



General Certificate of Education

Economics 5141

ECN3: Markets at Work

Mark Scheme

2008 examination - June 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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Set and published by the Assessment and Qualifications Alliance.

Advanced Subsidiary Economics**June 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 KEYS 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.
- an** 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 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 'inflation' (Extract A, line 30).****(3 marks)**

For an acceptable definition, e.g. a persistent rise in average prices

3 marks

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

Rising prices

1 mark

Persistence/ rising year on year

1 mark

Erosion of spending power/ value of money

1 mark

Measured over a time period

1 mark

Any other relevant aspect, e.g. CPI, RPI

Max 1 mark**MAXIMUM FOR PART (a) 3 MARKS****1 (b) Extract A** (lines 22-23) says that 'the increase in interest rates since last summer is dampening housing demand'.Explain **one** reason why lower housing demand might result from higher interest rates.**(4 marks)**

For explaining a plausible reason, for example:

Most houses are bought using borrowed money

2 marks

Higher interest rates increase the cost of mortgages

2 marks

Any other relevant point: e.g. higher interest rates reduce discretionary income/ the money in the pockets of mortgage payers

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

- | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 (c) Explain why governments in the UK do not leave the supply of housing entirely to the private sector (Extract A , lines 19-21).
<div style="text-align: right;">(8 marks)</div> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Possible approach:

Candidates could argue that houses are different in kind from 'consumer' goods. One reason for this is that housing has strong externalities. Good housing is a 'merit' good, while bad housing has negative externalities. Housing inequality is linked to income inequality. Due to the possibility of market failure, homelessness would be a worse problem than it is if there were no government intervention. The private sector tends to ignore lower income groups and does not guarantee affordability for key workers. Hence the existence of 'social' housing, and government backed schemes to try to create 'affordable' housing.

Level 1

A rudimentary attempt at defining terms and explaining, but little understanding of the possible justifications for government intervention is shown

1-3 marks
Mid point 2

Level 2

Terms are defined and there is an explanation which includes a plausible justification for government intervention.

4-6 marks
Mid point 5

Level 3

A clear, well organised explanation, with clear evidence that the justifications for government intervention are understood

7-8 marks
Mid point 8

MAXIMUM FOR PART (c) 8 MARKS

1 (d) Suppose that the government reacts to the housing 'shortage' (**Extract A**, line 12) by subsidising housebuilders.

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

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

Anticipated approach:

The subsidies will in effect reduce building costs, making housebuilders more willing to build. 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

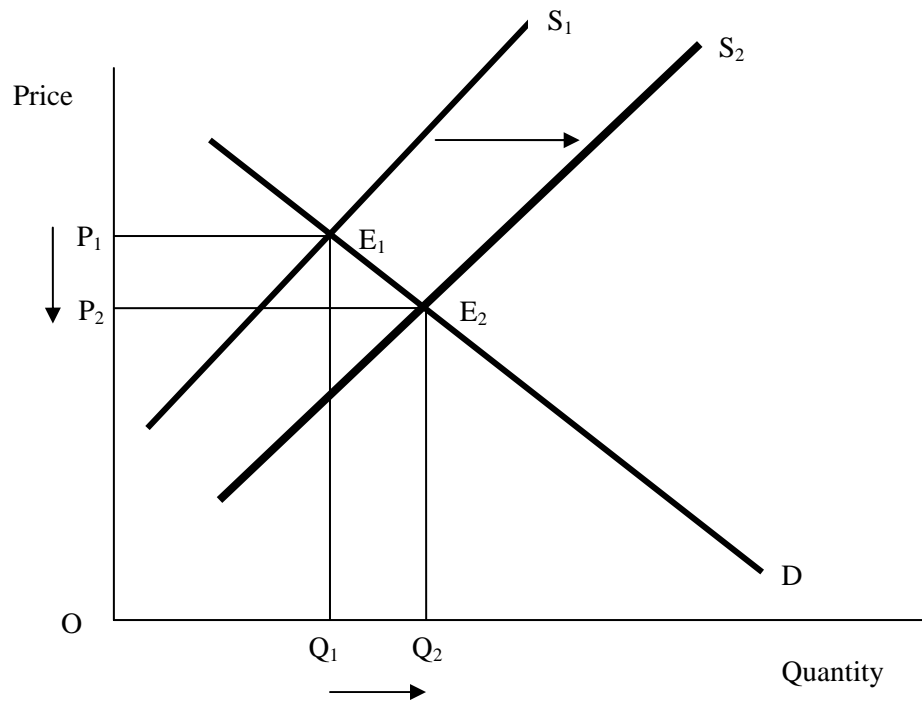
Up to 3 marks

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 or very low price elasticity of supply). Candidates could also mention the difference between an actual fall in prices, and a fall in the rate of increase of house prices. The extent of any price change depends on price elasticity of demand; factors affecting this (e.g. alternatives available to house-buyers) might be considered. It could also be noted that the subsidies only affect new houses, and the flow of new houses is small compared with the stock of existing houses.

Up to 4 marks

For written explanation

up to 6 marks max

ANTICIPATED DIAGRAM

The market for houses

MAXIMUM FOR PART (d) 10 MARKS

1 (e) Are 'soaring' house prices (**Extract A**, lines 1-2) necessarily a reason for individuals **and** businesses **and** the economy as a whole to 'celebrate'? Justify your answer. (15 marks)

Relevant points that could be raised include:

- Possible reasons to 'celebrate'
 - Individuals/ business (micro)
 - Capital gains
 - Wealth effects
 - Higher prices in the long run in effect reduce the burden of mortgage debt
 - Consumer confidence/ business confidence
 - Economy as a whole (macro)
 - Employment
 - Multiplier effects
- Possible reasons not to 'celebrate'
 - Individuals/ business (micro)
 - Affordability for first time buyers
 - Debt
 - Homelessness
 - Repossessions
 - Effects on labour market, eg
 - Mobility
 - Non-affordability affecting key workers; cities with high property prices can't function without public services
 - Possibility of a housing crash
 - Economy as a whole (macro)
 - Effects on inflation
 - Possible policy responses, eg
 - Higher interest rates
 - Appreciation of exchange rates, knock on effects on
 - Exporters
 - Manufacturers
- Evaluation could come from, eg consideration of suitability of 'celebrate' versus 'not celebrate'; quality of the 'justification'; extent of changes in prices, response from lenders, extent of any increase in incomes
- As always, give credit for sensible use of the data

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

To get to **Level 4 (11 + marks)** at least **two** of the three aspects (individuals/businesses/the whole economy) must be addressed.

To get to **Level 5 (14 + marks)** all **three** must be addressed.

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 'market' (Extract C, line 23).****(3 marks)**

For an acceptable definition, eg:

A set of institutions bringing buyers and sellers together

OR

A network of dealings bringing buyers into contact with sellers

3 marks

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

Notion that demand comes from consumers/ buyers

1 mark

Notion that supply comes from producers/ sellers

1 mark

Reference to some sort of network, and/ or contact between buyers and sellers

1 mark

The idea of market 'equilibrium'

1 markOther relevant comment, eg a diagram showing supply, demand, equilibrium price and quantity **1 mark****MAXIMUM FOR PART (a) 3 MARKS**

2 (b) Give an example of a 'renewable' energy resource (**Extract C**, line 18) **and** explain why it is described as 'renewable'. (4 marks)

A suitable example and explanation, eg:

Wind energy 1 mark

... because wind is **inexhaustible/ not used up** by a wind farm, 3 marks

... wind energy is '**replaced**' by nature 2 marks

... unlike, say, **coal or oil** 1 mark

OR

Solar power 1 mark

... because the sun is **inexhaustible/ not used up** (on a human time scale), 3 marks

... and is '**replaced**' by nature 2 marks

... unlike, say, **coal or oil** 1 mark

Accept "forestry" and an argument that trees can be renewed through human effort.

Similarly biofuels, hydroelectrics etc

MAXIMUM FOR PART (b) 4 MARKS

2 (c) Explain why the EU might decide to ban traditional light-bulbs rather than taking alternative action such as taxing them. (8 marks)

Possible approach:

Candidates could argue that a ban is likely to work faster than a tax, provided that there is concerted international action, and that the ban is not undermined by unscrupulous suppliers. CFCs were banned, rather than taxed, and this appears to have worked. Governments presumably consider that the advantages of a ban outweigh the disadvantages (such as the restriction of consumer choice, and the need for a ban to be 'policed'). Or they consider a ban to be more effective than a tax. The effectiveness of taxes depends on the availability of substitutes and hence price elasticity of demand. With low PED the undesirable polluting activity continues and the tax becomes a revenue raiser rather than a 'polluter pays' deterrent. A diagram could be used here, and while not essential, should be given credit for the extent to which it illustrates a point

Level 1

A rudimentary attempt at defining terms and explaining, but little understanding of the issues is shown 1-3 marks
Mid point 2

Level 2

Terms are defined and an explanation given which includes a plausible reason for favouring a ban over a tax. 4-6 marks
Mid point 5

Level 3

A clear, well organised explanation, with clear evidence that issues are understood 7-8 marks
Mid point 8

MAXIMUM FOR PART (c) 8 MARKS

2 (d) It is suggested in **Extract C** (lines 20-24) that as low-energy halogen light-bulbs become more available, prices will fall.

Using a supply and demand diagram to help you, analyse the effects on the market for low-energy halogen light-bulbs of a ban on selling the high-energy version. *(10 marks)*

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid, eg a candidate might initially shift demand to the right and successfully argue that prices will ultimately fall due to an increase in supply.

Anticipated approach:

The supply curve for low energy bulbs shifts to the right. This reduces price, and stimulates demand to extend along the demand curve.

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

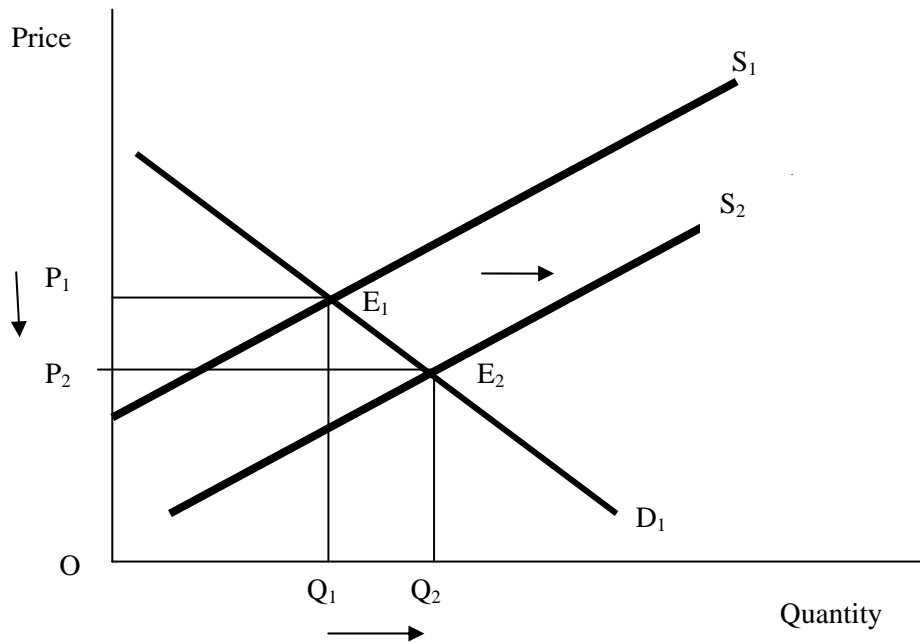
Up to 3 marks

For some advanced analysis, or any interesting discussion of the case, beyond basic description of the diagram. For example, it could be argued that there might be a time lag in shifting supply to the right, causing a 'shortage' in the short run so that prices do not fall as expected. This amount of notice of the change given by the government would have an effect. The degree of competition among light bulb manufacturers will influence the amount by which prices fall. Consumers, anticipating the change, might also shift the demand curve to the right.

Up to 4 marks

For written explanation

up to 6 marks max

ANTICIPATED DIAGRAM

The market for low-energy halogen light-bulbs

MAXIMUM FOR PART (d) 10 MARKS

2 (e) Are 'green' measures such as those described in the data good or bad for consumers **and** businesses **and** the economy as a whole? Justify your answer. *(15 marks)*

Relevant points that could be raised include:

- Definition/ description of 'green' measures, eg:
 - Command and control (ban on conventional lightbulbs)
 - Green taxes
 - Target setting
- Good for consumers
 - Lower costs in the long run
 - A better environment
- Good for business
 - Encourage R & D into new technology
 - Consumers are attracted to green products
 - New markets created/ supported
 - Early adopters gain competitive advantage
 - Green business are efficient businesses
- Good for economy as a whole
 - Measures are aimed at countering climate change
 - Climate change destroys industry
 - ..and infrastructure (Hurricane Katrina)
 - Climate change raises sea levels
 - Many great cities are at sea level
 - Reduction of negative externalities: measures aimed at polluting firms which impose costs on clean firms and the general public
 - Upward multipliers from businesses making new products
- Bad for consumers
 - Higher costs in the short run
 - Inconvenience
- Bad for business
 - Impose costs on business
 - Dampen demand
 - Destroy traditional markets
- Bad for economy as a whole
 - Unemployment
 - Downward multipliers from industries making old products
 - Taxes
- However
 - Global warming might have some economic benefits, e.g. on food production, tourism in some countries
 - ... but the reverse in less fortunate countries
- Evaluation could come from, e.g. discussion of pros versus cons, role of governments versus market forces, and from the 'justification'. Candidates could also consider positive and negative effects on inflation, employment, balance of payments, etc. Effects also

depend on the reality of the extent of measures (versus mere 'tokenism'), the time scale, and the actions of other countries.

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

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

To get to **Level 4 (11 + marks)** at least **two** of the three aspects (consumers/businesses/the whole economy) must be addressed.

To get to **Level 5 (14 + marks)** all **three** must be addressed.

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 'joint demand' (Extract F , line 23).

(3 marks)

For an acceptable definition, eg when goods or services tend to be consumed together

3 marks

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

Notion of demand for one item depending on another

1 mark

Mention (1) and explanation (1) of 'complements'

2 marks

Example, eg DVD and DVD-player

1 mark

MAXIMUM FOR PART (a) 3 MARKS

3 (b) Explain why exports of **both** goods **and** services are part of the output of the UK creative economy **(4 marks)**

For distinguishing between 'goods' and 'services' **2 marks**

For giving an example of a creative economy 'good', e.g a DVD **1 mark**

For giving an example of a creative economy 'service', e.g an overseas concert tour by a rock group **1 mark**

For stating that exports are goods and services sold abroad **1 mark**

For commenting on the importance of exports of creative goods and services to the UK economy **2 mark**

Alternative answer

Some candidates might interpret the question as 'Why does the creative economy export? In such cases award marks as follows:

The firms want to make profits **1 mark**

There is competitive advantage **1 mark**

Overseas markets for creative products are expanding as incomes rise **2 marks**

The domestic economy is changing from traditional manufacturing to new 'weightless' products (this exact terminology need not be used) **2 marks**

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Explain the economic benefits the UK economy might gain if the export initiative described in **Extract E** were successful. **(8 marks)**

Possible approach:

America is a large market (as suggested in the data). Services, including the creative industries, as discussed in (b) are increasingly important to the economy. Exports of services, including the output of the 'creative' industries create important injections into the domestic economy. Exports have multiplier effects. Candidates could define the multiplier in general terms, and then focus on the idea of an upward multiplier. They could go on to explain the process, i.e. incomes from exports multiplying around the economy through higher AD and hence still higher incomes. Gains to 'government' can be considered in a narrow sense, in terms of higher tax revenues derived from higher incomes, enabling an expanded budget; or in a wider sense in terms of benefits created by this successful policy for the country as a whole, e.g. through growth, employment, welfare, balance of payments.

Level 1

A rudimentary attempt defining terms and explaining, but little understanding of the relevant concepts, **such as** the multiplier, is shown.

1-3 marks
Mid point 2

Level 2

Terms are defined and there is an explanation which includes discussion of potential benefits and/ or a plausible linkage between relevant indicators **such as** exports, the creative economy, and the wider economy. The multiplier is also relevant.

4-6 marks
Mid point 5

Level 3

A clear, well organised explanation of potential benefits including relevant concepts **such as** the multiplier process and its associated economic effects, with clear evidence that linkages are understood

7-8 marks
Mid point 8

MAXIMUM FOR PART (c) 8 MARKS

3 (d) Extract F (lines 25-26) suggests that there could be a 'boost' to the market when the PlayStation 3 is sold with a Blu-ray player.

Using a supply and demand diagram to help you, analyse the possible effects on the market for games consoles of successful advertising campaigns promoting new formats such as Blu-ray. (10 marks)

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

Anticipated approach:

Customers are attracted towards games consoles as complements to features like Blu-ray. The demand curve for games consoles shifts to the right, prices rise, quantity supplied extends.

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

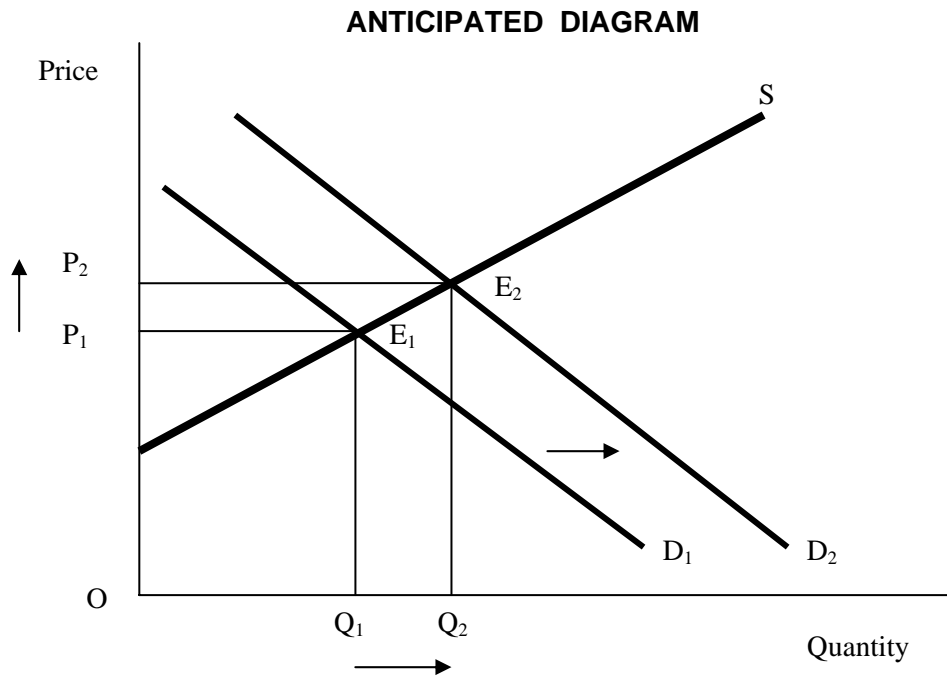
Up to 3 marks

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 features like Blu-ray and games consoles as complements. If they are regarded as complements, then the demand for the two products will be closely linked. However, if one product is not in great demand by the public, the other might suffer by association. There might be a degree of monopoly in the market (but deep analysis of monopoly is not expected at AS). The time period is relevant (the supply curve might shift in the long run).

Up to 4 marks

For written explanation

up to 6 marks max



The market for games consoles

MAXIMUM FOR PART (d) 10 MARKS

3 (e) Are frequent changes in technology, including the introduction of new formats such as the switch from CDs and DVDs to internet downloads, good or bad for consumers **and** producers **and** the economy as a whole? Justify your answer. **(15 marks)**

Relevant points that could be raised include:

- Good for consumers, eg:
 - Better quality products
 - More choice
- Bad for consumers, eg:
 - Built-in obsolescence
 - Waste
 - Bewildering choice (lack of consumer knowledge)
 - Lack of compatibility between formats
 - Some formats fail – some people actually prefer the old formats (e.g. vinyl records)
- Good for producers, eg:
 - New market opportunities
 - Efficiency created by R &D and competition
- Bad for producers, eg:
 - Some formats fail
 - Investment wasted
 - Duplication of effort (re-inventing the wheel)
 - Lack of industry-wide standards
- Good for the economy, eg:
 - Encourages R & D
 - Opens new markets
 - Brings improvements in quality of products
 - Encourages business investment in
 - New machinery
 - New production techniques
 - New skills (education and training)
 - Reduces costs and prices
- Bad for the economy, eg:
 - Wasteful, consumers are asked to replace, say, their record collection, by buying new format
 - People need to re-learn operation and control of new technology
 - Built-in obsolescence: economic inefficiency
 - Technological/ structural unemployment from all the changes
- Evaluation could come from consideration of ‘good’ versus ‘bad’, from the ‘justification’, and /or from a holistic over-arching discussion.
- As always, give credit for sensible use of the data

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

To get to **Level 4 (11 + marks)** at least **two** of the three aspects (consumers/producers/the whole economy) must be addressed.

To get to **Level 5 (14 + marks)** all **three** must be addressed.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS