analysis.</p> <p>Maximum 6 no evaluation.</p>	12	AO3 6 AO4 6

SECTION B
Answer **one** question

The following levels should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	<p>Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p>
Level 3	11-14	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
Level 4	15-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

Question	Answer	Mark allocation	Assessment objective
<p>3</p>	<p>“Supply-side policies offer the best strategy for a government seeking to reduce unemployment” Discuss.</p> <p>Candidate shows an understanding of supply-side policies.</p> <p>These policies will reduce unemployment because: Supply-side policies shift the LRAS curve to the right</p>  <ul style="list-style-type: none"> • Better job information to help reduce frictional unemployment • Training for unemployed so they are more competitive in the labour market and also boost productivity • Lower unemployment benefits to increase the incentive to get a job to avoid the unemployment trap. Use of working tax credits. Lower marginal tax rates improve incentives to work • Reduced power of trades unions. Trade unions can cause real wage / classical unemployment • Increased labour market flexibility this will make it easier to hire and fire workers; this should encourage firms to set up and hire workers.jobs. 	<p>20</p>	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
	<ul style="list-style-type: none"> • Better education and training. This provides skills which will help the long-term unemployed to retrain and find jobs in the labour market. This will reduce structural unemployment • Employment subsidies. The government could give firms subsidies for taking on the long term unemployed making them more employable • Improved mobility of labour will help reduce unemployment <p>BUT</p> <ul style="list-style-type: none"> • Supply-side policies may be ineffective when there is demand deficient unemployment when reflationary policies would be more appropriate (use of a diagram) <div data-bbox="422 981 933 1366" style="text-align: center;"> </div> <ul style="list-style-type: none"> • Supply-side policies are prone to government failure and can make unemployment higher • Supply-side policies can have unintended consequences on labour markets e.g. deregulation of the financial markets contributed to the recession causing unemployment • Time lags may be long and therefore only reduce unemployment in the long term – fully explained <p>Award up to 3 marks for a good well developed point Award 1-2 marks for limited development Award 1 mark for identification only. Reversible answer Maximum 14 without evaluation. (level 3)</p>		

Question	Answer	Mark allocation	Assessment objective
4	<p>To what extent is economic growth desirable?</p> <p>Candidate shows understanding of the meaning of economic growth</p> <p>Benefits of economic growth:</p> <ul style="list-style-type: none"> • Consumers can benefit from consuming more goods and services thus standards of living rise • Economic growth results in increased tax revenues so the government can spend more on public and merit goods. Life expectancy increases and quality of life improves. Skills and welfare increase • Economic growth helps to reduce unemployment by creating jobs. Unemployment is a major source of social problems such as crime and alienation. Poverty is reduced • Economic growth brings with it increased technologies which are often labour saving or increase satisfaction ie ipads etc • An increase in potential growth rates (i.e. LR growth) can result in it being easier to achieve SR growth <p>BUT</p> <ul style="list-style-type: none"> • Economic growth causes external side effects, such as increased pollution (degradation) and the reduction of finite resources (depletion) • Economic growth can bring about increased inequality of income and wealth and relative poverty increases • Growth brings with it envy and crime increases as the marginalised resort to theft etc • Economic growth may bring with it more hours worked and with it more stress and unhappiness. 	20	AO1 4 AO2 4 AO3 6 AO4 6

	<ul style="list-style-type: none"> • Increased prosperity that goes with growth can lead to more people • Short-term growth evaluation could include issues such as inflationary pressure and current account deficit • developing lifestyle illnesses such as obesity and diabetes • Economic growth may not lead to economic development in LEDCs • Economic growth may lead to structural unemployment <p>Award up to 3 marks for a good well developed point Award 1-2 marks for limited development Award 1 mark for identification only</p> <p>Reversible answer</p> <p>Maximum 14 without evaluation. (level 3)</p>		
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Question	Answer	Mark allocation	Assessment objective
5	<p>‘The principle of comparative advantage means that no country can ever justify using protectionist policies’ Discuss.</p> <p>Candidate shows an understanding of comparative advantage and can link this theory to the benefits of free trade.</p> <p>Removal of protectionism leads to trade creation. Use of tariff diagram</p> <p style="text-align: center;"><small>www.economicshelp.org</small></p> <p>Welfare gains (consumer surplus)</p> <p>Removal of trade barriers will boost exports, create employment and boost economic growth</p> <p>Free trade allows for specialisation and countries to benefit from economies of scale</p> <p>Free trade increases competition and choice and drives up quality</p> <p>Up to 3 marks for a good well-developed point. Award 1-2 marks for limited development. 1 mark for identification only</p> <p>Protectionism may be justified if:</p> <ul style="list-style-type: none"> Infant Industry argument Sunset industry argument Diversify an economy too dependent on one product Raise tax revenue Improve the balance of payments Preserve employment 	20	AO1 4 AO2 4 AO3 6 AO4 6

	<p>Prevention of unfair trade practices such as dumping</p> <p>Up to 3 marks for a good well-developed point Award 1-2 marks for limited development 1 mark for identification only</p> <p>Reversible answer</p> <p>Maximum 14 marks without evaluation Maximum 14 marks if there is no clear understanding and use of comparative advantage</p>		
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