



A-level ECONOMICS 7136/3

Paper 3 Economic Principles and Issues

Mark scheme

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2 4 6 A 7 1 3 6 / 3 / M S

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' 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.

No student should be disadvantaged on the basis of their gender identity and/or how they refer to the gender identity of others in their exam responses.

A consistent use of 'they/them' as a singular and pronouns beyond 'she/her' or 'he/him' will be credited in exam responses in line with existing mark scheme criteria.

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SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

SECTION B

INVESTIGATION

Total for this investigation: 50 marks

3 1 *To what extent, if at all, do the data suggest that people living in the South East (SE) of England are better off than people living in the North East (NE) of England?*

[10 marks]

Level of response	Response	Max 10 marks
Level 3	A good response that: <ul style="list-style-type: none"> • is well organised and includes at least three relevant, well-developed issues • makes effective use of the numerical/statistical data in Extract B • shows some appreciation of the limitations of the data • includes a supported final judgement concerning the extent to which the data support the view that people living in the South East (SE) of England are better off than people living in the North East (NE) of England. 	8–10 marks
Level 2	A reasonable response that: <ul style="list-style-type: none"> • is fairly well organised and includes at least two relevant and fairly well-developed issues • includes some satisfactory use of the numerical/statistical data in Extract B • may show some appreciation of the limitations of the data • at the top of the level, is likely to include a final judgement regarding the extent to which the data support the view that people living in the South East (SE) of England are better off than people living in the North East (NE) of England. 	4–7 marks
Level 1	A weak response that: <ul style="list-style-type: none"> • is very brief and/or lacks coherence • may include one or more superficial points regarding the extent to which the data suggest that people living in the South East (SE) of England are better off than people living in the North East (NE) of England. • contains very limited or poor use of the data in Extract B • doesn't show any appreciation of the limitations of the data • may include an unsupported judgement concerning the extent to which people living in the South East (SE) of England are better off than people living in the North East (NE) of England. 	1–3 marks

When assessing the extent to which the data support the view that people living in the South East (SE) of England are better off than people living in the North East (NE) of England, most students are likely to base their assessment on the data in **Extract B**. However, they can also be rewarded for making relevant use of the other extracts and their own knowledge.

Relevant issues include:

- explanation of what is meant by ‘better off’ and factors that might indicate whether some households are better off than others, eg real income, wealth, health, education, opportunity, the social and natural environment in which people live
- the data in **Figure 2** show that a significantly higher proportion of people aged between 16 and 64 are in employment in the SE (78.2%) than in the NE (71.7%) and that the unemployment rate is lower, SE (3.0%) and the NE (4.2%), supporting the proposition that people living in the SE are better off than people in the NE
- economic inactivity is also significantly lower in the SE (19.4%) than the NE (25.2%)
- explanation of why the data for employment and unemployment support the proposition that people living in the SE are better off than people in the NE
- all three measures of average income, shown in **Figure 3**, support the proposition that people living in the SE are better off than people in the NE. GDP per head is 49% higher (SE = £34 516, NE = £23 109). GDHI per head is 41% higher (SE = £24 551, NE = £17 416). Median weekly earnings are 18% higher (SE = £685, NE = £580).
- explanation of why the data for average income support the proposition that people living in the SE are better off than people in the NE
- recognition that the data are in nominal and not real terms, but that data published in 2016, although out-of-date, suggests differences in the price level may not be very significant
- **Figure 5** shows that average house prices are substantially lower in the NE (£163 000) than in the SE (£402 000), this means that typical mortgage repayments for people buying a house in the NE are likely to be lower than in the SE, partially offsetting the differences in average nominal incomes
- relative house prices reflect different demand and supply conditions and the lower house prices in the NE give some support to the view that people in the SE are better off than people in the NE
- explaining why a net outflow of people from a region may suggest it is not a very prosperous location
- **Figure 1** shows that both the SE (17 683) and NE (4 628) experienced a net inflow of people in 2020 and although, as a proportion of the population, the net inflow for the SE (0.19%) is greater than for the NE (0.17%), this does not suggest that the SE is significantly more prosperous than the NE
- **Figure 4** shows that public spending per head in the NE (£16 662) is higher than in the SE (£15 650), but not markedly so, perhaps indicating that the government may be spending more per head in the NE to try to reduce regional disparities
- explanation of why higher public spending per head in the NE than the SE may help to raise living standards in the NE compared to the SE
- **Figure 4** also shows that public sector revenue per head in the NE (£8 699) is significantly lower than in the SE (£14 013), probably reflecting the lower levels of income, spending and economic activity in the region
- the net fiscal deficit per head in the NE (£7 963) is significantly higher than in the SE (£1 637), perhaps indicating an attempt by the government to reduce regional inequality
- the share of employment in the public sector is higher in the NE (21.2%) than the SE (14.9%) showing that the NE is more dependent on the government for employment than the SE
- the share of employment in manufacturing is higher in the NE (8.8%) than the SE (5.7%) but this does not necessarily reflect differences in how well-off people are in the NE compared to the SE
- limitations of the data might, for example, include:
 - the difference in the price level in the two regions is not given and hence it is not possible to judge the extent to which average real incomes differ
 - some of the indicators are averages for the region and hide differences within each region
 - there is no indication of environmental factors that might affect how well-off people are
 - there are no social indicators, eg crime rates, life expectancy, housing quality, hours worked/leisure time
 - the data showing average house prices does not give any indication of the size or quality of the ‘average house’ in the two regions
- an overall assessment of the extent to which the data support the view that people living in the South East of England are better off than people living in the North East of England.

As indicated in the level of response mark grid, a good response will include a supported final judgement concerning the extent to which the data support the view that people living in the South East of England are better off than people living in the North East of England. A good response will quote relevant data to support the judgement, the data will be quoted accurately and why the data helps to indicate whether people are better off in the SE than the NE will be explained. It is likely that good answers will conclude that the data supports the view that, on average, people living in the South East of England are better off than people living in the North East of England. However, they should not be penalised for a different conclusion, provided it is well supported.

MAXIMUM FOR QUESTION 31: 10 MARKS

Summary of the differences between some of the indicators included in Extract B	
Employment rate	SE 6.5% higher
Unemployment rate	SE 1.2% lower
Economic inactivity rate	SE 5.8% lower
GDP per head	SE £11 407 higher
GDHI	SE £7 135 higher
Median weekly earnings	SE £105 higher
Labour productivity	SE 20.9 index points higher
Public sector revenue per head	SE £5 314 higher
Public sector expenditure per head	SE £1 012 lower
Average house prices	SE £239 000 higher

3 2

Explain why investment in infrastructure in the less-prosperous regions could help to improve the prosperity of people living in these regions.

[15 marks]

Level of response	Response	Max 15 marks
Level 3	A good response provides an answer that: <ul style="list-style-type: none"> • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning. 	11–15 marks
Level 2	A reasonable response provides an answer that: <ul style="list-style-type: none"> • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places. 	6–10 marks
Level 1	A weak response provides an answer that: <ul style="list-style-type: none"> • has one or more relevant issues identified • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles and/or data to the question • might have some limited analysis but it may lack focus and/or become confused. 	1–5 marks

Relevant issues include:

- define and give examples of investment in infrastructure
- explanation of what is meant by prosperity and how it might be measured
- explanation of how investment in infrastructure is likely to increase aggregate demand in the region in which the investment takes place
- possible regional multiplier effects and factors that might affect the magnitude of the regional multiplier
- the short-run effects on output, incomes, employment and the prosperity of people
- explanation of how investment in infrastructure is also likely to improve the supply-side performance of the regional economy, increasing productive capacity
- why investment in infrastructure is likely to increase labour mobility and improve the workings of the local labour market
- the benefits of increased labour mobility for workers and firms, and why it should help to improve the prosperity of people
- explanation of how investment in infrastructure is likely to improve productivity in the region, perhaps supported by examples
- why improvements in productivity are likely to contribute to an improvement in prosperity

- explanation of how investment in infrastructure is likely to reduce firms' costs and increase profits
- why investment in infrastructure is likely to attract firms to the area, creating employment and contributing to an increase in prosperity.

The use of relevant diagrams to support analysis should be taken into account when assessing the quality of a candidate's response to the question.

MAXIMUM FOR QUESTION 32: 15 MARKS

3 3

After considering **Extract D**, and the original evidence in **Extracts A, B and C**, would you recommend that the government intervene in the economy to try to reduce the differences in the economic prosperity of the various regions of the United Kingdom?

Justify your recommendation.

[25 marks]

Level of response	Response	Max 25 marks
Level 5	Sound, focused analysis and well-supported evaluation that: <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion. 	21–25 marks
Level 4	Sound, focused analysis and some supported evaluation that: <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation. 	16–20 marks
Level 3	Some reasonable analysis but generally unsupported evaluation that: <ul style="list-style-type: none"> • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data. 	11–15 marks
Level 2	A fairly weak response with some understanding that: <ul style="list-style-type: none"> • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported. 	6–10 marks
Level 1	A very weak response that: <ul style="list-style-type: none"> • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes analysis which is, at best, very weak • includes attempted evaluation which is weak and unsupported. 	1–5 marks

Relevant issues include:

- meaning of ‘government intervening in the economy’
- explanation of how market forces might be expected to reduce differences in regional economic prosperity
- why market failures provide reasons for government intervention in the economy
- examples of market failures that contribute to differences in the economic prosperity of the different regions of the UK
- ways in which the government might intervene to reduce the differences in the economic prosperity of the different regions of the UK
- analysis and evaluation of the pros and cons of different types of intervention
- analysis and evaluation of arguments against intervention:
 - regional inequality is an inevitable feature of a dynamic economy
 - market forces should help to reduce regional disparities without government intervention
 - some forms of government intervention might interfere with the workings of the market and contribute to the disparities persisting
 - firms know better than governments concerning where to locate to be successful
 - providing incentives for firms to locate in less-prosperous regions and restricting them from locating in the more-prosperous regions could reduce productivity and economic growth and may reduce investment
 - changes in technology may make it easier for workers in less prosperous regions to find employment with firms located in more-prosperous regions, reducing inequality
 - the financial and opportunity costs of government intervention
 - the impact on the budget balance and the national debt
 - less government spending may allow taxes to be reduced and generate supply-side improvements in the economy as a whole
 - unintended consequences of government intervention
 - government failures could mean that intervention is ineffective and may make the problem worse
- analysis and evaluation of arguments in favour of intervention:
 - market forces have been ineffective, the regional disparities in the UK are substantial and have persisted
 - reasons why labour is geographically and occupationally immobile, meaning that reducing structural (regional) unemployment requires government intervention
 - unemployed workers moving to the more-prosperous regions makes the problem worse because people take their spending power with them and the associated multiplier effects
 - it is often the young and more enterprising who move, exacerbating the problems in the less-prosperous regions
 - despite lower factor prices, firms may be reluctant to move to the less-prosperous regions because of the benefits of being located in more-prosperous regions, external economies of scale
 - intervening to improve the economies of the less-prosperous regions may help to reduce some of the problems experienced in the more-prosperous regions, eg overcrowding, congestion and shortages of housing
 - market failure means that government intervention may be required
 - attracting firms to locate in less-prosperous regions creates positive externalities
 - other countries offer financial incentives to firms locating in less-prosperous regions, if the UK government fails to do so, FDI may fall
 - market forces are unlikely to solve the problem of inadequate infrastructure in the less-prosperous regions, for example, infrastructure, such as roads, has the characteristics of a public good
 - merit good arguments may justify additional spending on education and health in less-prosperous regions
 - regional inequality leads to inequality of opportunity and means the potential of people in the less-prosperous regions may not be realised
 - allowing disparities to persist is economically inefficient, for example, if productivity in the less-prosperous regions is increased, there is the potential to substantially increase UK real GDP
 - inequality is a market failure and socially unjust (normative argument for intervention)

- an overall assessment of the arguments for and against the government intervening to reduce the differences in the economic prosperity of the different regions of the UK
- a supported recommendation.

The use of relevant diagrams to support analysis should be taken into account when assessing the quality of a candidate's response to the question.

An answer that does not include any evaluation or a supported recommendation must not be awarded more than 13 marks.

MAXIMUM FOR QUESTION 33: 25 MARKS