

# Mark scheme January 2004

## GCE

## Economics

## Unit ECN1

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**ECN1/1**

This component is an objective test for which the following list indicates the correct answers used in marking the candidates' responses.

**KEY LIST**

<b>1.</b>	<b>A</b>	<b>9.</b>	<b>B</b>
<b>2.</b>	<b>D</b>	<b>10.</b>	<b>D</b>
<b>3.</b>	<b>B</b>	<b>11.</b>	<b>A</b>
<b>4.</b>	<b>C</b>	<b>12.</b>	<b>D</b>
<b>5.</b>	<b>B</b>	<b>13.</b>	<b>B</b>
<b>6.</b>	<b>C</b>	<b>14.</b>	<b>D</b>
<b>7.</b>	<b>A</b>	<b>15.</b>	<b>B</b>
<b>8.</b>	<b>A</b>		

**ECN1/2****General Instructions**

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme for the data response questions:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 6 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for marking part (c) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 5. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 6. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

## APPLYING THE ‘LEVELS’ MARK SCHEME

### Levels of Response Mark Band Descriptors

In part (c) of the data response questions approximately half the marks are available to award to candidates who demonstrate that they can ‘evaluate economic arguments and evidence, and make informed judgements’. It is not necessary that the candidate identifies a wide range of issues. As indicated below, the Quality of Written Communication used should be taken into account when awarding the marks.

#### Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.

**0 to 3 marks**

*Mid-Point: 2 marks*

#### Level 2

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate’s explanation may become confused. There may be some attempt to present alternative points of view but any attempt at evaluation is superficial. The answer is likely to be poorly organised and is unlikely to have a clear structure. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

**4 to 6 marks**

*Mid-Point: 5 marks*

#### Level 3

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated. There will be some attempt to present alternative views and to evaluate the issues, arguments and/or data. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.

**7 to 9 marks**

*Mid-Point: 8 marks*

#### Level 4

Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology.

**10 to 12 marks**

*Mid-Point: 11 marks*

#### Level 5

Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

**13 to 15 marks**

*Mid-Point: 14 marks*

**THE KEY TO BE USED WHEN USING THE ‘LEVELS’ MARK SCHEME**

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate’s response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

**QUALITY OF WRITTEN COMMUNICATION**

The Mark Band Descriptors, which are used for assessing part (c) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

- (i) use of appropriate form and style of writing to organise relevant information clearly and coherently;
- (ii) use of specialist vocabulary, where appropriate;
- (iii) legibility of handwriting;
- (iv) accuracy of spelling, punctuation and grammar.

**EITHER****1****Total for this question: 25 marks**

1 (a) Using **Extract A**, compare the changes in sales of pre-recorded video cassettes with the changes in sales of digital versatile discs (DVDs) for the period 1998 to 2002. (4 marks)

**For candidates who:**

state that video cassette sales fell over the period: **1 mark**  
and back this up with statistics: **1 mark**

note that cassette sales rose in 2000: **1 mark**  
and back this up with statistics: **1 mark**

state that DVD sales rose continuously over the period: **1 mark**  
and back this up with statistics: **1 mark**

state that there is an inverse relationship between sales of video cassettes and DVDs: **1 mark**  
and back this up with statistics: **1 mark**

make any other relevant statement about the change(s) in sales, e.g. percentage changes, comparisons in a particular year: **1 mark per point**  
and back this up with statistics: **1 mark per point**

**Maximum of 1 mark if only changes in cassettes or DVDs are mentioned**

**Maximum of 2 marks if no relevant use is made of the statistics**

**Maximum of 2 marks if there is no overview comparing the relationship over the period**

**MAXIMUM FOR PART (a) 4 MARKS**

- 1 (b) **Extract B** (lines 11-12) states that the prices of DVD recorders “are likely to fall rapidly over the next few years”. With the help of a supply and demand diagram, explain how this may affect the market for video cassette recorders. (6 marks)

The expected diagram will show an initial equilibrium in the market for video cassette recorders, disturbed by the demand curve shifting leftward, bringing about a new equilibrium at a lower equilibrium price and a lower quantity. With accurate explanation, such an answer can earn full marks. Reward also an answer which discusses other possible factors affecting price, such as the selling of obsolete stock at rock-bottom prices, or perhaps, the loss of economies of scale tending to raise the price of VCRs.

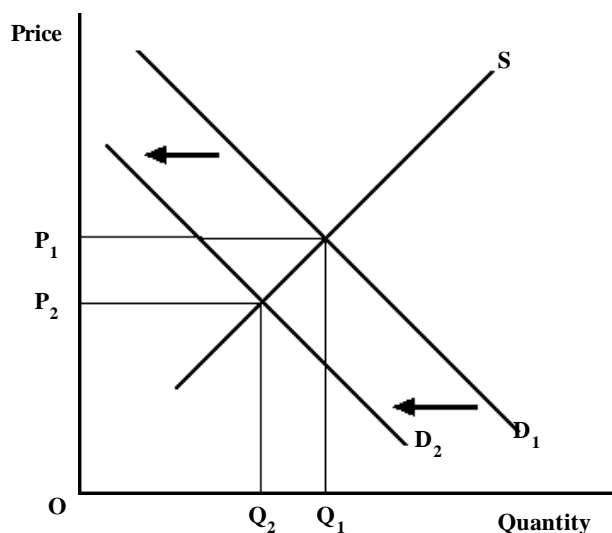
**For candidates who:**

accurately show an initial equilibrium on a fully labelled D & S diagram in the market for VCRs: **1 mark**

illustrate the demand curve for VCRs shifting leftward: **1 mark**

illustrate the resulting fall in price for VCRs: **1 mark**

**Maximum of 3 marks if there is a diagram but no written explanation**



**For candidates who:**

note that VCRs and DVD players are substitutes: **1 mark**

explain the reason for the leftward shift of demand: **Up to 2 marks**

explain the reason for the resulting fall in price: **Up to 2 marks**

make any other point relevant to the explanation: **Up to 1 mark per point**

**Maximum of 3 marks if there is written explanation but no diagram**

**MAXIMUM FOR PART (b) 6 MARKS**

- 1 (c) **Extract C** describes how markets for electronic goods and software are sometimes dominated by a single type of product, which incorporates the technology developed and controlled by one of the firms in the market. Do you agree that this reduces competition and is bad for consumers and producers? Justify your answer. (15 marks)

Candidates can earn full marks without showing technical knowledge of the merits and demerits of DVD technology versus VCR technology, or historical knowledge of the battle for market supremacy nearly 30 years ago between VHS (the winner) and Sony and Philips (the losers), or between Microsoft and Apple. Reward such knowledge only if relevant to the *economic* arguments being made. The emergence of a single technology means of course that competition between technologies is eliminated, but because the technology becomes the product standard, there may be considerable competition between firms producing goods that comply with or meet this standard. Benefits for firms may be: possibilities of economies of scale, lower production costs and higher profits, and elimination of the risk of investing in a technology which loses out. Disadvantages for producers include the inability to exercise the market power that results from being the monopoly producer of a particular standard or technology. Benefits for consumers include lower prices and elimination of the risk of buying a player incorporating a losing technology. Disadvantages for consumers include the possibility that the winning technology is not necessarily the best, and restriction of consumer choice.

The question poses two issues: will the dominance of a single technology reduce competition, and will the adoption of a single technology be bad for consumers and producers. An answer which addresses only the first issue should be restricted to a maximum of 8 marks, as should an answer that addresses only the second issue, unless there is implicit discussion of the competition issue. To achieve more than 7 marks candidates will need to show that they can use the data provided to make plausible judgements about the issues posed by the question.

The issues identified below are intended to provide an indication of some of the areas that might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- The meaning of competition;
- How adoption of a single standard may affect competition;
- Identification and discussion of specific ways in which producers may be affected, e.g. through economies of scale and risk elimination and reduction of competition;
- Identification and discussion of specific ways in which consumers may be affected, e.g. through restriction of choice and locking into an inferior technology;
- Understanding of the way(s) in which advantages and disadvantages for consumers may also be advantages and disadvantages for producers;
- How reducing competition, monopoly etc. may be good for consumers and producers;
- How reducing competition, monopoly etc. may be bad consumers and producers;
- Overall evaluation.

**USE THE LEVELS MARK SCHEME ON PAGES 5 & 6**

**MAXIMUM FOR PART (c) 15 MARKS**



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

2 (a) Using the data in **Extract D**, compare the private and external costs of commuting to work in central Brussels. (4 marks)

**For candidates who:**

state that both methods of travel incur both private and external costs: **1 mark**

and back this up with statistics: **1 mark**

state that the private cost of commuting by car is either more or less the same or **1 mark**

slightly higher than the private cost of commuting by bus:

and back this up with statistics: **1 mark**

state that the external costs of commuting by car are much higher than the **1 mark**

external costs of commuting by bus:

and back this up with statistics: **1 mark**

make any other relevant point in the comparison e.g. note that the cost of taxes **1 mark per point**

paid on the mode of travel are not shown in the data:

and back this up with statistics: **1 mark per point**

**Maximum of 1 mark if no relevant comparison is made****Maximum of 2 marks if no relevant use is made of the statistics****Maximum of 3 marks if the candidate compares private costs and social costs, without explicit mention of external costs****MAXIMUM FOR PART (a) 4 MARKS**

2 (b) Explain the meaning of the statement, “the signalling function of prices is not working properly”  
(**Extract D**, lines 13-14). (6 marks)

**For candidates who:**

provide a basic statement of the meaning of the signalling function of prices  
e.g. a statement that prices convey information:

**1 mark**

explain how a market operates when the signalling function *is* working properly  
e.g. the answer may relate the signalling function to the other functions of prices,  
or it may explain that all the costs (and / or benefits) involved in the production or  
consumption of a good are reflected in the price:

**Up to 3 marks**

explain how a market operates when the signalling function *is not* working properly  
e.g. the answer may explain how the other functions of prices perform less well,  
or it may explain that the price is too low and failing to reflect external costs, or  
too high and failing to reflect external benefits:

**Up to 5 marks**

relate the explanation to the data in the question:

**Up to 2 marks**

**Full marks can be earned without relating the answer to the price of motoring**

**Maximum of 3 marks for an answer restricted to how the signalling function works well and  
which does not address the issue of it not working properly**

**MAXIMUM FOR PART (b) 6 MARKS**

- 2 (c) Many motorists believe that parking in city centres is too expensive, but many economists argue that it is too cheap. In the light of the information in the data, evaluate the economic case for charging motorists significantly more for parking in city centres. (15 marks)

Both the graph in Extract D and Extract E provide evidence of the cost of parking in city centres (in Brussels and London). Many motorists believe that the cost is too expensive as it adds significantly to the cost of owning and/or using a car in a city centre. Many economists argue that the cost of parking is too cheap because it does not reflect fully the total resource cost (social cost) of providing car-parking spaces in city centres.

To achieve more than 7 marks candidates will need to show that they can use the data provided to make plausible judgements about the relative significance of the arguments relating to whether the cost of parking in city centres is too expensive or too cheap.

The issues identified below are intended to provide an indication of some of the areas that might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- Market failure and / or government failure;
- The private and external costs of parking a car in a city centre;
- Particular costs e.g. pollution externalities, congestion externalities, opportunity costs of land use;
- Substitution effects;
- Understanding of the fact that parking costs vary from city to city;
- Understanding of the fact that parking costs vary according to type of parking facility e.g. secure garage parking versus on-street parking;
- Understanding of the fact that the cost of parking can vary according to time of day or week;
- Relevant analysis and/or evaluation in terms of the signalling, incentive and allocative functions of prices;
- Relative weighting given to particular arguments or points made;
- Overall evaluation of the argument that parking is too expensive is stronger than the argument that parking is too cheap;
- Market failure and / or government failure.

**USE THE LEVELS MARK SCHEME ON PAGES 5 & 6**

**MAXIMUM FOR PART (c) 15 MARKS**