



GCE

Economics

H060/01: Microeconomics

AS Level

Mark Scheme for June 2025

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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.

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MARKING INSTRUCTIONS

PREPARATION FOR MARKING RM ASSESSOR

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *RM Assessor Online Training: OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are available in RM Assessor
3. Log-in to RM Assessor and mark the **required number** of practice responses (“scripts”) and the **required number** of standardisation responses.

MARKING

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the RM Assessor 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone, email or via the RM Assessor messaging system.

5. **Crossed-Out Responses**

Where a candidate has crossed out a response and provided a clear alternative then the crossed-out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed-out response where legible.

Rubric Error Responses – Optional Questions

Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. Enter a mark for each question answered into RM Assessor, which will select the highest mark from those awarded. *(The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.)*

Multiple-Choice Question Responses

When a multiple-choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).

When a question requires candidates to select more than one option/multiple options, then local marking arrangements need to ensure consistency of approach.

Contradictory Responses

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only one mark per response)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Short Answer Questions (requiring a more developed response, worth two or more marks)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space).

Longer Answer Questions (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there, then add the annotation 'SEEN' to confirm that the work has been seen and mark any responses using the annotations in section 11.

7. There is a NR (**No Response**) option. Award NR (No Response):

- if there is nothing written at all in the answer space
- OR if there is a comment which does not in any way relate to the question (e.g., 'can't do', 'don't know')
- OR if there is a mark (e.g., a dash, a question mark) which is not an attempt at the question.

Note: Award 0 marks – for an attempt that earns no credit (including copying out the question).

8. The RM Assessor **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**

9. *Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.*

10. For answers marked by levels of response: Not applicable in F501

To determine the level – start at the highest level and work down until you reach the level that matches the answer

To determine the mark within the level, consider the following

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

11. Annotations

Annotation	Meaning	Standard Annotations for all papers	
	Correct – mark awarded		Must be used on all blank pages of QP and additional objects
	Incorrect		Noted but no credit given
	Benefit of doubt	Off Page comments	Should only be used by Team Leaders for training purposes
	AO1 – Knowledge and understanding		To highlight text within candidate responses
	AO2 – Applying knowledge and understanding		
	AO3 – Analyse		
	AO4 – Evaluation		
	Not answering question		
	Too vague		
	Own figure rule		
	Confused		
	Unclear		

12. 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.

Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section C.

If a candidate has written two answers for Section C, mark both answers and award the highest mark achieved.

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 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.

INSTRUCTIONS TO EXAMINERS:**A: INDIVIDUAL ANSWERS**

- 1 The indicative content indicates the expected parameters for candidates' answers but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 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.
- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 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.

B: TOTAL MARKS

- 1 The maximum mark for the paper is 60.
- 2 The quality of the extended response is assessed on this part of the question paper which is identified with the use of an asterisk (*). The assessment of this skill is embedded within each of the levels of response, and it must be considered when determining the mark to be awarded within the appropriate level.

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Strong	Precise knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using relevant and focussed examples fully integrated and good use of data where appropriate.	Correct analysis with consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are accurate with no significant errors that affect the validity of the analysis. Any diagram(s) must be integral to the analysis.	Counter argument(s) are fully developed. A conclusion is drawn weighing up both sides, considering extent and alternatives and reaches a supported judgement.
Good	Mainly accurate knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using some relevant and focussed examples to the given context and scope of the question. Some good use of data where appropriate	An explanation of causes and consequences, developing most of the links in the chain of argument. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagram(s) must be integral to the analysis.	Counter argument(s) are fully developed. A conclusion is drawn weighing up both sides/comparing alternatives but without reaching a supported judgement.

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Reasonable	Awareness of the meaning of economic ideas, principles, and models	Ability to apply economic ideas to some elements of the given context, although possibly inconsistent examples not always relevant to the given context and scope of the question. Some use of data where appropriate	There is correct analysis in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may have errors that affect the validity of the analysis or are not integrated into the response.	Counter arguments are considered but not fully developed. Some attempt to conclude, which shows some recognition of the influencing factors, but without considering extent and alternatives.
Limited	Limited awareness of the meaning of economic ideas, principles, and models	Very little ability to apply economic ideas to some elements of the given context. Examples may be generic or irrelevant to the given context	There is little evidence of reasoning that addresses the question asked. Simple statement(s) of cause and consequence are used. There is a lack of a clear structure. Absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.	Counter arguments are simply stated. Unsupported statements or assertions, or no evaluation.

Section A

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

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Mark Scheme

June 2025

Question		Answer	AO	Quantitative skills
1	C	Rationale: A Employees are likely to pay income tax B Firms are likely to pay corporation tax C Correct: government collects tax revenue D households are likely to pay income tax and VAT	1	
2	D	Rationale: A the change in capital goods produced B.20mn capital goods were originally produced C number of consumer goods at 30 mn capital goods D Correct: the amount of consumer goods has fallen from 23mn -8mn	2	Yes
3	B	Rationale: A Change in price leads to movement along the demand curve B Correct: Price falls leads to an extension in demand C Price increases leads to an extension in the supply curve D Price changes lead to a movement along the supply curve	2	
4	C	Rationale: A Leads to PPC to move inwards B Leads to a point inside of the PPC C Correct: Technology shifts PPC outwards D Leads to a point inside of the PPC	2	
5	C	Rationale: A $450 \times 1.20 = 540$; $600 \times 80p = 480$; $540 - 480 = 60$ B $600 \times 1.20 = 720$; $600 \times 80p = 480$; $720 - 480 = 240$ C Correct: Price increase of 50%; QD decrease of 75%, New QD of $150 \times £1.2 = £180$ minus old revenue of £480 ($600 \times 80p$) D $£600 \times 1.5 = £900$ X $£1.2 = 1080$; $600 \times 80p = 480$; $1080 - 480 = 600$	3	Yes

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Mark Scheme

June 2025

Question		Answer	AO	Quantitative skills
6	A	Rationale: A Correct: elasticity is sensitivity responsiveness of demand to a change in price or another determining factor such as income B This is the amount of another item foregone when a choice is made C Measure of producer welfare. The difference between amount producers are willing and able to supply a good/service for and the price they receive . D sales revenue earned minus cost paid by firms	1	
7	D	Rationale: A Movement along /extension of the supply curve B Shifts S rightwards C Shifts S rightwards D Correct: Increase in tax shifts S left	2	Yes
8	D	Rationale: A Reward for capital B Reward for enterprise C Reward for land D Correct: Wages is the reward for labour	1	
9	B	Rationale: A Used by government to correct market failure B Correct: Produces negative costs C Used by government to correct market failure D Used by government to correct market failure	1	
10	C	Rationale: A Substitute therefore demand would rise for orange juice B Increase in price will reduce demand but not necessarily of juice C Correct: Increase in price will reduce demand D Increase in price will reduce demand but not necessarily of juice	2	

H060/01

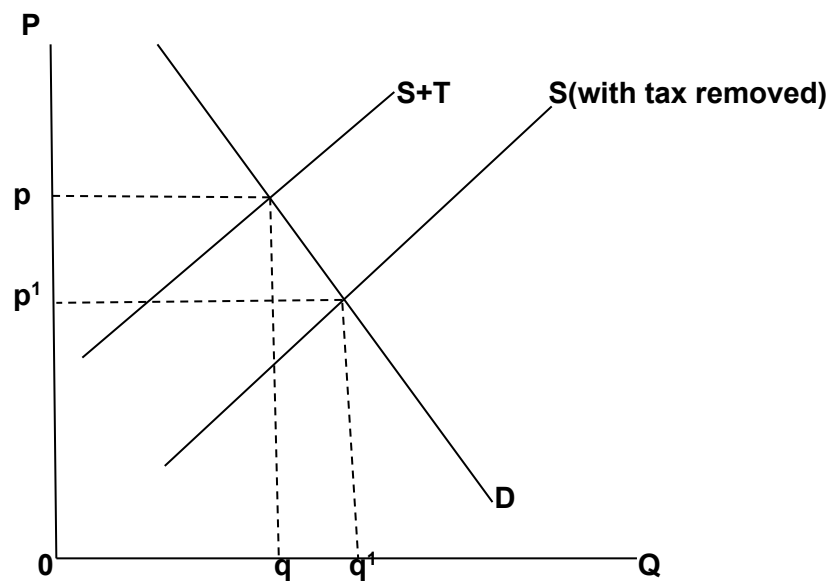
Mark Scheme

June 2025

Question		Answer	AO	Quantitative skills
11	B	Rationale: A Not a feature there may only government authorised economic activity B Correct: Planned economy is one which is largely directed by the government /planning authority C This is the market mechanism which operates without government intervention D Planned economy does not use the market mechanism, prices are directed by planning authority/government	1	
12	A	Rationale: A Correct: $(60/500) / (40/160)$ B $(200-160) / (560-500)$ C $(60/560) / (40/200)$ D $(40/160) / (60/500)$	3	Yes
13	B	Rationale: A Could happen, but not inevitable, so is not the most likely B Correct: Inefficient resource allocation will always lead to less welfare C Could happen, but not inevitable, so is not the most likely D Could happen, but not inevitable, so is not the most likely	2	
14	D	Rationale: A Would lower productive efficiency B Profit maximisation and revenue maximisation not efficiency C Definition of allocative efficiency D Correct: Definition of productive efficiency	1	
15	B	Rationale: A Show only cost of the alternative given up B Correct: Shows true cost in terms of what is given up C Scarce resources are a cost of production D This is the consumer choice/demand	1	

Section B

Question			Answer	Mark	Guidance
16	(a)		Using Fig 1, state which form of road transport had the greatest percentage fall in their greenhouse gas emissions between 1992 and 2022. Buses (fell from 5% to 2%)	1	Annotate with  Quantitative skills rewarded in this question
Question			Answer	Mark	Guidance
16	(b)	(i)	Using Fig 2, calculate which year had the largest percentage rise in the number of new electric cars sold in the UK. - Year 2020 with 186% - Calculation: $108200 - 37850 = \frac{70350}{37850} \times 100$ $= 185.86$ or 186% Accept 185.9%	2	Annotate with  The correct calculation and year award 2 marks Year alone award 1 mark Figures used are correct, but the final answer is incorrect eg 185% award 1 mark Quantitative skills rewarded in this question
Question			Answer	Mark	Guidance
16	(b)	(ii)	Using the extract, explain how division of labour is used in the production of electric cars. A process where production is broken down into a sequence of stages with workers assigned to a stage. The extract says: ‘chemical engineers who work on the car batteries, process engineers who manage the production process and software engineers who design and install the software systems that are used’	2	Annotate with  Reference to division of labour award 1 mark Explaining how this is used in electric car production award 1 mark

Question	Answer	Mark	Guidance
16 (c)	Using a diagram, explain what effect the removal of indirect tax would have on the market of electric cars. Up to 3 marks for a diagram: • Accurate labelling of axes (1) • Accurate labelling of curves with correct shift of S right (1) • Accurate labelling of old and new equilibrium(1) Up to 2 marks for explanation: • Price will fall P to P1 (1) • Quantity consumed will rise q to q1 • demand will extend (1) Max 4 marks	4	Annotate with   Labels of S [for S+T] and S¹ for [S with tax removed] are acceptable. Accept externalities diagram illustrating MPC shift right Quantitative skills rewarded in this question

Question			Answer	Mark	Guidance
16	(d)	(i)	Using the information on income and elasticity of demand in the extract, explain the likely effect of a continuing fall in real income on electric car producers. • sales/revenue for electric car producers will fall (1) • YED is positive a fall in income will cause a fall in the demand for electric cars(1) • electric cars are luxury/superior good (1) • YED is 3.0 electric cars demand will fall 3% for every 1% fall in income/quantity demanded will fall proportionally more than the fall in incomes (1) • Electric cars are income elastic/ demand is highly responsive to changes in income (1)	4	Annotate with  1 mark for realisation that a falling incomes will lead to a fall in sales/ revenue up to 3 marks for the explanation which could include numerical example using YED = 3.0.

Question			Answer	Mark	Guidance
16	(d)	(ii)	Explain the effect on the price and quantity demanded of electric cars of an increase in the price of cobalt • Cobalt is used in the production of electric cars [car batteries therefore costs of production will rise increasing the price]. • Quantity demanded will fall as price rises.	2	Annotate with  2 marks for a clear understanding of how a rise in the price of cobalt will affect the price and quantity of electric cars 2 marks accept a diagram showing leftward shift of supply and correct new equilibrium price and quantity 1 mark if there is no clear causal link e.g only 'price will rise and quantity will fall'.

16(e)* Evaluate, using an appropriate diagram, the effect of an increase in demand for electric cars on people in the Democratic Republic of the Congo

Level / mark	Descriptor
Level 3 (7-10 marks)	Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 2 (4-6 marks)	Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 1 (1-3 marks)	Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.
0 marks	Response is not worthy of credit

16(e)* Evaluate, using an appropriate diagram, the effect of an increase in demand for electric cars on people in the Democratic Republic of the Congo

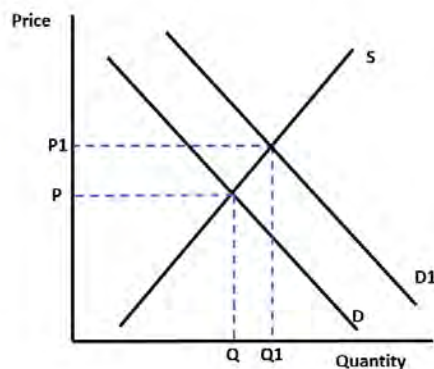
Question 16e Guidance

Application

- Cobalt is an essential raw material for battery production
- 70% of all cobalt is supplied by the Democratic Republic of the Congo
- Some workers are paid less than £3 a day
- Greater pollution and radioactivity in local areas

Analysis

- An increased demand for electric cars increases the derived demand for cobalt increasing the price of cobalt as shown by D to D1 on diagram

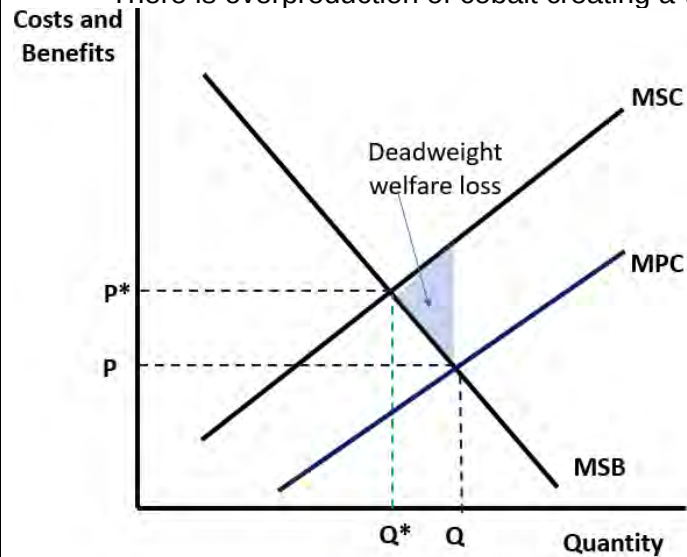


- Higher prices for cobalt may increase the profit of mines allowing firms to invest in machinery and/or purchase productive clothing for workers improving working conditions
- Higher prices may lead to more employment/ higher wages increasing standard of living. With higher incomes families may no longer need to send children to work in the mines.
- Children may be able to gain an education improving human capital and therefore their opportunities to gain higher paid jobs in the future.

Evaluation

- With more cobalt production required the demand for mine workers will rise. A greater number of the population will face health issues such as cobalt lung which is a social cost.

- Mine owners only consider private costs and benefits therefore output is Q and price is P . The social costs such as increased pollution and raised radioactivity in the area are ignored. If these were considered the price would be higher at P^* with a lower social optimum output produced at Q^* . There is overproduction of cobalt creating a welfare loss to society/people equal to the deadweight welfare loss triangle



Possible judgement(s)

- It is unlikely that wages and conditions will change in the short term as profit may be used to increase production
- The overall effect will depend upon the amount that demand increases and if this demand is long term

Any other appropriate response can be credited as appropriate

Section C

Level / mark	Descriptor
Level 4 (16-20 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Strong application of economic concepts to the context and scope of the question, which may include relevant examples or good use of data where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 3 (11-15 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Good analysis of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. Good evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 2 (6-10 marks)	Reasonable knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 1 (1-5 marks)	Limited knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement, or the absence of a judgement.
0 marks	Response is not worthy of credit

17* Evaluate, using an appropriate diagram(s), the impact of these changes in price on consumer surplus.

Question 17* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding

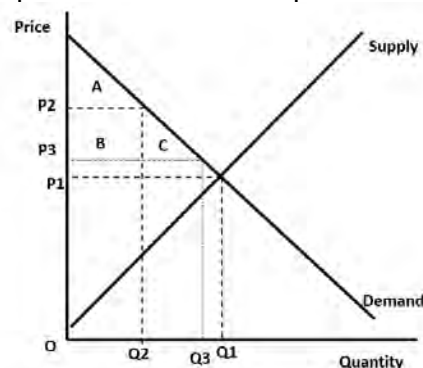
- Consumer Surplus as the difference between the price that consumers pay and the price that they are willing to pay
- Impact of rising prices contracting demand

Application

- Relative price changes - food increased 70% clothing 10%
- Price elasticity of demand
- Factors affecting PED for a product
- Examples of products

Analysis

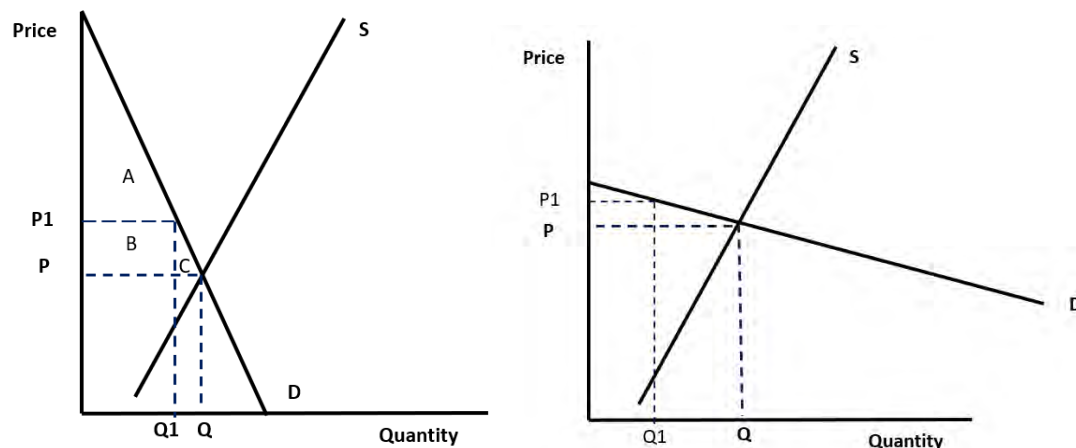
- Rising prices from will reduce consumer surplus
- At price P consumer surplus was areas A, B and C .



- A rise in price of food by 70% moves price from P1 to P2 and reduces the quantity demanded to Q2. Consumer surplus has reduced to area A.
- The smaller rise in the price of clothing of 10% increases price from P1 to P3 and quantity from Q1 to Q3. Some of consumer surplus areas B and C remain as consumer surplus.

Evaluation

- The overall effects of such price rises will depend on both the ability of consumers to find substitute goods and the price elasticity of demand for food and clothing.
- The PED for food is likely to be more inelastic than for clothing as food is a necessity. The effect of this difference is shown below.



- For the PED elastic demand good e.g. clothing, a small rise in price from p to p_1 results in an almost complete loss of consumer surplus. For the inelastic good, e.g. food, a much larger rise in price to p_1 still leaves a consumer surplus of area A.

Possible judgement(s)

Depends on :

- the availability and closeness of substitutes.
- the amount of change in price
- the time period as PED becomes more elastic over time
- how the market is defined - all foods and clothing or just certain items

Any other appropriate response can be credited as appropriate

- 18*** Evaluate, using appropriate diagram(s), the effect on consumers of an economy devoting more of its resources to the output of capital goods.

18* Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

Knowledge and understanding

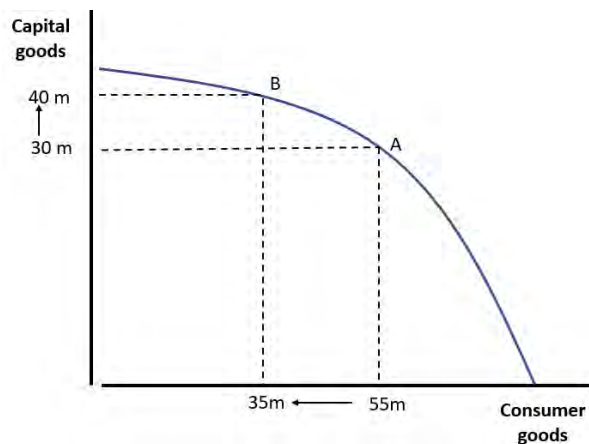
- Factors of production
- Trade offs /opportunity cost
- PPF

Application

- Opportunity cost
- Productive efficiency
- PPF

Analysis

- If resources fully utilised devoting more resources to capital goods will be at the opportunity cost of devoting those resources to consumer goods.
- The diagram shows that to move from point A to point B and produce 10m extra capital goods, reduces production of consumer goods by 20m.

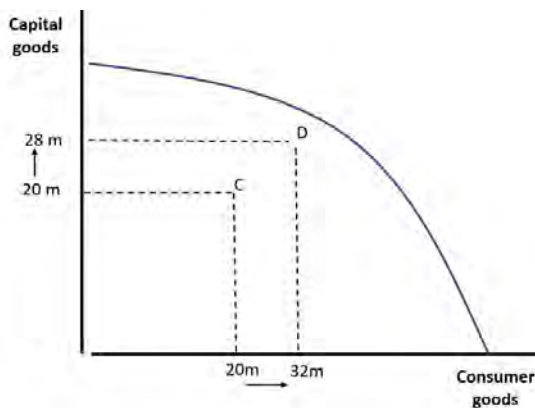


- Reduced supply of consumer goods could lead to an increase in price
- Fewer consumer goods in the short run means consumers may experience a fall in their living standards, as they would have fewer consumer goods to enjoy.

Alternative diagram - market diagram showing reduced supply of consumer goods

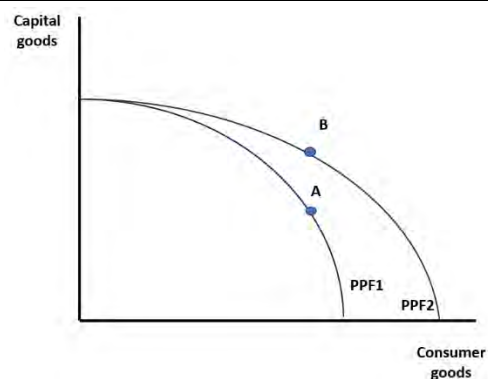
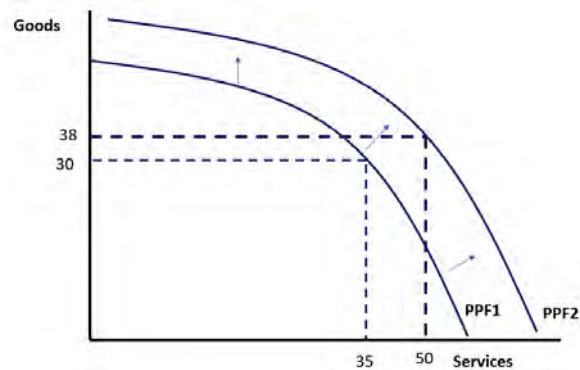
Evaluation

- However, an economy may not be making full use of its resources. In this case, it will be producing inside its PPC. It will be possible to produce more capital goods without having to switch resources.



- The diagram shows that it would actually be possible to produce more of both capital goods and consumer goods. As the production point moves from C to D, the output of capital goods rises by 8 and the output of consumer goods rises by 12.

- Improved efficiency in consumer good production may mean that resources can be switched with no loss of consumer good output.
- Capital goods increase productive capacity in the long term pushing PPF outwards and increasing potential output of both good. Producing more capital goods should therefore lead to an increase in output of consumer goods in the longer term as shown on the diagram below.
- The diagram shows that the economy makes use of the extra capacity and increases its output of capital goods from 30 to 38 and the output of consumer goods from 35 to 50
- The consumption goods reduced may have negative externality impacts therefore reduced output may improve social welfare.



Possible judgement(s)

The effect on consumers depends on :

- whether the economy is initially making full use of its resources
- trade-off between capital and consumer goods (slope of the PPF curve)
- time period under consideration. In the long run, whatever the initial production point is, consumers are likely to benefit from more capital goods being produced.

Any other appropriate response can be credited as appropriate.

ASSESSMENT OBJECTIVES GRID

Question	AO1	AO2	AO3	AO4	Total	Quantitative skills
1-15	7	6	2		15	(4)
16(a)	1(1)				1	(1)
16(b)(i)	1(1)	1(1)			2	(2)
16(b)(ii)	1				1	
16(b)(iii)		2			2	
16(c)	2	2(2)			4	(2)
16(d)(i)	2	2			4	
16(d)(ii)	1	1			2	
16(e)*		1	4	5	10	
17* / 18*	3	4(2)	6(3)	7(3)	20	(8)
Total	18	18	12	12	60(17)	(17)

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