AQA

ASSESSMENT and
QUALIFICATIONS
ALLIANCE

General Certificate of Education

Economics 5141

ECN3   Markets at Work

Mark Scheme

2008 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 2008   **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 'recession' (**Extract A**, line 25).	*(3 marks)*

For an acceptable definition, eg referring to two successive quarters of falling GDP/Output **3 marks**

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

Falling AD **1 mark**

Falling output **1 mark**

Rising unemployment **1 mark**

Any other relevant aspect, e.g. negative growth, disinflation **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

1 (b) Describe the possible relationship between mortgage defaults and base interest rates shown in **Extract B**.	*(4 marks)*

A suitable description, eg:

Mortgage defaults rise continuously **1 mark**

Base rates are on a rising graph **1 mark**

… but the rise is not continuous/ it flattens/ falls then rises again **1 mark**

There appears to be a relationship/ correlation/ association **1 mark**

…but it is not perfect **1 mark**

MAXIMUM FOR PART (b) 4 MARKS

> 1 (c) Explain how a change in the rate of inflation can affect the rate of interest **and**, therefore, affect homeowners. *(8 marks)*

Possible approach:

Candidates could give an account of the process/ transmission mechanism, eg buyers purchase houses on mortgages which are related to earnings; increasingly often, houses are not 'affordable' so household budgets are stretched. Worries about inflation might cause the monetary policy committee of the Bank of England to raise interest rates. This will affect the discretionary disposable income of mortgage paying homeowners and make their repayments even less 'affordable'.

Level 1
A rudimentary attempt at explaining, but little understanding of the mechanism is shown

1-3 marks
Mid point 2

Level 2
An explanation which includes a plausible linkage between inflation and the interest rate

4-6 marks
Mid point 5

Level 3
A clear, well organised explanation, with clear evidence that linkages are understood

7-8 marks
Mid point 8

MAXIMUM FOR PART (c) 8 MARKS

1 (d) Suppose that mortgage defaults result in lenders repossessing an increasing number of houses. They then put these houses on sale in order to recover the money they have lent.

Using a supply and demand diagram to help you, analyse the likely effects of this sale on the housing market. *(10 marks)*

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

Anticipated approach:
The repossessions will add to the supply of houses. The supply curve shifts to the right, prices fall, quantity demanded extends.

Diagram break-down:

Axes labelled (1)
S & D curves correct (1)
Shift in appropriate direction (1)
Change in price clearly shown and labelled (1)
Change in quantity clearly shown and labelled (1)

For a relevant diagram (example below)   **up to 4 marks max**

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, e.g. consideration of the possibility of there not being just one 'housing market', e.g. due to regional differences; or any other interesting discussion of the case, beyond basic description of the diagram. For example, it could well be argued that the supply curve is actually vertical (zero price elasticity of supply). The question also arises: what happens to the people whose houses are repossessed? They still need houses, and could add to demand, but in a more affordable market or in the rented sector. The extent of the price change depends on price elasticity of demand; factors affecting this (e.g. alternatives available to house-buyers) might be considered.	**Up to 4 marks**

For written explanation   **up to 6 marks max**

The market for houses

[Anticipated diagram for 1(d)]
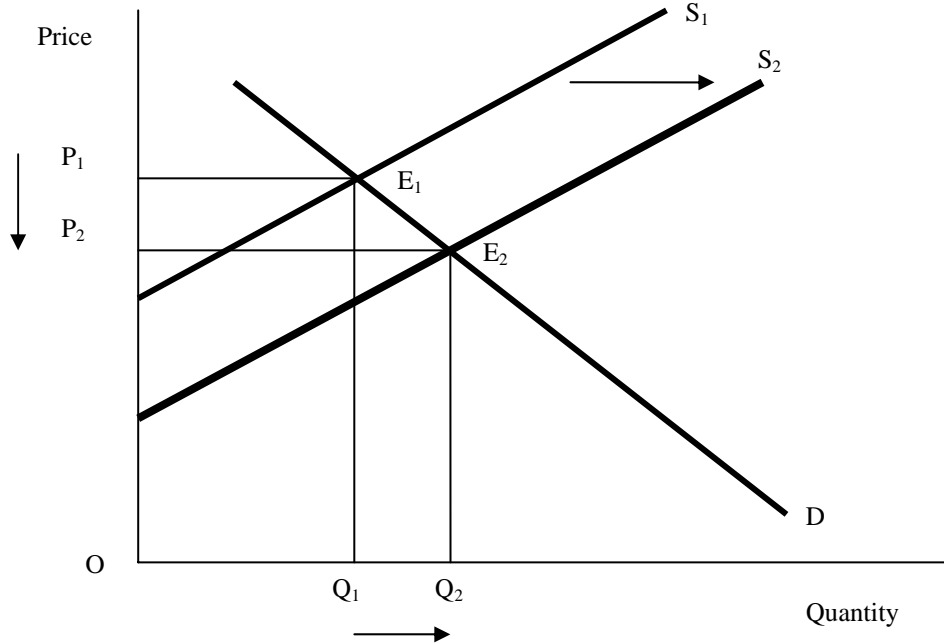
MAXIMUM FOR PART (d) 10 MARKS

1 (e) Discuss the economic problems that might arise from large numbers of people falling behind with their mortgage repayments **and** evaluate policies which a government could adopt in response. *(15 marks)*

Relevant points that could be raised include:

- Possible economic effects
    - Further borrowing, spiralling debt
    - Loss of consumer confidence
        - Micro effects:
            - House builders face falling demand
            - Less spending on household appliances, etc.
            - House prices depressed
            - Consequences for mobility of labour
        - Macro effects
            - Negative wealth effect
            - Downward multiplier
    - However,
        - Houses might become more affordable
        - General inflation rate might be lower

- Consequences for government
    - Negative externalities from homelessness
    - Responsibility to the homeless
        - A claim on public finances
        - Pressure to build 'affordable' houses

- Possible policies
    - Intervention in the housing market, e.g. price controls, subsidies, council house building, relaxed planning laws, etc.
    - Leave things to market forces

- Against intervention in the market
    - 'Markets know best'
    - Government failure

- For intervention
    - Houses as merit goods
    - Non-affordability affecting key workers; cities with high property prices can't function without public services
    - Special needs of first time buyers

- Evaluation could come from, eg: consideration of suitability of specific policies; general discussion of role of government versus markets in the housing context.

- As always, give credit for sensible use of the data

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

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2 (a) Define the term 'subsidies' (**Extract C**, line 28). *(3 marks)*

For an acceptable definition, eg:

Payments from government or from another company or division within a company (cross-subsidy)
…lowering the effective price paid by a consumer
or
…increasing the amount received by a producer **3 marks**

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

They come from the government **1 mark**

They lower consumer prices/ increase producer revenue **1 mark**

They stimulate supply **1 mark**

They are the 'opposite' of taxes **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

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2 (b) Describe the possible relationship between carbon dioxide emissions and coal consumption shown in **Extract D**. *(4 marks)*

A suitable description, eg:

China's coal consumption is rising **1 mark**

Total world consumption is rising **1 mark**

Economic growth implies increased use of resources, including coal **1 mark**

Economic growth can also lead to pollution **1 mark**

Possible correlation/ association **1 mark**

China's share of global warming gas production is projected to increase **1 mark**

MAXIMUM FOR PART (b) 4 MARKS

2 (c) Using the concept of 'externality', explain how the consumption of coal in China can affect citizens of the UK.   *(8 marks)*

Possible approach:

Candidates could define externality, focusing on 'negative' externalities, and explain that pollution in China is not a matter for Chinese citizens alone. The costs of coal consumption do not stop with the prime consumer; in this sense coal is a demerit good. Through global warming and other spill-over effects, costs are imposed on British citizens. These might be reflected in intangibles, such as ill health or other quality of life issues, or they might become reflected in money costs, e.g. if taxes are used to mitigate the environmental effects.

Level 1
A rudimentary attempt at explaining, but little understanding of the externality is shown

1-3 marks
Mid point 2

Level 2
An explanation which includes a plausible linkage between Chinese consumption and external costs in the UK.

4-6 marks
Mid point 5

Level 3
A clear, well organised explanation, with clear evidence that linkages are understood. Some specific economic effects are identified.

7-8 marks
Mid point 8

                              MAXIMUM FOR PART (c) 8 MARKS

2 (d) Suppose that the Chinese government makes it compulsory for power stations to fit 'clean' coal equipment, which is currently available from British manufacturers. Using a supply and demand diagram to help you, analyse the likely effects on the UK market for this equipment. *(10 marks)*

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

Anticipated approach:
Demand from China will shift the demand curve for clean coal technology to the right. Price rises, quantity supplied extends.

Diagram break-down:

Axes labelled (1)
S & D curves correct (1)
Shift in appropriate direction (1)
Change in price clearly shown and labelled (1)
Change in quantity clearly shown and labelled (1)

For a relevant diagram (example below)   **up to 4 marks max**

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, or any interesting discussion of the case, beyond basic description of the diagram. For example, it could be argued that in the short run the supply curve is vertical, magnifying the price change. The degree of competition from other manufacturing countries will increase the price elasticity of supply from the Chinese point of view.	**Up to 4 marks**

For written explanation   **up to 6 marks max**

Market for 'clean' coal technology

[Anticipated diagram for 2(d)]
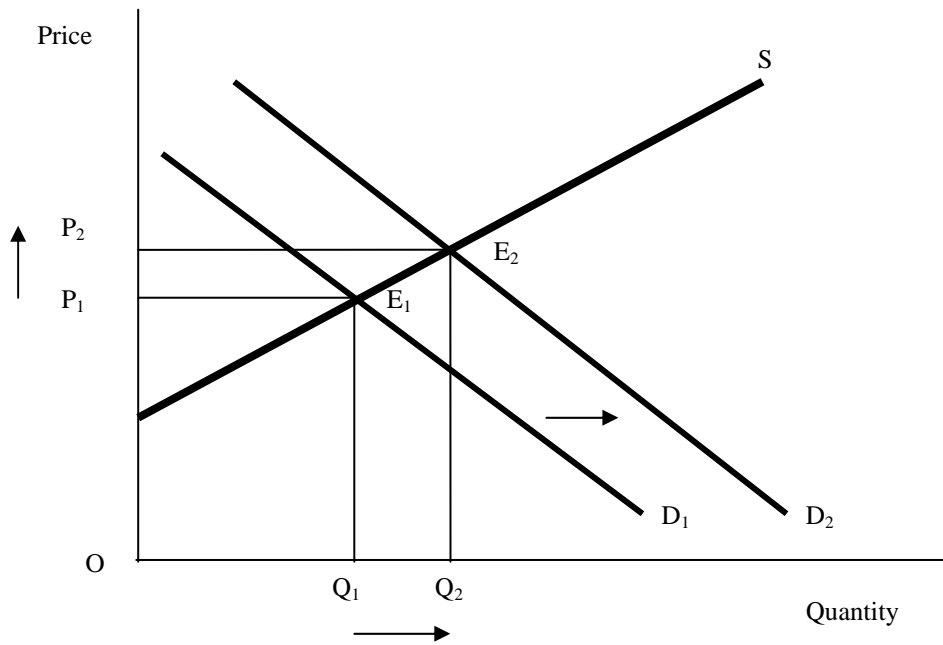
MAXIMUM FOR PART (d) 10 MARKS

2 (e) Discuss the economic problems that might arise from carbon dioxide emissions **and** evaluate policies which the UK government could adopt in response.   *(15 marks)*

Relevant points that could be raised include:

- Economic effects of emissions:
    - The atmosphere is being used by producers as a free resource
    - Pollution is not being reflected in prices
    - Producers are not paying the full social costs of production, hence
    - …these are not fully reflected in prices

- However
    - Global warming might have some economic benefits, eg on food production, tourism in some countries
    - … but the reverse in less fortunate countries

- Policies fall into two main categories
    - Command and control, eg prohibitions, directives
        - Fast acting, when agreed and implemented
        - …but need policing

    - Market based, e.g. pollution taxes, carbon trading
        - Internalise the externality
        - The polluter pays
        - ..but might carry on polluting

    - Either type of policy fails without international action and agreement and universal application

    - Evaluation could come from, eg:
        - Discussion of efficacy of policy or policies
        - Micro versus macro effects (possible implications of environmental taxes or other policies for demand and employment)
        - Discussion of proper role of government, versus markets
        - Difficulty of dealing with transnational externalities

- As always, give credit for sensible use of the data

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

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3 (a) Define the term 'national income' (**Extract E**, line 16).   *(3 marks)*

For an acceptable definition, e.g. the total amount of factor incomes/ output/ value added/ expenditure/ earned in a country per year   **3 marks**

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

Notion of 'circular flow of income'   **1 mark**

Notion of income in the circular flow   **1 mark**

Reference to total or aggregate demand or supply   **1 mark**

Income = expenditure (or = output)   **1 mark**

Measured over a time period   **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

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3 (b) Describe the possible relationship between international tourism receipts and national income per head indicated by the figures shown in **Extract H**.   *(4 marks)*

A suitable description, eg:

In the table, there are low income countries where tourism is a large percentage of exports, e.g. Tanzania   **1 mark**

…and high income countries where tourism is a smaller percentage of exports, eg UK   **1 mark**

…and some that do not quite fit this pattern, eg Spain, China   **1 mark**

For quoting the data in support   **1 mark**

So there is some relationship /correlation/association   **1 mark**

Figures are from different years   **1 mark**

A comment related to the observation that income per head is not the same as national income *per se* (China for example has low income per head but large total GDP)   **1 mark**

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Explain how terrorism might lead to multiplier effects in an economy with a significant tourist industry. *(8 marks)*

Possible approach:

Candidates could define the multiplier in general terms, and then focus on the idea of a downward multiplier. They could identify different types of multiplier, i.e. investment, government spending and export multipliers, then state that tourists visiting the UK provide an export multiplier. They could go on to explain the process, i.e. loss of income from tourists multiplying around the economy through lower AD and hence still lower incomes. Candidates are not expected to know formulae or diagrams, but they should be given credit if they appear. A good insight would be recognition of the fact that if terrorism keeps UK holidaymakers at home, that could actually be an upward multiplier for parts of the domestic tourist industry.

Level 1

A rudimentary attempt at explaining, but little understanding of the multiplier is shown

1-3 marks
Mid point 2

Level 2

An explanation which includes a plausible multiplier linkage between terrorism and the tourist industry.

4-6 marks
Mid point 5

Level 3

A clear, well organised explanation of the multiplier process, with clear evidence that linkages are understood

7-8 marks
Mid point 8

MAXIMUM FOR PART (c) 8 MARKS

3 (d) Suppose that British tourists are discouraged from travelling abroad because of terrorism and strict security.

Using a supply and demand diagram to help you, analyse the likely effects on the market for holidays at destinations in the UK. *(10 marks)*

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

Anticipated approach:
Customers are attracted towards UK destinations. The demand for holidays in Britain shifts to the right, prices rise, quantity supplied extends.

(Alternatively: some candidates might argue that the gain from British tourists is more than offset by the loss of foreign visitors, on balance shifting the demand curve to the left. Full marks would be available for an appropriate diagram; and candidates with this insight are also likely to do well under 'advanced analysis' in the written part)

Diagram break-down (anticipated approach):

Axes labelled (1)
S & D curves correct (1)
Shift in appropriate direction (1)
Change in price clearly shown and labelled (1)
Change in quantity clearly shown and labelled (1)

For a relevant diagram (see below)   **up to 4 marks max**

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, or any interesting discussion of the case, beyond basic description of the diagram. For example, it could be argued that it depends on how closely consumers view domestic and foreign holidays as substitutes (their cross-price elasticity of demand). The extent of any change in the number of domestic holidays also depends on the price elasticity of supply. If the supply curve is interpreted in terms of, say, hotel beds, then the supply curve might be drawn as vertical in the short run.   **Up to 4 marks**
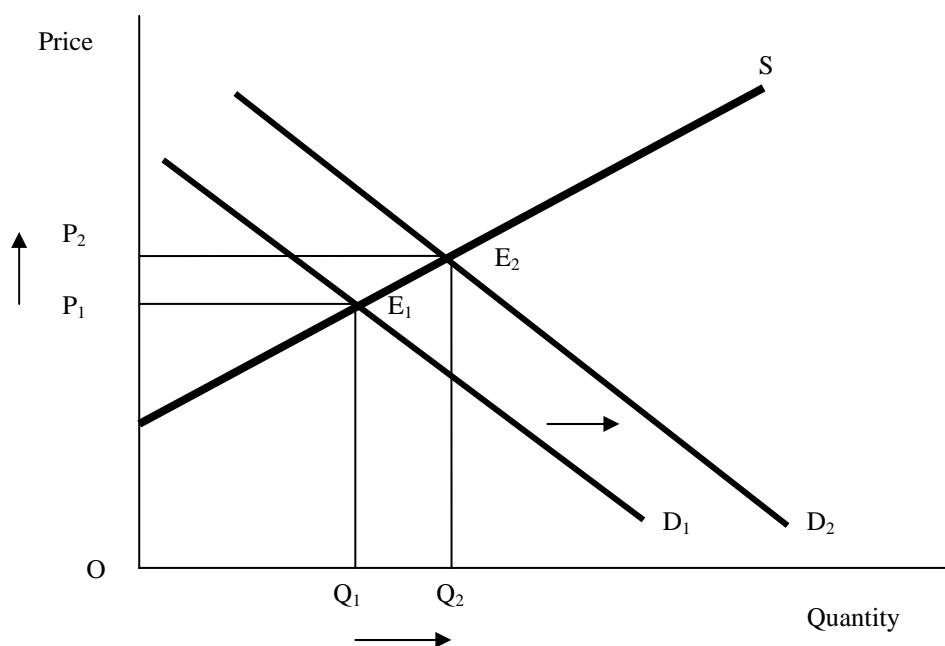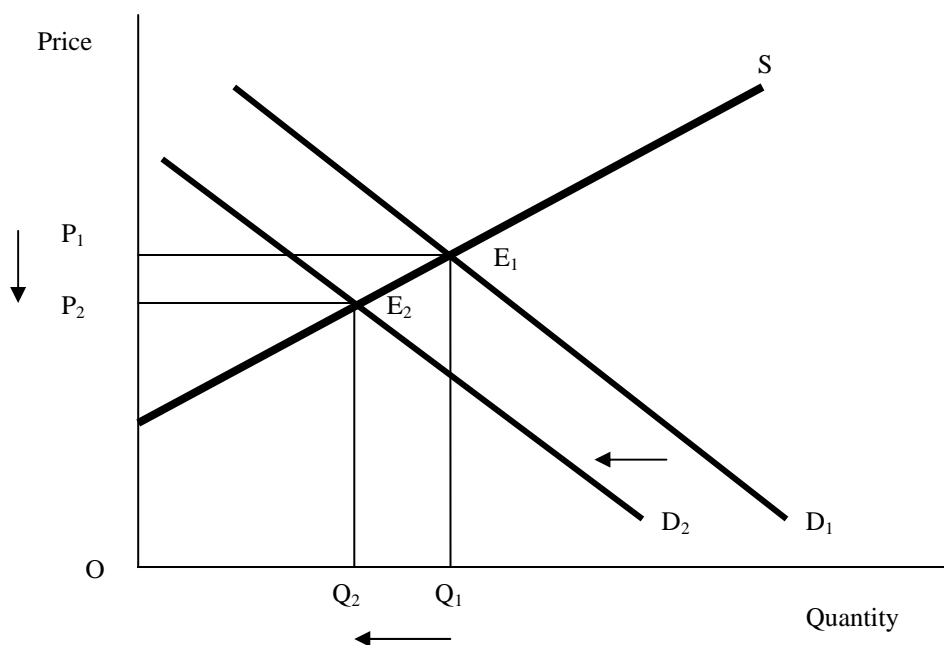
For written explanation   **up to 6 marks max**

The market for holidays in Britain

[Anticipated diagram for 3(d)]

The market for holidays in Britain

[Alternative diagram for 3(d)]

MAXIMUM FOR PART (d) 10 MARKS

3 (e) Discuss the economic problems that might arise from a country having a large tourist sector **and** evaluate policies which a government could adopt in response. *(15 marks)*

Relevant points that could be raised include:

- Candidates can pick up different clues about 'governments' from the data and view the economic role of tourism from the angle of USA, UK, Turkey, etc., or several governments

- Economic effects of over-dependence, e.g.
    - Susceptibility to the effects of external shocks, such as increased terrorist activity
        - Extracts E, F and G contain examples of 'external shocks' from terrorism
        - Other shocks could be mentioned, eg:
            - The Asian Tsunami
            - Economic cycles
    - Seasonal unemployment
    - Externalities/ environmental problems arising from tourism
    - Narrow specialisations
    - Low wages in the service sector
    - Decline of manufacturing
    - Research and development, graduate opportunities, etc., less likely than in other industries

- However
    - Tourism provides jobs for workers with minimal skills
    - Not all tourism is 'mass' tourism
    - 'Quality' tourism, e.g. heritage touring, requires a more educated workforce
    - Tourism has multiplier effects

- Government policies, eg:
    - Education and training
    - Diversification
    - Tax/ subsidy structure to encourage desired development
- However
    - Possibility of picking false winners
    - Government failure

Evaluation could come from, eg:
    - Employment/ unemployment issues
    - Costs versus benefits of government action, multipliers versus externalities
    - Discussion of role of government versus market forces in the context of tourism/ the service sector
    - Is it realistic to divorce government from tourism? Extract G indicates that even when governments are attending to what they regard as their own business, the tourist industry might attempt to hold the government to account for costs that they incur
    - Issues might be viewed differently when viewed from poorer or richer countries

- As always, give credit for sensible use of the data

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