

**GCE**

**Economics**

Unit **H460/03**: Themes in Economics

Advanced GCE

**Mark Scheme for June 2017**

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.












All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

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## Annotations

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick – used on all non-level marked questions and placed where each mark is awarded
	Cross
	Benefit of doubt
	AO1 & AO2 – Knowledge, Understanding & Application
	AO3 - Analysis
	AO4 - Evaluation
	Omission
	Not answered question
	Noted but no credit given
	Too vague

## Subject-specific Marking Instructions

### INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

### USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark in pencil a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

Levels of response / Level descriptors	Knowledge and understanding/ Application	Analysis	Evaluation
<b>Strong</b>	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
<b>Good</b>		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
<b>Reasonable</b>	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
<b>Limited</b>	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

#### INSTRUCTIONS TO EXAMINERS:

The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.

Using 'best-fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.

- Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
- Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
- Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline' but they have only achieved some of the qualities in the band descriptors.

Be prepared to use the full range of marks. Do not reserve (e.g.) high marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

Multiple Choice Questions	Answer
1	B
2	A
3	C
4	C
5	B
6	A
7	B
8	A
9	D
10	C
11	D
12	B
13	B
14	D
15	A

Multiple Choice Questions	Answer
16	A
17	A
18	B
19	B
20	A
21	B
22	C
23	C
24	B
25	D
26	C
27	D
28	C
29	A
30	D

Q	Key	Rationale	AO	Quantitative skills
1	B	<p>A This is a function of the World Trade Organisation</p> <p>B <b>Correct:</b> this is the primary objective of the World Bank</p> <p>C This is a function of the International Monetary Fund</p> <p>D This is a function of the International Monetary Fund</p>	AO1	
2	A	<p>A <b>Correct:</b> information is not shared equally between the producer and consumer.</p> <p>B The good is not more beneficial for consumers than they realise.</p> <p>C Moral hazard is a particular type of information failure where consumers or producers behave differently because of their superior information, such as in insurance markets.</p> <p>D There is no indication of any third party costs being incurred.</p>	AO1	
3	C	<p>A This liberal school of thought has grown in popularity following the 2008 global financial crisis.</p> <p>B Classical economics lost popularity as a result of the Great Depression.</p> <p>C <b>Correct:</b> The Great Depression resulted in a new economic paradigm of the need for greater demand side management of the economy.</p> <p>D The monetarist approach became popular in response to the stagflation caused by Keynesianism in the late 1970s.</p>	AO1	
4	C	<p>A Wages would be below the competitive equilibrium wage in this instance.</p> <p>B This would result in the wage rate falling or staying the same rather than rising.</p> <p>C <b>Correct:</b> unions act as monopoly suppliers of labour and refuse to supply their labour below the target wage rate.</p> <p>D This would cause the whole supply curve to shift to the left</p>	AO2	/
5	B	<p>A Demand for domestic currency would fall, causing a depreciation.</p> <p>B <b>Correct:</b> hot money would flow into the country, raising the demand for the currency and causing an appreciation.</p> <p>C Hot money would flow out of the country, increasing supply of the currency and causing a depreciation.</p>	AO1	



Q	Key	Rationale	AO	Quantitative skills
		D Demand for foreign currency would increase, increasing supply of the domestic currency and causing a depreciation.		
6	A	A <b>Correct:</b> Individuals know they will be able to consume public goods even if they don't pay, and so have no incentive to pay. B This is a case of government failure when state provision leads to over-consumption. C This is explaining the concept of scarcity. D This refers to the concept of externalities.	AO1	
7	B	A Debt relief involves the cancellation of debt owed by one nation to another B <b>Correct:</b> microfinance represents small scale loans to individuals or groups to incentivise entrepreneurship. C Overseas development assistance would be to governments or NGOs rather than individuals or firms. D Remittances are funds transferred from migrants to their home country	AO1	
8	A	A <b>Correct:</b> This will reduce income inequality, shifting the Lorenz Curve closer to the line of equality and causing the Gini coefficient to get closer to zero. B The greater the Gini coefficient the greater the degree of income inequality. C The Lorenz curve would only shift right if income inequality worsened. D Raising the income of those at the bottom of the distribution and reducing the income of those at the top of the distribution will reduce income inequality.	AO3	
9	D	A This trade-off occurs when increases in growth result in the demand for imports rising. B Economic growth is likely to increase the derived demand for labour, reducing unemployment. C An improved balance of payments is likely to increase demand for domestic goods and services, which could cause inflation. D <b>Correct:</b> The Phillips Curve illustrates that a lower rate of unemployment is likely to result in a higher rate of inflation.	AO1	

Q	Key	Rationale	AO	Quantitative skills
10	C	<p>A Supernormal profit would not be present in a contestable market.</p> <p>B Economies of scale are not as substantial in monopolistic competition.</p> <p>C <b>Correct:</b> the downward sloping AC curve demonstrates it is more efficient to have just one firm operating in the market.</p> <p>D The demand curve would be kinked in an oligopoly.</p>	AO3	/
11	D	<p>A Foreign direct investment (financial account) and foreign purchase of domestic assets (capital account) are not part of the current account.</p> <p>B The current account is not comprised solely of the trade in goods and services, but includes primary income (net investment income) and secondary income (international transfers).</p> <p>C The foreign purchase of domestic assets is not part of the current account.</p> <p>D <b>Correct:</b> \$158m + \$2,055m + \$3,974 - \$1,201m</p>	AO2	/
12	B	<p>A This will make demand for labour more inelastic.</p> <p>B <b>Correct:</b> When wages rise firms are more easily able to substitute labour for capital, making demand more wage elastic.</p> <p>C This will make supply of labour more elastic.</p> <p>D This will make demand for labour more inelastic.</p>	AO1	
13	B	<p>A There is likely to be significant spare capacity, meaning demand side policies would be more effective.</p> <p>B <b>Correct:</b> Demand side policies would be inflationary, making policies to increase the productive capacity of the economy effective.</p> <p>C Policy should focus on using the existing spare capacity rather than creating more.</p> <p>D Demand-side policies will be needed to prevent deflation occurring.</p>	AO3	
14	D	<p>A HSBC provides a service and does not extract raw materials. Textile firms produce goods rather than providing a service.</p> <p>B HSBC is not a manufacturing firm and textile firms process rather than extract raw materials.</p>	AO1	

Q	Key	Rationale	AO	Quantitative skills
		<p>C HSBC is not a manufacturing firm and textile firms are not in the tertiary sector.</p> <p>D <b>Correct:</b> HSBC operates in the tertiary/service sector of the economy and textile firms in the secondary/manufacturing sector.</p>		
15	A	<p>A <b>Correct:</b> this should stimulate spending and as a result boost aggregate demand.</p> <p>B Quantitative easing is designed to increase the rate of inflation.</p> <p>C Quantitative easing involves the purchase of financial assets.</p> <p>D Financial assets are purchased to increase the rate of inflation.</p>	AO1	
16	A	<p>A <b>Correct:</b> strawberries and potatoes are competing for the scarce resource of land.</p> <p>B Composite supply is where one product services multiple markets.</p> <p>C This relates to the concept of derived demand, where demand is dependent upon demand in a different market.</p> <p>D Strawberries and potatoes are not produced alongside each other as part of the same production process.</p>	AO1	
17	A	<p>A <b>Correct:</b> an inflation target means economic agents can predict future prices with more certainty.</p> <p>B This will have no direct impact on uncertainty, and could even worsen it if it means the budget deficit increases.</p> <p>C This is likely to increase uncertainty as it increases the likelihood of exchange rate volatility.</p> <p>D This will increase uncertainty as individuals are less able to predict future income.</p>	AO1	
18	B	<p>A This would occur if the price level was falling.</p> <p>B <b>Correct:</b> The rate of inflation has fallen from 1.5% to 0%.</p> <p>C There is no inflation in 2015 as the price level is unchanged.</p> <p>D Hyperinflation occurs when the price level is increasing at a rapid rate.</p>	AO1	

Q	Key	Rationale	AO	Quantitative skills
19	B	<p>A Changing the tax rate is likely to change tax revenue.</p> <p>B <b>Correct:</b> Tax revenue will initially increase as the tax rate increases but once it reaches a certain point any rise beyond that will result in tax revenue falling.</p> <p>C This is only true at higher tax rates – the upper portion of the Laffer curve.</p> <p>D This is only true at lower tax rates – the lower portion of the Laffer curve.</p>	AO1	
20	A	<p>A <b>Correct:</b> This is essential for survival.</p> <p>B This is a want, it is possible to survive without it.</p> <p>C This is a want, it is possible to survive without it.</p> <p>D This is a want, it is possible to survive without it.</p>	AO1	
21	B	<p>A This is a supply side policy that should shift AS to the right.</p> <p>B <b>Correct:</b> This will reduce disposable income and cause consumption to fall.</p> <p>C This is expansionary monetary policy that should shift AD to the right.</p> <p>D This is a supply side policy that should shift AS to the right.</p>	AO3	/
22	C	<p>A This is the gain in consumer surplus but does not account for the loss in domestic producer surplus and tariff revenue.</p> <p>B This is the loss in domestic producer surplus and the loss in tariff revenue.</p> <p>C <b>Correct:</b> The net gain excludes the transfer of welfare from producers and the government to consumers (a + c)</p> <p>D This is the loss in tariff revenue</p>	AO3	/
23	C	<p>A The PPF gives no information about wants so it is impossible to assess allocative efficiency.</p> <p>B There would be no opportunity cost of producing more of either good as there are spare resources.</p> <p>C <b>Correct:</b> The economy is not productively efficient as not all factors of production are fully and efficiently employed.</p> <p>D The PPF gives no information about wants so it is impossible to assess scarcity.</p>	AO1	/

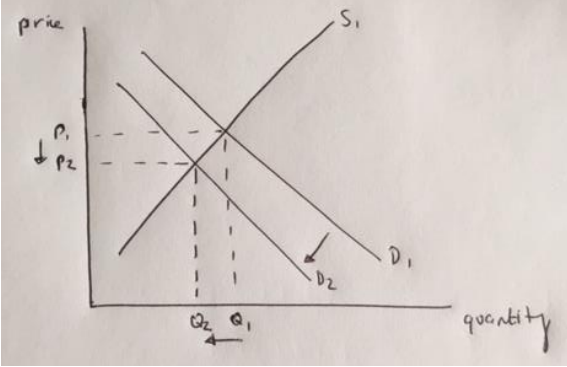
Q	Key	Rationale	AO	Quantitative skills
24	B	<p>A An excise duty will not affect the price of good B so there is no movement along the demand curve for good B.</p> <p>B <b>Correct:</b> The supply curve for good A will shift left, causing a contraction along the demand curve. Consumers will switch to the relatively cheaper substitute, causing the demand curve for good B to shift right.</p> <p>C An excise duty shifts the supply curve, not the demand curve.</p> <p>D An excise duty shifts the supply curve, not the demand curve.</p>	AO2	
25	D	<p>A <math>MRT + MPS + MPM =</math> marginal propensity to withdraw.</p> <p>B Correct formula for multiplier used but incorrectly specifies MPW (<math>MRT + MPC + MPM</math>)</p> <p>C <math>MRT + MPC + MPM</math></p> <p>D <b>Correct:</b> Multiplier = <math>1 / MPW = 1 / (0.1 + 0.2 + 0.3)</math></p>	AO2	/
26	C	<p>A There are positive externalities as <math>MSB &gt; MPB</math></p> <p>B There are positive externalities as <math>MSB &gt; MPB</math></p> <p>C <b>Correct:</b> Too big a subsidy has been granted, resulting in over-consumption.</p> <p>D A tax would shift the MPC curve to the left – intervention has shifted the MPC curve to the right, meaning a subsidy has been granted.</p>	AO3	/
27	D	<p>A This would be the outcome if AD shifted to the left.</p> <p>B There is no spare capacity so even though AD increases there will be no economic growth or reduction in unemployment.</p> <p>C This would be the outcome if there was significant spare capacity in the economy, meaning demand side growth would be non-inflationary.</p> <p>D <b>Correct:</b> the AD curve will shift right, however there is no spare capacity so this is simply inflationary.</p>	AO3	/
28	A	<p>A Specialisation here is correct but the quantities need to be doubled to reflect that the initial figures were the result of half of the resources producing each good.</p> <p>B This goes against the theory of comparative advantage as countries are specialising in goods</p>	AO2	/

Q	Key	Rationale	AO	Quantitative skills
		<p>which incur higher opportunity cost than in the other country.</p> <p>C <b>Correct:</b> Country B has a comparative advantage in the production of cars as it can produce cars at a lower opportunity cost than A. Country B has a comparative advantage in bananas.</p> <p>D This goes against the theory of comparative advantage as countries are specialising in goods which incur higher opportunity cost than in the other country.</p>		
29	A	<p>A <b>Correct:</b> <math>TVC = £15,000 - (£250 \times 12) = £12,000</math>. <math>AVC = £12,000 / 25,000 = 48p</math></p> <p>B Specifies total fixed cost as £250 – need to multiply by 12 to find total fixed cost.</p> <p>C <math>£15,000 / 25,000 = 60p = ATC</math></p> <p>D Adds rather than subtracts total fixed cost to total cost to find total variable cost.</p>	AO2	/
30	D	<p>A The supply of loanable funds is determined by saving, which is not directly impacted by changes in corporation tax</p> <p>B The supply of loanable funds is determined by saving, which is not directly impacted by changes in corporation tax</p> <p>C An increase in the corporation tax rate will reduce rather than increase investment</p> <p>D <b>Correct:</b> investment will become less profitable, decreasing firms' demand for loanable funds</p>	AO3	/

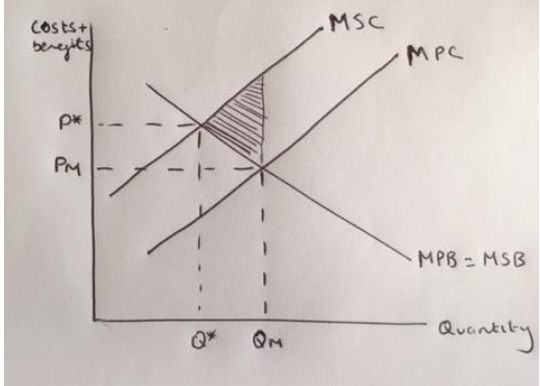
Question	Answer	Marks	Guidance
31	<p><b>Using the information in Extract 1, explain how the problem of scarcity can be applied to the housing market.</b></p> <p><i>Award 1 mark for identifying high/rising wants/needs with application to Extract 1:</i></p> <ul style="list-style-type: none"> <li>• Population growth/immigration/rise in single occupier households/low interest rates have meant that wants/needs are high/rising</li> </ul> <p><b>(i)</b></p> <p><i>Award 1 mark for identifying limited resources with application to Extract 1:</i></p> <ul style="list-style-type: none"> <li>• Housing stock is limited because the rate of house building is falling</li> </ul> <p><b>(ii)</b></p>	<p><b>2</b></p> <p>AO1 x 1</p> <p>AO2 x 1</p>	<p>Do not credit a definition of scarcity unless it is followed by an application of wants/needs and/or limited resources to Extract 1.</p> <p>Rising demand for housing is insufficient for the application of high/rising wants/needs.</p> <p>Falling supply of houses/limited amount of houses is insufficient for the application of limited resources.</p>
32	<p><b>Using the data from Figure 1.1, compare what has happened to house prices and average earnings between 2000 and 2014.</b></p> <p><i>Award 1 mark for any of the following comparisons:</i></p> <ul style="list-style-type: none"> <li>• Both house prices and average earnings were increasing in most years</li> </ul> <p><b>(iii)</b></p> <ul style="list-style-type: none"> <li>• Generally house price growth exceeded average earnings growth</li> </ul> <p><b>(iv)</b></p> <ul style="list-style-type: none"> <li>• House prices were more volatile than average</li> </ul>	<p><b>2</b></p> <p>AO2 x 2</p>	<p>Do not award any marks for a year by year description of the data, nor a comment about either of the data sets which lacks a comparison to the other variable.</p> <p><i>Answers which confuse levels with rates should not be credited – eg. House prices were higher than average earnings.</i></p>

Question	Answer	Marks	Guidance
	<p>earnings over the period</p> <p><b>(v)</b></p> <ul style="list-style-type: none"> <li>House price growth and average earnings growth are lower at the end of the period than they were at the start</li> </ul> <p><b>(vi)</b></p> <ul style="list-style-type: none"> <li>Average earnings increased in every year whereas house price growth was negative at times</li> </ul>		
33	<p><b>Evaluate, using an appropriate diagram, the extent to which the policy reforms outlined in Extract 1 are likely to improve the affordability of housing in the UK.</b></p> <p><b>Level 3 (11–15 marks)</b></p> <p><b>Good</b> knowledge and understanding of how the policies improve the affordability of housing.</p> <p><b>Good – strong</b> analysis of the way in which the policy reforms will influence the price of housing through shifting supply <b>and</b> demand. <b>Good analysis</b> will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p>	<p><b>15</b></p> <p>AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6</p>	<p><i>Analysis:</i></p> <ul style="list-style-type: none"> <li>Good analysis must include an accurate diagram of one of the policies and an explanation of how a fall in price results in housing becoming more affordable.</li> <li>Strong analysis requires analysis of at least two policy reforms.</li> </ul> <p>Reducing mortgage interest tax relief and introducing the additional stamp duty on buy to let purchases will make it less profitable to purchase a property for investment purposes. This will decrease the demand for housing from landlords, shifting the demand curve to the left from D1 to D2, causing the price of housing to fall (from P1 to P2), resulting in housing in the UK becoming more affordable for residential purchases/those on low incomes/first time buyers.</p>



Question	Answer	Marks	Guidance
	<p><b>Good - strong</b> evaluation of whether the policy reforms will result in house prices falling, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (6–10 marks)</b></p> <p><b>Good</b> knowledge and understanding of how the policies improve the affordability of housing.</p> <p><b>Reasonable</b> analysis of the way in which the policy reforms will influence the price of housing through shifting supply <b>and/or</b> demand. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of whether the policy reforms will result in house prices falling considering both sides/comparing alternatives</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 1 (1–5 marks)</b></p> <p><b>Limited – reasonable</b> knowledge and understanding of how the policies improve the affordability of housing.</p>		 <p>The supply of housing may increase as landlords decide to sell their properties as a result of the changes to mortgage interest tax relief. This would cause the supply curve to shift to the right and the price of housing to fall, resulting in housing in the UK becoming more affordable for residential purchases/those on low incomes/first time buyers.</p> <p>Moreover the Lifetime ISA will incentivise individuals to save for a deposit and effectively reduce the real cost of buying a house. Ceteris paribus this makes housing more affordable, as more individuals will now be able to save the deposit needed to purchase a property.</p> <p><i>Evaluation:</i></p> <ul style="list-style-type: none"> <li>Alternative policies that address the affordability of housing that are not compared to the policies in Extract 1 can be awarded up to Limited evaluation.</li> <li>Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be</li> </ul>

Question	Answer	Marks	Guidance
	<p><b>Limited</b> analysis of the way in which the policy reforms will influence the price of housing through shifting supply <b>or</b> demand. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p><b>Limited</b> evaluation of whether the policy reforms will result in house prices falling in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p>		<p>credited as evaluation.</p> <p>However, the Lifetime ISA along with Help to Buy will mean more people are able to consider purchasing a property, raising the demand for housing. Therefore, whilst in the short term houses may become more affordable, in the long term as more people are able to enter the market prices may start to rise again. Much will depend upon whether other government policies to increase the rate of house building enables supply to increase quickly enough to stop prices rising despite rising demand. <i>A diagram may be used to evidence this.</i></p> <p>The majority of the market is comprised of residential purchases; any changes in the buy to let market are unlikely to have a big enough impact to cause the price of houses to fall.</p> <p>Landlords may simply pass their higher costs onto tenants in the form of higher rents. They are likely to be able to do this given the shortage of housing, which may mean they continue to purchase buy to let properties as it remains profitable to do so.</p> <p>Landlords may continue to buy properties to let as the 3% increase in stamp duty may not be sufficient to deter their investment.</p> <p>Whilst an increase in the supply of properties for sale may decrease house prices, the reduction in the number of properties available to rent may push up prices in the rental market, making housing less affordable for tenants.</p> <p>The Lifetime ISA will not improve the affordability of housing for those who cannot afford to save.</p>

Question	Answer	Marks	Guidance
34	<p><b>Using the data from Figure 2.1, calculate the price elasticity of supply of housing in 2014.</b></p> <p><i>Award 2 mark for correctly calculating PES:</i></p> <p>% change in QS = 7.11%</p> <p>% change in price = 8.35%</p> <p>PES = 7.11% / 8.35% = <u>0.85</u></p> <p><i>Award 1 mark for correctly calculating % change in QS and/or % change in price with incorrect final answer</i></p>	<p><b>2</b></p> <p>AO2 x 2</p>	<p>The mark for the correct answer cannot be awarded if PES is displayed as a percentage and/or is negative.</p>
35	<p><b>Evaluate whether there is evidence of market failure in the market for house building. [8]</b></p> <p><b>Level 2 (5–8 marks)</b></p> <p><b>Good</b> knowledge and understanding of the concept of market failure.</p> <p><b>Good – strong</b> analysis of how positive or negative externalities of production cause the market for house building to fail. <b>Good analysis</b> will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. <b>Strong</b> analysis will have <b>consistently</b></p>	<p><b>8</b></p> <p>AO1 x 1</p> <p>AO2 x 1</p> <p>AO3 x 2</p> <p>AO4 x 4</p>	<p><i>A diagram may be used but should not be expected</i></p> 

Question	Answer	Marks	Guidance
	<p>well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Reasonable – strong</b> evaluation of the nature of market failure in house building, considering both sides/comparing alternatives. <b>Good evaluation</b> will weigh up both sides/comparing alternatives but without reaching a supported judgment. <b>Strong evaluation</b> should include a supported judgment.</p> <p><b>Level 1 (1–4 marks)</b></p> <p><b>Limited – reasonable</b> knowledge and understanding of the concept of market failure.</p> <p><b>Limited – reasonable</b> analysis of how positive or negative externalities of production cause the market for house building to fail. <b>Limited analysis</b> will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. <b>Reasonable</b> analysis will have correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Limited</b> evaluation of the nature of market failure in house building in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><b>0 marks</b> no response or no response worthy of credit</p>		<p>Developers building houses will only consider their own private costs, such as the cost of the land, building materials and labour. They will ignore the costs to third parties – such as local residents who experience noise pollution during the construction work and lose the opportunity to use green spaces for leisure activities once houses are built on them. This means that social costs exceed private costs, resulting in market failure and the over-production of houses. This generates a welfare loss as illustrated by the shaded region on the diagram.</p> <p>The extent to which there are negative externalities depends upon exactly where houses are being built – areas of outstanding natural beauty are likely to remain protected, and if it is largely unused green belt land then the negative externalities generated are unlikely to be significant.</p> <p>There may be positive externalities of production. When more houses are built house prices will fall. This makes housing more affordable, which benefits taxpayers as the government incurs less cost in having to support people with the cost of housing in the form of housing benefit or social housing. Moreover building new, energy efficient houses may reduce global warming in the long run.</p> <p>It might be that rising prices do not represent market failure but the market mechanism operating correctly in response to rising demand. The fact that production has not increased significantly reflects the price inelastic nature of supply in this market.</p>

Question	Answer	Marks	Guidance
			<p>Therefore on balance there may in fact be market failure caused by the under-production, and not the over-production, of houses. Given the lack of affordable housing this is more likely.</p> <p><i>NB – credit can also be given for answers which approach this as a positive externalities problem and in evaluation suggest there may be negative externalities.</i></p>
36	<p><b>Using the information in Extract 2, explain the impact on the government’s budget position in the short run and the long run of the HS3 rail project.</b></p> <p><i>Award up to 2 marks for identifying and explaining the short term implications on the government budget:</i></p> <ul style="list-style-type: none"> <li>• The HS3 rail project will come at significant cost to the government/taxpayers (1)</li> <li>• This is likely to increase the budget deficit/decrease the budget surplus/worsen the budget position (1)</li> </ul> <p><i>Award up to 2 marks for identifying and explaining the long term implications on the government budget:</i></p> <ul style="list-style-type: none"> <li>• Job creation will reduce the rate of unemployment, increasing tax revenue/reducing expenditure on welfare benefits</li> <li>• This will cause a budget surplus/decrease budget deficit/improve the budget position</li> </ul>	<p><b>4</b></p> <p>AO1 x 1 AO2 x 1 AO3 x 2</p>	<p>Only one of the two marks for the link to the budget position can be awarded if there is no explicit use of the terms deficit or surplus.</p> <p>Answers must clearly identify why tax revenue will increase/government expenditure will fall in the long run.</p> <p>Accept other valid explanations of how the HS3 project may increase tax revenue or reduce government expenditure in the long run.</p>

Question		Answer	Marks	Guidance
37		<p><b>Economic theory would suggest there is a positive correlation between economic growth and the quality of housing. Explain whether the data in Figure 3.1 supports this hypothesis.</b></p> <p><i>Award 1 mark for recognition that the data shows no clear relationship between the two variables.</i></p> <p><i>Award 1 mark for providing an example from the data to support this:</i></p> <ul style="list-style-type: none"> <li>• Peru has a high economic growth rate but poor housing.</li> </ul> <p><b>(vii)</b></p> <ul style="list-style-type: none"> <li>• Costa Rica has one of the lowest economic growth rates but a relatively low proportion of individuals living in substandard accommodation.</li> </ul>	<p><b>2</b></p> <p>AO1 x 1 AO2 x 1</p>	<p>Do not award marks to answers which attempt to support the statement in the question – Chile is an anomaly in the data rather than evidence of a pattern.</p> <p>Full marks can be awarded to a candidate who reaches the right overall conclusion but recognises Chile does provide some evidence of a positive correlation.</p>
38	*	<p><b>Using the information in Extract 3, evaluate the relationship between economic growth and economic development.</b></p> <p><b>Level 3 (11–15 marks)</b></p> <p><b>Good</b> knowledge and understanding of the concepts of economic growth <b>and</b> economic development.</p> <p><b>Good – strong</b> analysis of the relationship between economic growth and economic development. <b>Good analysis</b> will be in the form of developed links. These links</p>	<p><b>15</b></p> <p>(AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6)</p>	<ul style="list-style-type: none"> <li>• Analysis <b>and</b> evaluation should only be awarded up to ‘Reasonable’ unless the extract is used to support at least one analysis <b>or</b> evaluation point.</li> </ul> <p><i>Analysis:</i></p> <p>Economic growth will decrease unemployment and increase real disposable income. Increases in real GDP per capita will improve a country’s HDI as this is a component of the HDI. This will improve individuals’ material standard of living as</p>

Question	Answer	Marks	Guidance
	<p>are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good - strong</b> evaluation of the strength of the relationship between economic growth and economic development, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (6–10 marks)</b></p> <p><b>Good</b> knowledge and understanding of the concepts of economic growth <b>and/or</b> economic development.</p> <p><b>Reasonable</b> analysis of the relationship between economic growth and economic development.. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of the strength of the relationship between economic growth and economic development considering both sides/comparing alternatives</p> <p><i>There is a line of reasoning presented with some structure.</i></p>		<p>they can now afford to buy more goods and services.</p> <p>Increased consumption will increase firms' revenue and profits. This will enable them to increase spending on research and development, improving the quality of products and/or improve the environmental quality of the production process.</p> <p>Economic growth is likely to increase the government's tax take. This will give it more revenue to spend on providing public services such as healthcare (increasing life expectancy) and education (increasing literacy rates).</p> <p>Rising incomes can also enable individuals to afford better quality housing, which could deal with the problems explained in Extract 3. When the government generates more tax revenue it will also have more funds to invest in public housing projects, which can help to make housing more affordable. Economic growth can therefore lead to development in this way. Chile, for example, may have been able to achieve relatively low rates of homelessness as a result of a high rate of economic growth in recent years.</p> <p><i>Evaluation:</i></p> <p>Examples such as Peru in Figure 3.1 demonstrates that economic growth will not always lead to economic development – whilst the growth rate is high, the vast majority of the population lives in substandard housing.</p> <p>If economic growth was achieved through rapid urbanisation</p>

Question	Answer	Marks	Guidance
	<p><i>The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 1 (1–5 marks)</b></p> <p><b>Limited – reasonable</b> knowledge and understanding of the concept of economic growth <b>or</b> economic development.</p> <p><b>Limited</b> analysis of the relationship between economic growth and economic development.. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p><b>Limited</b> evaluation of the strength of the relationship between economic growth and economic development in the form of an unsupported statement or <b>no</b> evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response or no response worthy of credit.</p>		<p>without the supporting infrastructure, it could be argued growth harms the quality of life in the short term as more individuals are forced into slum accommodation.</p> <p>Economic growth does not take into account the distribution of income – if the distribution of income worsens but GDP increases there may be no improvements in development.</p> <p>Indices such as the Genuine Progress Indicator demonstrate there could be an inverse relationship between growth and development. This depends upon whether the growth is sustainable; if it is achieved by using up non-renewable resources then it is likely to damage development in the long term.</p> <p>Whilst economic growth can provide the funds needed for economic development, this is providing governments spend their tax revenue wisely. In many developing nations inefficiency means growth is not always translated into development.</p> <p>If economic growth is inflationary this may decrease purchasing power, worsening material standards of living.</p> <p><i>Give credit to candidates who analyse/evaluate the relationship in the other direction – ie. whether development causes economic growth.</i></p>



Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative skills)
<b>SECTION A TOTAL</b>	<b>16</b>	<b>6</b>	<b>8</b>		<b>30</b>	<b>(12)</b>
<b>31</b>	1	1			<b>2</b>	
<b>32</b>		2 (2)			<b>2</b>	<b>(2)</b>
<b>33</b>	2 (2)	3 (2)	4 (2)	6 (2)	<b>15</b>	<b>(8)</b>
<b>34</b>		2 (2)			<b>2</b>	<b>(2)</b>
<b>35</b>	1	1	2	4	<b>8</b>	
<b>36</b>	1	1	2		<b>4</b>	
<b>37</b>	1	1			<b>2</b>	
<b>38</b>	2	3	4	6	<b>15</b>	
<b>SECTION B TOTAL</b>	<b>8</b>	<b>14</b>	<b>12</b>	<b>16</b>	<b>50</b>	<b>(14)</b>
<b>PAPER TOTAL</b>	<b>24</b>	<b>20</b>	<b>20</b>	<b>16</b>	<b>80</b>	<b>(24)</b>

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