# AS MARKING SCHEME

**SUMMER 2019**

**ECONOMICS**
**B520U20-1 – COMPONENT 2**

## INTRODUCTION

The marking scheme which follow were those used by WJEC for the 2019 examination in AS ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were 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' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

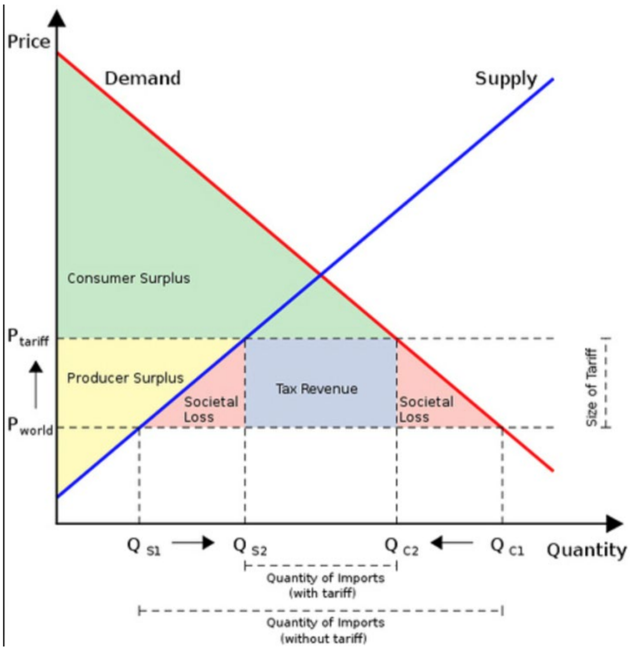
## GENERAL MARKING GUIDANCE

### Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate 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 candidates' 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. Candidates' 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.

| Question | | Total |
|---|---|---|
| **1 (a)** | **With the use of a tariff diagram, outline:**<br><br>**(i) How US imports from Mexico will be affected by tariffs on Mexican goods.**<br>**(ii) How Trump plans to finance the border wall.**<br>**(iii) Why some commentators argue that it will be US consumers who actually pay for the border wall.** | 6 |
| | **AO1: 6 marks**<br><br>Award **2** marks for each:<br><br>(i) Identification on the diagram of total imports/decrease in total imports/decrease in demand of imports, and outline of the reasons for a fall in imports such as higher price leading to lower demand of imports (not just higher prices).<br>(ii) Identification on the diagram of the tariff revenue and outline of why it is that area, such as price/tax x quantity of imports.<br>(iii) Identification on the diagram of the fall in consumer surplus/new consumer surplus and outline of why it has fallen – due to higher price.<br>Or: identification of higher price and outline of the impact.<br><br>(1+1 for identification and understanding in each case)<br><br>Note – all marks here are for AO1 and a good understanding of the tariff diagram in the abstract is all that is necessary for 6 marks.<br><br>**Indicative content:**<br><br><br> | |

<table>
<tr><th>Question</th><th colspan="3"></th><th>Total</th></tr>
<tr><td>1 (b) (i)</td><td colspan="3">Outline what economists mean by economic growth</td><td>2</td></tr>
<tr><td></td><td colspan="3">AO1: 2 marks<br>Award 1 mark for limited outline – higher GDP/national output.<br>Award 2 marks for developed outline.<br>The growth in real GDP over a period of time can be actual or potential.</td><td></td></tr>
<tr><td>1 (b) (ii)</td><td colspan="4">With reference to economic theory and Chart 1, discuss the extent to which economic growth is a major influence on the US Balance of Trade (part of the current account of the balance of payments). [10]</td></tr>
<tr><td rowspan="2">Band</td><td>AO2</td><td>AO3</td><td colspan="2">AO4</td></tr>
<tr><td>3 marks</td><td>3 marks</td><td colspan="2">4 marks</td></tr>
<tr><td>3</td><td>3 marks<br>Excellent application.<br>Full/specific use of the data throughout, making direct use of figures on both sides of the argument.</td><td>3 marks<br>Excellent analysis.<br>Clear explanation of how growth will impact directly on the trade balance. There is a strong chain of reasoning present in terms of how imports will be increased.</td><td colspan="2">4 marks<br>Excellent evaluation.<br>Clear judgement of the links between growth and the trade balance in this case.<br>Answers will probably give a judgement on whether growth seems to be the key determinant.</td></tr>
<tr><td>2</td><td>2 marks<br>Good application.<br>Charts are used on both sides of the case, but there is a lack of specifics.<br>Or specific data from charts are well used once to make one side of the argument.</td><td>2 marks<br>Good analysis.<br>The link between growth and imports is present, but the chain of reasoning is not fully developed.</td><td colspan="2">2-3 marks<br>Good evaluation.<br>Top of band answers will have well developed counterargument(s).<br>Bottom of band counterargument(s) is developed but lacks some depth.</td></tr>
<tr><td>2</td><td>1 mark<br>Limited application.<br>Charts are used to some extent, but only on one side of the case.<br>Either lack of specifics or specific reference used briefly.</td><td>1 mark<br>Limited analysis.<br>Some understanding that growth will worsen the trade deficit is present, but the argument is weak.</td><td colspan="2">1 mark<br>Limited evaluation.<br>Some attempt to qualify is made, but the qualification/counter-argument is not developed.</td></tr>
<tr><td>0</td><td>0 marks<br>Points are wholly generic.</td><td>0 marks<br>Answer only asserts points.</td><td colspan="2">0 marks<br>One-sided answer.</td></tr>
</table>

**Indicative content:**

**AO2**
Clear link in 2008-10 – the fall in US GDP is directly correlated with an improvement in the trade balance. Growth is -4% through 2009 and the trade balance is $40 billion better by the end of it.
Post-2010, growth recovers, and the trade balance deteriorates again, although it starts deteriorating in late 2009 when GDP growth is still negative.
Post 2012, growth continues at around 2% a year, but the trade balance then stays relatively stable, implying that other factors are also at work (such as global recovery, exchange rates and so on).

**AO3**
In principle, growth can be negatively correlated with the trade balance:

Rising GDP can mean higher household and corporate incomes which, depending on the marginal propensity to import, will lead to rising imports from abroad, plus growth can push up inflation, making domestic firms less competitive. A well explained version of this point can be excellent AO3.

Likewise, in recession, the reverse will be true. Both are not necessary for excellent AO3, but a fully developed version of each that does not talk about inflation could be worth excellent AO3.

**AO4**
The link is not completely clear, especially in later years, because other factors affect the trade balance such as exchange rates and growth rates in other countries (these points will need to be developed to reach good AO4).

The causation could operate the other way, with a worsening trade balance slowing domestic growth, meaning that the trade balance is a determinant of growth rather than vice versa.

There may be time lags which mean that the effect of GDP changes is delayed.

| 1 (c) | **Using the data, discuss whether Trump's trade reforms and immigration controls will be good for the US economy. [8]** | | |
|---|---|---|---|
| **Band** | AO2 | AO3 | AO4 |
| | 2 marks | 3 marks | 3 marks |
| **3** | | **3 marks**<br>Excellent analysis.<br><br>Clear explanation of the benefits (cost) with a well-developed chain of reasoning linked back to the key policy objectives. Both areas are covered. | **3 marks**<br>Excellent evaluation.<br><br>Clear judgement of how beneficial the combination of the two policies will be for the US economy. |
| **2** | **2 marks**<br>Good application.<br><br>Specific reference is made to both immigration control and trade reforms, making use of the actual US policies in these areas or one of these and good use of Chart 1. | **2 marks**<br>Good analysis.<br><br>Explanation of the benefits (costs) is made, with some development. | **2 marks**<br>Good evaluation.<br><br>Well-developed counterarguments are made, explaining the costs (benefits) of the policies. |
| **1** | **1 mark**<br>Limited application.<br><br>Specific reference is made to one of immigration control and trade reforms, making use of the actual US policies in one of these areas or good use is made of Chart 1. | **1 mark**<br>Limited analysis.<br><br>Some identification of benefits (costs) is made, but development is very limited. | **1 mark**<br>Limited evaluation.<br><br>Some attempt to qualify is made, but the qualification/counter-argument is not developed. |
| **0** | **0 marks**<br>Points are wholly generic. | **0 marks**<br>Answer only asserts points. | **0 marks**<br>One-sided answer. |

**Indicative content:**

**AO2**
Immigration control involves a crackdown on illegal immigrants and the possible construction of a border wall, each of which might have a variety of effects discussed in AO3 and AO4 below.

Trade reforms broadly seem to involve a more protectionist stance by the US, both in terms of global integration and in the case of specific sectors (reference can be made to both steel and solar panels). Again discussed below.

Chart 1 suggests that great liberalisation in trade is associated with higher growth rates.

**AO3/AO4**
Immigration control:
Controls on illegal immigrants might lead to an increase in wages in the southern states of the US, but the effects, if any, are likely to be quite localised.

Risk that if immigration dries up, some US businesses will be unable to get the skilled (and unskilled) workers that they need, which could slow growth, although it might serve to increase wages of those who are already in the US, but this could in turn be inflationary.

Border wall could create a lot of construction jobs, but this would inevitably be a short-term effect.

Cost of policing the wall?

Trade reforms:
Most studies have shown that greater global integration is associated with higher rates of economic growth for developed countries such as the US (due to competition, innovation, exposure to ideas, etc). Therefore, while a more protectionist stance might create jobs in the short run (in, for example, the steel and solar panel sectors), in the long run, these gains are often offset by the effect of retaliation and job losses in import-using sectors.

Withdrawal from the TPP may restrict imports into the US but will also damage US exporters.

**AO4 specific**

Border wall is going to take a very long time to build and may be prohibitively expensive, especially given the current state of US government finances.

Crackdowns may not be very easy to enforce – there has been a long history of amnesties and the border is very long.

A 20% tariff on Mexican imports may still not be enough to make US producers competitive.

The immigration that President Trump is trying to decrease is illegal migration; these migrants might find it hard to find work/be a legal member of the labour force and so decreasing this might not have a large effect on the labour market – more so on antisocial behaviour.
Allow other plausible points in all AOs.

Answer is reversible.

| Question | | Total |
|---|---|---|
| **1 (d) (i)** | **Outline what is meant by *fiscal expansion*.** | 2 |
| | **AO1: 2 marks**<br><br>Award **1** mark for limited outline – looks at only one part of fiscal policy in an expansionary fashion or fails to link to AD.<br><br>Award **2** marks for developed outline.<br><br>A situation in which fiscal policy aims to increase AD through an increase in G and a decrease in T/running a budget deficit with the aim of increasing AD. | |
| **1 (d) (ii)** | **Outline what is meant by *public sector (national) debt*.** | 2 |
| | **AO1: 2 marks**<br><br>Award **1** mark for limited outline.<br><br>Award **2** marks for developed outline.<br><br>**Indicative content:**<br><br>National debt shows the accumulated borrowing of national governments over time.<br><br>1 mark for answers which confuse the budget/fiscal deficit with the national debt. | |

| 1 (d) (iii) | **Discuss whether the proposed fiscal expansion and greater deregulation are likely to increase the long-term rate of US growth from 2 to 3%. [10]** | | |
|---|---|---|---|
| **Band** | AO2 | AO3 | AO4 |
| | 3 marks | 3 marks | 4 marks |
| **3** | **3 marks**<br>Excellent application.<br><br>Full use of the data throughout, making direct use of the specifics of both fiscal expansion and deregulation, in this case in the context of a 3% growth target. | **3 marks**<br>Excellent analysis.<br><br>Clear explanation of how both policies will increase US growth. | **4 marks**<br>Excellent evaluation.<br><br>Clear judgement of the links between both policies and growth are made.<br><br>May have come to an overall final judgement.<br>. |
| **2** | **2 marks**<br>Good application.<br><br>Specifics of both fiscal expansion and deregulation are used, but there is less depth of development. | **2 marks**<br>Good analysis.<br><br>The link between one policy and growth is made effectively, but the other is less developed. | **2-3 marks**<br>Good evaluation.<br><br>Top of band may not come to a final judgement but have well developed arguments and counterarguments for each policy.<br><br>Developed counter-arguments for one policy are made, but counterarguments to the other are less well developed. |
| **1** | **1 mark**<br>Limited application.<br><br>Some details of the case-specifics of either fiscal expansion or deregulation are used, but development is limited. | **1 mark**<br>Limited analysis.<br><br>The links between policies and growth are not well developed, but some attempt is made to explain. | **1 mark**<br>Limited evaluation.<br><br>Some attempt to qualify is made, but the qualification/counter-arguments are not developed. |
| **0** | **0 marks**<br>Points are wholly generic. | **0 marks**<br>Answer only asserts points. | **0 marks**<br>One-sided answer. |

**Indicative content**:

**Direct tax cuts** can stimulate both AD and AS (via incentives to work and invest, higher disposable incomes and so on), therefore helping to create both actual and potential growth. Corporate tax cuts could work well to encourage businesses from back over the border if protectionist policies are introduced simultaneously. In addition, corporate tax reductions can encourage FDI from oversees generally.

Credit AD/AS diagrams for AO3 if they are well integrated, or possible Laffer curves if they are linked to growth rather than just focusing on the total tax yield.

But wider fiscal deficits can cause crowding out and, if inflation is triggered, this could cause the Fed to raise rates sooner, which might choke off growth. Many US tax cuts in the past have tended to favour higher income earners, making their impact on AD lower.

**Infrastructure spending** on roads and bridges can again stimulate both AD and AS in the short and long run respectively, but many have questioned the extent to which there are enough shovel-ready projects to allow Trump to spend $1 trillion. With US unemployment heading below the NAIRU, there are likely to be questions over whether the skills to complete these infrastructure projects are easily available (especially if restrictions are imposed on immigration), making the inflation risks and the response from the Fed a credible danger.

**Deregulation** in this context seems to involve cuts in red tape in transport and energy. In principle, this should help to reduce business costs, putting downward pressure on inflation and raising profitability levels so that investment is more likely to take place. Hence, growth may be stimulated if prices start to grow more slowly than wages in the short term and via raised levels of investment in the medium term.

How significant these cuts will actually be is open to question and the environmental consequences of softer regulations on fossil fuels emissions may slow down the growth of alternate-tech industries which have been growing fast in the US.

**General AO4**

Greater protectionism can slow growth and therefore counteract the effects of fiscal and supply side policies.

Policies are focused at the manufacturing sector, but it is services which are actually the key – great deregulation there, for example, may have a far greater impact on GDP growth than the manufacturing-focused policies outlined (because it is only 8.5% of jobs and 12% of GDP).

The problem with deregulating the financial service sector is the effect on the global economy of abusive operations of the players.

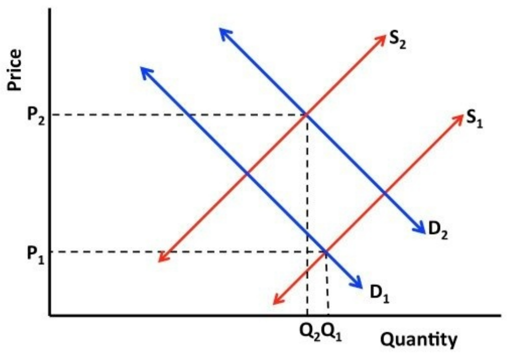
It is all going to take a long time and other throwaway evaluations:  do not over-credit these. Allow other plausible lines of argument.

Answer is reversible.

| Question | | Total |
|---|---|---|
| **2 (a) (i)** | **Calculate the percentage change in the demand for olive oil in the UK between 1990 and 2015.** | 2 |
| | **AO2: 2 marks**<br><br>Award **2** marks for correct answer:<br><br>65000-6200/6200 = 58800/6200*100% = 948.39%<br><br>Award **1** mark for understanding of percentage change calculation, but incorrect answer.<br><br>Allow range of 948% - 948.5% | |

| **2 (a) (ii)** | **With reference to the data and using a demand and supply diagram, outline why the price of olive oil has been rising in recent years. [5]** | |
|---|---|---|
| **Band** | AO1 | AO2 |
| | 3 marks | 2 marks |
| **3** | **3 marks**<br>Excellent understanding.<br><br>Diagram shows demand shifting right and supply shifting left with price marked as increasing and quantity falling, and the diagram is referred to as part of the answer. | |
| **2** | **2 marks**<br>Good understanding.<br><br>Diagram correctly shows demand curve shifting to the right and supply curve to the left. Price is shown to rise on the vertical axis, but a lower quantity is not shown. | **2 marks**<br>Good application.<br><br>Identification from the data as to why **both** demand (increased global demand) and supply curves shift (poor harvests). |
| **1** | **1 mark**<br>Limited understanding.<br><br>Only one curve is shown shifting correctly.<br>Or both curves are shifted, but there are major labelling errors. | **1 mark**<br>Limited application.<br><br>Only one of the above is identified (either demand or supply). |
| **0** | **0 marks**<br>No diagram or totally incorrect diagram. | **0 marks**<br>No application. |

**Indicative content:**




**AO2**

Drought – which harms the harvest, decreasing supply greatly.

International demand – remains strong, with sales increasing in Australia, Brazil and China.

| 2 (b) | **With the aid of the data, discuss the likely cross elasticity relationship between olive oil and sunflower oil.** **[6]** | | |
|---|---|---|---|
| **Band** | AO2 | AO3 | AO4 |
| | 2 marks | 2 marks | 2 marks |
| **2** | **2 marks**<br>Good application.<br><br>The case and figures from both Charts 1 and 2 are used. | **2 marks**<br>Good analysis.<br><br>The link between the price of olive oil and the demand for sunflower oil shows a strong chain of reasoning. A positive cross price elasticity of demand. | **2 marks**<br>Good evaluation.<br><br>A well-developed counterargument is developed.<br><br>May give an overall judgment. |
| **1** | **1 mark**<br>Limited application.<br><br>Data is used to some extent, either the case or figures from Chart 1 or Chart 2. | **1 mark**<br>Limited analysis.<br><br>The link between the price of olive oil and the demand for sunflower oil in the context of cross price elasticity of demand is limited and the chain of reasoning not fully developed. | **1 mark**<br>Limited evaluation.<br><br>Some attempt to qualify is made but the qualification/counter-argument is not developed. |
| **0** | **0 marks**<br>No application to the case. Points made are generic. | **0 marks**<br>No valid analysis. | **0 marks**<br>One-sided answer. |

**Indicative content:**

**AO2**
Data suggests that people switch to sunflower oil when the price of olive oil rises ("customers in developed countries…")

Use of the charts – the rise in the price of olive oil between 2011 and 2015 is clearly correlated with a fall in the demand for olive oil whilst the falling demand for sunflower oil slows down.

**AO3**
Olive oil and sunflower oil are substitutes with a positive cross price elasticity of demand. Price of olive oil rising causes the demand for sunflower oil to rise because sunflower oil is now relatively cheaper.

**AO4**
Other oils are potential substitutes for olive oil.

Data shows the growth in demand for sunflower oil falling as the price of olive oil is rising, thus they are possibly not close substitutes.

In the chart, the price of sunflower oil also falls in 2015, meaning that it is difficult to get a clear sense of XED.

Demand for olive oil seems to be ever-growing, which might suggest that the cross elasticity relationship with sunflower oil might be weaker.

| **Question** | | **Total** |
|---|---|---|
| **2 (c) (i)** | **Outline what is meant by *inelastic price elasticity of supply*.** | 3 |
| | **AO1: 3 marks**<br><br>Award **3** marks for excellent understanding:<br><br>Excellent answers will tend to show that supply is price inelastic when there is a change in the price of a product and there is a less than proportional change in quantity supplied. PES is within the range 0 to +1.<br><br>Award **2** marks for good understanding:<br><br>Good answers understand PES as the responsiveness of supply to a change in price and includes one of the two descriptive elements needed for 3 marks (proportionality or PES value).<br><br>Award **1** mark for limited understanding:<br><br>An answer which is unclear but shows evidence of some understanding of sensitivity to change, but lacks both range of values and proportionality. | |

| 2 (c) (ii) | **Using the data, discuss whether the price elasticity of supply of olive oil is likely to be more elastic in the long run than the short run. [7]** | | |
|---|---|---|---|
| **Band** | AO2 | AO3 | AO4 |
| | 2 marks | 3 marks | 2 marks |
| **3** | | **3 marks**<br>Excellent analysis.<br><br>There is clear explanation of factors influencing the price elasticity of supply of olive oil with a well-developed chain of reasoning.<br><br>Both the short run and long run are covered. | |
| **2** | **2 marks**<br>Good application.<br><br>Specific reference is made to the case regarding the extent to which the supply of olive oil can respond to a change in price. | **2 marks**<br>Good analysis.<br><br>There is some analysis of the link between olive oil and its price elasticity of supply, but the chain of reasoning is not fully developed. | **2 marks**<br>Good evaluation.<br><br>Developed counterargument regarding the extent to which price elasticity of supply of olive oil is inelastic in the short run and/or elastic in the long run. |
| **1** | **1 mark**<br>Limited application.<br><br>The data is used to some extent but possibly only on one side of the argument. | **1 mark**<br>Limited analysis.<br><br>The link between olive oil and its price elasticity of supply are not well developed and the chain of reasoning is rather weak. | **1 mark**<br>Limited evaluation.<br><br>Some attempt to qualify is made, but the qualification/counter-argument is not developed. |
| **0** | **0 marks**<br>Points made are wholly generic. | **0 marks**<br>The answer only asserts points. | **0 marks**<br>One-sided answer. |

**Indicative content:**

**AO2**
Data suggests that supply is price inelastic due to five-year maturity for olive oil trees.

Olive oil can be stored for up to two years. Supermarkets hold large levels of stocks.

Unfavourable weather conditions mean that supply cannot easily be increased even if prices rise.

Stock levels have fallen because of weak harvests in 2012 and 2014, making it harder to increase supply in the short run.

**AO3**
Increasing supply in response to a rise in price (via a rise in demand) will be difficult because of five-year maturity: thus, price inelastic supply in the short run.

Ability to store olive oil means stocks can be used to increase supply when there is a rise in price: thus, price elastic supply in the short run.

In the longer run, more trees can be planted which will allow supply to increase once the five-year limit has been passed.

**AO4**
Overall judgement discusses the relative strengths of factors. Short-run PES will be lower than in the long run as storage is limited to two years and supply cannot be increased by any other means. In the long run, new producers can enter the market and trees reach maturity thus supply more price elastic.

However, there seems to be some evidence that harvests are becoming more affected by pests (three/five years) which suggests that, even in the long run, supply is becoming more inelastic.

<table>
<tr><td>2 (d)</td><td colspan="3">With the aid of a diagram, discuss the effects on the UK restaurant sector if EU migrants leave the UK labour market as a result of Brexit. [7]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO3</td><td>AO4</td></tr>
<tr><td>3 marks</td><td>2 marks</td><td>2 marks</td></tr>
<tr><td>3</td><td>3 marks<br>Excellent understanding.<br><br>A correctly labelled labour market diagram showing the supply of labour shifting to the left or appropriate product market diagram.<br><br>The diagram is well used as part of the answer.</td><td></td><td></td></tr>
<tr><td>2</td><td>2 marks<br>Good understanding.<br><br>A correctly labelled labour market diagram showing the supply of labour shifting to the left. Or appropriate product market diagram. There may be minor errors in the diagram.</td><td>2 marks<br>Good analysis.<br><br>Clear explanation of how a reduced labour supply could impact on restaurants. There is a strong chain of reasoning.</td><td>2 marks<br>Good evaluation.<br><br>A very good counter-argument is well developed, suggesting that the impact on wages and thus firms may be limited.<br><br>May give an overall judgment.</td></tr>
<tr><td>1</td><td>1 mark<br>Limited understanding.<br><br>A correct diagram but with some labelling errors.</td><td>1 mark<br>Limited analysis.<br><br>Link between changes in the labour market and wages is present but not always clear. The chain of reasoning is not fully developed.</td><td>1 mark<br>Limited evaluation.<br><br>Counterarguments are not well developed.</td></tr>
<tr><td>0</td><td>0 mark<br>No diagram or totally incorrect diagram.</td><td>0 marks<br>The answer only asserts points.</td><td>0 marks<br>One-sided answer.</td></tr>
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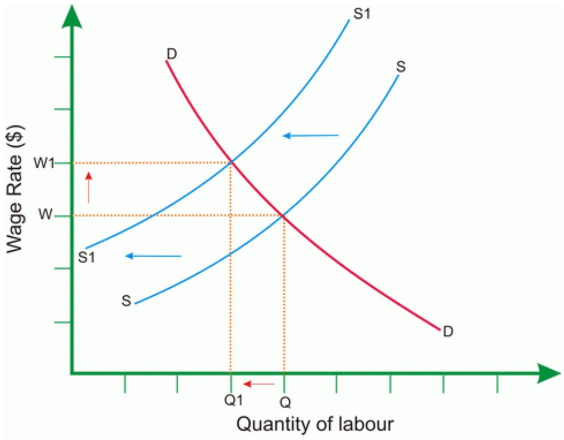
**Indicative content:**

**AO1**



**Fall in supply leads to higher wages**

**AO3**

Data suggests that labour will become scarcer as a result of Brexit. Falling supply of labour will mean that wages will rise due to restaurateurs having to pay more to recruit. Higher wage costs will increase prices at restaurants or will reduce profit margins in restaurants.

Restaurants may be unable to get the waiting/cooking staff that they need, leading to lower quality service, longer waiting times for food, etc.

**AO4**

It is possible that the fears expressed by the restauranteurs will not be realised. EU migrants may still arrive, and/or another source of labour will be found.

Depends on how many workers actually leave and what the nature of the UK's relationship with the EU becomes.

Impact on prices in restaurants will depend on the proportion of costs taken up by labour.

Wages in the hospitality sector are determined by other factors such as the NMW/living wage.

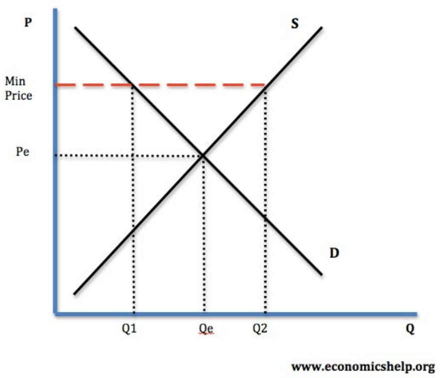
| 2 (e) | **Using a diagram, discuss whether governments should intervene to stabilise agricultural prices.** **[10]** | | |
|---|---|---|---|
| **Band** | AO1 | AO3 | AO4 |
| | 2 marks | 4 marks | 4 marks |
| **3** | | **4 marks**<br>Excellent analysis.<br><br>Analysis that fully develops the benefits and impact of price stabilisation, covering more than one issue. | **4 marks**<br>Excellent evaluation.<br><br>Candidate successfully evaluates, providing counterarguments to those points made in AO3. The top end answers will provide a clear overall judgement. |
| **2** | **2 marks**<br>Good understanding.<br><br>Candidate draws an accurate, well labelled diagram. | **2-3 marks**<br>Good analysis.<br><br>Analysis that develops one benefit or impact but has a limited range overall. | **2-3 marks**<br>Good evaluation.<br><br>Top of band answers will likely have successful evaluation, providing counterarguments to those points made in AO3.<br><br>Or less arguments with greater depth.<br><br>Bottom of band answers will likely have one developed counterargument or many with less depth of development. |
| **1** | **1 mark**<br>Limited understanding.<br><br>Diagram contains minor errors but is broadly correct. | **1 mark**<br>Limited analysis.<br><br>Some attempt to develop the benefits or impact, but depth of development is lacking. | **1 mark**<br>Limited evaluation.<br><br>Attempt to counterargue is present, but the argument is not developed. |
| **0** | **0 marks**<br>Diagram is completely wrong or there is no diagram. | **0 marks**<br>Answer only contains assertions. | **0 marks**<br>One-sided answer. |

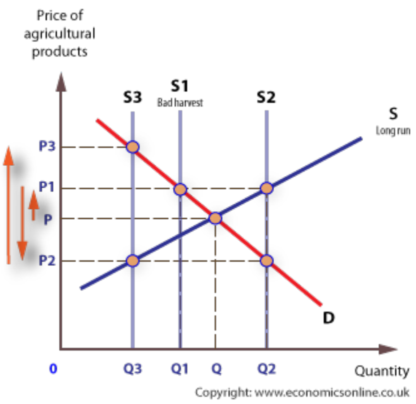
**Indicative content:**

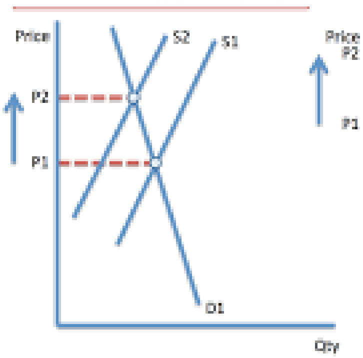
**AO1**
Possible diagrams, but any plausible diagram which looks at reasons for intervention or the effects of it should be allowed.

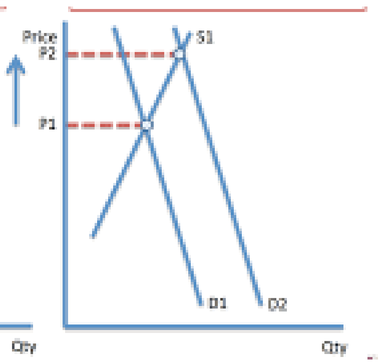
Candidates that have used subsidies only as a method for price stabilisation in agricultural markets can gain credit up to the limited level if done effectively.

Candidates that have used maximum pricing for price stabilisation in agricultural markets can gain credit up to a good level if done effectively.




**AO3**
Analysis of how price support schemes stabilise prices in markets such as agriculture when there is price volatility and/or the reasons for intervention.

Agricultural prices are highly volatile due to changes in supply and relatively inelastic demand which creates volatile income for households and producers.

Minimum price – government guarantees a price paid to producers usually above the long-run price and buys up any surplus (excess supply) to maintain that price. These higher prices give producers incomes for investment or to provide a stable income for households.

Buffer stock – governments guarantee to keep price stability in the market between a ceiling and a floor price. If price will fall below the floor, EU buys up the surplus to prevent price falling below the floor. If price will rise above the ceiling, EU releases from stocks enough olive oil to bring price below the ceiling. Hence, in theory, the scheme can be self-financing.

Such policies can help to give producers stability of income and are thus more likely to invest and stay in the industry.

**AO4**
Schemes of this type are costly, can lead to long-term surpluses if guaranteed prices are set too high; also they are prone to corruption.

Consumers lose out with higher prices and higher taxes to finance the scheme.

May depend on which country and which government – in MEDCs, agriculture is increasingly dominated by large producers who may be less in need of subsidies/support. In LEDCs, governments may have other, more important budget priorities (opportunity cost, etc).