

GCE 2004

June Series



Mark Scheme

Economics

Unit ECN1/1 & ECN1/2

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.

Further copies of this Mark Scheme are available from:

Publications Department, Aldon House, 39, Heald Grove, Rusholme, Manchester, M14 4NA
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Dr. Michael Cresswell Director General

Advanced Subsidiary Economics**June 2004****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

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

Advanced Subsidiary Economics**June 2004****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 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’ 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) Using **Extract A**, compare the changes in the price of natural rubber before and after 1979. (4 marks)

For candidates who:

compare any one aspect of the data before and after 1979: **1 mark**

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

Answers may state that:

before about 1977, the price was *always* lower than at any time after 1979

before about 1979, the price was *generally* lower than after 1979

the price generally fell before 1972

the price rapidly fell between 1979 and 1982

the price rapidly rose between 1993 and 1995, and then rapidly fell after the peak in 1995

there was relative stability between 1982 and 1993

Maximum of 2 marks for trawling through the data, providing there is an element of comparison

Maximum of 1 mark if there is no comparison

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

Two points of comparison both backed up with statistics will earn full marks

MAXIMUM FOR PART (a) 4 MARKS

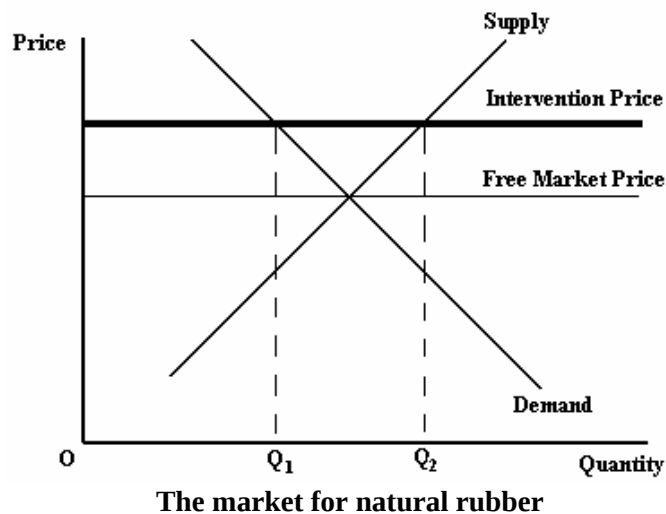
- 1 (b) **Extract B** (lines 6-7) states that “INRO tried to stabilise the price of natural rubber, at the level achieved in 1979, by operating a buffer stock scheme”.

With the help of a supply and demand diagram, explain how the price of natural rubber might be stabilised in a buffer stock scheme. (6 marks)

Diagram and explanation:

Candidates may draw a diagram similar to the one below, which illustrates support-buying and the accumulation of a buffer stock to prevent the price *falling* below the depicted intervention price. Alternatively or additionally, candidates may illustrate (and explain) support selling from a previously accumulated buffer stock, to prevent the price *rising* above the appropriate intervention price. Candidates must be restricted to a maximum of five marks (taking into account *both* diagram and written explanation) if the answer is restricted to explaining support-buying, with no mention of support-selling (or vice versa).

The diagram below does not illustrate explicitly a shift of the supply curve or the demand curve that triggers support-buying, nor is excess supply labelled explicitly on the diagram, but marks can be earned for depicting them on the diagram (and/or including them in the written explanation).



For candidates who:

- | | |
|--|---------------|
| illustrate the free-market price (in the absence of intervention) on a properly labelled D & S diagram in the market for natural rubber: | 1 mark |
| illustrate an intervention price drawn on the diagram: | 1 mark |
| illustrate a relevant shift of the supply curve (or the demand curve) that has caused the free-market price to move to a position below (or above) the intervention price: | 1 mark |
| label excess demand or excess supply at the relevant intervention price: | 1 mark |
| illustrate the quantity accumulated into, or sold from the buffer stock: | 1 mark |

Maximum of 4 marks for the diagram

Maximum of 3 marks if there is no written explanation of the diagram

For candidates who:

explain that the free-market price (in the absence of intervention) has fallen or risen as result of a shift of the supply curve (or the demand curve): **up to 2 marks**

explain how support buying takes place to prevent the price falling to the free market level, by taking the excess supply at the (lower) intervention price off the market: **up to 2 marks**

explain how support selling take to prevent the price rising to the free market level, by taking the excess demand at the (higher) intervention price off the market: **up to 2 marks**

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

Maximum of 4 marks for explanation

Maximum of 3 marks if there is no diagram accompanying the written explanation

Maximum of 5 marks overall (taking into account both diagram and written explanation) if the answer is restricted to explaining support-buying, with no mention of support-selling (or vice versa).

MAXIMUM FOR PART (b) 6 MARKS

- 1 (c) Using the data and your economic knowledge, assess the case **for** and **against** market forces determining the prices of agricultural goods such as natural rubber, without any intervention by governments or buffer stock agencies. (15 marks)

Candidates can earn full marks by discussing, and then assessing, the case for and against buffer stock intervention, or an aspect/method of intervention by government other than through buffer stock intervention (e.g. retention schemes, subsidies, protectionism), providing the method is discussed and assessed in some depth. Alternatively, two or more methods of intervention may be discussed and assessed in less depth. Answers restricted to either the case for or against will not rise above Level 2

To achieve more than 10 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 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:

- Different forms of intervention;
- Recognition that non-governmental agencies, e.g. producers associations or co-operatives may intervene;
- Relating market forces to the signalling, incentive and allocative functions of prices;
- Advantages of market forces determining prices;
- Disadvantages of market forces determining prices;
- Reasons for intervention (in relation to intervention in general and/or in relation to particular forms of intervention) e.g. to stabilise price, to stabilise producers' incomes;
- Advantages of intervention (in relation to intervention in general and/or in relation to particular forms of intervention);
- Disadvantages of intervention (in relation to intervention in general and/or in relation to particular forms of intervention);
- Market failure and government failure issues;
- Resource allocation and efficiency issues;
- The possibility of cheating;
- Relevant use of data and/or candidate's knowledge;
- 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 price elasticity of demand **and** briefly compare the price elasticities of demand for museum visits, shown in **Extract C**, following the abolition of admission charges. (4 marks)

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

For candidates who:

define price elasticity of demand in terms of the responsiveness of demand to a change in price: **1 mark**

or who state the meaning of elasticity in terms of proportionate responsiveness of demand to changes in price (or who provide the correct formula): **2 marks**

make a relevant point of comparison in relation to the estimated elasticity statistics: **1 mark per point**

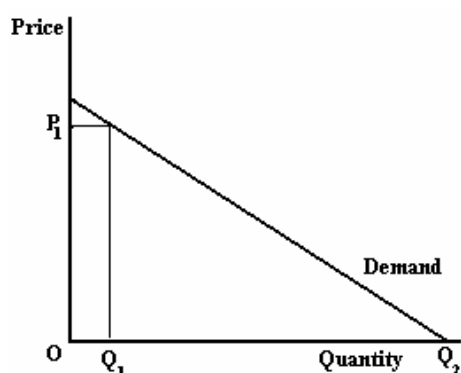
points include: all the elasticities are negative; two are elastic and three are inelastic; none are highly elastic; the elasticity of the most elastic (the V&A) is ten times larger (ignoring the minus sign) than the statistic for the most inelastic (the Imperial War Museum)

Do not award any marks for the first part of the question if elasticity is defined solely in terms of absolute rather than proportionate changes, or in terms of income, but award 1 mark if defined in terms of cross elasticity of demand.

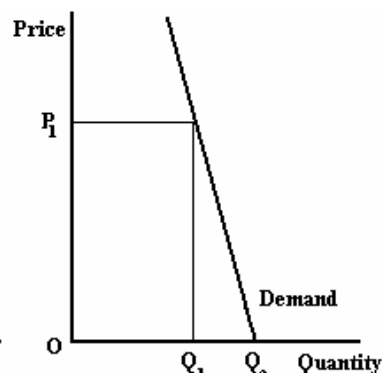
**Maximum of 2 marks for correct definition or formula, but no attempt at a comparison
Maximum of 3 marks for a comparison, but no attempt at a definition, or for giving a completely wrong definition.**

MAXIMUM FOR PART (a) 4 MARKS

- 2 (b) With the help of demand curve diagrams, and using the information in the data, explain **two** possible reasons why the increase in the number of visitors was greater for some museums than others. (6 marks)



Elastic Demand (e.g. V & A Museum)



Inelastic Demand (e.g. Imperial War Museum)

Since the question instructs candidates to use demand curve diagrams, one valid approach is to draw two demand curves depicting respectively inelastic and elastic demand (as above). Candidates do not have to use the actual price changes in the Extract in their diagrams, and they can illustrate a price fall rather than a price reduction to zero or free admission. Accept a gently-sloping demand curve labelled as elastic, and a steeply-sloping curve labelled as inelastic i.e. don't penalise a candidate for lack of awareness of the fact that the elasticity varies from point to point along a negative linear demand curve.

An alternative approach is to show a rightward shift of demand, with the demand curve for one museum shifting further to the right than the demand curve for the other museum. Candidates may also include both demand curves on one diagram, rather than use two diagrams.

For candidates who:

draw two demand curves, accurately labelled for different museums, with axes also accurately labelled:

1 mark

depict the demand curves with different elasticities:

1 mark

show on the diagram(s) the different quantity demanded following the abolition of admission charges, or a price reduction:

up to 2 marks

show a greater rightward shift of demand for one museum than for the other:

2 marks

Maximum of 4 marks for the diagram

For candidates who:

explain relevant reasons:

**up to 2 marks
per reason**

Relevant reasons: relating to differing elasticities of demand and/or different rightward shifts of demand; different absolute and/or proportionate price reductions; different numbers of visitors before the admissions charges were abolished; specialised museums versus general purpose museums; different sizes of local catchment area; access to national and international tourists; advertising and promotion; special exhibits.

Maximum of 4 marks for the diagram

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

Maximum of 4 marks for explanation of two reasons

Maximum of 5 marks for the whole answer if only one reason is explained

MAXIMUM FOR PART (b) 6 MARKS

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2 (c) Using the data and your economic knowledge, assess the case **for** and **against** providing free entry to museums. (15 marks)

Candidates can earn full marks by discussing, and then assessing, the case for and against free provision and/or the case for charging for museum entry. Answers restricted to either the case for or against will not rise above Level 2.

Extract D provides several prompts for both the case for and the case against. An answer that identifies the prompts but does not provide proper explanation, should be restricted to a maximum of 10 marks. To achieve more than 10 marks candidates will need to show that they can use the data provided to make plausible judgements about the issues posed by the question. Good answers may display candidates' knowledge of merit good arguments and analysis.

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:

- A museum as a merit good;
- Positive externalities in relation to museums;
- Informational benefits of consumption;
- Distributional issues;
- Disadvantages of free provision e.g. problems of funding, people not valuing goods they consume without paying;
- 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;
- Which museums should be free and which should charge prices (if any);
- Resource allocation and efficiency issues;
- Relevant use of data and/or candidate's knowledge;
- Relevant use of evidence;
- Overall assessment.

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c) 15 MARKS

