

**GCE AS**  
**Economics**  
**January 2009**

**Mark Schemes**

Issued: April 2009



MARK SCHEMES (2009)

Foreword

*Introduction*

Mark Schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

*The Purpose of Mark Schemes*

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of 16- and 18-year-old students in schools and colleges. The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes therefore are regarded as a part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

The Council hopes that the mark schemes will be viewed and used in a constructive way as a further support to the teaching and learning processes.



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**January 2009**

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## **Economics**

**Assessment Unit AS 1  
(Data Response)**

*assessing*

**Module 1: The Market Mechanism,  
Market Failure and the Government Response**

**[ASE11]**

**FRIDAY 16 JANUARY, MORNING**

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# **MARK SCHEME**

## General Marking Instructions

Mark schemes are intended to ensure that the AS examination is marked consistently and fairly. The mark scheme provides markers with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

## Quality of Candidates' Responses

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17-year-old which is the age at which the majority of candidates sit their AS examinations.

## Unanticipated Responses

The mark schemes which accompany the specimen examination papers are not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers and to refer for guidance to the general marking criteria that follow. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

## Positive Marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for a 17-year-old AS candidate. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect and inappropriate.

## Types of Mark Schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

## Marking Calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error.



## Quality of Written Communication

Quality of written communication is taken into account in assessing candidates' responses to questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates' economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2.

## Levels of Response

General descriptions of levels of response in terms of each assessment objective and the quality of written communication are given in the following table. These descriptions are intended to assist examiners in judging candidates' performance when they produce answers unanticipated by the detailed mark scheme for each question and to provide guidelines for examiners in assessing the appropriate level of response in respect of the quality of written communication.

The detailed mark schemes for each question relate these levels of response to the content of the relevant question. In deciding on the appropriate level of response for a candidate's answer, examiners should look for the 'best fit'. The level awarded will depend in practice upon the extent to which the candidate has met the relevant assessment objectives overall. Shortcomings in some areas may be balanced by better performance in others. In deciding which mark within a particular level to award any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

**Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

**Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

**High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

**General Marking Criteria**

<p><b>Assessment Objective</b> <b>Level of Performance</b></p>	<p><b>AO1</b> <b>Knowledge and Understanding</b></p>	<p><b>AO2</b> <b>Application</b></p>	<p><b>AO3</b> <b>Analysis</b></p>	<p><b>AO4</b> <b>Evaluation and judgement</b></p>
<p><b>Level 1</b></p>	<p>There may be limitations in the candidate's grasp of theoretical principles, resulting in an excessively narrow focus on the issues involved in the question.</p>	<p>The candidate tends to make unsubstantiated generalisations, and superficial assumptions, lacking any real awareness of contemporary events.</p>	<p>The candidate is likely to confuse hypotheses with facts and does not successfully account for divergences between theoretically predicted and actual outcomes of events or decisions in a real economy.</p>	<p>The candidate finds it difficult to pinpoint strengths or limitations of economic models and theories in explaining real world issues and problems, or to compare and contrast alternative strategies or policy instruments.</p>
<p><b>Level 2</b></p>	<p>The candidate shows sufficient knowledge of economic theory for the main issues involved in the question to be satisfactorily identified.</p>	<p>The candidate makes valid connections between theoretical principles and real-world events.</p>	<p>The candidate shows ability to identify causes of economic problems and is able to relate these insights to real economies.</p>	<p>The candidate shows some awareness of the strengths and limitations of different economic models, theories, decisions and policies, and attempts to support observation with appropriate references.</p>
<p><b>Level 3</b></p>	<p>The candidate has a detailed knowledge of economic theory and shows a clear understanding of its significance in the specific contexts of the question.</p>	<p>The candidate relates concepts to situations and problems in real economies with some skill and can explain contemporary events while supporting conclusions with evidence.</p>	<p>The candidate is aware of the implications of hypotheses and distinguishes between association and causation in contemporary economic problems, offering valid suggestions as to how these may be addressed.</p>	<p>The candidate is able to critically examine alternative economic models, theories, arguments and policies in the analysis of economic problems and demonstrates the ability to evaluate the outcomes of economic decisions, supporting this with accurate reference or relevant examples.</p>

**Quality of Written Communication:** The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence with little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

**Quality of Written Communication:** The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams. Relevant material is organised with some clarity and coherence and some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

**Quality of Written Communication:** The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity, coherence and widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning absolutely clear.

- 1 Junk foods exhibit many of the traditional features of a demerit good:
- They do harm to the individuals who consume them.
  - Consumers may lack the necessary information to make an informed decision about consumption.
  - Many of those at risk are children.
  - There are external costs to society at large through the use of NHS facilities and loss of production through ill health.
  - Government and policy-makers have expressed disapproval.

**Level 1 ([1]–[2])**

Candidate provides little explanation of why junk food may be considered a demerit food. Quality of written communication is limited.

**Level 2 ([3]–[4])**

Candidate provides some explanation of why junk food may be considered a demerit food. Quality of written communication is satisfactory.

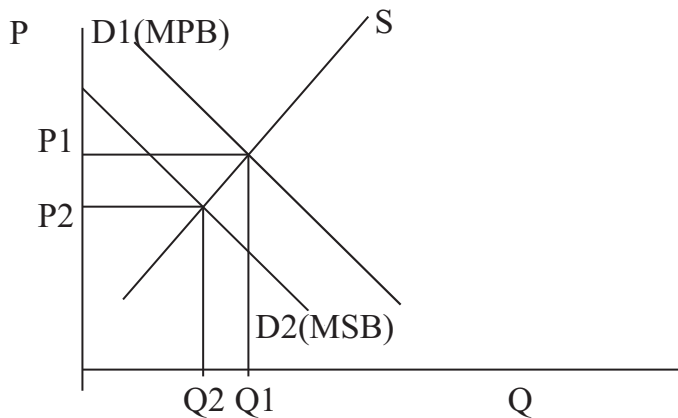
**Level 3 ([5]–[6])**

Candidate provides a clean explanation of why junk food may be considered a demerit food. Quality of written communication is of a high standard.

[6]

6

- 2 Over-consumption arises because the private benefit received by the consumer exceeds the social benefit. For example in the case of cigarettes the demand curve based solely on the marginal private benefits (D1) is higher than that which encompasses the disutility suffered by others as a consequence of smoking (D2). Hence cigarettes are over-valued and over-consumed in free markets.



The free market price is P1 and consumption is Q1. When allowance is made for the external costs of smoking then socially optimum price becomes P2 and the socially optimum level of consumption is Q2.

Other issues for analysis and discussion include:

- Addiction as a cause of over-consumption
- Lack of information as a cause of over-consumption

For analysis based on costs of production rather than consumption, level 3 not available.

**Level 1 ([1]–[2])**

Candidate provides little explanation for over-valuation and over-consumption of demerit goods. Diagrams are seriously flawed or non-existent and quality of written communication is limited.

**Level 2 ([3]–[5])**

Candidate provides some explanation for over-valuation and over-consumption of demerit goods. There is a serious attempt at producing a diagram though this may contain minor errors. Quality of written communication is satisfactory.

**Level 3 ([6]–[8])**

Candidate provides a clear explanation for over-valuation and over-consumption of demerit goods. Diagrams are virtually flawless and quality of written communication is of a high standard. [8]

8

- 3 There are a number of factors which may contribute to this:
- Levels of education, including health education, tends to be lower amongst such groups.
  - Members of these groups may be more prone to addiction and less able to resist persuasive advertising.
  - There may be a tradition of consumption of these products amongst such groups.
  - Lack of income may prevent these groups from enjoying a healthier lifestyle.
- Maximum of [3] for each reason identified and fully explained.  
 Constrained maximum of [6] [6]

6

- 4 A number of policies are available to government but all have disadvantages and none offers a perfect solution:
- Impose a tax on junk foods. This will raise price and hopefully reduce demand. However it may be ineffective due to inelasticity, and will reduce consumer and producer surplus. It will create a welfare loss and will be regressive.
  - Greater health education may persuade consumers to reduce consumption of junk foods. However it may be costly and ineffective.
  - Greater health education to promote exercise, again this could be both costly and ineffective.
  - Subsidise leisure centre facilities for lowest socio-economic groups, and use council funds to build more leisure centres in deprived areas. Again this could prove costly and there is already over-capacity of leisure centre provision in many areas. Ratepayers might regard it as waste of money.
  - Redesign cities so that walking becomes the norm. This is likely to be very expensive and politically unpopular.
  - Increase car tax. May not be effective as demand could be inelastic. Will also be politically unpopular.
  - Subsidise cycling. May not be effective as cost may not be the major impediment to cycling.
  - Medical solutions available at the NHS. Likely to prove expensive.

**Level 1 ([1]–[3])**

Candidate identifies at most two policies but gives no significant explanation or evaluation. Quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate identifies and explains at least 2 policies. Evaluation is patchy and quality of written communication is limited.

**Level 3 ([8]–[10])**

Candidate identifies, explains clearly and evaluates in detail at least two policies. Quality of written communication is of a high standard. [10]

10

5 Certainly the range of allegedly demerit goods seems to be increasing every day. Once it was just alcohol and tobacco products which fell into this category. Now it includes car usage, air travel and even the use of patio heaters.

The issue for candidates is to decide if this is based upon government's genuine concern for the welfare of the individual and for society as a whole: or is it an attempt by politicians to control even more of the economy and to raise more revenue through taxes on alleged demerit goods.

Issues for evaluation and discussion include:

- Tax on air travel. Is this to raise revenue or reduce carbon emissions? New lighter carbon fibre planes emit much less carbon but are taxed equally with other planes.
- Should individuals be prevented from enjoying activities which may damage them but not society at large?
- Need to protect vulnerable individuals who are thought to be incapable of making informed decisions.
- Is regulation based upon religious belief justifiable? Consider the Sunday trading laws.
- Differences between countries in classification and treatment of demerit goods.
- Historical experiences e.g. impact of Sunday opening of pubs.
- Are green taxes just a revenue-raising gimmick/should they be revenue neutral?
- Does the behaviour of politicians with regard to expenses and allowances indicate that they are above self-interest?

**Level 1 ([1]–[3])**

Candidate shows little understanding of the issues involved in classifying a good as demerit. There is no significant evaluation and quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate shows some understanding of the issues involved in classifying a good as demerit. There is a degree of evaluation and quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate shows a clear understanding of the issues involved in classifying a good as demerit. There is significant evaluation, including a balanced conclusion and quality of written communication is of a high standard. [10]

	10
<b>Total</b>	<b>40</b>





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## **Economics**

**Assessment Unit AS 2  
(Essay)**

*assessing*

**Module 1: The Market Mechanism,  
Market Failure and Government Response**

**[ASE21]**

**FRIDAY 16 JANUARY, MORNING**

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# **MARK SCHEME**

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### Levels of Response

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**Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

**High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

## General Marking Criteria

Assessment Objective	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation and judgement
<b>Level 1 Performance</b>	There may be limitations in the candidate's grasp of theoretical principles, resulting in an excessively narrow focus on the issues involved in the question.	The candidate tends to make unsubstantiated generalisations, and superficial assumptions, lacking any real awareness of contemporary events.	The candidate is likely to confuse hypotheses with facts and does not successfully account for divergences between theoretically predicted and actual outcomes of events or decisions in a real economy.	The candidate finds it difficult to pinpoint strengths or limitations of economic models and theories in explaining real world issues and problems, or to compare and contrast alternative strategies or policy instruments.
<b>Level 2</b>	The candidate shows sufficient knowledge of economic theory for the main issues involved in the question to be satisfactorily identified.	The candidate makes valid connections between theoretical principles and real-world events.	The candidate shows ability to identify causes of economic problems and is able to relate these to real economies.	The candidate shows some awareness of the strengths and limitations of different economic models, theories, decisions and policies, and attempts to support observation with appropriate references.
<b>Level 3</b>	The candidate has a detailed knowledge of economic theory and shows a clear understanding of its significance in the specific contexts of the question.	The candidate relates concepts to situations and problems in real economies with some skill and can explain contemporary events while supporting conclusions with evidence.	The candidate is aware of the implications of hypotheses and distinguishes between association and causation in contemporary economic problems, offering valid suggestions as to how these may be addressed.	The candidate is able to critically examine alternative economic models, theories, arguments and policies in the analysis of economic problems and demonstrates the ability to evaluate the outcomes of economic decisions, supporting this with accurate reference or relevant examples.

- 1 (a) An equilibrium or market-clearing price is one which is static and exhibits no tendency to change. This is because the downward pressure exerted by supply is just balanced by the upward pressure exerted by demand.

Appropriate development:

- Diagram.
- Explanation of why price above the equilibrium would be unstable.
- Explanation of why price below the equilibrium would be unstable.
- Examples.
- Explanation of why equilibrium might change.
- Explanation of demand curve.
- Explanation of supply curve.

### Level 1 ([1]–[2])

Candidate shows little knowledge or understanding of equilibrium price. There is at best a flawed or incomplete definition and little development through relevant examples, diagrams or technical language. Quality of written communication is limited.

### Level 2 ([3]–[5])

Candidate shows some knowledge and understanding of equilibrium price. There is a credible definition, although this may contain minor errors and some development through relevant examples, diagrams or technical language. Quality of written communication is satisfactory.

### Level 3 ([6]–[8])

Candidate shows extensive knowledge and understanding of equilibrium price. There is an accurate definition and extensive development through relevant examples, diagrams or technical language. Quality of written communication is of a high standard. [8]

- (b) Traffic congestion is a situation of excess demand for road space at particular times. This arises because road usage is essentially free at point of use and will therefore be consumed so long as the marginal utility of the journey is positive. Roads are a finite resource and therefore excess demand will inevitably arise on certain roads at certain times.

If motorists had to pay directly for each road/mile used then many marginal journeys would not be undertaken at all or travellers would find some other mode of transport. The revenue from charging could be used to build more roads or improve public transport.

Issues for analysis and discussion:

- Use of appropriate diagram.
- Impact on demand for road use of road-pricing.
- Impact on other modes of transport of road-pricing.
- Possible impact on supply of roads of use of revenue from road-pricing.
- Possibility of more economically efficient outcome if the charge reflected the negative externality from road use.

**Level 1 ([1]–[5])**

Candidate shows little understanding of how the price mechanism could be applied to the problem of traffic congestion. Key issues are not addressed and there is no significant economic analysis. Quality of written communication is limited.

**Level 2 ([6]–[11])**

Candidate shows some understanding of how the price mechanism could be applied to the problem of traffic congestion. Most key issues are addressed and there is some economic analysis. Quality of written communication is satisfactory.

**Level 3 ([12]–[16])**

Candidate shows a clear understanding of how the price mechanism could be applied to the problem of traffic congestion. Most key issues are addressed in depth and there is extensive economic analysis. Quality of written communication is of a high standard. [16]

- (c) Private sector, rather than government provision, would radically change the way in which education is delivered. Market pricing, competition and the profit motive would replace government provision and regulation.

Issues for analysis and evaluation include:

- Popular schools charge higher prices and those who can afford get the school places. Selection on merit is replaced by the ability to pay.
- Impact on those who are priced out of the market.
- Benefits of competition between rival providers.
- Possible impact of cost cutting on quality of service.
- External benefits of education would be ignored in the market.
- Private benefits may be rejected by ill-informed parents.
- Administration cost savings, e.g. no need for school inspectors as market forces will close “failing” schools.
- Issues of equality and social justice.

**Level 1 ([1]–[5])**

Candidate shows little understanding of the implications of private sector rather than government provision of education. Key issues are not addressed and there is no significant evaluation. Quality of written communication is limited.

**Level 2 ([6]–[11])**

Candidate shows some understanding of the implications of private sector rather than government provision of education. Key issues are addressed though not in great depth and there is a degree of evaluation. Quality of written communication is satisfactory.

**Level 3 ([12]–[16])**

Candidate shows a clear understanding of the implications of private sector rather than government provision of education. Key issues are addressed in depth and there is extensive evaluation including a balanced conclusion. Quality of written communication is of a high standard. [16]

- 2 (a) Price elasticity of supply is a measure of the responsiveness of quantity supplied to changes in market price. It tells us how easily and quickly firms can increase production in response to a rise in price.

Appropriate development:

- Price elasticity of supply can be measured by dividing the percentage change in quantity supplied by the percentage change in price. For numerical values greater than one the supply is elastic, whilst for those less than one it is inelastic.
- Elasticity of supply depends upon the nature of the production process. Generally speaking tertiary production is elastic whilst primary production is inelastic.
- Appropriate diagrams.

### Level 1 ([1]–[2])

Candidate shows little knowledge or understanding of elasticity of supply. There is little use of technical language and few if any examples. Quality of written communication is limited.

### Level 2 ([3]–[5])

Candidate shows a degree of knowledge and understanding of elasticity of supply and some examples may be given. There is some use of technical language and quality of written communication is satisfactory.

### Level 3 ([6]–[8])

Candidate shows detailed knowledge and understanding of elasticity of supply and appropriate examples may be given. There is extensive use of technical language and quality of written communication is of a high standard. [8]

- (b) For a product such as fresh fish there are unlikely to be significant buffer stocks which can easily be brought to market if price rises, (some stocks may be available in fish farms). So in the immediate aftermath of a rise in price, the supply curve will be almost totally inelastic.

In the short run the fishing industry may increase its variable factors, perhaps by staying at sea for a longer period of time. So the supply curve will become more elastic.

In the long run all factors of production may be increased, so there can be more and bigger boats and better equipment such as radar. This should cause the supply curve to become even more elastic.

However the problem of preserving fish stocks may prevent this increase in capacity.

Issues for analysis and discussion include:

- Distinction between time periods in measuring elasticity of supply.
- Distinction between fixed and variable factors of production.
- Problem of fish stock conservation.
- Problem of defining “fresh” fish.



**Level 1 ([1]–[5])**

Candidate shows little understanding of the factors which can influence the elasticity of supply of fresh fish. Key issues are not addressed and there is no significant economic analysis. Quality of written communication is limited.

**Level 2 ([6]–[11])**

Candidate shows some understanding of the factors which can influence the elasticity of supply of fresh fish. Key issues are addressed, though not in great detail and there is a degree of economic analysis. Quality of written communication is satisfactory.

**Level 3 ([12]–[16])**

Candidate shows a clear understanding of the factors which can influence the elasticity of supply of fresh fish. Key issues are addressed comprehensively and there is extensive economic analysis. Quality of written communication is of a high standard. [16]

- (c) Candidates should provide an explanation of why estimates of elasticity may contain inaccuracies. They should balance this against the uses to which such estimates may be put and the difficulties which decision makers would face in trying to make choices with no estimate at all for price elasticity, even a flawed one.

Issues for analysis and evaluation include:

- Problems of obtaining accurate estimates for price elasticities of demand and supply, e.g. the ceteris paribus condition.
- Use of appropriate diagrams.
- Use of estimates of the price elasticities of demand and supply.

**Level 1 ([1]–[5])**

Candidate provides no meaningful evaluation of the usefulness of estimates for price elasticities of demand and supply. Key issues such as problems in accurate measurement are missed and quality of written communication is limited.

**Level 2 ([6]–[11])**

Candidate provides some evaluation of the usefulness of estimates for price elasticities of demand and supply. Key issues are addressed though there may be errors and quality of written communication is satisfactory.

**Level 3 ([12]–[16])**

Candidate provides an in-depth evaluation including a balanced conclusion of the usefulness of estimates for price elasticities of demand and supply. Key issues are comprehensively addressed and quality of written communication is of a high standard. [16]

40

- 3 (a) An economy is said to be allocatively efficient when it makes the best use of the resources available to it. A vital factor in achieving this is to produce the “right” goods and services. Right in this context refers to those products which consumers value most. So resources are not wasted in producing items which consumers do not want.

Appropriate development:

- Use of diagram.
- Description of economic resources.
- Occupational mobility of resources.
- Opportunity cost.
- Appropriate diagram.

**Level 1 ([1]–[2])**

Candidate shows little or no understanding of allocative efficiency. Any attempt at a definition will be seriously flawed and there is no significant development. Quality of written communication is limited.

**Level 2 ([3]–[5])**

Candidate shows some understanding of allocative efficiency. There is a serious attempt at a definition which may be supported by a degree of development. Quality of written communication is satisfactory.

**Level 3 ([6]–[8])**

Candidate shows a clear understanding of allocative efficiency. There is a flawless definition supported by significant development. Quality of written communication is of a high standard. [8]

- (b) Candidates should explain how consumers will purchase those items which yield them the greatest utility for each pound spent. This will drive up the price and profits for suppliers and lead to an increase in production for these items. Hence resources are drawn to areas of production where there is the greatest demand and this creates allocative efficiency.

Productive efficiency is achieved through competition and the survival of the lowest cost producers. Inefficient high cost producers will be driven out of business, leaving the market to the more efficient firms.

Issues for analysis and discussion include:

- Explanation of profit motive.
- Explanation of productive and allocative efficiency.
- Analysis of role of prices and profits in achieving efficiency.
- Explanation of importance of competition.
- Explanation of costs.
- Use of appropriate diagrams.

**Level 1 ([1]–[5])**

Candidate provides little analysis of how competition and the profit motive can help an economy to achieve productive and allocative efficiency. There is at best a basic understanding of the terms but no meaningful economic analysis. Quality of written communication is limited.

**Level 2 ([6]–[11])**

Candidate provides some analysis of how competition and the profit motive can help an economy to achieve productive and allocative efficiency. There is a basic understanding of the terms and some economic analysis. Quality of written communication is satisfactory.

**Level 3 ([12]–[16])**

Candidate provides a clear and accurate analysis of how competition and the profit motive can help an economy to achieve productive and allocative efficiency. There is in-depth understanding of the terms and extensive economic analysis. Quality of written communication is of a high standard. [16]

- (c) Free markets are the basis of most economic decision making and generally produce welfare maximizing outcomes. This can be demonstrated by use of consumer and producer surplus or productive and allocative efficiency.

However there are circumstances in which markets “fail” to produce the best outcomes and government intervention may be required.

Issues for analysis and evaluation include:

- Analysis of the benefits of markets.
- Explanation of areas of market failure, e.g. existence of externalities, failure to produce public goods.
- Use of appropriate diagrams.
- Conclusion, pointing out what markets do well and where they fail.

**Level 1 ([1]–[5])**

Candidate fails to properly evaluate the view that free markets are more likely to fail than to produce efficient outcomes. Key issues are not addressed and quality of written communication is limited.

**Level 2 ([6]–[11])**

Candidate provides some evaluation of the view that free markets are more likely to fail than to produce efficient outcomes. Most key issues are addressed though this may lack depth and quality of written communication is satisfactory.

**Level 3 ([12]–[16])**

Candidate provides in depth evaluation including a balanced conclusion of the view that free markets are more likely to fail than to produce efficient outcomes. Key issues are addressed in detail and quality of written communication is of a high standard. [16]

**Total**

40

**40**





*Rewarding Learning*

**ADVANCED SUBSIDIARY (AS)**

**General Certificate of Education**

**January 2009**

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## **Economics**

### **Assessment Unit AS 3**

*assessing*

#### **Module 2: The National Economy**

**[ASE31]**

**MONDAY 26 JANUARY, AFTERNOON**

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# **MARK SCHEME**

## General Marking Instructions

Mark schemes are intended to ensure that the AS examination is marked consistently and fairly. The mark scheme provides markers with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

## Quality of Candidates' Responses

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17-year-old which is the age at which the majority of candidates sit their AS examinations.

## Unanticipated Responses

The mark schemes which accompany the specimen examination papers are not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers and to refer for guidance to the general descriptions of levels of response given in the general marking criteria that follow. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

## Positive Marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for a 17-year-old AS candidate. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

## Types of Mark Schemes

Mark Schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

## Marking Calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error.

## Quality of Written Communication

Quality of written communication is taken into account in assessing candidates' responses to questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates' economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2.

## Levels of Response

General descriptions of levels of response in terms of each assessment objective and the quality of written communication are given in the following table. These descriptions are intended to assist examiners in judging candidates' performance when they produce answers unanticipated by the detailed mark scheme for each question and to provide guidelines for examiners in assessing the appropriate level of response in respect of the quality of written communication.

The detailed mark schemes for each question relate these levels of response to the content of the relevant question. In deciding on the appropriate level of response for a candidate's answer, examiners should look for the 'best fit'. The level awarded will depend in practice upon the extent to which the candidate has met the relevant assessment objectives overall. Shortcomings in some areas may be balanced by better performance in others. In deciding which mark within a particular level to award any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

**Threshold performance:** Response which just merits inclusion in this level and should be awarded a mark at or near the bottom of the range.

**Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

**High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

- 1 (a) A recession is technically defined as “two back to back quarters of negative economic growth”.
- For a perfect definition [4].  
 For references to some of the features of a recession such as slowing growth, rising unemployment, falling prices etc. [1] for each valid point up to a max of [3]. [4]
- (b) (i) Lower interest rates may stimulate spending in a number of ways:
- Lower mortgage repayments increase consumer spending.
  - They may increase the value of assets such as houses or shares. This may increase consumer confidence and lead to an increase in spending.
  - They may lead to a fall in the value of the pound and a rise in export spending.
  - Consumers and firms may be more inclined to borrow in order to finance consumption and investment.
- Maximum of [3] for each point identified and explained. [6]  
 Constrained maximum of [6]
- (ii) Expansionary fiscal policy.
- Explanation of expansionary fiscal policy.
  - Lower taxes may increase disposable income and lead to a rise in spending.
  - Lower taxes may lead to an increase in consumer and business confidence.
  - Lower taxes may increase investment from abroad.
  - More government spending has direct impact on aggregate demand.
  - Increases in welfare spending may have a knock-on impact on the economy.
- Maximum of [3] for each point identified and explained. [6]  
 Constrained maximum of [6]
- (c) Discretionary fiscal policy aims to be counter-cyclical. Its purpose is to correct the excesses in the economy caused by the free play of market forces. Hence when the economy is stagnant or even deflating then fiscal policy should be expansionary and when the economy is expanding too rapidly then fiscal policy should be contractionary. Fiscal policy could be destabilising and perhaps lead to inflation if it were expansionary at a time when the economy was expanding under its own steam.
- Issues for discussion include:
- Explanation of term fiscal stimulus.
  - Reasons why it might be mistimed, e.g. time lags, lack of information.
  - Explanation of destabilising, e.g. inflationary impact.

**Level 1 ([1]–[2])**

Candidate provides little economic analysis of how a badly timed fiscal stimulus could destabilise the economy. Quality of written communication is limited.

**Level 2 ([3]–[4])**

Candidate provides some economic analysis of how a badly timed fiscal stimulus could destabilise the economy. However, this may lack depth or contain minor errors. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

Candidate provides a clear and accurate economic analysis of how a badly timed fiscal stimulus could destabilise the economy. Quality of written communication is of a high standard. [6]

- (d) A fall in the value of the pound could be inflationary because of higher import prices. These may have a knock-on impact throughout the economy because of changes in wages and other production costs.

Issues for discussion include:

- Why a weaker pound leads to higher import prices.
- How this might escalate to create a wage price spiral as workers try to protect the real value of their incomes.
- Impact of more expensive raw materials such as oil upon production costs.

**Level 1 ([1]–[2])**

Candidate provides little economic analysis of the links between a falling pound and a rise in retail prices. Quality of written communication is limited.

**Level 2 ([3]–[5])**

Candidate provides some economic analysis of the links between a falling pound and a rise in retail prices. However, this may be incomplete or contain minor errors. Quality of written communication is satisfactory.

**Level 3 ([6]–[8])**

Candidate provides a clear and accurate economic analysis of the links between a falling pound and a rise in retail prices including possibility of a wage-price spiral. Quality of written communication is of a high standard. [8]

(e) As the threat of recession becomes greater in the UK this becomes more topical, with many political voices urging a relaxation of the Bank of England's inflation target.

Issues for discussion include:

- What is so desirable about a 2 per cent inflation target? Would the economy be significantly worse at 2.5 or even 3 per cent inflation?
- Will expansionary monetary policy lead to rise in aggregate demand? It has not done so in Japan.
- Expansionary monetary policy will benefit the rich more than the poor because of rise in asset prices.
- No action may lead to prolonged recession/depression.
- Possibility of political unrest.
- Bank of England may be unable to influence the rates charged by the high street banks.
- International and historical experiences.

**Level 1 ([1]–[3])**

Candidate provides little meaningful discussion of the issues involved in a decision to cut interest rates. There is little economic analysis and no significant evaluation. Quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate provides some discussion of the issues involved in a decision to cut interest rates. There is a degree of economic analysis and evaluation though this may lack depth or be one-sided. Quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate provides an extensive discussion of the issues involved in a decision to cut interest rates. There is clear and relevant economic analysis with in-depth evaluation which includes a balanced conclusion. Quality of written communication is of a high standard. [10]

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- 2 (a) Nominal GDP is GDP valued at the prices of the year in which it is measured ie not adjusted for inflation.  
Real GDP is GDP which has been adjusted for inflation usually by valuing output at the prices of some previous year.

Appropriate development.

- Explanation of GDP.
- Explanation of impact of inflation on GDP.
- Explanation of adjusting for inflation.
- Numerical example.
- Illustration of the GDP deflator.

**Level 1 ([1]–[2])**

Candidate shows little knowledge or understanding of real and nominal GDP and there is no significant development. Quality of written communication is limited.

**Level 2 ([3]–[5])**

Candidate shows some knowledge and understanding of real and nominal GDP and there is a degree of development. Quality of written communication is satisfactory.

**Level 3 ([6]–[8])**

Candidate shows an in-depth knowledge and understanding of real and nominal GDP and there is extensive development. Quality of written communication is of a high standard. [8]

- (b) GDP can be calculated in three ways:

- (i) The expenditure method measures total spending on UK produced goods and services. It consists of consumption, investment, government spending and net exports.
- (ii) The income method measures the rewards earned by the providers of the factors of production used in delivering GDP. It consists of wages, interest, rent and profit.
- (iii) The output method measures the output of all UK firms and the government. It consists of the value added by the primary, secondary and tertiary sectors of the economy.

Issues for analysis and discussion include the following:

- Market prices and basic prices.
- Stock appreciation.
- Imputed rent.
- Value added.
- Circular flow of income and expenditure.
- Problems in the compilation of statistics.
- Sources of information.

**Level 1 ([1]–[5])**

Candidate provides little explanation of how GDP can be measured. There is little use of technical language and quality of written communication is limited.

**Level 2 ([6]–[11])**

Candidate provides some explanation of how GDP can be measured. There is a degree of use of technical language and quality of written communication is satisfactory.

**Level 3 ([12]–[16])**

Candidate provides an extensive explanation of how GDP can be measured. There is widespread use of technical language and quality of written communication is of a high standard. [16]

- (c) By standard of living we mean the material welfare of a nation's population. Real GDP per person is the value of an economy's output after allowance for inflation and the size of the population. It includes all output, even those items such as defence which most people do not include in their view of material living standards. It also includes types of economic activity which may cause significant environmental damage. On the other hand it excludes imports which do contribute directly to our living standards. Hence it is a flawed measure of welfare but so also are the alternatives such as the Index of Sustainable Economic Welfare (ISEW) and the Human Development Index (HDI). GDP based welfare measures at least have the advantage of ease of calculation and objectivity.

Issues for analysis and evaluation include:

- Definition of real GDP per person.
- Impact of net income from abroad.
- Definition of standard of living.
- Environmental issues.
- Other weaknesses of real GDP per person such as inequality.
- Issues not measured by GDP, e.g. political freedom.
- Other measures of welfare, e.g. ISEW.

**Level 1 ([1]–[5])**

Candidate shows little understanding of the deficiencies and benefits of using real GDP per person as a guide to a nation's standard of living. There is little or no reference to other measures and no meaningful evaluation. Quality of written communication is limited.

**Level 2 ([6]–[11])**

Candidate shows some understanding of the deficiencies and benefits of using real GDP per person as a guide to a nation's standard of living. There may be some reference to other measures and a degree of evaluation though this evaluation may lack depth or be one-sided. Quality of written communication is satisfactory.

**Level 3 ([12]–[16])**

Candidate shows a clear understanding of the deficiencies and benefits of using real GDP per person as a guide to a nation's standard of living. There are references to other measures and in-depth evaluation which includes a balanced conclusion. Quality of written communication is of a high standard. [16]



- 3 (a) Aggregate demand has four basic components:
- Consumption (C): Spending by households on goods and services.
  - Investment (I): Spending by firms on investment goods.
  - Government spending (G): This includes current spending such as wages and office supplies. It also includes spending by the government on investment goods such as new schools and hospitals.
  - Exports minus imports (X–M): This is foreign spending on UK produced goods and services (X) less UK spending on foreign produced goods and services (M).

One mark for each component identified and another mark for explanation.

Allow up to [2] for definition of aggregate demand.

Constrained maximum of [8]

[8]

- (b) There are three basic reasons why the aggregate demand curve slopes downwards from left to right:
- The wealth effect: rising prices reduce the real value of money balances and income held by consumers. There is a reduction in purchasing power.
  - The interest rate effect: rising prices increase the demand for money. This pushes up the rate of interest and reduces interest rate sensitive expenditure, especially investment.  
The rise in the rate of interest may have the further impact of increasing the value of the pound and reducing the net export component of aggregate demand.
  - International substitution: a rise in the price of UK goods will lead consumers at home and abroad to switch away from UK produced goods.

#### **Level 1 ([1]–[5])**

Candidate provides little analysis of the reasons why the aggregate demand curve slopes downwards. Key issues are missed or presented in a confused manner. Quality of written communication is limited.

#### **Level 2 ([6]–[11])**

Candidate provides some analysis of the reasons why the aggregate demand curve slopes downwards. The key issues are addressed though this may be incomplete or confused. Quality of written communication is satisfactory.

#### **Level 3 ([12]–[16])**

Candidate provides a clear and comprehensive analysis of the reasons why the aggregate demand curve slopes downwards. All the key issues are explained and quality of written communication is of a high standard.

[16]

(c) A basic definition of a balanced budget is a situation where there is equality between government revenue, mostly from taxation, and government expenditure. However, it would be unrealistic and probably undesirable for the government to attempt to achieve this on a permanent basis. This is for two reasons:

- It is normal for the government's budget to vary throughout the economic cycle.
- A distinction should be drawn between current and capital spending.

Hence it is present government policy that government borrowing should only be for capital as opposed to current spending and that current expenditure and revenue should balance over the course of the economic cycle. This is known as the golden rule.

Issues for analysis and discussion include:

- Explanation of a balanced budget.
- Distinction between current and capital spending.
- Analysis of link between economic cycle and government finances.
- Explanation of golden rule.
- Social and political consequences of failure of government to attempt to correct inflation and recession.
- Historical and international examples.

#### **Level 1 ([1]–[5])**

Candidate provides little evaluation of the desirability of a permanently balanced budget. Key issues are not addressed, and quality of written communication is limited.

#### **Level 2 ([6]–[11])**

Candidate provides some evaluation of the desirability of a permanently balanced budget. This evaluation may lack depth or be one-sided. Key issues are addressed though this will be incomplete or contain minor errors, and quality of written communication is satisfactory.

#### **Level 3 ([12]–[16])**

Candidate provides an in-depth evaluation of the desirability of a permanently balanced budget and this includes a balanced conclusion. Key issues are addressed in detail though, and quality of written communication is of a high standard.

[16]

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- 4 (a) Supply-side policies are economic policies whose purpose is to increase the full employment potential output of the economy. In other words they aim to shift the LRAS curve to the right. Examples of supply-side policies include the privatisation of state owned assets, reduced levels of taxation and reduction in trade union power.

Appropriate development.

- Examples of supply-side policies.
- Theoretical background, e.g. the contribution of Friedman.
- Historical and international experiences.

[4] for definition and [4] for development.

[8]

- (b) The long run aggregate supply curve (LRAS) shows the relationship between the quantity of real GDP supplied and the price level in the long run when real GDP equals full employment GDP. A shift to the right represents economic growth and can be caused by a variety of factors.

Issues for analysis and discussion include:

- Explanation of LRAS.
- Explanation of rightward shift in LRAS.
- Education and training/Investment in human capital.
- Immigration.
- Investment in physical capital.
- Supply side policies (explanation of how they stimulate growth).
- Change in cultural attitudes, e.g. enterprise culture.
- Problems of measurement.
- Use of appropriate diagram.

#### **Level 1 ([1]–[5])**

Candidate provides no significant analysis of why the LRAS might shift to the right. Key issues are missed or their treatment contains major errors, and quality of written communication is limited.

#### **Level 2 ([6]–[11])**

Candidate provides some analysis of why the LRAS might shift to the right. Key issues are addressed though their treatment may be incomplete or contain minor errors, and quality of written communication is satisfactory.

#### **Level 3 ([12]–[16])**

Candidate provides a clear and comprehensive analysis of why the LRAS might shift to the right. Key issues are addressed accurately, and quality of written communication is of a high standard. [16]

(c) It is certainly true that some supply-side policies do primarily benefit business and entrepreneurs. This was the case with the reduction in corporation tax and slicing the top rate of income tax from 83 per cent to 40 per cent. Similarly the curbing of trade union power reduced wages for certain groups of workers and there was an increase in profits as a percentage of National Income. However, other supply-side policies such as improvements in education and training were of benefit to workers. Indeed if the policies generate more economic growth then this benefits the entire community though not always equally. The interests of business and workers are not always in conflict and it is possible for supply-side policies to benefit both.

Issues for analysis and evaluation include:

- Impact of tax cuts.
- Impact of trade union reform.
- Impact of improvements in education and training.
- Benefits of economic growth.
- Impact of benefit reform.
- Benefits of reduced unemployment.

**Level 1 ([1]–[5])**

Candidate provides little evaluation of the impact of supply- side policies upon the interests of business and workers. Key issues are ignored, and quality of written communication is limited.

**Level 2 ([6]–[11])**

Candidate provides some evaluation of the impact of supply-side policies upon the interests of business and workers. This evaluation may lack depth or be one-sided. Key issues are addressed though their treatment will be incomplete or contain minor errors. Quality of written communication is satisfactory.

**Level 3 ([12]–[16])**

Candidate provides an in-depth evaluation including a balanced conclusion of the impact of supply-side policies upon the interests of business and workers. Key issues are addressed comprehensively, and quality of written communication is of a high standard. [16]

<b>Total</b>	<b>40</b>
	<b>80</b>