

GCE 2005

January Series



Mark Scheme

Economics

ECN1/1 & ECN1/2

Markets and Market Failure

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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AQA Advanced Subsidiary Economics**January 2005****ECN1/1**

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

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

Advanced Subsidiary Economics

January 2005

ECN1/2

Mark Scheme

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 also 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. The candidate will present alternative points of view 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 10 marks*Mid-Point 9 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.

11 to 13 marks*Mid-Point 12 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.

14 to 15 marks*Mid-Point 15 marks*

THE KEY TO BE USED WHEN USING THE ‘LEVELS’ MARKING 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 of 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 an 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) With the help of an example from **Extracts A or B**, explain the meaning of the term “division of labour” (**Extract B**, line 10). *(4 marks)*

Candidates may explain the division of labour using an example within a particular place of work, between different plants or establishments within a country, or based on the stimulus in the question, the international division of labour. Extracts A and B give several examples of the international division of labour.

For candidates who:

explain the division of labour: **up to 2 marks**

state an example of the international division of labour from Extracts A and/or B: **1 mark**

relate the example to the explanation of the division of labour: **1 mark**

MAXIMUM FOR PART (a) 4 MARKS

1 (b) Explain how the division of labour may reduce costs of production and increase competitiveness.

(6 marks)

For candidates who:

define costs of production:

1 mark

explain an advantage of the division of labour, e.g. better use of machinery, learning by doing:

1 mark per advantage

relate the advantage(s) to falling average costs:

up to 3 marks

define competitiveness:

1 mark

explain how competitiveness may increase:

up to 3 marks

better products and/or lower costs may increase competitiveness. One point explained very well or two or more points more briefly can earn full marks.

Maximum of 4 marks if only costs *or* competitiveness is explained

MAXIMUM FOR PART (b) 6 MARKS

- 1 (c) Using the data and your economic knowledge, evaluate the case for **and** against a government trying to correct market failures, such as those resulting from the immobility of labour, negative externalities and greater income inequality, following the closure of factories. (15 marks)

The question is deliberately open, but, because candidates have been instructed to use the data, general accounts of market failure which make no mention of factory closures use of the data should be restricted to a maximum of 9 marks, however good the analysis and evaluation. The question provides three prompts drawn from the data. One of these used *very well*, or more than one with less rigour, can earn full marks, provided there is enough relevant analysis and evaluation in the answer overall.

An answer that identifies market failure(s) but which includes no evaluation, should be restricted to a maximum of 7 marks. To achieve more than 7 marks, candidates need to show that they can use the data provided to make plausible judgements about the issues posed by the question. This requires consideration of both the for and the against arguments.

The issues identified below are intended to provide an indication of some of the areas which 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 market failure
- Examples of market failure
- Relevant use of the market failures prompted by the question
- Resource allocation and efficiency issues
- Application of equity concepts
- Why governments try to correct market failures
- How governments try to correct market failures
- The problem of government failure

Also give credit for:

- Relevant use of data and/or candidate's knowledge
- Relevant use of prompts
- Relevant use of evidence
- Overall assessment

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) Define cross elasticity of demand, **and** compare the cross elasticities of demand that are shown in **Extract C**. (4 marks)

Formula: Cross elasticity of demand =
$$\frac{\% \text{ (or proportionate) change in quantity demanded of Good A}}{\% \text{ (or proportionate) change in price of Good B}}$$

For candidates who:

state the meaning of cross elasticity of demand in terms of proportionate responsiveness of demand for one good following a proportionate change in the price of another good (or who provide the correct formula):

2 marks

(2 marks for an accurate definition; 1 mark for omitting the word “percentage” or “proportionate”; 0 marks for 'upside down' formula, or confusion with another elasticity.)

make a relevant point of comparison in relation to the estimated elasticity statistics:

1 mark per point

points include:

- one of the elasticities is positive, one is negative;
- one has a high elasticity, the other has a low elasticity;
- reference to complementary goods;
- reference to substitutes.

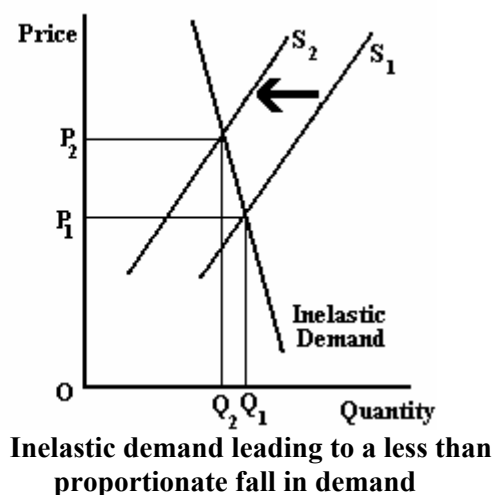
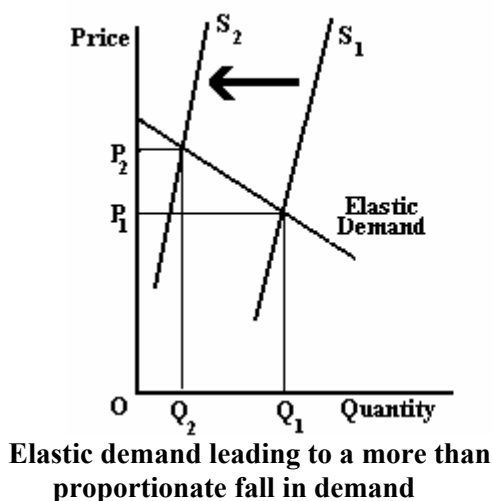
Maximum of 2 marks for correct definition or formula, but no attempt at a comparison

Maximum of 3 marks for a comparison, but no attempt at a definition

MAXIMUM FOR PART (a) 4 MARKS

- 2 (b) With the help of a supply and demand diagram, explain the statement in **Extract D** (line 15) that “the effectiveness of higher taxes on alcohol depends on its price elasticity of demand”. (6 marks)

Possible diagrams:



The candidate can draw either an elastic or an inelastic demand curve depending on the interpretation of ‘effectiveness’. Only one diagram is necessary for full marks, but it must be accompanied by a full written explanation.

For candidates who:

draw an appropriate diagram accurately showing an initial equilibrium: **1 mark**
 label the demand curve or curves accurately as inelastic or elastic: **1 mark**
 show the supply curve shifting leftward in response to the tax: **1 mark**
 show the new equilibrium price and quantity: **1 mark**

explain the meaning of *effectiveness* in terms of reducing demand for alcohol: **1 mark**

explain how the effectiveness of the tax in reducing demand depends on the price elasticity of demand: **up to 3 marks**

explain the meaning of *effectiveness* in terms of raising tax revenue for the government: **1 mark**

explain how the effectiveness of the tax in raising revenue for the government depends on the price elasticity of demand for alcoholic drink: **up to 3 marks**

explain the conflict between reducing demand and raising tax revenue: **1 mark**

Maximum of 2 marks for the diagram if there is no supply curve

Maximum of 3 marks if there is a diagram but no written explanation, or vice versa

Maximum of 3 marks if the concept of elasticity is not used accurately

Maximum of 5 marks if there is no reference, explicit or implicit, to the meaning of ‘effectiveness’

MAXIMUM FOR PART (b) 6 MARKS

- 2 (c) Evaluate the view that raising the legal drinking age to 21 will be more effective than other methods mentioned in **Extract D** for reducing the harmful effects of alcohol. (15 marks)

Some candidates may approach the question by arguing that alcoholic drinks are demerit goods. Such an approach is valid and should be rewarded. The answers may draw on one or both of the two main properties of a demerit good, namely that the social costs of consumption exceed the private costs, and that the long term *private* costs (in terms of later bad health) exceed the short term *private* costs. It is particularly the latter characteristic that leads to young drinkers underestimating the long term private costs and overindulging at a young age. Full marks can be earned without the candidate mentioning or discussing demerit goods. Neither the Extracts nor the questions mention that alcohol is a demerit good. However, such answers are likely to be superficial and lacking in appropriate analysis.

The passage mentions a number of alternatives to raising the legal drinking age. These include voluntary restriction, taxation and better information. Raising the legal drinking age may lead to underground consumption and possible criminal activity.

The issues identified below are intended to provide an indication of some of the areas which 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:

- Negative externalities in relation to alcohol
- Informational costs of consumption
- Alcohol as a demerit good
- Relating the case for charging to the signalling, incentive and allocative functions of prices
- Advantages of market forces determining prices
- Disadvantages of market forces determining prices
- Market failure and government failure issues
- The case for and against raising the legal drinking age
- Alternative policy solutions
- Resource allocation and efficiency issues

Also give credit for:

- Relevant use of data and/or candidate's knowledge
- Relevant use of prompts
- Relevant use of evidence
- Overall assessment

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c) 15 MARKS