



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme January 2002

GCE

Economics

Unit ECN1

Advanced Subsidiary Economics**January 2002****ECN1/1**

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

KEY LIST

1.	D	14.	B
2.	B	15.	D
3.	B	16.	A
4.	C	17.	B
5.	B	18.	C
6.	C	19.	B
7.	B	20.	D
8.	C	21.	C
9.	A	22.	D
10.	D	23.	A
11.	C	24.	B
12.	D	25.	A
13.	A		

January 2002

ECN1/2

Advanced Subsidiary Economics**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 are likely to be poor. There is little use of economic terminology.

0 to 5 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 will be some attempt to present alternative points of view. 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.

6 to 10 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 there will be some attempt to evaluate the issues, arguments and/or data. 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.

11 to 15 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.

16 to 20 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 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: 35 marks**

(a) Explain why economists generally classify illegal drugs as demerit goods. (5 marks)

For stating that a demerit good is a good which is harmful, or which society considers bad for people:

1 mark

For stating that a demerit good is a good that is overproduced by the market:

1 mark

For defining a demerit good as one for which the social costs exceed the private costs: **Up to 2 marks**

For defining a demerit good as one for which consumption generates negative externalities:

Up to 2 marks

For defining a demerit good as one for which the long term private costs exceed the short term private costs (or private benefits) i.e. for defining demerit goods in terms of the informational problem:

Up to 2 marks

For relevant explanation of drugs as a demerit good:

1 mark

Maximum of 4 marks if there is no linkage of the definition(s) to drugs.

Maximum of 5 marks

(b)(i) Explain the meaning of the terms ‘elastic demand’ and ‘inelastic demand’, which are referred to in lines 5 to 7 of **Extract B**. (4 marks)

To earn both available marks in each case, the candidate must clearly show that price elasticity of demand measures the proportionate change in demand resulting from a price change. Many candidates will do this by stating the formula for price elasticity of demand, though a formula is not necessary to earn 2 marks.

For a correct formula or definition of price elasticity of demand:

1 mark

For explaining the meaning of elastic demand:

Up to 2 marks

For a numerical example to illustrate elastic demand:

1 mark

For an appropriate diagram to illustrate elastic demand:

1 mark**Maximum of 2 marks for elastic demand**

For explaining the meaning of inelastic demand:

Up to 2 marks

For a numerical example to illustrate inelastic demand:

1 mark

For an appropriate diagram to illustrate inelastic demand:

1 mark**Maximum of 2 marks for inelastic demand**

Maximum of 2 marks overall for answers that do not explain the concepts in proportionate or percentage terms.

Maximum of 3 marks for positive responses (i.e. elasticities) rather than negative responses (i.e. elasticities).

Maximum of 4 marks

(b)(ii) Suppose a government decides to use taxation, rather than a ban, to influence the market for a drug such as heroin. Making use of **Extract B** and **Figure 1**, explain how an indirect tax might affect the market for the drug. (6 marks)

For explaining that the market will now be legal: **1 mark**

For explaining that a high tax in the legal market may promote smuggling and an illegal market: **1 mark**

For stating that the tax shifts the supply curve to the left: **1 mark**

For explaining that by raising the price, the tax will deter consumption: **1 mark**

For explaining how the effect depends on elasticity of demand: **Up to 2 marks**

For explaining that if set at the optimal level, the tax may correct the market failure: **Up to 3 marks**

For illustrating the effect of a tax on an appropriate supply and demand diagram: **Up to 3 marks**

Reward relevant development and interpretation of the diagram e.g. in terms of the tax burden falling on producers and consumers.

An accurate supply and demand diagram and accompanying appropriate explanation can earn full marks.

An accurate diagram with no written explanation, but showing that the tax shifts supply: **Up to 3 marks**

Written explanation but no diagram can earn up to 6 marks providing it explains effects of shifting supply when demand is both elastic and inelastic.

Maximum of 6 marks

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| (c) Do you agree that government intervention in the market for drugs which are commonly regarded as demerit goods fails to improve economic welfare? Justify your answer. (20 marks) |
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Candidates may bring in non-economic arguments such as libertarianism versus authoritarianism, but these should only be rewarded if strictly economic points that are relevant to the question are made e.g. the state as a better judge of what is in an individual's interest in terms of the individual's economic welfare than the individual himself or herself. There must be evaluation to gain 14 or more marks.

Issues and areas for discussion include:

- discussions of the meaning of economic welfare;
- discussion of the different forms of intervention;
- explanation of the external costs resulting from consumption of drugs;
- discussion of long-term private costs suffered by the drug user;
- discussion of the aims of intervention;
- discussion of the effectiveness of intervention;
- discussion of the undesirable effects of intervention, government failure, new problems created, etc;
- discussion of the opportunity cost of intervention e.g. the public services on which money cannot now be spent;
- market failure versus government failure;
- 'second best' outcomes.

**USE THE MARK BAND DESCRIPTORS
SHOWN ON PAGE 5 OF THE MARK SCHEME**

Maximum of 20 marks

OR**2****Total for this question: 35 marks**

- (a) Describe the relationship between changes in the price of coffee beans and changes in the world production of coffee beans shown in **Figure 2**. *(5 marks)*

For noting that over the whole period the price of coffee beans hardly changed but that total production increased over the period:

1 mark

For noting the general inverse relationship:

Up to 2 marks

For illustrative figures:

Up to 2 marks

For mentioning the possibility of lags:

Up to 2 marks

For further relevant elaboration e.g. exceptions to the relationship, noting the

misleading scale for the production graph:

Up to 2 further marks in total**Maximum of 2 marks if no attempt is made to identify a relationship****Maximum of 5 marks**

- (b)(i) With the use of a supply and demand diagram, explain the change in the price of coffee beans since the peak in 1994. *(4 marks)*

No marks for noting the falling price of coffee beans, as marks have already been awarded for this in (a), unless the candidate has not attempted (a), in which case 1 mark can be transferred to (a).

For explaining the falling price in terms of an increase in supply. For a basic statement:

1 mark

For further relevant explanation e.g. Vietnam increasing its production:

1 mark

For a supply and demand diagram illustrating the rightward shift of supply and the falling equilibrium price:

1 mark**1 mark**

Thus: 2 marks for written explanation and 2 marks for the diagram.

Maximum of 4 marks

(b)(ii) Using the information in **Extract E**, explain why changes in the price of coffee beans have not been reflected in changes in the prices charged by coffee bars. (6 marks)

Extract E indicates the following points:

- raw material costs are a relatively small part of the price of a cup of coffee;
- other costs, especially property costs;
- demand for coffee in coffee bars is price inelastic;
- consumers are prepared to pay a high price for good quality service;
- if the price of coffee beans rises, this would be passed on as a price rise for cups of coffee, rather than absorbed;
- market power or monopoly power of the coffee shops;
- increase in demand related to life style.

For a basic statement of any one of the above points in the question:

1 mark per point

For appropriate further development of the point:

Up to 2 further marks per point

The point must be fully developed to earn both the further marks.

Maximum of 3 marks if there is no reference, explicit or implicit, to the information in Extract E.

Maximum of 3 marks if points are stated, but with absolutely no explanation.

Maximum of 6 marks

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| (c) Evaluate the case <i>for</i> and <i>against</i> the Brazilian government intervening in the market for coffee beans to stabilise farmers' incomes. (20 marks) |
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Extract D indicates that the method of intervention is likely to be a buffer stock scheme or a retention scheme. Other forms of intervention such as producers agreeing quotas could also be discussed. Candidates can earn full marks by restricting discussion to one type of intervention but there must be evaluation to gain 14 or more marks. The issues identified below are intended to provide some indication of the areas which might be discussed.

Issues and areas for discussion include:

- identifying a method or methods of intervention;
- discussing the mechanics of a method of intervention;
- discussing the objective(s) of the method of intervention;
- discussion of the problems of any one method of intervention e.g. choice of target price, finance, costs of storage in the case of a buffer stock scheme;
- discussing whether only Brazil and not other producers undertake intervention;
- discussion of the case for intervention e.g. the welfare of producers may increase;
- discussion of the case against intervention e.g. it may be ineffective unless all producers take part;
- overall evaluation of the cases for and against intervention;
- government failure;
- price elasticity of supply.

Candidates who recognise that income stabilisation is not the same as price stabilisation should be amply rewarded.

**USE THE MARK BAND DESCRIPTORS
SHOWN ON PAGE 5 OF THE MARK SCHEME**

Maximum of 20 marks