



GCE AS MARKING SCHEME

SUMMER 2018

**AS
ECONOMICS - COMPONENT 2
B520U20-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2018 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.

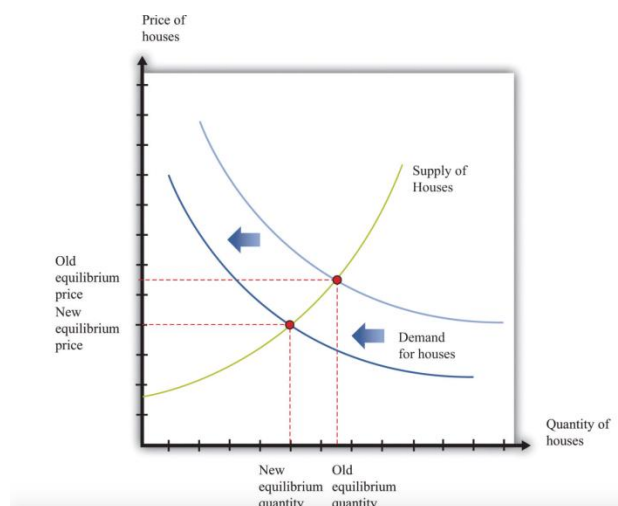
Question		Total
1 (a) (i)	Assuming that the eMoov forecast in Extract 2 is correct, calculate the predicted average price of a house in areas affected by the third runway following the Government's announcement	2
	AO2: 2 marks 20% of £410,000 = £82 000 (1) £410 000 - £82 000 = £328 000(1) Give 2 marks for statement of correct answer (£328 000) 1 mark for answer with minor error such as missing £.	

1(a) (ii)	Using a supply and demand diagram, discuss how likely it is that house prices will fall by 20% in affected areas over the next few years. [8]			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	2 marks
2	2 marks Good understanding Correct diagram showing demand falling to the left, fully labelled	2 marks Good application Context is well used on both sides of the discussion	2 marks Good analysis Thorough explanation of why house prices would be expected to fall, with clarity over why house prices will fall in the real world. And/or Developed analysis of diagram in terms of how prices do or don't fall.	2 marks Good evaluation Clear two sided answer which judges how likely house prices are to fall
1	1 mark Limited understanding Diagram with significant labelling errors	1 mark Limited application Context is used only on one side of the debate	1 mark Limited analysis Answer links a fall in demand to a fall in price using the diagram	1 mark Limited evaluation Two sided answer which qualifies the argument that prices will fall but does not look at how likely they are to fall.
0	0 marks No valid knowledge	0 marks No valid application	0 marks No valid analysis	0 marks No valid evaluation

Indicative content:

AO1

Allow diagrams that also have increase in supply if explained via expansion in housebuilding or people selling to move out, but must have fall in demand for any credit.



AO2

Noise and air pollution will mean fewer people want to move into the area/people will sell to get away.

But the effect may only be temporary – everyone has known about the possibility of expansion

Supply in the area may fall if houses are demolished for construction

London's economic growth may mean that demand doesn't fall

Heathrow's growth may create more demand for housing in London generally

AO3

Demand for housing will fall as a result of the AO2 factors, creating excess supply of houses on the market leading to a lower equilibrium price.

People trying to sell houses will be unable to sell them, meaning that they will have to reduce their selling price/ buyers will be in a stronger negotiating position and will be able to force down prices.

AO4

There are lots of AO2 factors suggesting that the fall may only be temporary or not present at all – rising demand in London generally and so on.

The key for a Band 2 response is that a reasoned judgement is arrived at – how likely is it that prices will fall. Hence the two sides are balanced against one another and there is a direct, explained answer to the question.

Allow any other valid points or references.

1 (b)	To what extent might the decision to build a third runway at Heathrow be considered to be an example of government failure? [10]			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	4 marks
3				<p>4 marks Excellent evaluation</p> <p>Clear two sided answer which judges whether or not government failure has occurred – the two sides are weighed and a reasoned conclusion is reached</p>
2	<p>2 marks</p> <p>Good understanding</p> <p>Clear understanding of government failure is demonstrated</p>	<p>2 marks</p> <p>Good Application</p> <p>Context is well used to support the argument, most likely supporting the argument that it is government failure</p>	<p>2 marks</p> <p>Good analysis</p> <p>Thorough explanation of why the expansion might be considered to be government failure – answer will show how welfare has been lost/resources misallocated</p>	<p>3 marks</p> <p>Good evaluation</p> <p>Clear two sided answer with a developed counter-argument</p>
1	<p>1 mark</p> <p>Limited understanding</p> <p>Partial understanding of government failure is shown</p>	<p>1 mark</p> <p>Limited application</p> <p>Context is used but only as throwaway support</p>	<p>1 mark</p> <p>Limited analysis</p> <p>Explanation of why government failure has occurred is present but lacks development.</p>	<p>1-2 marks</p> <p>Limited evaluation</p> <p>Two sided answer which qualifies the argument that this is really government failure but counter-arguments lack development</p>
0	<p>0 marks</p> <p>No valid knowledge</p>	<p>0 marks</p> <p>No valid application</p>	<p>0 marks</p> <p>No valid analysis</p>	<p>0 marks</p> <p>No valid evaluation</p>

Indicative content:

AO1

A situation in which government intervention causes a more inefficient allocation of goods and resources than would occur without that intervention.

Government intervention wastes resources resulting in a misallocation of resources and welfare loss.

AO2

There are more people affected by noise because of Heathrow than people affected by the airports in Paris, Amsterdam, Frankfurt, Munich and Madrid combined," he said. "The air in London is a killer. It makes you sick and it's unlawful."

A third runway at Heathrow would increase air pollution and "be a waste of time, money and lives".

The decision would be resisted by local councils and residents meaning millions of pounds being spent on legal fees

Industry analysts also suggest that the project will require at least £11bn of government money if it is to become a reality, although the government claims that the cost will be closer to £5bn

But the decision would support trade and create jobs

But unless the third runway goes ahead, the fact that Heathrow is already at capacity would lead to an average £200 increase in the price of a return flight in today's prices

AO3

The government's intervention is having a number of side effects which may lead to a misallocation of resources and welfare loss. By expanding the airport, the government is allowing an increase in external costs which will damage the welfare of local residents, the third party in the transaction.

The higher costs forecast for the government and the expected delays in the process will drain additional resources for no benefit, hence suggesting a misallocation of resources and high opportunity cost.

Damage to health may impose additional burdens on the health service, again misallocating resources.

Legal challenges both before and after (health claims) may drain additional resources, significantly increasing the cost of the project.

May further exacerbate the North-South divide in the UK

AO4

There are many benefits from the project that suggest that the decision is not government failure. A lack of expansion would have driven up air fares, damaging lower income groups and excluding them from flights, perhaps increasing inequality.

The decision will result in an expansion of jobs and an increase in GDP hence potentially paying for the government's investment through additional tax revenue – hence the project is necessary for the long-term success of the economy.

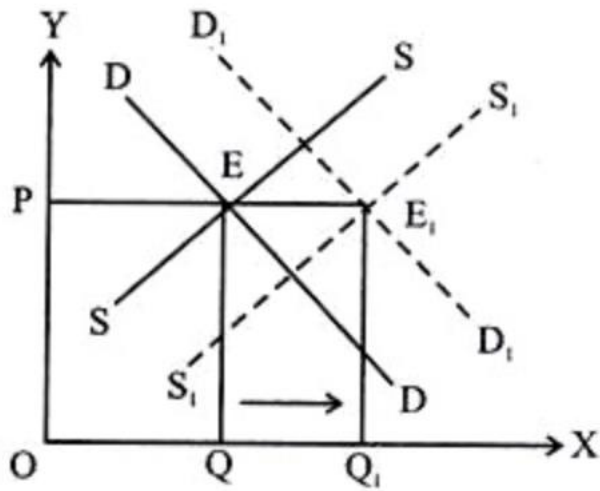
Allow any other valid points or references.

Question		Total
1 (c) (i)	Using the data in Extract 3, calculate the forecast number of passengers for Heathrow in 2040 assuming that there are no supply constraints.	2
	<p>AO2: 2 marks</p> <p>2016 passenger numbers are 70 million. Therefore in 2040 they will be $134/108 \times 70$ million = 86.85 million (allow 86.8 million, 86.9 million or 87 million) 2 marks</p> <p>1 mark for partially correct calculation (e.g. treats 2016 as the base year, misses the units etc.)</p>	

1(c) (ii)	Using a supply and demand diagram, explain how the construction of a third runway at Heathrow is expected to prevent a £200 increase in the price of a return flight.		[6]
Band	AO1	AO3	
	2 marks	4 marks	
		<p>4 marks</p> <p>Excellent analysis</p> <p>Full explanation which uses the diagram to explain how the new runway capacity will help to meet the increase in demand and therefore prevent air fares from rising – there is direct reference back to the question.</p>	
2	<p>2 marks</p> <p>Good understanding</p> <p>Correct diagram showing demand and supply both shifting to the right.</p>	<p>3 marks</p> <p>Good analysis</p> <p>Full explanation which uses the diagram to explain how both demand and supply factors will have an impact on prices.</p>	
1	<p>1 mark</p> <p>Limited understanding</p> <p>Diagram showing supply shifting to the right, or diagram showing both with significantly labelling errors</p>	<p>1-2 marks</p> <p>Limited analysis</p> <p>An answer which explains why air fares will not rise via an increase in supply, but fails to make clear that there is an underlying increase in demand which the greater capacity will help to meet. Bottom band answers will additionally not make reference to the diagram.</p>	
0	<p>0 marks</p> <p>No valid diagram</p>	<p>0 marks</p> <p>No valid analysis</p>	

Indicative content:

AO1



AO3

Demand is rising in the UK, so the increase in capacity is necessary to prevent it – in the absence of an increase in supply, the excess demand would drive up air fares as airlines need to ration tickets.

The increase in capacity will create more competition between airlines, therefore making it more difficult for air fares to increase because excess demand will be eliminated.

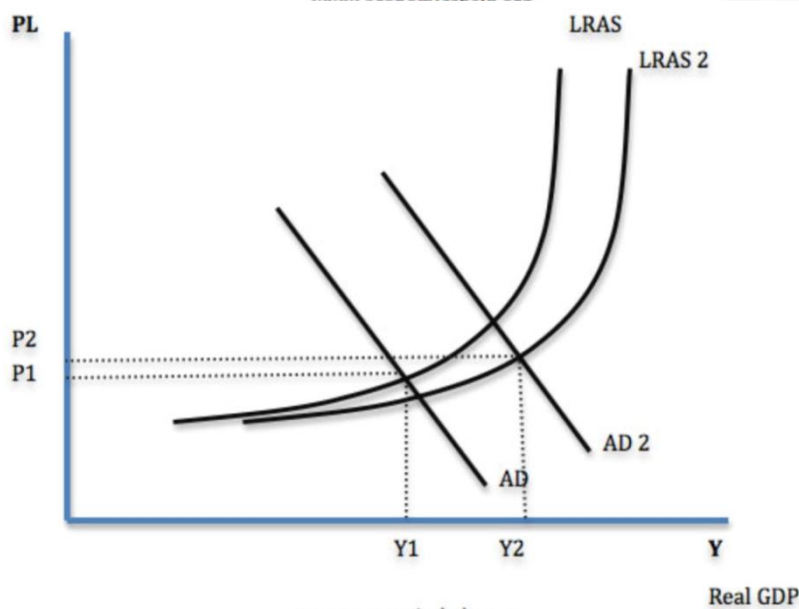
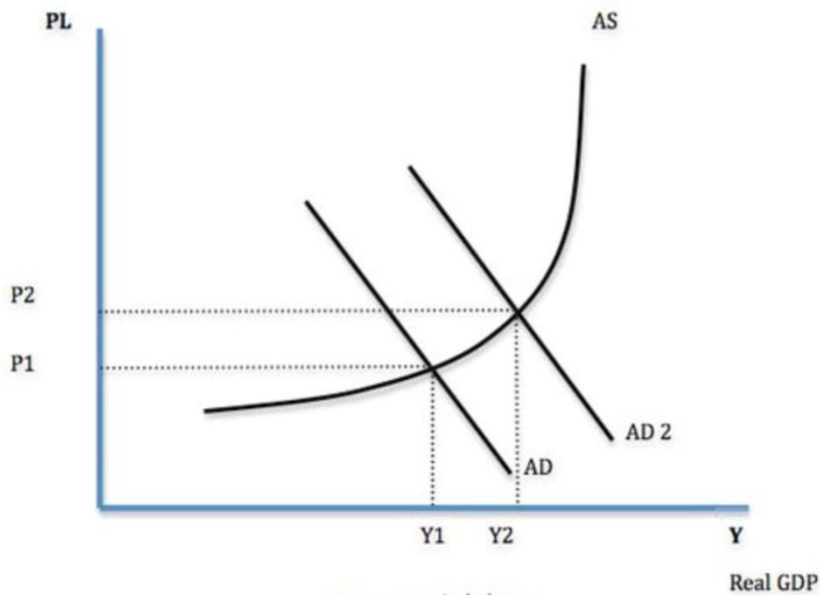
Band 2 answers will be likely to look at what would have happened without an increase in capacity and then to explain how the increased capacity would have forestalled the increase.

1 (d)	Using AD/AS diagrams, evaluate the claims made by the Department of Transport in the first paragraph of Extract 1.				[12]
Band	AO1	AO2	AO3	AO4	
	4 marks	2 marks	2 marks	4 marks	
3	4 marks Excellent understanding Correct AD/AS diagrams are used to show the short run effects of the construction impacts and the longer run effects on the supply side of the economy/possible risk of inflation			4 marks Excellent evaluation Strong two-sided answer which judges the extent to which the DoT's claims are likely to be justified.	
2	3 marks Good understanding Correct AD/AS diagrams are used to show the short run effects of the construction impacts and the longer run effects on the supply side of the economy but the diagrams contain major labelling errors, are not used in the body or misunderstand AS.	2 marks Good application Context is well used on both sides of the debate	2 marks Good analysis Thorough explanation of why the expansion might lead to the claims made by the DoT linking to both jobs and GDP.	3 marks Good evaluation Clear two sided answer with a developed counter-argument in the context of the DoT's claims.	
1	1-2 marks Limited understanding AD/AS diagrams are used, but demand and supply side effects are not both shown, or the diagrams have very significant labelling errors	1 mark Limited application Context is used but only as throwaway support or only on one side of the debate	1 mark Limited analysis Some link is made to jobs and/or GDP but there are no well-developed points present.	1-2 marks Limited evaluation Two sided answer which contains counter-arguments against the DoT's claims, but none of these are developed.	
0	0 marks No valid knowledge	0 marks No valid application	0 marks No valid analysis	0 marks No valid evaluation	

Indicative content:

AO1

Top band answers will show understanding of the diagrams by incorporating them into the answer.



AO2

Passengers will benefit in terms of quicker transit times and a greater range of destinations. Jobs will be created from both construction in the short run and airport services in the longer run – baggage handlers, car-park workers etc etc.

Project may get bogged down in legal disputes. Boris argues that it may never happen at all Skills shortages may mean that most of the jobs will be from overseas rather than local

Risk of inflation in southeast

Brexit makes the analysis flawed

AO3

There is significant analysis beyond just AD/AS analysis, with a clear explanation as to why GDP will rise and jobs will be created.

In the short run, reference is made both to direct job creation and secondary multiplier effects in the local supply chain and in local pubs and restaurants. This is linked directly to jobs and GDP.

In the longer run the expansion will create benefits to passengers in terms of a greater range of destinations, lower air fares and less congestion. The improved infrastructure is likely to increase investment into the southeast, also increasing jobs and GDP.

AO4

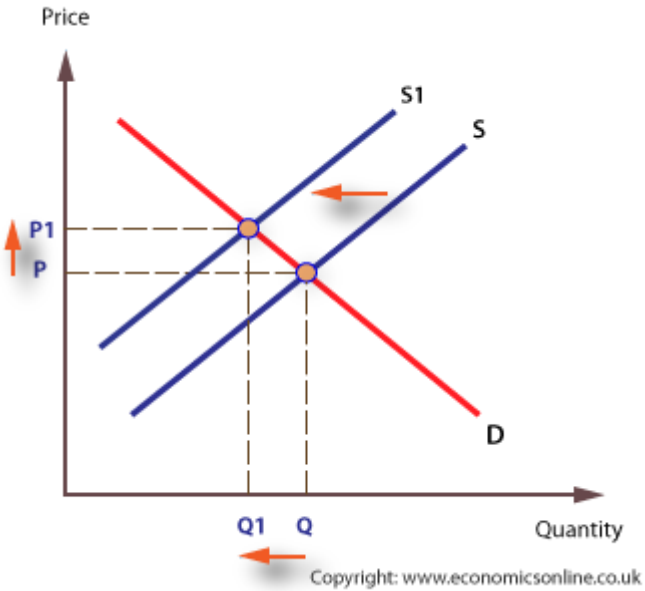
As noted in the project may not be that easy to deliver:

There are likely to be many legal challenges both over construction and health
Skills shortages may mean that the jobs don't go to locals, instead going to skilled immigrants

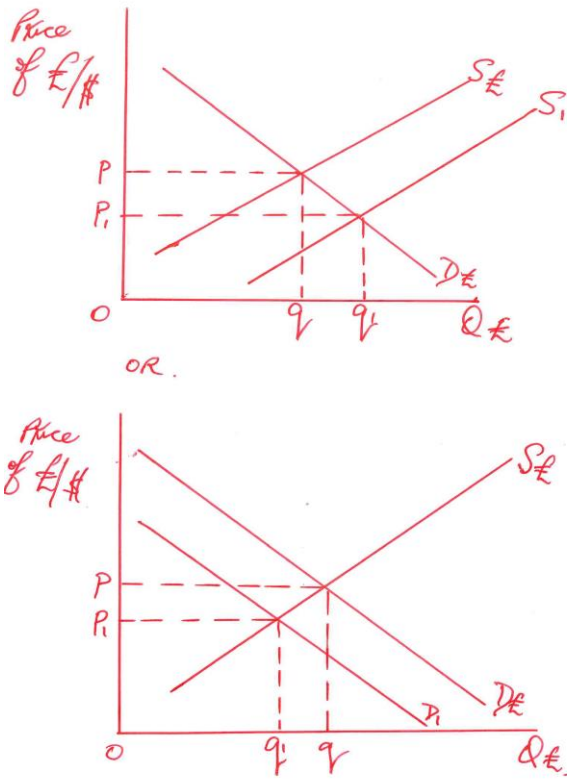
Skills shortages may also mean that GDP doesn't rise as much or as fast as expected, instead creating inflationary pressures in the southeast.

The impact of Brexit may diminish some of the benefits because of the possible negative impacts on the UK economy

Allow any other valid points or references.

Question		Total
2 (a)	<p>Using a supply and demand diagram, explain why a higher oil price and a weaker pound could cause the price of a product to rise.</p>	4
	<p>AO1: 2 marks</p> <p>Award 2 marks for a correct diagram showing the supply curve shifting to the left thereby raising the price, referred to in the answer.</p> <p>Award 1 mark for a diagram that has features missing, is not referred to or is not appropriate to the context of the question.</p> <p>Indicative content:</p>  <p>AO3: 2 marks</p> <p>Award 2 marks for clear analysis that due to higher oil prices and/or a falling pound costs for firms will increase (raw materials, energy, components etc) and that therefore prices will be pushed up.</p> <p>Award 1 mark for a brief analysis with little development showing an understanding that costs will rise. The link back to rising prices is not developed.</p>	

Question		Total
2 (b)	<p>Why might a business’s ability to “absorb rising costs or pass them on to consumers” (line 9) depend upon the price elasticity of demand for its product?</p>	4
	<p>AO1: 2 marks</p> <p>Award 2 marks for a clear understanding of price elasticity of demand showing some sense of relative sizes of change. Award 1 mark for a limited understanding of price elasticity of demand.</p> <p>AO3: 2 marks</p> <p>Award 2 marks if learner can correctly analyse price elasticity of demand in the context of the question covering both passing on and absorption. Award 1 mark if there is only limited analysis of price elasticity of demand in the context of the question.</p> <p>Indicative content:</p> <p>Price elasticity of demand measures the responsiveness of quantity demand to a change in price.</p> <p>If demand is price inelastic rising costs can be passed on to consumers because quantity demanded will fall by less than the rise in price. If demand is price elastic it is more difficult to pass on rising costs because quantity demanded will fall by more than the rise in price. This would negatively affect revenue.</p> <p>Allow any other valid points or references.</p>	

Question		Total
2 (c)	<p>Using an appropriate diagram outline possible causes of the change in the value of the pound at the start of Friday the 24th June (Figure 1).</p>	4
	<p>AO1: 2 marks</p> <p>Award 2 marks for a correct diagram showing the demand for pounds shifting to the left and/or the supply of pounds shifting to the right, referred to the answer.</p> <p>Award 1 mark for a diagram that has features missing, is not referred to or is not appropriate to the context of the question.</p> <p>AO2: 2 marks</p> <p>Award 2 marks for well-developed application of the context such as the selling of pounds following the Brexit vote led to a fall/depreciation in the value of the pound against the dollar due to uncertainty/confidence in markets.</p> <p>Award 1 mark for partial application of the context to the fall in the value of the pound showing limited development.</p> <p>Indicative content:</p>  <p>The first diagram shows a supply curve shifting from S_1 to S_2 (rightward), and a demand curve $D_£$. The initial equilibrium is at price P and quantity Q. The new equilibrium is at price P_1 and quantity Q_1.</p> <p>OR.</p> <p>The second diagram shows a demand curve shifting from D_1 to D_2 (leftward), and a supply curve $S_£$. The initial equilibrium is at price P and quantity Q. The new equilibrium is at price P_1 and quantity Q_1.</p>	

2 (d)	To what extent will a "fall in the value of the pound" (line 10) benefit UK firms?			[8]
Band	AO1	AO3	AO4	
	4 marks	2 marks	2 marks	
	<p>4 marks</p> <p>Excellent understanding</p> <p>Answer shows understanding of how a fall in the exchange rate affects any two of import prices, export prices, FDI decisions and so on.</p>			
2	<p>3 marks</p> <p>Good understanding</p> <p>Answer shows understanding of how a fall in the exchange rate affects any one of import prices, export prices, FDI decisions and so on.</p>	<p>2 marks</p> <p>Good analysis</p> <p>Well-developed chains of argument linking either positively or negatively back to UK firms' costs or revenues</p>	<p>2 marks</p> <p>Good evaluation</p> <p>Answer contains a well-developed counter-argument.</p>	
1	<p>1-2 marks</p> <p>Limited understanding</p> <p>Answer correctly identifies the effects on import and export prices.</p>	<p>1 mark</p> <p>Limited analysis</p> <p>Chains of argument are not well-developed</p>	<p>1 mark</p> <p>Answer is two sided with arguments on each side but counter-arguments are not well-developed.</p>	
0	<p>0 marks</p> <p>No valid understanding</p>	<p>0 marks</p> <p>No valid analysis</p>	<p>0 marks</p> <p>No valid evaluation</p>	

Indicative content:

AO1 and AO3

A fall in the value of the pound will reduce export prices and make UK firms' products more price competitive.

Imports will be more expensive thus domestic competition from foreign firms will be lower. Overseas earnings in terms of sterling will increase for UK based firms. Fewer people take holidays abroad thus the domestic tourist sector benefits.

AO4

Imports will be more expensive and thus domestic firms who import raw materials and components will suffer increases in costs which may result in imported inflation in UK
Demand for exports may be price inelastic and thus sales do not increase significantly and UK exporters may suffer fall in revenue earned from abroad

Many exports' success is based on non-price factors such as quality, design after sales service etc.

UK firms may not have the capacity to increase output in respond to rising demand.

Overseas markets may be in recession and thus lower prices will not incentivise them to increase demand.

This is a reversible answer.

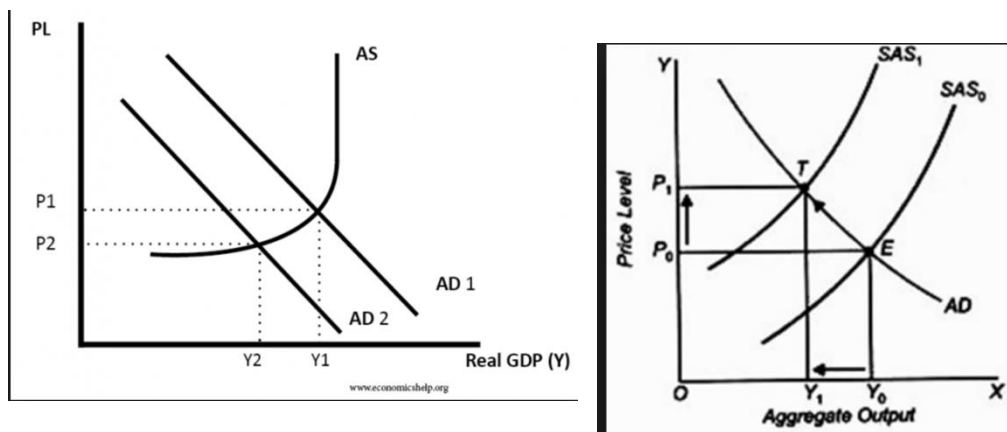
Allow any other valid points or references.

2 (e)	Using AD/AS diagrams and with reference to the data, discuss whether the Bank of England will need to increase interest rates to prevent inflation from rising above its target level. [10]			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	4 marks
				4 marks Excellent evaluation A critical evaluation (judgement) as to whether or not the Bank of England will need to increase interest rates
2	2 marks Good use of an accurate AD/AS diagram as part of the answer.	2 marks Good application The context of the UK is well used to make their points.	2 marks Good analysis Strong chains of argument on one side of the case	3 marks Good evaluation A well-developed counter-argument /judgement is present.
1	1 mark Limited understanding AD/AS diagrams contain errors/omissions or are not used as part of the answer.	1 mark Limited application The UK context is used only in passing and does not form a key part of the answer.	1 mark Limited analysis Answer offers a limited or only partially correct analysis of one side of the case	1-2 marks Limited evaluation Two sided answer, but counter-arguments have limited development.
0	0 marks No valid understanding	0 marks No valid application	0 marks No valid analysis	0 marks No valid evaluation

Indicative content:

AO1

Cost push pressures will increase inflationary pressures, but weak investment and demand will limit it.



AO2

Low levels of business confidence/investment will push down AD and limit inflation
 The weak pound will lead to increased import prices and in the longer run may increase AD.
 Cost push effects of wage-price spiral
 Impact of loose monetary policy on AD (increasing demand-pull inflation)
 Fears over the future might increase or reduce savings levels
 Inflation still only 0.8%
 Production costs rising at 8.1% on an annualised basis

AO3

Cost push pressures force firms to increase prices to retain their profit margins
 Rising AD strengthens workers' bargaining power and makes it easier to increase prices.
 Falling AD does the reverse of this.

AO4

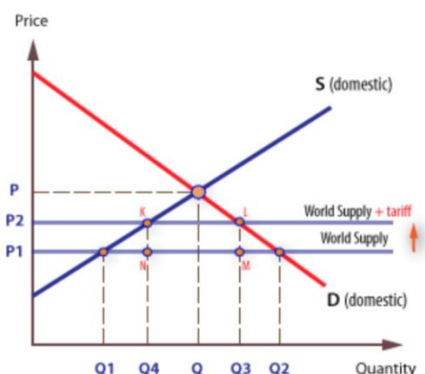
AO3 points are set against one another
 Cut in interest rates is only 0.25%
 £ may recover from the levels immediately after Brexit
 Bank of England may prioritise its secondary target of supporting growth and therefore keep interest rates low.
 Impact of global trends on the UK economy
 Depends on the nature of the Brexit deal
 Depends on the Government's fiscal stance.

Allow any other valid points or references.

2 (f)	Using an appropriate diagram and with reference to the data, evaluate the economic effects of UK tariffs being imposed on products imported from the rest of the EU.			
	[10]			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	4 marks
				<p>4 marks</p> <p>Excellent evaluation</p> <p>The answer comes to a reasoned judgement about the overall impact of the tariffs.</p> <p>Evaluative points are generally well developed.</p>
2	<p>2 marks</p> <p>Good understanding</p> <p>Award 2 marks for a correct tariff diagram that is correctly used as part of the answer.</p>	<p>2 marks</p> <p>Good application</p> <p>Good application of the context in terms of the effects of UK tariffs on EU imports. UK specific impacts are well developed</p>	<p>2 marks</p> <p>Good analysis</p> <p>Well-developed explanation of some of the impacts.</p>	<p>3 marks</p> <p>Good evaluation</p> <p>A well-developed counter-argument /judgement is present.</p>
1	<p>1 mark</p> <p>Limited understanding</p> <p>Award 1 mark for diagram that has key features missing or that is not used as part of the answer.</p>	<p>1 mark</p> <p>Limited application</p> <p>Answer has some reference to the specifics of the scenario but the real-world effects are limited in extent</p>	<p>1 mark</p> <p>Limited analysis</p> <p>Some points have been developed, but depth is lacking</p>	<p>1-2 marks</p> <p>Limited evaluation</p> <p>Two sided answer, but counter-arguments have limited development.</p>
0	<p>0 marks</p> <p>No valid understanding</p>	<p>0 marks</p> <p>No valid application</p>	<p>0 marks</p> <p>No valid analysis</p>	<p>0 marks</p> <p>No valid evaluation</p>

Indicative content:

AO1



AO2

Inflationary effects may be made worse by the fall in the exchange rate
Domestic businesses already face rising producer prices. Tariffs will make these effects even worse.

Collapse in business confidence and investment made worse.

Singapore has flourished in a free trade environment – Patrick Minford etc.

AO3

Reduced imports/improved UK balance of payments (reference to the diagram)
Increased output, profit and employment in UK firms (increased producer surplus shown in the diagram).

Protection for strategic/growing industries.

Increased tax revenue (reference to the diagram)

Increased AD creating positive multiplier effects

AO4

Retaliation by EU members

Higher consumer prices (loss of consumer surplus reference to the diagram), cost push inflation.

Welfare loss/misallocation of resources (reference to the diagram)

UK firms may not have the capacity to take up the higher domestic demand.

Overall effects depend on the size of the tariffs and how extensive they are.

Tariffs only apply to EU goods other countries' goods would not be affected.

This policy is only possible if/when the UK leaves the EU.

Singapore has flourished in a free trade environment.

This is a reversible answer.

Allow any other valid points or references.