



GCE AS MARKING SCHEME

SUMMER 2017

**AS (NEW)
ECONOMICS - COMPONENT 1
B520U10-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2017 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

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

For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

EDUQAS GCE AS ECONOMICS - COMPONENT 1 (NEW)

SUMMER 2017 MARK SCHEME

1	<p>An economy is initially operating on its production possibility frontier (PPF) at point A. Aggregate demand then drops sharply.</p> <p>Adapt the production possibility diagram below to show the likely short run effects on the economy. Give reasons for your answer.</p>	Total 3
	<p>AO1 Diagram adapted to show output falling within the economy with the production possibility frontier remaining the same (1)</p> <p>AO2 Negative effects on the economy identified and understood. (2)</p> <div data-bbox="336 750 1230 1496" data-label="Figure"> </div> <p>As a result of falling AD the economy will be operating inside its PPF. Hence the economy will be Pareto inefficient and unemployment will be high.</p> <p>Economy may have under-employment – resources will be wasted/inefficiently used.</p> <p>Implications for government finances and budget balance – high unemployment will increase government spending and the tax base will fall.</p> <p>Allow any other issues linked to the scenario.</p>	<p>1</p> <p>2</p>

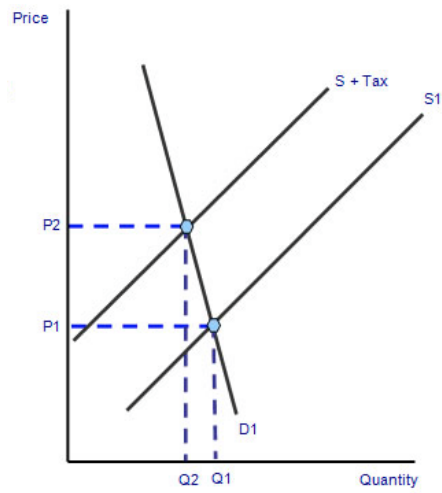
2 (a)(i)	Using the above data: Calculate the average price of a packet of cigarettes.	Total 1
	AO2 £1.81 is 23% of the price. Therefore the full price must be $£1.81/0.23 = £7.87$ (1).	1

(a) (ii)	Calculate how much tax is paid on an average packet of cigarettes.	Total 1
	AO2 Tax is 77% of this, therefore the tax will be £6.06	1

(b)	Using a supply and demand diagram, explain how the taxation of cigarettes is designed to reduce their consumption. [4]	
Band	AO1	AO3
	2 marks	2 marks
	<i>Is the diagram is correct and well-used?</i>	<i>Has the effect of an increase in tax on consumption been well explained?</i>
2	2 marks Correct well-labelled diagram showing supply shifting left/up, the equilibrium price rising and equilibrium quantity falling. Diagram is referred to in the text.	2 marks Answer explains both that the tax causes supply to shift/increases costs, driving up price and that as a result less is bought.
1	1 mark Diagram is broadly correct but contains significant labelling errors. Or diagram is completely correct but the answer makes no reference to it.	1 mark Answer explains either that the imposition of the tax will increase price or that the increase in price will cause a fall in demand.
0	0 marks Diagram is inappropriate for the scenario.	0 marks No valid chains of reasoning.

Indicative content

AO1:



Or ad valorem tax is equally acceptable.

Q2 (c)	With reference to the data, outline how the high taxation of cigarettes might lead to government failure. [4]	
Band	AO1	AO2
	1 mark	3 marks
	<i>Is government failure understood?</i>	<i>Has the data been well used to illustrate the problems of government intervention in this case in the context of government failure?</i>
3		<p>3 marks</p> <p>Excellent application.</p> <p>Well-developed use of the data to show the ways in which government intervention has distorted the market with a clear link back to why this is government failure.</p> <p>Hence excellent data use, fully applied to the question.</p>
2		<p>2 marks</p> <p>Good application.</p> <p>Well-developed use of the data to show the ways in which government intervention has distorted the market but without a clear link back to government failure.</p> <p>Or an answer that is well rooted in the idea of government failure but does not fully develop the problems identified in the data.</p> <p>Hence excellent data use without applying well to government failure or good data use that is well applied to the question of government failure.</p>
1	<p>1 mark</p> <p>Clear understanding that government failure occurs when government intervention leads to a misallocation of resources and creates inefficiencies.</p>	<p>1 mark</p> <p>Limited application.</p> <p>Either an answer that makes good use of the data without fully developing it and does not apply the data to the question.</p> <p>Or</p> <p>Some limited reference to the problems in the data that is well applied to the question of government failure.</p>
0	<p>0 marks</p> <p>Limited understanding amounting to the idea that government intervention creates problems.</p>	<p>0 marks</p> <p>No valid application.</p>

Indicative content

AO1:

Government failure occurs where government intervention creates inefficiency and leads to a misallocation of scarce resources.

AO2:

Answer fully develops the scenario showing why the problems are the result of government intervention:

- Indirect taxes have driven up the price meaning that some consumers (particularly young smokers) are unable to afford legal products, so switch to the black market.
- The black market is unregulated and these products can contain twice as many harmful substances, damaging the health of smokers even more.
- As a result more resources will be used in the longer term because of health issues, meaning that the government has created inefficiencies/misallocation of resources.
- If consumers reduce their consumption of legal cigarettes then there is likely to be a negative impact on the level of employment?
- Demand might become price elastic meaning that government tax yield actually falls.

3 (a)	Define what is meant by market failure.	Total 2
	<p>AO1</p> <p>Market failure occurs where the price mechanism fails to allocate scarce resources efficiently or when the operation of market forces leads to a net social welfare loss</p> <p>For 2 marks the answer will need to show an understanding of both 'market' and 'failure'. In other words that market failure is the misallocation of resources <i>that occurs in a free market</i>.</p>	2

3 (b)(i)	Describe how market failure might occur in labour markets as a result of external benefits. [3]	
Band	AO1	AO2
	1 mark	2 marks
	<i>Is there a good understanding of external benefits?</i>	<i>Has idea of external benefits been well applied to the idea of market failure in the labour market?</i>
2		<p>2 marks</p> <p>Good application.</p> <p>Because there are external benefits in the provision of training firms will offer too little because they do not get the full benefit themselves; workers have skills that they can use in other jobs and may leave shortly after training has been provided. Therefore the equilibrium amount of training will be too low in a free market.</p>
1	<p>1 mark</p> <p>Good understanding of external benefits shown.</p>	<p>1 mark</p> <p>Limited application.</p> <p>An answer that applies the context of external benefits to market failure to explain that firms will provide too little training without really showing what the external benefits of training are specifically. Hence answer is applied to the market for training without being fully applied to external benefits.</p> <p>Or an answer that explains fully what the external benefits of training are without then explaining why market failure might result in a free market context.</p>
0	<p>0 marks</p> <p>Partial understanding of external benefits shown.</p>	<p>0 marks</p> <p>Answer is not related to labour markets.</p>

Indicative content

External benefits are benefits that accrue to third parties outside of a transaction and which are therefore ignored by the consumer and producer. This results in the equilibrium output in a free market system being too low.

In this case when a firm trains a worker, they receive private benefits in the form of increased productivity etc., but there are also external benefits to the wider economy and future employers that the firm will not take into account when deciding to pay for training. As a result, in a free market, most firms will tend to under-train.

This problem will be exacerbated by the fact that there is a risk that once the employee has improved their marketability (the external benefit to the worker) they may then choose to leave meaning that the firm doesn't even get the private benefit that it expected, again reducing the incentive to train.

3 (b)(ii)	Describe how market failure might occur in labour markets as a result of information asymmetry [3]	
Band	AO1	AO2
	1 mark	2 marks
	<i>Is there a good understanding of information asymmetry?</i>	<i>Has the idea of information asymmetry been well applied to the idea of market failure in the labour market?</i>
2		<p>2 marks</p> <p>Good application.</p> <p>Because there is information asymmetry in the hiring process, it is difficult to know whether a prospective employee is really going to be good at the job. As a result the hiring process may take longer than would be necessary in a world of perfect information, firms may choose the wrong candidate or may give up altogether, holding onto staff who are not optimal. In all cases resources (labour in this case) are misallocated, resulting in market failure.</p> <p>For 2 marks the answer shows why information asymmetry may occur in the hiring process and can apply this to the context of market failure.</p>
1	<p>1 mark</p> <p>Good understanding of information asymmetry shown.</p>	<p>1 mark</p> <p>Limited application.</p> <p>An answer that applies the context of information asymmetry to market failure to explain that firms will have difficulties in hiring workers without really saying why information asymmetry occurs. Hence the answer is applied to the labour market without being fully applied to information asymmetry.</p> <p>Or an answer that explains fully why information asymmetry exists without then explaining why market failure might result in a free market context.</p>
0	<p>0 marks</p> <p>Partial understanding of information asymmetry shown.</p>	<p>0 marks</p> <p>Answer is not related to labour markets.</p>

Indicative content

Information asymmetry occurs when one party in a transaction has more information than the other. This can be the seller knowing more than the buyer or vice versa and means that the efficiency of the market is reduced, in some cases meaning that transactions are impossible. In both cases the market will struggle to arrive at the optimum output, resulting in a welfare loss.

In this case the prospective employees know about their own track record but the firm doesn't. As a result it may be hard to get the best employee for the job, meaning that resources have been misallocated = market failure.

Other potential market failures might be that recruitment takes longer than it might otherwise do as firms try to redress the information imbalance which is again a waste of resources relative to the free market ideal.

Alternatively, because of the difficulty of knowing about new employees, firms may adopt the 'devil you know' principle, again resulting in a misallocation of resources.

Allow information gaps (e.g. neither employers nor employees know about available workers/available jobs). Jobs only advertised locally or badly advertised.

4 (a)	Calculate the amount spent on almonds each year by the average American following the price rise.	Total 5
	<p>AO1 Understanding of PED and Revenue</p> <p>Shows understanding of PED by successfully applying the -0.25 figure to a percentage change (1)</p> <p>Shows understanding of spending by multiplying quantity bought by price (1)</p> <p>AO2 Application of PED in context</p> <p>Applies knowledge successfully:</p> <p>Calculates the percentage change in quantity successfully: $(25\% \times -0.25 = -6.25\%)$ (1)</p> <p>Calculates the new quantity successfully: $(1000g - 6.25\% = 937.5g)$ (1)</p> <p>Calculates new revenue successfully: $\\$8 \text{ per kilo} \times 0.937.5kg = \\7.50 (1)</p> <p>NB: If candidate works out the % change as 20% allow OFR. They will end up with a 5% change in QD, a new QD of 798 and a new spend of \$7.60. This is worth 4 marks – 2 AO1 and 2 AO2.</p>	<p>2</p> <p>3</p>

(b)	Calculate the likely impact of the price rise on Californian almond production.	Total 3
	<p>AO1 understanding of PES</p> <p>Understands that supply rises as price rises (1)</p> <p>AO2 Applies to the context</p> <p>Calculates percentage increase in supply $(+25\% \times 0.1 = 2.5\%)$ (1)</p> <p>Applies successfully to quantity supplied $(840m \text{ kilos} + 2.5\% = 861 \text{ million kilos})$ (1)</p> <p>NB: If candidate works out the % change as 20% allow OFR. The answer will be 856.8m kg for 2 marks. (1 AO1 and 1 AO2). Do not double penalise for working out the percentage change in correctly.</p>	<p>1</p> <p>2</p>

5	Discuss the extent to which infrastructure investment projects such as those identified above will help the UK to “increase the amount of private sector investment undertaken by business”? [10]		
Band	AO2	AO3	AO4
	4 marks	2 marks	4 marks
	<i>Has the context been fully applied to investment?</i>	<i>Has the link to investment been explained clearly?</i>	<i>Has the likely impact on investment been questioned and discussed?</i>
2	<p>3-4 marks Good application.</p> <p>The context is used effectively with at least one piece of evidence used and well developed.</p>	<p>2 marks Good analysis.</p> <p>Clear explanation of the way in which investment will be affected.</p>	<p>3-4 marks Good evaluation.</p> <p>The impact on investment has been clearly questioned, with some good counterarguments. The counterarguments are put into the context of the case itself.</p> <p>Alternatively there may be fewer counter-arguments, but the answer may reach a well-judged conclusion on one side or the other again well-grounded in the actual scenario given.</p>
1	<p>1-2 marks Limited application.</p> <p>Context is used directly, but none of the ideas are developed.</p>	<p>1 mark Limited analysis.</p> <p>Answer attempts to explain why investment will increase rather than just asserting it, but the answer lacks the level of development necessary for 2 marks.</p>	<p>1-2 marks Limited evaluation.</p> <p>Argument is qualified/two sided, but evidence is under-developed or absent. Objections are largely theoretical rather than being linked either to the case or the real world.</p>
0	<p>0 marks No valid application.</p> <p>The context has been used, but really there is nothing specific to this particular scenario used – the answer could really be any generic AD recovering scenario.</p>	<p>0 marks No chains of reasoning present.</p> <p>Impact on investment is asserted rather than explained.</p>	<p>0 marks No valid evaluation.</p>

Indicative content

AO2 and AO3 (application to the context and theoretical development)

In principle projects such as the ones discussed can support private sector investment:

- Better UK infrastructure in general may encourage FDI
- The process of building the infrastructure will increase the profitability of firms in construction and engineering, stimulating investment in that sector and may also have multiplier effects through the economy.
- Better road networks will help to reduce firms' costs, increasing profitability and making the UK a more attractive location. It may also open up areas of the country with lower property/land costs that were formerly viewed as undesirable, again increasing investment.
- £101 billion of government spending will increase AD, driving up demand for construction and engineering, increasing employment and therefore impacting on firms both inside and outside the supply chain. The expansion of AD may well encourage them to invest.
- This may be particularly likely given years of underinvestment since the financial crisis.
- Cheaper green power may reduce business costs and again make the UK a more attractive investment location.
- etc. – allow other plausible developments of the case.

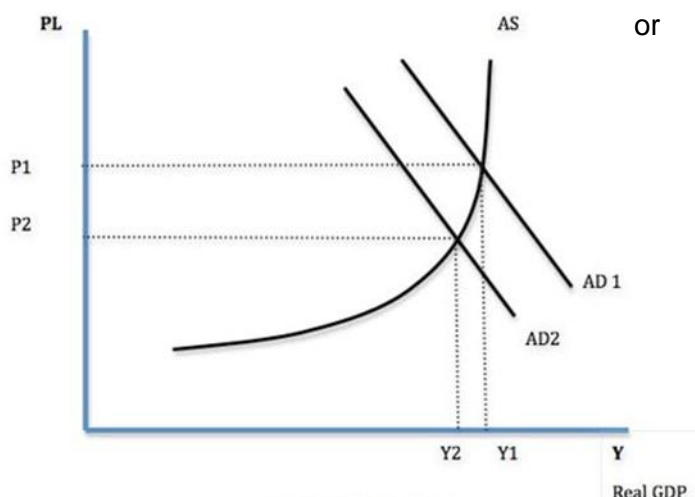
AO4

- £101 billion 'over the next few years' may not be very significant when firms are taking investment decisions.
- The examples given in the case are likely only to have marginal importance in most firms' investment decisions, therefore the impact may be quite minor.
- Investment has been below its pre-crisis levels for some time 'even though the economy is now recovering' suggesting that firms do not see the need to invest.
- Other factors such as confidence and the availability of finance are more likely to be critical when firms are taking investment decisions.
- Crowding out effect- government borrowing to facilitate public government investment has an opportunity cost of less money being available for private investment.
- Etc. – allow any plausible counter-argument as long as it is relevant to the case. Answers rooted in the UK's economic situation should be well-rewarded.

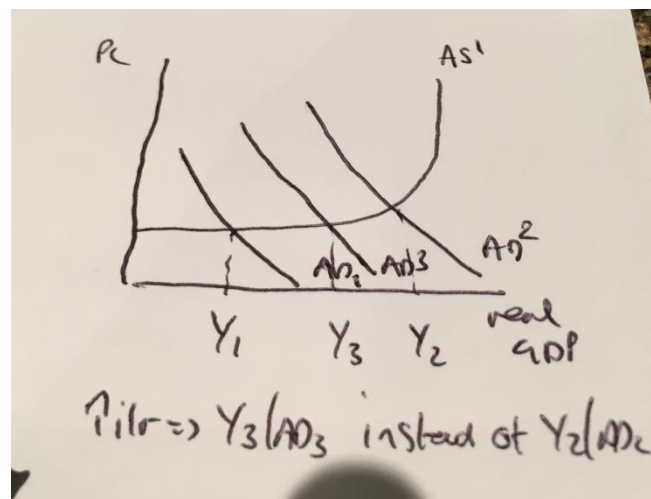
6	Using an AD/AS diagram explain why, in theory, an increase in interest rates to 0.75% 'would hit economic growth hard' and discuss whether it would be likely to do so given the situation outlined in the data. [10]		
Band	AO1	AO3	AO4
	2 marks	4 marks	4 marks
	<i>Is the diagram appropriate and well-integrated?</i>	<i>Has the process through which interest rates affect economic growth been well explained?</i>	<i>Has the likely impact on economic growth been fully contextualised on both sides?</i>
2	<p>2 marks Good understanding.</p> <p>Accurate diagram showing AD shifting left (or shifting right more slowly) that has demonstrated understanding of a reduction in growth by being used directly in the answer.</p>	<p>3-4 marks Good analysis.</p> <p>Clear explanation of the channels through which growth might be reduced encompassing at least two of the domestic, asset price and exchange rate channels.</p>	<p>3-4 marks Good evaluation.</p> <p>Well balanced discussion as to whether or not a rise in rates would be likely to 'choke off' growth making reference to real-world factors on both sides.</p>
1	<p>1 mark Limited understanding.</p> <p>Diagram is accurate but full understanding has not been demonstrated because it has not been directly referenced in the answer.</p>	<p>1-2 marks Limited analysis.</p> <p>Either a clear explanation of one of the domestic, asset price or exchange rate channels or a partial explanation of each.</p>	<p>1-2 marks Limited evaluation.</p> <p>Argument is qualified/two sided, but evidence on one side of the case is under-developed or absent.</p>
0	<p>0 marks Diagram is inappropriate (e.g. micro D/S), incorrect or has significant labelling issues.</p>	<p>0 marks Process through which growth is affected is only asserted/factors identified without explanation.</p>	<p>0 marks Argument simply identifies factors from the text but does not develop them in terms of an argument. May simply argue that 0.75% still isn't very high without developing.</p>

Indicative content

AO1 Diagram plus use



or



Allow other diagrams (e.g. neoclassical, diagrams with AS shifts etc.) as long as they fit the context.

AO3 (Explains the theoretical impact)

Domestic channel:

Rise in interest rates will damage both consumption and investment.

2 marks – deals with both C and I, consumption channel does not rely just on disincentive to save, or covers consumption very fully (mortgage rate effect, borrowing effect, savings effect).

1 mark – looks only at one of the two or deals only weakly with consumption, dealing only with the savings channel.

External channel

2 marks – explains both aspects of level 1.

1 mark explains that increased interest rates should lead to an increase in capital inflows because of higher returns but does not link to impact on X and M.

OR

Asserts that the exchange rate will rise and explains how X and M will be affected

0 marks: Asserts that exchange rate will rise.

AO4 Discusses in context

On the one hand a rise in rates may add to other drag factors on the UK economy. Slowing growth in China may already be reducing UK exports (although the direct effect might not be that great) and the on-going Eurozone crisis characterised in the text by the reference to Greece is also a drag on UK growth.

However, according to McCafferty there are various push factors in the economy that make a rate rise necessary to prevent overheating. Hence the rate rise may reduce growth relative to where it would have been, but with rising confidence and wages combined with a predicted fall in unemployment, the impact of a small increase in interest rates might be negligible. Nothing for simply pointing out that a 0.25% increase in interest rates isn't very much unless they do something with this (explaining why consumers/mortgage holders might not really react, for example).

(b)	With reference to the data, discuss whether the depreciation of the tenge will be likely to improve Kazakhstan's current account balance. [8]			
Band	AO1	AO2	AO3	AO4
	1 mark	3 marks	2 marks	2 marks
	<i>Does the answer show understanding of the effects of a fall in the exchange rate?</i>	<i>Is the answer well applied to the context of Kazakhstan?</i>	<i>Are the effects on the trade balance explained?</i>	<i>Are there effective counter-arguments made?</i>
3		3 marks Excellent use of the context or real world knowledge has been made. Most likely at least two pieces of information have been well developed and related to the question.		
2		2 marks Good use of the context or real world knowledge has been made. At least one piece of information has been developed.	2 marks Good analysis. Good explanation as to how the depreciation should in theory improve the trade balance, with the fall in the price of exports stimulating sales and the increasing price of imports causing consumers to switch. Answer is directly linked to the trade balance.	2 marks Good evaluation. At least one well developed counter-argument has been made. This could be theoretical (related to PED for example) or contextualised. A well contextualised example could gain both AO4 and AO2 marks.
1	1 mark Answer shows that the price of exports should fall and the price of imports should rise.	1 mark Limited application. Information from the context or real world has been identified and its relevance is clear, but the information has not been developed or explained in terms of its relevance.	1 mark Limited analysis. Answer deals only with exports or imports or fails to clearly relate back to how the trade balance will be improved.	1 mark Limited evaluation. At least one counter-argument has been made, but there is only limited explanation of the point. Nevertheless, some development is present. Alternatively a series of relevant counter-arguments have been made, but development is extremely limited.
0	0 marks Answer shows no understanding of the impact of a fall in the exchange rate.	0 marks No valid application. Information from the context has been used, but its relevance is not clear.	0 marks No valid analysis. Impact on the trade balance is only asserted ('exports rise, imports fall').	0 marks No valid evaluation.

Indicative content

AO1:

Understanding is shown of the fact that P_x falls in \$ terms and P_m rises in tenge terms.

AO2:

In principle a 20% depreciation is pretty significant meaning that we would expect some effect.

But short run elasticity of demand is notoriously low meaning that there is a risk that the value of imports rises by more than the value of exports.

Kazakhstan's leading trade partners have already depreciated – this could be used on either side – either this could mean that the fall in the tenge will have no real impact or it might offset some of the losses that Kazakhstan has already faced therefore improving the trade balance relative to where it currently stands.

The fall in the tenge is pretty irrelevant given the collapse in global commodity prices.

Kazakhstan's exports are commodities which are likely to be quite price inelastic, meaning that only a small increase in the value of exports should be expected.

Other real-world application should be credited (e.g. if commodity prices have recovered by the time this paper has been taken).

AO3

The fall in the \$ price of exports should help to make Kazakhstan more competitive on world markets therefore increasing the value of exports in tenge terms. Or even if the volume of exports doesn't rise, Kazakh sellers will be receiving more tenge per \$ of sales, again helping to improve the trade balance (which is value not volume).

The rise in the tenge price of imports will also deter consumers from buying them, which should result in a fall in the value of imports. This assumes various factors to be true, but these should be credited under AO4.

AO4

All the evaluative points from AO2 should be credited here too as appropriate.

Also, the improvement in the trade balance depends on the price elasticity of demand for imports and exports. It also depends on the starting net trade position.

It is quite likely that the trade balance will deteriorate in the short run as import and export volumes may be slow to react due to contractual issues and so on, but might improve in the longer term as new arrangements can be negotiated, domestic firms can set up to take advantage of a more favourable trading environment and so on.

As always, allow any other credible line of evaluation.