



General Certificate of Education

Economics ECN3

Unit 3 Markets at Work

Mark Scheme

2007 examination - January series

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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Advanced Subsidiary Economics

January 2007

ECN3

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) to (d) 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 5 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for marking part (e) 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 4. 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 5. 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 (e) 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 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' 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 (e) 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.

OPTION 1: THE HOUSING MARKET**Total for this question: 40 marks**

1 (a) Define the term 'wealth' (Extract A , line 27).	(3 marks)
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For an acceptable definition (eg the stock of any asset with a monetary value)	3 marks
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If the definition is incomplete, marks may be broken down, for example as follows:

Notion of 'asset'	1 mark
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The idea that an asset can be exchanged (1) for money (1)	2 marks
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Wealth (stock) compared with income (flow)	Up to 2 marks
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If wealth is considered purely as existing in the form of money:	Max. 1 mark
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For an example of 'wealth':	1 Mark
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MAXIMUM FOR PART (a) 3 MARKS

1 (b) Using Extract A , briefly explain two factors which might influence a decision to buy a second home.	(4 marks)
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Two examples of factors, eg 'wealth', 'climate'	2 marks
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Explanation of how these factors affect decisions	Up to 2 marks
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MAXIMUM FOR PART (b) 4 MARKS

1 (c) Use the concept of cross elasticity of demand to explain the likely relationship between the markets for second homes in the UK and second homes abroad.
(8 marks)

For a definition/description of cross elasticity of demand **2 marks**

Formula **2 marks**

Award a maximum of **3 marks** for all of the above

Explanation

The two items are substitutes **1 mark**

Explanation **1 mark**

Cross elasticity of demand is positive **1 mark**

Explanation of why it is positive **2 marks**

Discussion of the likely degree of substitution, i.e. the magnitude of the coefficient (this precise phrase need not, of course, be used) **Up to 2 marks**

Other relevant discussion/ use of suitable diagram **Up to 2 marks**

Award a maximum of **5 marks** if there is no reference to cross elasticity of demand

MAXIMUM FOR PART (c) 8 MARKS

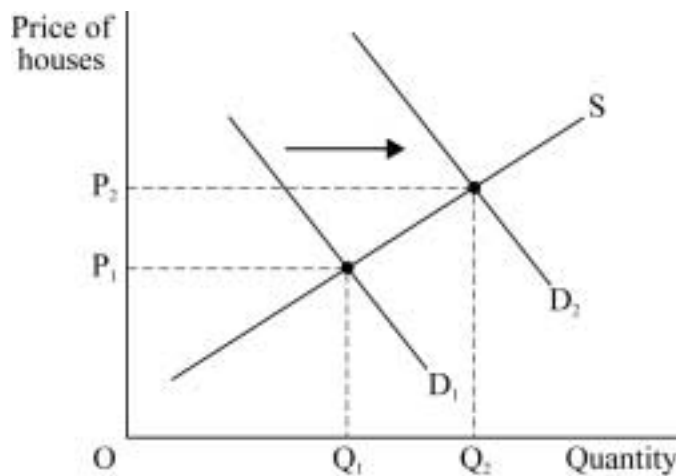
- 1 (d) With the help of a supply and demand diagram, analyse the likely effects of an increase in demand for second homes on the wider housing market in the UK.
(10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

Anticipated approach:

The increased demand for second homes will add to general market demand for houses. The demand curve shifts to the right, prices rise, quantity supplied extends.

Diagram break-down:



Axes labelled (1)

S & D curves correct (1)

Shift in appropriate direction (1)

Changes in price and quantity clearly shown and labelled (1)

For a relevant diagram

Max 4 marks

Note: the above anticipates a diagram focusing on the main market. If two diagrams are offered, including the related market, then the 4 marks can be allocated across the two diagrams. Depending on the quality of part of the written response dealing with inter-related markets, this approach might also earn marks for 'advanced analysis' (see below).

Anticipated approach to written response:

For describing the diagram: reasons for and direction of shift; change in price and quantity **Up to 3 marks**

For some advanced analysis, eg consideration of the possibility of regional differences, or any other interesting discussion of the case, beyond basic description of the diagram. **Up to 3 marks**

Alternative approach: the candidate might argue that an increase in demand for second homes abroad, if expatriates then sell up in the UK, might shift supply in the UK to the right. Full marks are available for this or, of course, any other plausible line of argument.

For written explanation

Max 6 marks

MAXIMUM FOR PART (d) 10 MARKS

- 1 (e) Changes in the market for second homes, such as those discussed in the data, will have both microeconomic and macroeconomic effects. Identify the main effects and evaluate their economic impact. (15 marks)

Relevant points that could be raised include:

- Distinction between micro and macro
- Identification of micro effects, eg:
 - House prices
 - Demands on land use
 - Labour issues, e.g. affordability for key workers, mobility
 - Housing for locals versus incomers in second home hotspots
 - Effects on first time buyers
- Identification of macro issues, eg:
 - Effects on AD
 - Wealth effects
 - Investment income and current B.O.P., eg rents from holiday homes
 - Implications for macro policy, e.g. with respect to
 - Inflation
 - Interest rates
- Evaluation could come from, eg:
 - Micro:
 - Possible mismatch between demand and supply for amount of housing, or type of housing (e.g. for single-person households)
 - Extract assumes that second home areas will experience 'benefits': this can be challenged
 - Macro:
 - Housing 'booms' can have knock-on benefits (eg employment) and costs (e.g. inflation and its policy responses)
 - The role of government is not specifically requested in the question, but could form part of evaluation and should be rewarded if it is raised in a relevant way
 - As always, give credit for sensible use of the data

Maximum of 10 marks if only one of micro or macro is considered.

Maximum of 7 marks if there is no attempt to evaluate.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS

OPTION 2: THE ENVIRONMENT**Total for this question: 40 marks**2 (a) Define the term 'indirect tax' (**Extract C**, line 24).*(3 marks)*

For an acceptable definition (eg a tax levied on expenditure on goods and services, or a tax on the sale of goods and services) **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

An expenditure tax (2) as opposed to a direct/ income (1) tax

Up to 3 marks

Indirect because there isn't a direct relationship between taxpayer and collector (as there is with income tax)

1 mark

A tax on goods

1 mark

Notion that its incidence can be transferred (this phrase need not be used) between seller and buyer by adjusting selling price

Up to 2 Marks

It raises revenue

1 mark

A suitable example other than the plastic bag tax, eg VAT

1 mark**MAXIMUM FOR PART (a) 3 MARKS**

2 (b) Using the extracts, briefly explain **two** factors which might influence a decision to take home plastic bags.

(4 marks)

Two examples of factors, eg 'free' bags versus bags with a price, 'guilt', environmental considerations **2 marks**

Explanation of how these factors affect decisions:

Up to 2 marks**MAXIMUM FOR PART (b) 4 MARKS**

2 (c) Use the concept of cross elasticity of demand to explain the likely relationship between the markets for plastic bags and paper bags. (8 marks)

For a definition/description of cross elasticity of demand **2 marks**

Formula **2 marks**

Award a maximum of **3 marks** for all of the above

Explanation

The two items are substitutes: **1 mark**

Explanation: **1 mark**

Cross elasticity of demand is positive: **1 mark**

Explanation of why it is positive: **Up to 2 marks**

Discussion of the likely degree of substitution, ie the magnitude of the coefficient (this precise phrase need not, of course, be used): **Up to 2 marks**

Other relevant discussion/ use of suitable diagram: **Up to 2 marks**

Answers can be **either** from the point of view of the final customer demanding bags from the supermarket **or** from the point of view of the supermarket demanding bags from their suppliers.

Award a maximum of **5 marks** if there is no reference to cross elasticity of demand

MAXIMUM FOR PART (c) 8 MARKS

2 (d) With the help of a supply and demand diagram, analyse the likely effects of the proposed plastic bag tax on the market for durable ‘bags for life’ in Scotland.

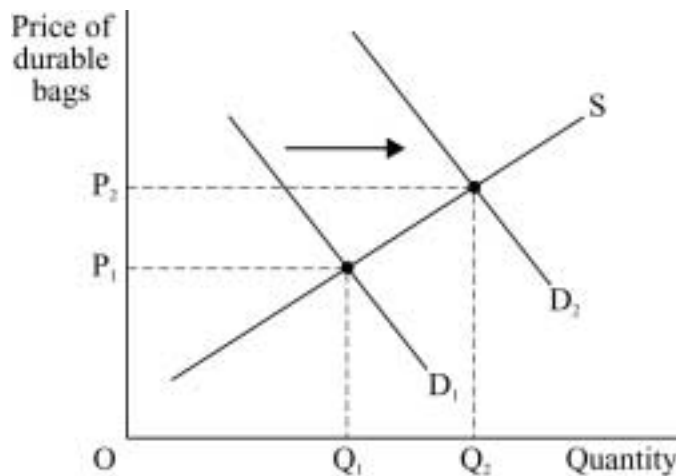
(10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

Anticipated approach:

The tax on disposable bags will make durable bags more attractive to the consumer. The demand curve for durable bags shifts to the right, prices rise, quantity supplied extends.

Diagram break-down:



Axes labelled (1)

S & D curves correct (1)

Shift in appropriate direction (1)

Changes in price and quantity clearly shown and labelled (1)

For a relevant diagram

Max 4 marks

Note: the above anticipates a diagram focusing on the main market. If two diagrams are offered, including the related market, then the 4 marks can be allocated across the two diagrams. Depending on the quality of part of the written response dealing with inter-related markets, this approach might also earn marks for ‘advanced analysis’ (see below).

Anticipated approach to written response:

For describing the diagram: reasons for and direction of shift; change in price and quantity

Up to 3 marks

For some advanced analysis, eg consideration of the effect of price elasticity of supply, or any other interesting discussion of the case, beyond basic description of the diagram, eg if candidates raise the issue of whether ‘bags for life’ are taxed

Up to 3 marks

For written explanation

Max 6 marks

MAXIMUM FOR PART (d) 10 MARKS

2 (e) New environmental taxes, such as those discussed in the data, will have both microeconomic and macroeconomic effects. Identify the main effects and evaluate their economic impact. (15 marks)

Relevant points that could be raised include:

- Distinction between micro and macro
- Identification of micro effects, eg:
 - Changes in patterns of demand: plastic bags, paper bags, bags for life
 - Effects on related markets: groceries, suppliers
 - Effects on business costs
 - Micro effects of spending the revenue, e.g. environmental projects
- Identification of macro issues arising from this particular tax, or similar environmental taxes, eg:
 - Possible effects on prices/inflation
 - International trade (extracts suggest that Irish bags are imported)
 - International competitiveness – are Scottish retailers in danger of being put at a disadvantage?
- Macro issues arising from taxation in general:
 - Effects on AD
 - Multiplier
 - Implications for macro policy, eg with respect to:
 - Inflation
 - Interest rates
 - Budgets
- Evaluation could come from, eg:
 - Micro:
 - Will the tax actually achieve its objectives? The extracts give arguments either way.
 - Macro:
 - Criticism of 'stealth taxes'.
 - Using the tax as a revenue raiser is not compatible with using the tax to stamp out the problem.
 - Competitiveness (see above)
 - The role of government is not specifically requested in the question, but could form part of evaluation and should be rewarded if it is raised in a relevant way. The extract mentions that another government has simply banned plastic bags (command and control as opposed to 'polluter pays' market based policy).
 - As always, give credit for sensible use of the data

Maximum of 10 marks if only one of micro or macro is considered.

Maximum of 7 marks if there is no attempt to evaluate.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE**Total for this question: 40 marks**3 (a) Define the term 'economies of scale' (**Extract F**, line 1).*(3 marks)*

For an acceptable AS level definition (eg a fall in unit costs due to the growth of output; **or** falling long run average costs as output increases; **or** output increasing at a faster rate than all inputs) **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

Notion of 'size' of firm or market **1 mark**

The idea that size can increase efficiency **1 mark**

Relationship with unit costs **1 mark**

Distinction between internal/ external **1 mark**

Example, e.g. technical economy, managerial, etc., identified (1), elaborated (1) **2 marks**

MAXIMUM FOR PART (a) 3 MARKS

3 (b) Using **Extract F**, briefly explain **two** factors which might influence a decision to take a non-package (independent) holiday. *(4 marks)*

Two examples of factors, eg 'price', 'flexibility' **2 marks**

Explanation of how these factors affect decisions **Up to 2 marks**

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Use the concept of cross elasticity of demand to explain the likely relationship between the markets for cheap flights and holiday accommodation. (8 marks)

For a definition/description of cross elasticity of demand **2 marks**

Formula **2 marks**

Award a maximum of **3 marks** for all of the above

Explanation

The two items are complements **1 mark**

Explanation **1 mark**

Cross elasticity of demand is negative **1 mark**

Explanation of why it is negative **Up to 2 marks**

Discussion of the likely degree of complementarity, i.e. the magnitude of the coefficient (this precise phrase need not, of course, be used) **Up to 2 marks**

Other relevant discussion/ use of suitable diagram **Up to 2 marks**

Award a maximum of **5 marks** if there is no reference to cross elasticity of demand

MAXIMUM FOR PART (c) 8 MARKS

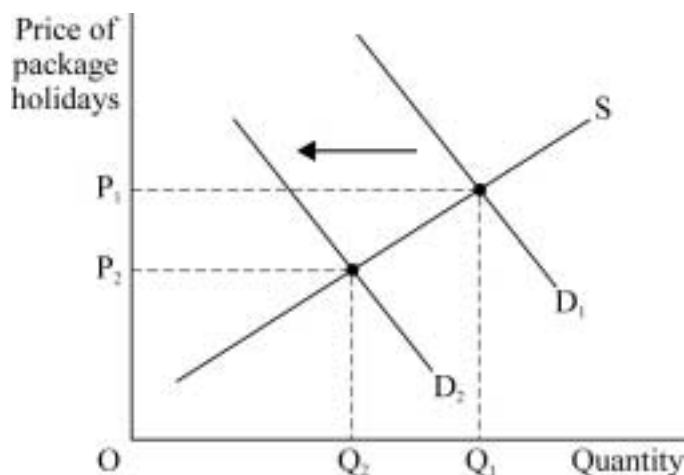
- 3 (d) With the help of a supply and demand diagram, analyse the likely effects of an increase in independent internet bookings on the market for package holidays abroad. (10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

Anticipated approach:

There is a change in tastes away from the package holiday. Demand shifts to the left, price falls, quantity supplied contracts.

Diagram break-down:



Axes labelled (1)

S & D curves correct (1)

Shift in appropriate direction (1)

Changes in price and quantity clearly shown and labelled (1)

For a relevant diagram

Max 4 marks

Note: the above anticipates a diagram focusing on the main market. If two diagrams are offered, including the related market, then the 4 marks can be allocated across the two diagrams. Depending on the quality of part of the written response dealing with inter-related markets, this approach might also earn marks for 'advanced analysis' (see below).

Anticipated approach to written response:

For describing the diagram: reasons for and direction of shift; change in price and quantity

Up to 3 marks

For some advanced analysis, eg consideration of the possibility of a pre-emptive strike by tour operators, offering a greater variety of holidays, more flexibility etc., ie changing the nature of the package holiday, or any other interesting discussion of the case, beyond basic description of the diagram.

Up to 3 marks

For written explanation

Max 6 marks

MAXIMUM FOR PART (d) 10 MARKS

3 (e) Changes in the pattern of tourism, such as those discussed in the data, and changes in the level of tourism, will have both microeconomic and macroeconomic effects. Identify the main effects and evaluate their economic impact. (15 marks)

Relevant points that could be raised include:

- Distinction between micro and macro
- Identification of micro effects, eg:
 - Holiday prices
 - Demand for related services, eg accommodation/ flights/ hire cars/ insurance
 - Environmental considerations
- Identification of macro issues, eg:
 - Effects on employment
 - Tourism's effects on AD
 - Multiplier effects of tourist spending (Extract G would be useful here)
 - International money flows/ exchange rates
 - Implications for macro policy, eg with respect to:
 - Inflation
 - Interest rates
- Evaluation could come from, eg:
 - Micro:
 - Sectoral employment/ unemployment issues (future of travel agencies)
 - Macro:
 - Tourist booms in overseas markets can create upward multipliers abroad, downward multipliers at home
 - The role of government is not specifically requested in the question, but could form part of evaluation and should be rewarded if it is raised in a relevant way. There might be government concern, for example, about effects on the domestic tourism industry
 - As always, give credit for sensible use of the data

Maximum of 10 marks if only one of micro or macro is considered.

Maximum of 7 marks if there is no attempt to evaluate.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS