



GCE

Economics

H460/03: Themes in economics

A Level

Mark Scheme for June 2024

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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 posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>
3. Log-in to RM Assessor and mark the **required number** of practice responses (“scripts”) and the **number of required** standardisation responses.

YOU MUST MARK 6 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

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 or the RM Assessor messaging system, or by email.
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.

Contradictory Responses

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

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.

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 a tick to confirm that the work has been seen.
7. Award No Response (NR) if:
 - there is nothing written in the answer space
 Award Zero '0' if:
 - anything is written in the answer space and is not worthy of credit (this includes text and symbols).
 Team Leaders must confirm the correct use of the NR button with their markers before live marking commences and should check this when reviewing scripts.
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.**

If you have any questions or comments for your team leader, use the phone, the RM Assessor messaging system, or e-mail.

H460/03

Mark Scheme

June 2024

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:
- **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

H460/03

Mark Scheme

June 2024

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 also ensure 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, you must carefully read **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

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

USING THE MARK SCHEME

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 a wide range of scripts are reviewed.

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.

Mark these answers according to the marking criteria.

Carefully read 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 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 80.
- 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.

UPDATED

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.
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	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	Counter arguments are considered but not fully developed. Some attempt to conclude, which shows some recognition of the influencing factors, but without

H460/03

Mark Scheme

June 2024

		scope of the question. Some use of data where appropriate	validity of the analysis or are not integrated into the response.	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

H460/03

Mark Scheme

June 2024

SECTION A

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

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

H460/03

Mark Scheme

June 2024

Q	Key	Rationale	AO	Quantitative skills
1	B	A This is the reward to Capital. B Correct: Entrepreneurs receive profit from the activities of the firm. C This is the reward to Land. D This is the reward to Labour.	AO1	
2	C	A Incorrectly uses 0.6 as the multiplier. B This is the difference between the initial injection and the final change. C Correct: Multiplier is $1/MPW$ ($1/0.6$) = 1.67, final increase is £150bn x 1.67 = £250bn. D Incorrectly calculates multiplier as $1/0.4 = 2.5$	AO2	✓
3	D	A This is a characteristic of money not a function of money. B This is a characteristic of money not a function of money. C This is a characteristic of money not a function of money. D Correct: money acts as a unit of account in valuing goods & services and debt.	AO1	
4	A	A Correct: Crowding out is the process by which government spending, funded by borrowing, drives up interest rates and therefore deters private sector investment. B This describes automatic stabilisers. C This describes privatisation. D This describes the liquidity trap.	AO1	
5	C	A The goods are not strong complements as the increase in the demand for Good B (3%) is smaller than the fall in price of Good A (12%) The XED is lower than 1. B The goods are not substitutes because a fall in the price of Good A leads to an increase in the demand of Good B. If the goods were substitutes a fall in price of Good A would lead to a decrease in the demand for Good B. C Correct: $XED = 3 / -12 = -0.25$. The good are complements as a fall in the price of one good has led to an increase in the demand for the other good. The relationship is weak as the increase in demand is proportionally smaller than the decrease in price. D The goods are not substitutes because a fall in the price of Good A leads to an increase in the demand of Good B. If the goods were substitutes a fall in price of Good A would lead to a decrease in the demand for Good B.	AO2	✓

H460/03

Mark Scheme

June 2024

Q	Key	Rationale	AO	Quantitative skills
6	D	A At the new profit maximising point ($MC2 = MR$) the price and output is the same as it was at the original profit maximising point ($MC1 = MR$). B At the new profit maximising point ($MC2 = MR$) the price and output is the same as it was at the original profit maximising point ($MC1 = MR$). C At the new profit maximising point ($MC2 = MR$) the price and output is the same as it was at the original profit maximising point ($MC1 = MR$). D Correct: When $MC1$ falls to $MC2$ the profit maximising quantity of output ($MC2 = MR$) remains the same as the MR curve is vertical at this point. The market output and price will remain at $P1$, $Q1$. The revenue will remain unchanged, but the costs would fall and the firm will increase its supernormal profit.	AO3	✓
7	B	A At this point the firm is still experiencing economies of scale and AC can fall further. B Correct: MES is the lowest output at which the firm can obtain the lowest AC possible. C MES is the lowest output at which AC is at its lowest. Point Y is in the middle of the LRAC curve but is not the lowest output where AC is at its lowest. D MES is the lowest output at which AC is at its lowest. Point Z is an output where AC is at its lowest, but it is not the lowest quantity where this AC can be obtained.	AO1	✓
8	B	A Entry barriers are not high in monopolistic competition. B Correct: These are all characteristics of monopolistic competition C There are many firms in monopolistic competition D Firms only make normal profits in the long run under monopolistic competition.	AO1	
9	A	A Correct: The marginal utility of consuming the 4th unit (4) is lower than the marginal utility of consuming the third unit (6). This is the first unit of output where marginal utility has fallen. B This is not the first unit of output at which marginal utility has fallen. C This is not the first unit of output at which marginal utility has fallen. D Total utility has fallen because of consuming the 7th unit of output.	AO2	✓
10	C	A This is the £ Sterling value of 200 Kg B Incorrectly multiplies 300 Euro by 1.2 C Correct: $300 \text{ Euro} \times 2 = 600 \text{ Euro}$. $600 \text{ Euro} / 1.2 = 500$ D Incorrectly multiplies 600 Euro by 1.2	AO2	✓
11	D	A This is the sales volume maximising output. B This is the output where productive efficiency is achieved. C This is the profit maximising output. D Correct: $MR = 0$ is the output at which total revenue is maximised.	AO1	

H460/03

Mark Scheme

June 2024

Q	Key	Rationale	AO	Quantitative skills
12	A	A Correct: Unit labour costs were $\text{£}12/20 = \text{£}0.60$. When productivity rises unit labour costs are $\text{£}12/24 = \text{£}0.50$. Unit labour costs fall by $\text{£}0.10$. B Incorrectly calculates unit labour costs by dividing output by cost. ($20/\text{£}12 = \text{£}1.67$ and $24/\text{£}12 = \text{£}2$) C This is the new unit labour cost but is not the change in unit labour costs. D Productivity has increased so unit labour costs would not increase.	AO2	✓
13	C	A As the supply of labour becomes more inelastic, the area above the supply curve (economic rent) will increase. B The demand for labour (MRP) would not shift because of a change in the elasticity of supply of labour. C Correct: As the supply of labour becomes more inelastic, the area under the supply curve (transfer earnings) will decrease. D The equilibrium wage rate will remain unchanged as the level of demand has not changed.	AO3	
14	B	A This is the incorrect identity. B Correct: This is the correct identity. The money supply x velocity of circulation gives the total value of all expenditure. This must be equal to price level x national income which gives the total value of all goods & services. C This is the incorrect identity. D This is the incorrect identity.	AO1	
15	D	A The diagram shows the impact on the current account balance, it does not show the government budget. B The diagram shows the impact on the current account balance, it does not show the government budget C If the demand for exports and imports was elastic then the current account deficit would improve because of a depreciation of the exchange rate. D Correct: The demand for exports and imports is inelastic in the short run which causes the current account deficit to worsen in the short run after a depreciation of the exchange rate.	AO2	
16	C	A Income tax is not an indirect tax. It is paid by individuals straight to the government. Indirect taxes are paid through consumption. B This is not a progressive tax. Progressive taxes take proportionally more from those earning higher incomes. C Correct: The tax charges the same rate to everyone regardless of the level of income. D This is not a regressive tax. Regressive taxes take proportionally more from those earning lower incomes.	AO1	
17	C	A Values for the Gini Coefficient are between 0 and 1. B A value of zero represents a situation a perfect income equality where every individual has the same income. C Correct: A value of one represents the situation of perfect inequality where one individual earns all of the income. D Values for the Gini Coefficient are between 0 and 1.	AO3	

H460/03

Mark Scheme

June 2024

Q	Key	Rationale	AO	Quantitative skills
18	B	A This is the original producer surplus. B Correct: The old producer surplus is P, V, Z and the new producer surplus is P1, W, Z so area P, P1, W, V represents the increase in the size of the producer surplus. C This is the new consumer surplus. D This is the new producer surplus.	AO2	✓
19	B	A Exports are an injection as the money received from selling exports is added to the circular flow of income of the domestic country. B Correct: Imports are a leakage as the money spent on imports leaves the circular flow of income for the domestic country. C Investment spending by firms is an injection into the circular flow of income. D Wages are the reward to households for providing labour, they are neither an injection nor a leakage, they are already part of the circular flow of income.	AO1	
20	B	A This describes adverse selection as a result of asymmetric information. B Correct: moral hazard is the situation where people change their behaviour if they are protected against any potential losses. C This is the definition of merit goods. D This is the definition of the free rider problem associated with public goods.	AO1	
21	C	A This is a quantity of output where the firm makes a normal profit ($AC = AR$). B This is productive efficiency ($MC = MR$). C Correct: Allocative efficiency is where $MC = AR$. D This is the sales volume maximising quantity of output.	AO1	
22	A	A Correct: For firms to adopt a strategy of third-degree price discrimination they need to be able to segment the market between those consumers with price elastic demand and those with price inelastic demand. If all consumers have the same PED for the good the firm will not be able to segment the market in this way. B This is necessary for firms to be able to prevent seepage and successfully charge different prices to different consumers. C This is necessary for firms to be able to charge different prices to different consumers. D This would help firms to adopt the strategy. It is a necessary condition for price discrimination that firms are price makers and have market power.	AO3	
23	D	A This is the consumer surplus gained. It does not consider the producer surplus and tax revenue that has been lost. B This is the total loss of producer surplus and tax revenue. C This is the gain in consumer surplus less the loss of producer surplus but does not consider the loss of tax revenue D Correct: This is the gain in consumer surplus less the loss of producer surplus and loss of tax revenue.	AO3	✓

Q	Key	Rationale	AO	Quantitative skills
24	D	A Central bank reserves are included in M0 and are considered narrow money and are highly liquid. B Money held in sight accounts are highly liquid. C Notes and coins in circulation are included in M0 and are considered narrow money and are highly liquid. D Correct: Accounts that have a time deposit are the least liquid as they require the saver to leave their money in the account for a specified time period or give a period of notice to withdraw money.	AO1	
25	B	A A fall in the price will lead to an increase in consumer surplus. B Correct: A maximum price will move the market into disequilibrium. At a price lower than the equilibrium price there will be more demand than supply. C The government budget will not be directly impacted. D A fall in the price will lead to a fall in the producer surplus for landlords.	AO3	
26		A Correct: Both perfect competition and contestable markets have freedom of entry and exit. B Firms in a contestable market can have differentiated goods. C A contestable market can have any number of firms. D Price discrimination is not a strategy available to firms under perfect competition who are price takers.	AO1	
27		A If consumer confidence falls then households would be likely to consume less and AD would shift inwards. B Correct: A fall in income tax rates would increase disposable incomes for households. This would lead to an increase in consumption and therefore an outward shift of AD. C Faced with higher corporation tax rates firms would be likely to reduce investment spending causing AD to shift inwards. D Higher oil prices would impact firms' costs and shift SRAS.	AO3	✓
28		A This is measured as part of the Index of Sustainable Economic Welfare (ISEW). B Correct: GNI per capita is used to measure living standards as part of the HDI calculation. C Literacy rates have not been part of the HDI since 2010. Education is measured by the mean and expected years of schooling and not the literacy rate. D This is measured as part of the Human Poverty Index (HPI).	AO1	

H460/03

Mark Scheme

June 2024

Q	Key	Rationale	AO	Quantitative skills
29	C	A Increased access to free at point of use healthcare would improve health outcomes for those from lower income households and make it easier for them to supply their labour. This would reduce income inequality and shift the Lorenz curve to the left. B Increased inheritance tax would reduce wealth and income inequality, particularly if the tax revenue is spent on improved public services. This would shift the Lorenz curve to the left. C Correct: If firms can successfully lobby government this will increase rent seeking behaviour and income inequality will increase, shifting the Lorenz curve to the right. D This would reduce discrimination in labour markets ensuring workers are paid according to the value of their output. This would reduce income inequality and shift the Lorenz curve to the left.	AO3	
30	B	A This records income earned on assets held overseas. B Correct: This records money transfers between countries that are not in exchange for goods or services and are not income generated from assets. C This records transactions of goods traded between countries. D This records transactions of services traded between countries.	AO1	

H460/03

Mark Scheme

June 2024

SECTION B

Question			Answer	Mark	Guidance
31			Using the data in Fig 1.1 and information in Extract 1, calculate public sector expenditure on water supply as a proportion of GDP in 2021/22. <i>Award 2 marks for correct answer:</i> Spending on water = £970,000,000 Total GDP = £1,101,000,000,000 $(£970,000,000 / £1,101,000,000,000) \times 100 = 0.09\%$	2	Annotate with  Accept 0.088% Award 1 mark for: • missing % • correct working and figures, wrong answer • correct answer rounded the wrong way ie 0.08%

Question			Answer	Marks	Guidance
32			Explain, why privatisation may increase long run aggregate supply (LRAS). <i>Award 1 mark for knowledge of privatisation or LRAS</i> <i>Award up to 2 marks for why privatisation may increase LRAS</i> • increase competition/profit motive • increase productivity/efficiency/investment/capital • Increase quality and/or quantity of factors of production/productive potential of the economy	3	Annotate with  AO1 (definitions) max 1 mark. AO2 (applying economic concepts) 2 marks Knowledge of LRAS or privatisation can be inferred (does not have to be a definition) eg profit motive Do not credit increases in productivity for a firm Do not credit decreases in costs of production (SRAS)

H460/03

Mark Scheme

June 2024

33* Evaluate, using an appropriate diagram(s) and the information in Extract 1, whether a natural monopoly such as water supply should be run by private sector firms.

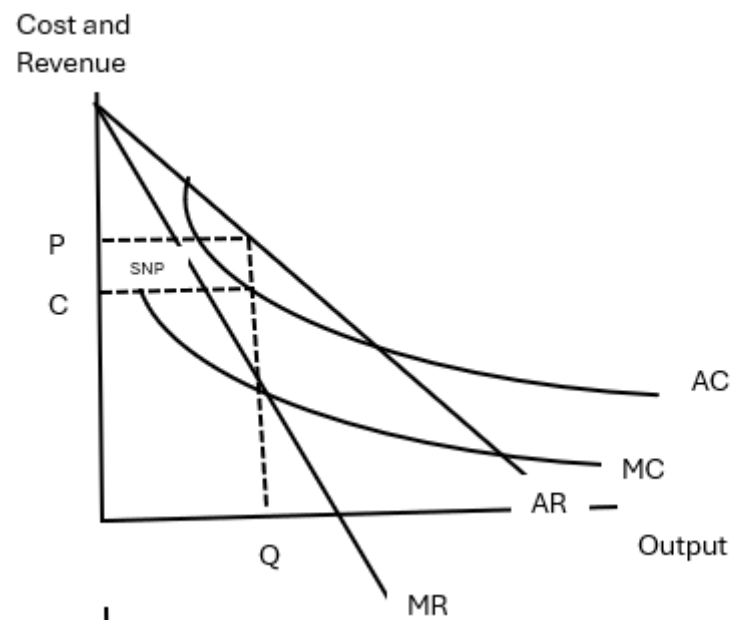
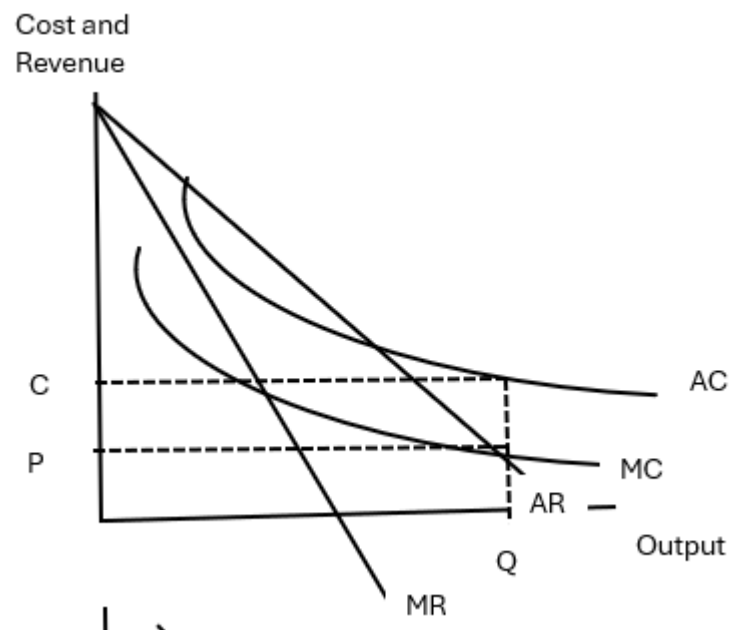
Level / mark	Descriptor
Level 3 (11-15 marks)	Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Strong analysis of the question characterised 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 (6-10 marks)	Good 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)	Reasonable 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

Question 33* Guidance

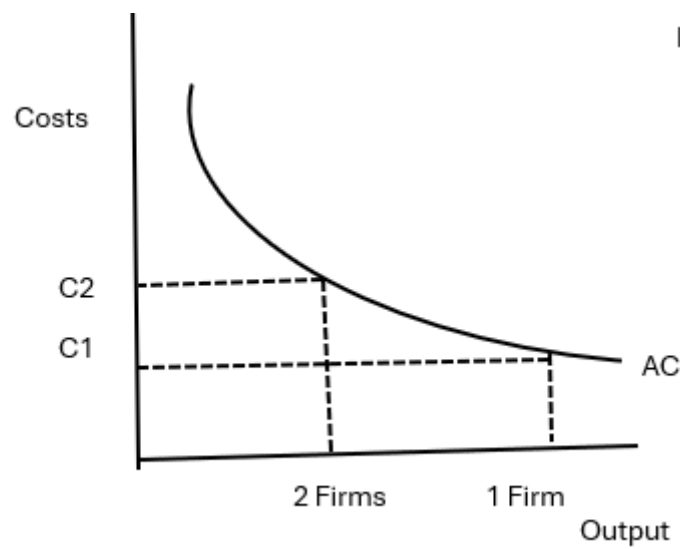
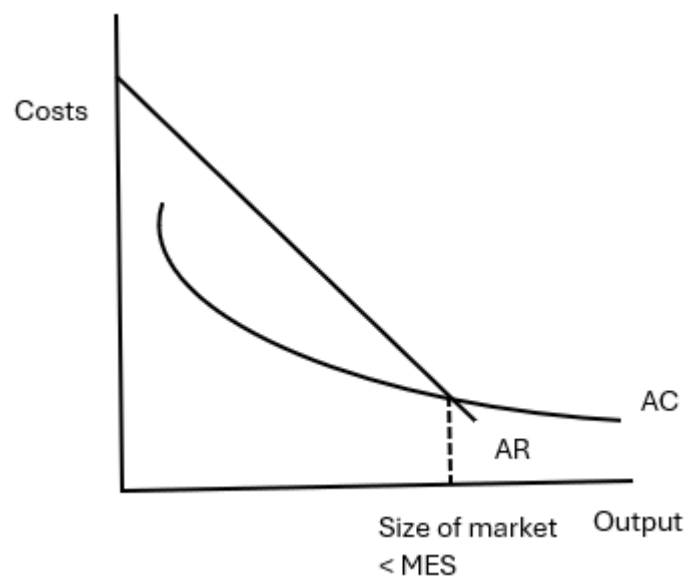
Guidance:

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

Relevant diagrams might include:



Question 33* Guidance



Question 33* Guidance**Knowledge**

- Natural Monopolies
- Privatisation and Nationalisation
- Private Sector

Application**Application to Economic ideas**

- Linking natural monopolies to efficiency
- Motives of firms in the private sector

Application to relevant Context (Extract 1)

- Government spends £970m per year providing water.
- Firms made £2.8bn profit.s in 2020
- Firms paid out £16bn in dividend in last decade
- OFWAT has no formal powers to control profits or dividends
- Water companies being able to make enough profit to be able to fund large scale investment and maintain quality and environmental standards.
- Water companies dumping sewage into English rivers and seas
- Southern Water was fined £90m for dumping
- Water Minister, Steve Double, called for greater investment by private sector firms to prevent leakages

Analysis might include why water industry should be in the private sector (or vice versa)

- Supernormal profits can be reinvested to achieve dynamic efficiencies which leads to improvement of quality of good / service.
- The profit motive will ensure that firms are x-efficient, and production will take place at the lowest average cost available.
- Private sector firms can provide higher incentives to attract workers with the expertise to encourage higher productivity / lower costs.
- Government doesn't need to incur high costs of investment and running costs of providing service/ cost of renationalisation.

Evaluation might include why water industry should be nationalised (or vice versa)

- Private sector firms will charge higher prices than the allocatively efficient price.
- Private sector firms will produce at a lower quantity than the allocatively efficient level of output.
- Private sector firms will not produce at the productively efficient level of output.
- Private sector firms may pay out supernormal profits in dividends and not reinvest.
- The lack of competition will mean no incentive to be x efficient.
- The profit motive of private sector firms may lead to cost cutting that impacts quality and safety.

Question 33* Guidance**Judgements might include:**

- Depends on the level of regulation of private sector firm.
- Depends on whether the government subsidises the private sector firm to produce at the allocatively efficient point.
- Depends on the level of contestability.
- Depends on the MES

H460/03

Mark Scheme

June 2024

Question			Answer	Marks	Guidance
34			Using the data in Fig. 2.1, compare the annual inflation rate in August 2022 to the annual inflation rate in August 2019. <i>Award 1 mark for 2019:</i> $(108.4 - 106.5 / 106.5) \times 100 = 1.78\%$ <i>Award 1 mark for 2022:</i> $(123.1 - 112.1 / 112.1) \times 100 = 9.81\%$ <i>Award 1 mark for:</i> The rate of inflation has increased <i>Award 3 marks for:</i> The rate of inflation has increased by 8.03 percentage points.	3	Annotate with  Accept 2019 = 1.8% And 2022 = 9.8% Accept rate of inflation has increased by 8 percentage points Maximum of 1 mark if no figures used

Question			Answer	Marks	Guidance
35			Using Fig. 2.2, identify what evidence there is that the rate of interest may not have been a large determinant of household saving in the UK between 2020 and 2022. Valid use of the data. E.g.: Q1 to Q2 of 2020 interest rates remained constant but savings ratio rose (1) from 6% to over 25% (1) Q2 2020 to Q4 2021 interest rates remained constant but savings ratio fell (1) from over 25% to less than 10% (1) Q4 2021 to Q2 2022 interest rates rose but saving ratio fell (1) interest 0.1% to 1.3% (1) savings ratio fell 8% to 6.5% (1)	2	Annotate with  1 mark for relationship 1 mark for evidence

H460/03

Mark Scheme

June 2024

36* Evaluate, using the information in Extract 2, whether increasing the interest rate was an effective way to combat rising inflation.

Level / mark	Descriptor
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. 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 (6-10 marks)	Good 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)	Reasonable 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

Question 36* Guidance**Guidance:**

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

Knowledge:

- interest rates
- monetary transmission mechanism
- inflation

Application:**Application to Economic ideas**

- linking interest rate changes to AD

Application to relevant context (Extract 2):

- MPC were hoping that the increased interest rates would appreciate the value of Sterling
- MPC were hoping that the increased interest rates would increase the household saving ratio
- Data shows that saving ratio increased in 2021 and 2022 when interest rates rose
- There are close to 11 million mortgages in the UK totalling over £1.6 billion
- over three quarters of mortgage holders are on a fixed rate and in recent years the number of new mortgages being taken out at fixed rates has been even higher
- size of the change is from 0.75% in April 2022 to 2.25% by September 2022

Analysis might include:

- Higher interest rates mean greater reward for saving so households save a greater proportion of their income, this lowers consumption, lowering AD and resulting in a fall in the price level.
- Higher interest rates mean larger mortgage repayments which lowers household discretionary income, this lowers consumption, lowering AD and resulting in a fall in the price level.
- Higher interest rates attract hot money inflows, this increase demand for GBP and therefore the currency appreciates. This will result in a fall in exports and a rise in imports lowering AD and resulting in a fall in the price level. It will also reduce costs to firms of imported goods.
- Higher interest rates mean larger loan repayments which means firms will be less likely to invest as the cost of doing so has risen, therefore investment may fall leading to a fall in AD and a lower price level.

Evaluation might include:

- Those households on fixed rate mortgages won't be affected by higher interest rates until their fixed rate expires, this means changes to discretionary income won't be seen in the short run and consumption won't fall.

Question 36* Guidance

- If demand for exports and imports is price inelastic then an appreciation of the currency will not worsen the trade balance so AD will not fall – use of reverse J curve.
- Value of currency determined by other factors apart from the interest rate.
- Household saving determined by other factors apart from the interest rate
- Inflation has been caused largely on the cost side, therefore reducing AD to lower the price level will be damaging to growth and jobs.
- Interest rates may have limited effect on cost push inflation

Judgements might include:

- Depends on the cause of inflation
- Depends on confidence and expectations of future rate changes
- Depends on other fiscal and supply side policies being pursued. Also on what is happening with QE.
- Depends on interest rate changes in other countries.

H460/03

Mark Scheme

June 2024

Question			Answer	Marks	Guidance
37			Using Fig. 3.1, compare GDP and HDI growth between 2011 and 2021. • They both grew over the whole period/ GDP and HDI follow the same trend (1) • GDP grew at a faster rate than HDI/ the difference in growth rates has increased over time/ changes in GDP were more pronounced than HDI (1).	2	Annotate with  1 mark for similarity in trends 1 mark for differences in trends As long as statements are valid there is no need to show data evidence. Only credit answers which refer to the whole period Do not credit answers that refer to a decrease in GDP or HDI

H460/03

Mark Scheme

June 2024

38* Evaluate, using the information in Extract 3, whether firefighter pay is likely to increase.

Level / mark	Descriptor
Level 2 (5-8 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. 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 1 (1-4 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. 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
Question Guidance	
Guidance: - The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation. Knowledge - Supply and demand of labour - Elasticity of supply and demand of labour - Trade Unions - Collective bargaining - Monopsony Application: Application of Economic Ideas - How demand and supply of labour affect wages - How elasticity of supply and demand of labour affect wages - How monopsonies reduce wages - How Trade Unions increase wages	

Application of relevant context (Extract 3)

- Firefighters are in a trade union with over 80% membership.
- The government is a monopsony employer.
- Training periods are long. 12-18 weeks followed by 18-24 months of on-the-job training.
- No formal qualifications are required.
- Number of firefighters has fallen 20% from 2010 to 2021.
- Wages for firefighters in the UK stand at £38,800 which is higher than average wages for police officers, paramedics and those in the Armed Forces. It is also higher than the UK median average pay.

Analysis might include:

- Trade union, with a high union density, could allow firefighters to use collective bargaining to negotiate higher wages.
- Length / difficulty of training is a barrier to enter the labour market and means supply is not likely to increase in the future.
- Increasing danger means the compensating differential will need to be higher to reward the extra risk taken by firefighters. This could also reduce the supply of labour.
- Falling supply of firefighters in the face of increasing demand.

Evaluation might include:

- The government is a monopsony employer and can pay below equilibrium wage rates. The Trade Union will find it more difficult to successfully negotiate higher wages.
- No formal qualifications required to enter the labour market means supply could increase in the future.
- Current rates of pay are higher than in alternative labour markets so workers may leave their current jobs and supply their labour in the firefighter market.
- As firefighters work in the public sector, pay will be influenced by the tax revenue of the government, changes in government, and pay deals with other public sector workers.

Judgements might include:

- Depends on the level of inflation
- Success of trade union activity may depend on public reaction to any actions such as strikes.
- Depends on the elasticity of demand / supply of labour.
- Depends on future patterns of demand and supply of labour

ASSESSMENT OBJECTIVES GRID

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
Section A Total	15	7	8		30	(13)
31		2(2)			2	(2)
32	1	2			3	
33	2(2)	3(2)	4(2)	6(2)	15	(8)
34	2(2)	1(1)			3	(3)
35	1(1)	1(1)			2	(2)
36	2	3	4	6	15	
37		2(2)			2	(2)
38	1	1	2	4	8	
Section B Total	9	15	10	16	50	(17)
Paper Total	24	22	18	16	80	(30)

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