

**EC3****GENERAL MARKING GUIDANCE****Positive Marking**

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

## GCE ECONOMICS – EC3

Summer 2013

Question	Answer	Mark allocation	Assessment objective
Q.1 (a)	<p><b>The diagram below shows the short-run situation for a firm in monopolistic competition. Using the diagram, explain what is meant by abnormal profit.</b></p> <p>Occurs when Price (AR) &gt; AC (1).            At output OQ/area PRST (1).            Explanation of greater than needed to keep producer in industry. Will attract new firms into industry (1).  <i>Must refer to diagram for 3 marks</i></p>	3	AO1 2 AO2 1
Q.1 (b)	<p><b>Explain why a firm in monopolistic competition is able to earn abnormal profit in the short-run.</b></p> <p>Identification (1) and explanation (1) of monopoly power e.g. brand name, customer loyalty, fixed factor, may be high demand for product in short-run</p>	2	AO1 2
Q.1 (c)	<p><b>Explain why the firm will make only normal profits in the long run.</b></p> <p>Identification and explanation of lack of/weak barriers to entry (1)            New entrants will force down price until normal profit earned because increased industry reduces price towards AC (2).</p>	2	AO1 2
Q.2	<p><b>Using the diagram explain what the firm's price and output would be if it decided to maximise sales revenue.</b></p> <p>Mark point where MR crosses horizontal axis (1).            Explanation that when MR becomes negative increased sales will reduce revenue (3).</p> <p>Alternative answer is in terms of PED. Sales are maximised where PED = (-) 1. After this revenue falls as sales increase</p>	3	AO1 1 AO2 2

Question	Answer	Mark allocation	Assessment objective
<p><b>Q.3</b></p>	<p><b>Evaluate the case for the Government freezing fuel duties at their current rate in 2102.</b></p> <p>Identification and explanation of appropriate argument FOR duty freeze  e.g. to reduce transport costs for motorists, transport firms;  to control cost push inflation;  to help poorer families/regressive tax;  assisting car industry and jobs;  benefits to haulage industry – reduced costs for users of haulage industry;  maintaining/increasing consumer confidence;  petrol duty has been falling in real terms.</p> <p>Identification and explanation of appropriate argument AGAINST duty freeze  e.g. tax rise will encourage energy conservation;  loss of tax revenue for Government;  higher fuel prices will encourage use of public/more fuel-efficient transport;  more R &amp;D into alternatives to petrol;  other factors could increase the fuel price;  fuel duties only small % of income.</p> <p>Max 4 without evaluation.</p>	<p><b>8</b></p>	<p>AO2 2  AO3 2  AO4 4</p>
<p><b>Q.4 (a)</b></p>	<p><b>Explain what the chart shows about bank lending to firms between 2008 and 2011.</b></p> <p>Identification (1) and explanation (1) of trend  e.g. rose until mid-2009, fell afterwards, interest rate rose OR growth rate falls until Jan 09, rises thereafter</p>	<p><b>2</b></p>	<p>AO2 1  AO3 1</p>
<p><b>Q.4 (b)</b></p>	<p><b>Explain the likely effects of higher interest rates and lower bank lending on the UK economy.</b></p> <p>Identification (2) and explanation (4) of possible effects  e.g. possible falling investment, higher costs, lower output &amp; employment;  effects on house prices/wealth effect;  fewer business start-ups;  reduced I and reduced C;  fall in AD;  fall in GDP and employment;  £ appreciates/effects on BoP.</p>	<p><b>6</b></p>	<p>AO1 1  AO2 2  AO3 3</p>

Question	Answer	Mark allocation	Assessment objective
Q.5	<p><b>Discuss what the data suggests about the relationship between earnings and unemployment between June 2010 and December 2011.</b></p> <p>Suggests positive relationship as both rose (1) Use of data (2)</p> <p>Explanation/evaluation of possible link (4) e.g. higher wages make labour more expensive – fall in D for labour/higher unemployment; recession may have had more impact than wage rises; seasonal effects on wages; workers demanded higher wages to keep pace with inflation.</p>	4	AO3 2 AO4 2
Q.6	<p><b>Explain why the weaker value of sterling might not have helped to reduce the UK's trade deficit.</b></p> <p>Explanation of falling demand in Eurozone depressing exports, certain UK industries growing therefore attracting imports (2)</p> <p>Development related to price elasticities of demand for exports and imports/ other non price factors influencing demand for imports/exports/falling NI on Eurozone/supply side constraints in the UK economy, depends upon which countries are major trading partners (4)</p>	4	AO3 2 AO4 2
Q.7	<p><b>In an economy, a world recession reduces Aggregate Demand from AD1 to AD2. Using the diagram, discuss whether the economy will return to the Full Employment Level of output in the long run.</b></p> <p>Explanation of full employment output as maximum capacity of economy/natural level of unemployment (2)</p> <p>Explanation/evaluation related to diagram Wage levels fall thus costs fall, SRAS will increase because producers more efficient until output increase to <math>Y_{fe}</math>, assuming perfect mobility of factors Assumption of perfect mobility/wages falling etc may be incorrect therefore economy may be stuck in recession Sticky or rigid wages</p> <p>(Maximum 4 for one side only)</p>	6	AO3 2 AO4 4

## SECTION B

*Answer **one** question*

**The following levels should be applied to each question.**

LEVEL	MARK BAND	DESCRIPTOR
<b>Level 1</b>	1-5	<p>Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
<b>Level 2</b>	6-10	<p>Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p>
<b>Level 3</b>	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
<b>Level 4</b>	16-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

Question	Answer	Mark allocation	Assessment objective
<p><b>Q.8</b></p>	<p><b>Discuss whether university students should pay the full cost of their education rather than being subsidised by the Government.</b></p> <p>Explanation of subsidy/full cost e.g. university students only pay part of cost, Government pays rest/ education is a merit good – under consumed in market mechanism</p> <p>Explanation and evaluation  e.g. graduate earnings higher than non-graduate students investing in own future;  can afford to pay back loans out of higher earnings;  reduced cost to Government;  alternative uses for Government spending;  may encourage applications for ‘vocational’ courses;  hasn’t significantly deterred applications;  may deter poorer students;  students start working life in debt;  HE a merit good ∴ creates external benefits;  may reduce international competitiveness;  high cost of administration.</p> <p>Level 4 answers should refer to wider macroeconomic costs and benefits such as effect on output, competitiveness, human capital etc.</p>	<p><b>20</b></p>	<p>AO1 4  AO2 4  AO3 6  AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
<p><b>Q.9</b></p>	<p><b>To what extent is privatisation likely to benefit the UK economy?</b></p> <p>Definition and explanation of privatisation  e.g. transfer of production from private to public ownership;  includes denationalisation, deregulation and contracting out of public services.</p> <p>Explanation &amp; evaluation of possible benefits and drawbacks of privatisation  e.g. increased competition/remove public sector monopolies;  increased consumer choice;  lower production costs;  increased share ownership;  higher productivity;  lower taxes &amp; government spending;  reduced PSBR;  higher rates of return on investment.</p> <p>natural monopoly argument;  may create private monopoly;  loss of revenue to government from profits;  may lead to higher prices;  may lead to lower service quality;  job losses in some industries;  some enterprises sold too cheaply/windfall profits for some shareholders.</p> <p>Level 4 answers should make a reasoned judgement as to the overall success of privatisation e.g. illustrating how it appears to have been successful in some cases but not in others, and refer to wider macro-economic effects such as those on employment and productivity/output.</p>	<p><b>20</b></p>	<p>AO1 4  AO2 4  AO3 6  AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
<p><b>Q.10</b></p>	<p><b>Discuss the argument that the efficiency of the economy would be maximised if all markets were perfectly competitive.</b></p> <p>Definition and explanation of perfect competition e.g. competition in its purest form and/or definition of efficiency.</p> <p>Explanation and evaluation of how perfect competition creates efficiency e.g.</p> <ul style="list-style-type: none"> <li>explanation of assumptions of model;</li> <li>diagrammatic representation of efficiency (productive and allocative);</li> <li>comparison with other types of market;</li> <li>not necessarily ideal e.g. costs may be lower in a monopoly market because of economies of scale;</li> <li>perfect competition is an idealised model rather than a real-world market;</li> <li>monopolies are social contributors therefore are major employers and exporters;</li> <li>monopolies engage in R &amp; D.</li> </ul> <p>Application to wider economy e.g. discussion of how or whether Government could try to achieve perfect competition, whether UK firms would be competitive with foreign firms</p>	<p><b>20</b></p>	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>