

**COMPONENT 2: Exploring Economic Issues****MARK 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 economic concepts, theory, issues and arguments which might be included in learners' answers.

Q.	Mark scheme	Total
1 (a) (i)	<p><b>Calculate the change in the UK trade deficit between 2012 and 2013.</b></p> <p><b>AO2: 2 marks            1a</b></p> <p>Award <b>2</b> marks for correct answer, or for calculating both years' deficits correctly, but failing to finally subtract one from the other.</p> <p>Award <b>1</b> mark for the correct calculation of any one year.</p> <p>Award <b>0</b> marks if learner only understands that trade deficit is M-X or neither year is correct.</p> <p>2013: £304.3bn - £412.6bn= -£108.3bn  2012: £300.5bn - £409.2bn= -£108.7bn</p> <p>Therefore trade deficit fell by £0.4bn (or £400m) between 2012 and 2013.</p>	<b>2</b>

<b>Q.1(a) (ii)</b>	<b>Using the data, explain why the UK's trade deficit remains high. [6]</b>	
<b>Band</b>	AO1 1ab	AO2 1ab
	4 marks	2 marks
	Does the learner understand the factors that drive a trade deficit?	Has the case been used well to explain why the UK's deficit remains high?
<b>2</b>	<b>3-4 marks</b>	
	<p>Learner shows good understanding of the reasons that exports have not risen enough.</p> <p>Learner also shows good understanding of why imports have risen, either as a result of sustained demand/recovery or other appropriate factors.</p> <p>Learner shows a good understanding of what the trade deficit is and why it has remained high – that exports have risen but imports have risen by more.</p> <p>Learner does not have to use factors from the case.</p>	<p style="text-align: center;"><b>2 marks</b></p> <p>Learner uses the data effectively to explain why the trade deficit is still high, identifying factors relevant to both imports and exports. Points include:</p> <ul style="list-style-type: none"> <li>• Eurozone crisis</li> <li>• Poor productivity</li> <li>• Low investment</li> <li>• Expansionary policy</li> <li>• Minimum wage.</li> </ul>
<b>1</b>	<b>1-2 marks</b>	
	<p>Learner shows basic understanding of exports and/or imports. OR Learner demonstrates clear understanding of either exports or imports.</p> <p>Brief reference to the trade deficit.</p>	<p style="text-align: center;"><b>1 mark</b></p> <p>Learner only applies their answer to imports or exports, not both, or only superficial use has been made in response to both M and X.</p>
<b>0</b>	<b>0 marks</b>	
	Response not credit worthy or not attempted.	

**Indicative content**

In principle the trade deficit should have fallen as a result of the depreciation of the exchange rate. This should have led to a fall in the price of exports and a rise in the price of imports, which should have caused X to rise and M to fall, hence improving the trade balance.

However, although sterling fell by 25% during the recession, exports have not really responded because of:

Problems in the EU which have meant that even though export prices have fallen, EU consumers have not been able to buy them in sufficient numbers, or have lacked the confidence to do so.

Poor productivity performance which has meant that UK firms have not been able to improve quality or reduce costs and prices as much as might have been hoped.

Low levels of investment meaning that quality may not be adequate or costs of production remain high.

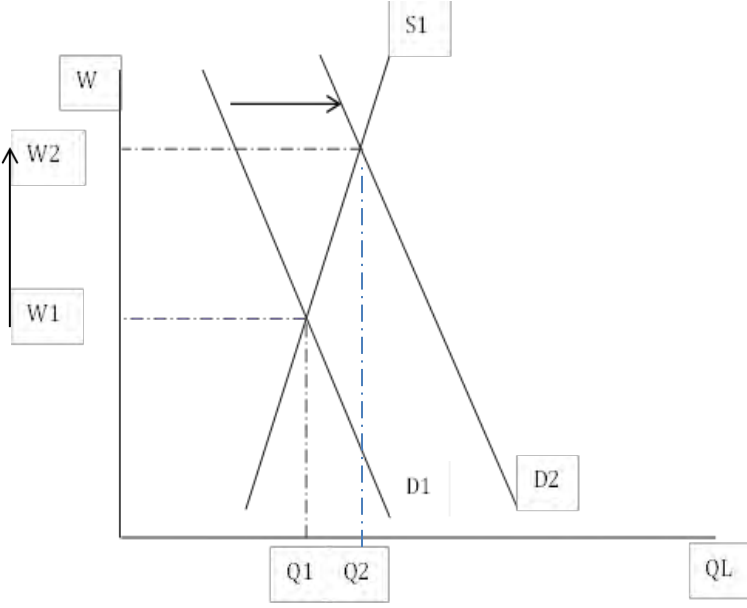
Learner can use high minimum wage level, driving up costs and affecting competitiveness (although article talks about future increase).

Imports remain high for similar reasons, but also:

Article identifies Keynesian policies that have sustained demand plus the economic upturn. These have led to increased consumption which has led to the UK sucking in imports.

UK cannot use its own protectionist measures as a result of EU membership, limiting the UK's ability to restrict imports.

Learner may bring in their own ideas for AO3 – allow anything plausible – competition from Asia etc.

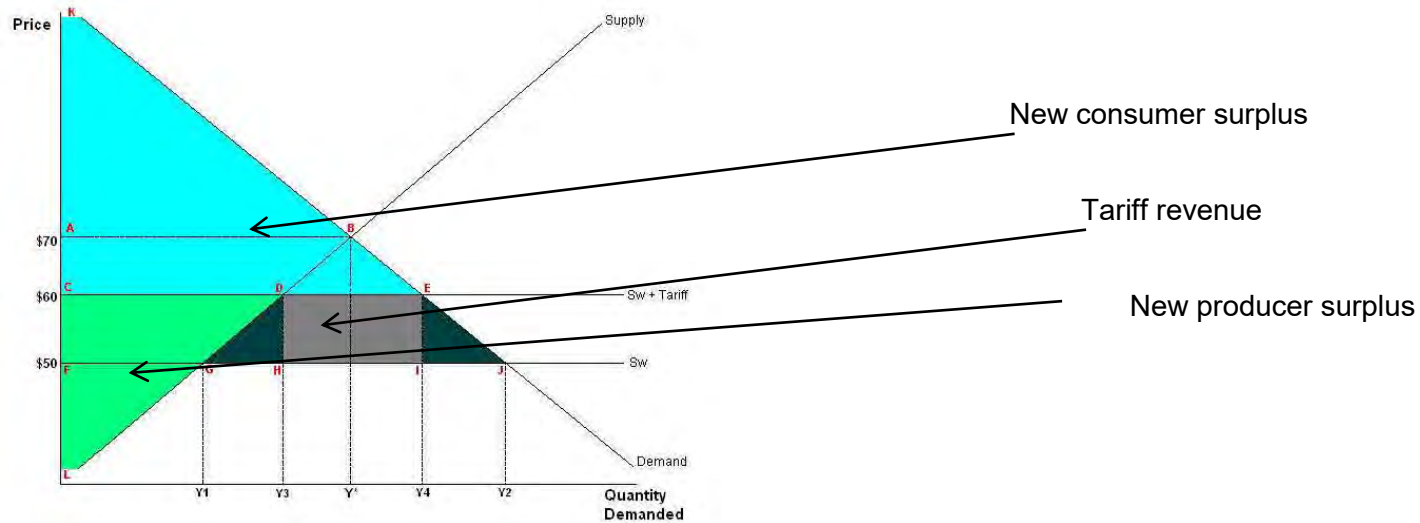
Q.	Mark scheme	Total
1(b) (i)	<p><b>Using a supply and demand diagram, explain why the imposition of a tariff might raise wage levels.</b></p> <p><b>AO1: 2 marks      1ab</b></p> <p>Award <b>2</b> marks for a correct labour market diagram showing an increase in demand for labour without a shift in supply.</p> <p>Award <b>1</b> mark for a correct diagram, but with labelling errors – prices instead of wages (price of labour is OK), missing labels and so on.</p> <p>Award <b>0</b> marks for diagrams that do not have demand shifting to the right, or which are essentially unlabelled.</p> 	6

**AO3: 4 marks**

Band 2	<p><b>3-4 marks</b></p> <p>Learner explains effectively how a tariff will be likely to make imported goods uncompetitive, increasing the demand for domestic goods and hence increasing the derived demand for UK labour. This is well related to the diagram – links between the context and the diagram are clear. Might argue that UK firms' profits are higher allowing for higher wages.</p>
Band 1	<p><b>1-2 Marks</b></p> <p>Learner makes an attempt to link tariffs to wages, but the explanation is not well developed – learner may not show that the tariff will increase the demand for goods and that the demand for labour will depend on this.</p>
Band 0	<p><b>0 Marks</b></p> <p>Answer does not explain why wages are rising – learner draws a diagram that shows wages rising, but learner is unable to put the answer into context – it is unclear how an increase in the tariff links to the diagram or how wages might be affected.</p>

Q.1(b) (ii)	Discuss whether an increase in tariffs by the EU is likely to be good for EU economies. [10]		
Band	AO1 1ab	AO3	AO4 1abc
	2 marks	4 marks	4 marks
2	<p><b>2 marks</b></p> <p>Learner draws a correct tariff diagram to illustrate the impact on the economy. Diagram is effectively labelled with no serious errors or omissions.</p>	<p><b>3-4 marks</b></p> <p>Learner uses the diagram well to analyse the question – diagram is used effectively to illustrate at least 2 key impacts that a tariff might have on the economy – reduced imports, tariff revenue, increased producer surplus/increased producer revenue, reduced consumer surplus. These are not simply identified on the diagram – learner shows understanding of what the diagram means.</p>	<p><b>3-4 marks</b></p> <p>Learner makes well-reasoned judgements of both sides of the case, showing good application to the context in their judgements.</p> <p>Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue.</p> <p>Answers in this band are likely to have an overall conclusion as to how beneficial the imposition of tariffs is likely to be to EU economies.</p>
1	<p><b>1 mark</b></p> <p>Learner makes an attempt at the tariff diagram. The diagram is broadly correct in terms of what it is trying to show, but labels are inaccurate in some major respect. Or Learner uses an AD/AS diagram completely accurately (AD shifts right, all labels accurate).</p>	<p><b>1- 2 marks</b></p> <p>Learner identifies key features that are relevant for the economy, but only really explains 1 of them effectively – others are simply asserted.</p>	<p><b>1-2 marks</b></p> <p>The evaluation is either one-sided or two-sided with limited qualification.</p> <p>The answer is unlikely to have a well-reasoned final conclusion.</p>
0	<p><b>0 marks</b></p> <p>No correct diagram.</p>	<p><b>0 marks</b></p> <p>Response not credit worthy or not attempted.</p>	<p><b>0 marks</b></p> <p>Response not credit worthy or not attempted.</p>

## Indicative content



Beneficial:

Increased tariffs can help to protect jobs in certain key sectors – this may be particularly important for declining sectors facing severe market disruption. **But** firms relying on imported components may face rising costs and have to shed jobs.

Increased tariffs increase domestic market share, because import prices now rise. **But** there is a risk of retaliation causing job losses in export sectors.

Increased tariffs can raise revenue for EU governments.

Increased tariffs may increase profits for some domestic firms.

May prevent dumping by heavily subsidised overseas firms.

May be necessary to protect strategic/infant/sunset industries.

Not beneficial:

Tariffs can drive up domestic inflation **but** it depends on how many sectors are affected.

Tariffs can drive up the costs of firms further down the production chain hence costing more jobs than are saved.

Tariffs may invite retaliation from abroad, hence causing job losses in export sectors.

Prices will be driven up for consumers, causing a loss of consumer surplus.

Tariffs protect inefficient domestic firms, resulting in a misallocation of resources.

### **Depends on**

Which sectors are protected – in some cases protection may be important for strategic, declining industry, infant industry reasons and so on, hence may be more justifiable under some circumstances than others.

Not all EU economies are the same – may have more impact on some than others.



Q.1(c)	Discuss whether a rise in the national minimum wage would be likely to worsen the UK's trade position. [8]		
Band	AO1 1b	AO3	AO4 1ab
	2 marks	2 marks	4 marks
	Does the learner identify relevant factors?	Does the learner explain the factors in terms of the impact on the trade position?	Are the factors qualified/has a conclusion been reached?
2	<p><b>2 marks</b></p> <p>Learner has good understanding of at least 3 ways in which an increase in the minimum wage might or might not affect the UK's trade position.</p>	<p><b>2 marks</b></p> <p>Learner develops at least 3 factors explained in AO1 to illustrate clearly the impact (or not) on either imports or exports or both. Answers in this band will explain specifically the impact on imports/exports and hence the trade deficit rather than simply talking generally about the trade deficit.</p> <p>Clear chains of reasoning are present – points are well developed and have substance, but can be on either or both sides of the debate.</p>	<p><b>3-4 marks</b></p> <p>Learner makes well-reasoned judgements of both sides of the case, showing good application to the context.</p> <p>Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue.</p>
1	<p><b>1 mark</b></p> <p>Learner understands 1 or 2 ways in which an increase in the minimum wage might affect the UK's trade position. Or Learner makes a larger number of scattered points, but does not really demonstrate clear understanding.</p>	<p><b>1 mark</b></p> <p>Learner develops their points to some extent – points made are clearly linked to the concept of the trade deficit, but the range of developed points is limited to only 1 or 2 key impacts, with other points being superficial.</p>	<p><b>1-2 marks</b></p> <p>The evaluation is either one-sided or two-sided with little qualification.</p> <p>The answer is unlikely to have a well-reasoned final conclusion.</p>
0	<p><b>0 marks</b></p> <p>No relevant content.</p>	<p><b>0 marks</b></p> <p>No reasoned argument present.</p>	<p><b>0 marks</b></p> <p>Response not credit worthy or not attempted.</p>

**Indicative content**

Yes:

Increase in minimum wage will drive up UK firms' costs, hence making UK firms uncompetitive, especially in the context of low productivity and investment. Also EU markets may be more price sensitive with high unemployment.

Increase in minimum wage may reduce UK firms' profits, reducing funds for investment, damaging competitiveness.

Increase in minimum wage might increase demand in the economy, sucking in more imports.

Increase in minimum wage may lead to disinvestment/fall in FDI again damaging the UK's trade position going forward.

But:

Minimum wage affects only about 1 million workers – not that significant.

UK exports are high value added as a rule.

Minimum wage jobs do not generally compete with imports.

Likely rise in minimum wage is low – not much impact (depends on how much the increase is).

Depends on what is happening elsewhere – minimum wages in the EU? Rising wages in China? Possibility of falling exchange rate offsetting the cost disadvantage. Depends on whether the EU economy starts to recover.

Q.1(d)	With reference to the data and figures 1 and 2, discuss how effective the plans announced in Budget 2013 are likely to be in eliminating the UK's productivity gap with its major competitors. [8]			
Band	AO1 1c	AO2 1c	AO3	AO4 1ab
	2 marks	2 marks	2 marks	2 marks
	Does the learner understand productivity?	Does the learner use the data to support their arguments?	Has the learner explained how the factors identified might affect the productivity gap?	Does the learner judge the effectiveness of the budget plans in terms of how likely they are to close the productivity gap?
2	<p><b>2 marks</b></p> <p>Learner understands clearly what is meant by both productivity and the productivity gap. Definitions are not required, but the learner will show a clear understanding that productivity refers to (for example) output/worker.</p>	<p><b>2 marks</b></p> <p>Learner uses the data directly to answer the question. The figures on productivity and/or investment are used directly – either specific figures or a very strong description of what the data is saying. The learner clearly understands the size of the productivity gap.</p>	<p><b>2 marks</b></p> <p>Learner deals with at least 2 of the 3 issues mentioned as part of the government's budget, and makes a clear line of reasoning as to how the government's policy will in principle raise productivity in each case.</p> <p>Clear chains of reasoning are present – points are well developed and have substance.</p>	<p><b>2 marks</b></p> <p>Learner makes well-reasoned judgements of at least 2 of the policies, showing an understanding that the policies shown may not close the productivity gap easily. The evaluation is in context, (for example 'time lags' needs to be explained – why will there be lags).</p> <p>Alternatively judgements might be more limited but the learner may come to a conclusion that is well applied to the issue.</p>
1	<p><b>1 mark</b></p> <p>Learner has limited understanding of productivity, but their understanding is not really sound – at times they mix up productivity with production, or view productivity simply as increasing AS/PPFs.</p>	<p><b>1 mark</b></p> <p>There is some data/real-world content used, but points are brief and at most only one of the points has depth. Learner does not make good use of the productivity gap/ investment charts, but does use other pieces of information to support their argument.</p>	<p><b>1 mark</b></p> <p>Learner develops their points to some extent – points made are clearly linked to productivity but the range of developed points is limited to only 1 of the bullet points (although other bullets may have been developed superficially).</p>	<p><b>1 mark</b></p> <p>Learner only judges 1 of the policies listed in any depth. Other evaluation does not engage with the issue.</p>
0	<p><b>0 marks</b></p> <p>Learner does not understand productivity.</p>	<p><b>0 marks</b></p> <p>Answer is entirely theoretical or data use is very lightweight (just eg x).</p>	<p><b>0 marks</b></p> <p>No reasoned argument present.</p>	<p><b>0 marks</b></p> <p>Not relevant evaluation.</p>

**Indicative content****Cuts in corporation tax should:**

Encourage investment (both domestic and FDI) which is likely to be important because investment has been falling steadily as a percentage of GDP in recent years. Investment should increase the efficiency of businesses and the workforce, hence increasing productivity.

However, there is no guarantee that cutting corporation tax will increase investment, let alone productivity. With low confidence and low AD, many firms have been hoarding cash, or alternatively returning it to shareholders through higher dividends or share buy-backs.

Even if investment does rise, there is no guarantee that it will increase productivity, partly because of the risk of malinvestment.

Corporation tax is lower in Ireland than in the UK but Ireland has received significant FDI, suggesting that corporation tax might have an impact.

Corporation tax doesn't matter to some of the largest firms, who see to be avoid paying it in the UK.

**Increases in capital spending should:**

Encourage FDI, bringing better technology and skills to the UK, helping to raise productivity.

Assist UK firms' productivity directly by allowing more efficient operation of business through better transport and information infrastructure.

Capital spending in health and education may allow firms access to a better, higher skilled workforce, again allowing output/worker to be higher.

But £3bn isn't that significant.

**Support for industry and R and D should:**

Also encourage investment, particularly into new technology, which can have a very significant impact on productivity.

**But much depends:**

Productivity gap with the US is very big – will take a long time to come down.

SSPs are notorious in terms of time lags – will be difficult to cut the gap soon.

Other factors are important too – these policies will only form a part of the solution.

Productivity will be rising in other countries too, hence it's not just that productivity needs to rise, it needs to rise faster than it is in other countries for the gap to close.

Bigger with some countries than others – productivity already higher than Japan.

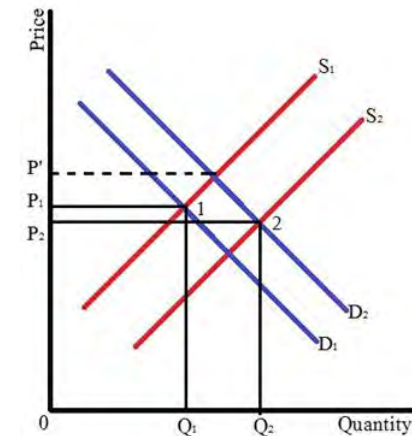
Q.	Mark scheme	Total
2 (a)	<p data-bbox="288 255 1337 322"><b>Using figure 1 calculate the percentage increase in Band A APD from 1996 to 2014.</b></p> <p data-bbox="288 356 616 389"><b>AO1: 1 mark            1a</b></p> <p data-bbox="288 392 616 425"><b>AO2: 1 mark            1a</b></p> <p data-bbox="288 459 1238 492">Award <b>2</b> marks for increase in tax/Original tax x 100 = 8/5 x 100 = 160%.</p> <p data-bbox="288 526 1243 593">Award <b>1</b> mark for correct method of calculation/working but the answer is incorrect.</p>	<b>2</b>

<b>Q.2(b)</b>	<b>Using the data and with the aid of a supply and demand diagram explain why passenger numbers have increased in recent years. [6]</b>	
<b>Band</b>	AO1 1c	AO2 1c
	4 marks	2 marks
	How well has the learner drawn and explained an appropriate diagram?	How well has the case study been used to explain the rise in passenger numbers?
<b>2</b>	<b>3-4 marks</b> Learner draws a correct diagram with no serious errors or omissions and shows good understanding of why demand and supply are both rising.	<b>2 marks</b> Learner correctly identifies at least 1 supply factor and at least 1 demand factor increasing the passenger numbers.
<b>1</b>	<b>1-2 marks</b> Either learner only draws a correct diagram with no development. Or Diagram only has one correct shift drawn and explained.	<b>1 mark</b> Learner identifies only supply or demand factors, not both.
<b>0</b>	<b>0 marks</b> Diagram is incorrect.	<b>0 marks</b> Answer does not apply to context – no mention of factors from the data.

### Indicative content

Learner explains the rise in demand – rising incomes relative to fares, new destinations to travel to.

Learner explains the rise in supply – more flights/airlines, low cost airlines.



<b>Q.2(c) Comment on the income elasticity of demand for air travel. [4]</b>			
<b>Band</b>	AO1 1a	AO2 1a	AO3
	2 marks	1 mark	1 mark
	How good an understanding of YED is shown?	Has the data been used?	Has the relationship been explained?
<b>2</b>	<b>2 marks</b> Learner shows good understanding of income elasticity of demand – it is clear from a formula or description that they understand that YED shows the responsiveness of demand to a change in income.	<b>1 mark</b> Learner uses the data to show the links between income and air travel. Incomes have risen over the last 20 years and since 1990 passenger numbers have risen by 113%.	<b>1 mark</b> Learner analyses the link effectively, making good use of theory and terminology. Air travel is identified as a normal good and learner understands that YED is positive for such goods.
<b>1</b>	<b>1 mark</b> Learner shows basic understanding of income elasticity of demand. Answers in this band are likely to understand that YED shows the link between income and demand but not show understanding of proportionality.		
<b>0</b>	<b>0 marks</b> Response not credit worthy or not attempted.	<b>0 marks</b> Response not credit worthy or not attempted.	<b>0 marks</b> No developed arguments.

### Indicative content

Over the last twenty years as incomes have risen.

Since 1990 passenger numbers in the UK have increased by 113 per cent.

Both income and demand have risen, making income elasticity positive. Hence air travel is a normal good.

Income elasticity shows the responsiveness of demand to a change in income.

$$\text{YED} = \frac{\text{Percentage Change in Quantity demanded}}{\text{Percentage Change in Income}}$$



Q.2(d)(i)	Using examples from the data explain the meaning of government failure. [4]	
Band	AO1 1a	AO2 1a
	2 marks	2 marks
	How good is the understanding of government failure?	How well has the data been used to explain government failure in context?
2	<p style="text-align: center;"><b>2 marks</b></p> <p>Good understanding of government failure shown. A clear definition or a good explanation that makes it clear that the learner understands all the elements of government failure.</p>	<p style="text-align: center;"><b>2 marks</b></p> <p>Data used clearly and effectively to show how resources have been misallocated as a result of government intervention. For example: Government intervention intended to reduce emissions may actually have increased them – hence consumers are paying more as a result of the tax, but the situation is actually worse than before the intervention (Other possibilities in indicative content below).</p>
1	<p style="text-align: center;"><b>1 mark</b></p> <p>Basic understanding of government failure shown. Answers in this band may understand that policies have failed to work or have been counter-productive in some way, but do not show a full understanding of the concept.</p>	<p style="text-align: center;"><b>1 mark</b></p> <p>Data used partially developed to suggest that something went wrong, but the answer is not fully developed. Some aspects of band 2 are incorporated, but are not well-developed in the context of government failure – the problems identified are not clearly shown to result in government failure.</p>
0	<p style="text-align: center;"><b>0 marks</b></p> <p>Understanding of government failure is extremely limited.</p>	<p style="text-align: center;"><b>0 marks</b></p> <p>Data not used in a relevant fashion.</p>

**Indicative content**

## AO1: Government failure

Government failure may be seen as a situation where government intervention in markets results in a misallocation of resources and welfare loss.

Even with good intentions governments seldom get their policy application correct. They can tax, control and regulate but the outcome may be a deepening of the market failure or even worse a new failure may arise.

Government failure may range from the trivial, when intervention is merely ineffective, but where harm is restricted to the cost of resources used up and wasted by the intervention, to cases where intervention produces new and more serious problems that did not exist before. The consequences of this can take many years to reverse.

## AO2: Context

APD is designed to reduce emissions but the data suggests that it may have increased them. Learner explains some or all of the following extract. "It has also been argued that Air Passenger Duty actually increases emissions because travellers are drawn towards taking connecting flights via other European airports rather than flying direct, so as to avoid the tax".

Or: The abolition of APD would lead to... "60,000 jobs would be created, GDP would be boosted by 0.46% and net tax revenue would actually rise by £480m".

Alternatively, learners might argue that higher taxes reduce aviation profits, therefore resulting in less innovation; "... planes are becoming less noisy, more fuel efficient and less damaging to the environment."

<b>Q.2(d) (ii)</b>	<b>Using examples from the data explain the meaning of external costs.</b>		<b>[4]</b>
<b>Band</b>	AO1 1a	AO2 1a	
	2 marks	2 marks	
	How good is the understanding of external costs?	How well has the data been used to explain why there are external costs in this context?	
<b>2</b>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good understanding of external costs shown. In particular it is clear why the costs are 'external' – that it is clear that they are not paid for as part of the price mechanism.</p>	<p style="text-align: center;"><b>2 marks</b></p> <p>Data used clearly and effectively to show why in this case the costs are external to consumers and producers. Learner clearly identifies problems and links these to the concept of external costs.</p>	
<b>1</b>	<p style="text-align: center;"><b>1 mark</b></p> <p>Basic understanding of external costs shown. Learner may explain that they have an impact on third parties, but not be clear about what this really means.</p>	<p style="text-align: center;"><b>1 mark</b></p> <p>Data used partially to suggest that costs are external, but the 'external' part is not made completely clear. Learner may identify problems such as climate change, but not really relate this back fully to the concept of external costs – may not be clear why the problem identified is both a cost and external.</p>	
<b>0</b>	<p style="text-align: center;"><b>0 marks</b></p> <p>Extremely limited understanding of external costs shown.</p>	<p style="text-align: center;"><b>0 marks</b></p> <p>Data not used in a relevant fashion.</p>	

**Indicative content**

## AO1

External costs are negative impacts on third parties that are not taken into account by consumers or producers because the consumers and producers do not have to pay for the damage caused. Hence the costs are 'external' to the price mechanism or to producers/consumers.

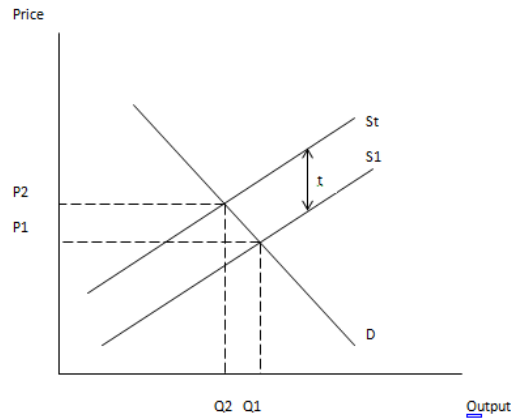
## AO2

Learner uses the context to explain what is meant by the term external costs, probably using elements of this section: "air travel is the world's fastest growing source of greenhouse gases like carbon dioxide, which cause climate change. Globally the world's 16,000 commercial jet aircraft generate more than 600 million tonnes of carbon dioxide (CO<sub>2</sub>), the world's major greenhouse gas, per year. Indeed aviation generates nearly as much CO<sub>2</sub> annually as that from all human activities in Africa." It is clear that the impacts are not paid for by air passengers and airlines in a free market situation.

<b>Q.2(e) How far do you agree with the view that Air Passenger Duty is the best way to correct market failure in the air travel industry? Use a diagram to illustrate your answer. [10]</b>			
<b>Band</b>	AO1 1c	AO3	AO4 1abc
	2 marks	4 marks	4 marks
	Has the learner drawn the correct diagram?	How well has the learner explained how APD might or might not correct market failure?	How well has the learner qualified and discussed the impact of APD on market failure?
<b>2</b>	<p><b>2 marks</b></p> <p>Learner draws a correct diagram to illustrate the impact of APD on demand. Diagram is effectively labelled with no serious errors or omissions.</p> <p>Alternatively learner may draw a well labelled diagram to illustrate an alternate approach. Diagram is effectively labelled with no serious errors or omissions.</p>	<p><b>3-4 marks</b></p> <p>Learner explains clearly why market failure either will or won't be corrected. Answer is tied in closely to the concept of market failure and it is clear how the tax will help to correct the misallocation of resources. At least 3 clear lines of argument are present.</p>	<p><b>3-4 marks</b></p> <p>Learner makes well-reasoned judgements of both sides of the case, showing good application to the context.</p> <p>Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue.</p> <p>Answers in this band are likely to have an overall conclusion as to how beneficial APD is likely to be in terms of correcting market failure.</p>
<b>1</b>	<p><b>1 mark</b></p> <p>Learner makes an attempt at a diagram. The diagram is broadly correct in terms of what it is trying to show, but labels are inaccurate in some major respect.</p>	<p><b>1-2 marks</b></p> <p>Learner explains that market failure will be corrected, but answers tend to focus simply on the idea that external costs will be reduced rather than focussing more explicitly on the concept of market failure and resource misallocation.</p> <p>Alternatively, the answer is very narrow and focusses only 1 or 2 main arguments.</p>	<p><b>1-2 marks</b></p> <p>The evaluation is either one-sided or two-sided with limited qualification.</p> <p>The answer is unlikely to have a well-reasoned final conclusion.</p>
<b>0</b>	<p><b>0 marks</b></p> <p>No correct diagram or an attempt at the diagram showing serious misunderstandings (e.g. supply curve is not shifted and a higher price is simply marked on).</p>	<p><b>0 marks</b></p> <p>Learner generally asserts that market failure will be corrected, perhaps by using their diagram to show simply that price is higher and output lower than before.</p>	<p><b>0 marks</b></p> <p>Response not credit worthy or not attempted.</p>

**Indicative content**

Diagram to show the effects of a tax:

**AO3**

- Learner explains that a tax will decrease quantity demanded and lead to fewer flights because it will raise price. The tax will internalise the externality shifting the supply curve to the left as it is an indirect tax. Price now reflects the full social cost of the flight.
- Resources are now not misallocated, because price is high enough to control demand – firm is now paying the external cost.

**Application and Evaluation**

- Learner recognises that the demand for flights may be price inelastic and the difficulties of setting a tax equal to marginal external cost, perhaps explained in the context of estimating the costs of global warming.
- Effects reduced because other countries don't have APD and the tax can be avoided by some travellers.
- APD does not consider the number of passengers on the plane.

- Other policies better such as tax per plane not per passenger with the tax related to the size of aircraft and emissions/noise from that type of plane.
- APD seems to be causing passengers to fly via other European hubs, travelling longer distances and increasing external costs.
- Abolition of APD would lead to: 60,000 jobs would be created, GDP would be boosted by 0.46% and net tax revenue would actually rise by £480m.
- Easier to put VAT on fuel or ticket prices.
- Effects of APD depend on the size of the tax imposed.
- Reduce runway capacity/limit the number of flights might be a more appropriate policy, but this would have problems of its own.

Q.2(f)	In recent months the exchange rate of the pound has risen and in January 2014 climbed to \$1.6615 against the US dollar - a two-and-a-half year high. Discuss the effect of this rise in the pound on UK airlines such as British Airways and easyJet. [10]		
Band	AO1 1b	AO3	AO4 1ab
	2 marks	4 marks	4 marks
2	<p><b>2 marks</b></p> <p>Learner shows a good understanding of what an increase in the value of the £ will do in terms of import and export prices.</p>	<p><b>3-4 marks</b></p> <p>Learner explains clearly how the change in the exchange rate will or will not impact on the airlines. Answers will tend to look at demand, revenue and perhaps costs (although this is not essential).</p> <p>At least 2 separate impacts have been explained in some depth.</p>	<p><b>3-4 marks</b></p> <p>Learner makes well-reasoned judgements of both sides of the case, showing good application to the context.</p> <p>Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue.</p> <p>Answers in this band are likely to have an overall conclusion as to how beneficial APD is likely to be in terms of correcting market failure.</p>
1	<p><b>1 mark</b></p> <p>Understanding is more limited – learner perhaps only refers to import or export prices, rather than both.</p> <p>Might only show an understanding of what a strong £ actually means rather than showing an understanding of its implications.</p>	<p><b>2-3 marks</b></p> <p>Impact on the airlines is developed, but is perhaps rather narrow, tending to focus only on tourism effects, or chains of argument tend to be relatively short.</p>	<p><b>1-2 marks</b></p> <p>The evaluation is either one-sided or two-sided with limited qualification.</p> <p>The answer is unlikely to have a well-reasoned final conclusion.</p>
0	<p><b>0 marks</b></p> <p>Misunderstanding of what strong currency means.</p>	<p><b>0 marks</b></p> <p>Impacts on airlines are generally asserted rather than explained.</p>	<p><b>0 marks</b></p> <p>Response not credit worthy or not attempted.</p>



## Indicative content

Airlines benefit:

- Rise in the pound will benefit airlines taking passenger bookings from the UK to destinations (for holidays which will be cheaper in sterling terms). **But** price elasticity of demand may be relatively inelastic for holidays, or they may have been booked some time in advance, meaning that any impact may be in the medium term.
- Airlines carry more imported freight because imports to the UK are cheaper. **Likewise**, impact may take some time – freight costs may be only a small part of the cost of final products, meaning that the impact may be limited.
- Buying planes and fuel may be cheaper as these are priced in dollars which the pound may have risen against, but the rise may only be temporary and often firms buy these things significantly in advance to guard against currency fluctuations.

Alternatively:

- Fewer foreign travellers visit the UK due to the UK being more expensive. Hence demand and revenue may actually fall.
- Fewer UK exports will be carried as freight due to UK exports being more expensive.

But also:

- Internal UK flights will not be affected.
- Airlines may absorb the exchange rate effects (although this might then reduce profits).
- Might have more effect on low cost carriers because PED may be higher.
- Pound has risen only against the dollar, therefore much will depend on how important transatlantic flights are to the airlines. This may vary depending on which airline is being discussed.