

**COMPONENT 1: Economic Principles****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 in Section B there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in learners' answers.

**SECTION A**

| <b>Question</b> | <b>Answer</b> | <b>Assessment Objective</b> | <b>Element</b> |
|-----------------|---------------|-----------------------------|----------------|
| 1               | C             | AO2                         | 1b             |
| 2               | C             | AO2                         | 1a             |
| 3               | C             | AO2                         | 1a             |
| 4               | B             | AO1                         | 1a             |
| 5               | B             | AO1                         | 1a             |
| 6               | A             | AO1                         | 1a             |
| 7               | E             | AO2                         | 1a             |
| 8               | D             | AO1                         | 1a             |
| 9               | C             | AO2                         | 1b             |
| 10              | B             | AO1                         | 1c             |
| 11              | D             | AO2                         | 1a             |
| 12              | B             | AO1                         | 1b             |
| 13              | A             | AO1                         | 1a             |
| 14              | B             | AO1                         | 1a             |
| 15              | B             | AO2                         | 1a             |
| 16              | A             | AO1                         | 1a             |
| 17              | C             | AO1                         | 1a             |
| 18              | C             | AO2                         | 1c             |
| 19              | C             | AO1                         | 1a             |
| 20              | D             | AO2                         | 1c             |

## SECTION B

| Q. | Mark scheme   | Total |
|----|---|-------|
| 21 | <p data-bbox="261 293 1326 360"><b>With the aid of a diagram, explain why pork prices were expected to rise 8% by summer 2014.</b></p> <p data-bbox="261 383 587 416"><b>AO1: 2 marks      1c</b></p> <p data-bbox="261 434 850 600">Award <b>2</b> marks for a complete diagram that has supply shifting to the left with a clear rise in price shown. It should be clear that the price has risen more than supply has fallen – hence demand is inelastic.</p> <p data-bbox="261 620 834 752">Award <b>2</b> marks for a diagram that has both supply shifting to the left and demand to the right as long as the shift to the right is justified.</p> <p data-bbox="261 772 1023 875">Award <b>1</b> mark for diagrams that have key features missing, such as failure to label significant features like the new price or new supply curve.</p> <p data-bbox="261 896 1233 963">Award <b>1</b> mark for diagrams which shift demand to the right if there is some justification in AO2 or 3 such as panic buying or speculation.</p> <p data-bbox="261 985 587 1019"><b>AO2: 2 marks      1c</b></p> <p data-bbox="261 1039 1353 1137">Award <b>2</b> marks for a full explanation which references the data fully. Answers in this level will need to make specific reference to the data, commenting on the fact that, for example:</p> <p data-bbox="261 1140 579 1173">Supply has fallen by 1%</p> <ul data-bbox="261 1173 1302 1274" style="list-style-type: none"> <li>• 1.4 million young pigs have been killed.</li> <li>• Prices have risen by 8%.</li> <li>• 2 marks cannot be gained for approaches that are not based around supply.</li> </ul> <p data-bbox="261 1296 957 1330">Award <b>1</b> mark for an incomplete explanation such as:</p> <ul data-bbox="261 1332 983 1467" style="list-style-type: none"> <li>• Disease will reduce the supply of pigs.</li> <li>• Pig stocks have fallen.</li> <li>• There might be panic buying.</li> <li>• Speculators might enter the market for pork futures.</li> </ul> <p data-bbox="261 1489 454 1523"><b>AO3: 2 marks</b></p> <p data-bbox="261 1543 1276 1610">Award <b>2</b> marks for a developed answer that explains that although supply has fallen by only 1%, prices are expected to rise by 8% and explains this:</p> <ul data-bbox="261 1612 1347 1778" style="list-style-type: none"> <li>• By reference to the idea that demand is likely to be price inelastic for a necessary/agricultural/primary/basic product.</li> <li>• Demand may be inelastic because pork is essential for big food producers, who have to acquire supplies.</li> <li>• Speculators may pour into the market causing demand to shift to the right.</li> </ul> <p data-bbox="261 1800 820 1834">Award <b>1</b> mark for a brief analysis, such as:</p> <ul data-bbox="261 1836 1342 2036" style="list-style-type: none"> <li>• Disease will reduce the supply of pigs, hence shifting supply of pork (a derivative) to the left and thus causing price to rise.</li> <li>• Disease will reduce supply because there will be less pork available on the market, hence shifting supply to the left.</li> <li>• Panic buying and speculative purchases would shift demand to the right, hence increasing prices.</li> </ul> | 6     |



| Q. | Mark scheme   | Total |
|----|---|-------|
| 22 | <p data-bbox="261 219 1347 286"><b>Assuming that the firm is trying to minimise its losses, complete the diagram below to illustrate and explain the output and loss that the firm makes.</b></p> <p data-bbox="261 353 587 387"><b>AO1: 2 marks                    1a</b></p> <div data-bbox="261 405 821 929"> </div> <p data-bbox="842 353 1200 387"><b>Correct diagram: 2 marks</b></p> <div data-bbox="850 405 1331 929" style="border: 1px solid black; padding: 5px;"> <p data-bbox="868 416 1015 450"><b>1 mark for</b></p> <p data-bbox="868 450 1294 512">Profit maximising output correct, loss not marked/incorrect.</p> <p data-bbox="868 512 1262 613">Profit maximising output incorrect, but loss right at that output.</p> <p data-bbox="868 613 1294 716">Correct diagram with 2 or more missing labels or drawing errors. MC <b>clearly</b> not through min AC.</p> <p data-bbox="868 748 1031 781"><b>0 marks for</b></p> <p data-bbox="868 781 1102 815">Profit making firm</p> <p data-bbox="868 815 1275 878">Correct diagram with no price and output or profit marked on.</p> </div> <p data-bbox="261 992 587 1025"><b>AO2: 2 marks                    1a</b></p> <p data-bbox="261 1059 1331 1122">Award <b>2</b> marks for good explanation of why output is at <math>MC=MR</math> <b>and</b> why the loss is the area shown.</p> <p data-bbox="261 1160 1315 1223">Award <b>1</b> mark for good explanation of either why output is at <math>MC=MR</math> <b>or</b> why the loss is the area shown.</p> <p data-bbox="261 1261 517 1294"><b>Indicative content</b></p> <p data-bbox="261 1328 1337 1431">Profit maximising/loss minimising output is the one at which <math>MC=MR</math>, because at this output the firm has made all units which add more to revenue than to cost, but none of the ones which add more to cost than revenue.</p> <p data-bbox="261 1462 1353 1597">The loss/sub-normal profit is the gap between total cost and total revenue. Total cost is <math>AC.Q</math> and total revenue is <math>AR.Q</math>, therefore the loss is the difference between the two. The loss is the difference between <math>AC</math> and <math>AR</math>, because costs are above revenue.</p> <p data-bbox="261 1630 341 1664"><b>Note:</b></p> <p data-bbox="261 1664 1353 1865">A learner who marks in <math>AVC</math> and shows that <math>AR</math> is below this and then explains that the profit maximising output is zero and that the loss will be equal to the firm's fixed costs should be awarded 2 marks for an accurate diagram (subject to labelling rules above, although obviously the output will not be where <math>MC=MR</math> and the loss cannot be shown) and 2 marks for a strong explanation of shutdown or 1 for a reasonable explanation of shutdown.</p> <p data-bbox="261 1899 1241 1933">To access 3 - 4 marks, learners must attempt the diagram and explanation.</p> | 4     |

| Q.23     | With reference to the data, discuss whether it is right that 'access to the health service should be free at the point of use'. [8]   |   |   |
|----------|---|---|---|
| Band     | AO2 1a  | AO3   | AO4 1abc  |
|          | 2 marks   | 2 marks   | 4 marks   |
|          | How well has the case/context been used?  | How well have the issues been developed?  | How good is the judgement of the arguments made?  |
| <b>2</b> | <p style="text-align: center;"><b>2 marks</b></p> <p>Clear reference to issues from the case study. Could be:</p> <ul style="list-style-type: none"> <li>• Use of figures from the chart</li> <li>• Reference to the £5/£10 fee</li> <li>• Reference to the idea that a refund might be possible</li> <li>• Reference to A&amp;E vs health system as a whole</li> <li>• Reference to practicalities</li> <li>• Other case-study relevant point.</li> </ul> <p>The key for this band is that the answer uses the context of the data to support most of the points that are made; the answer is centred around the context rather than vice versa.</p> | <p style="text-align: center;"><b>2 marks</b></p> <p>Well-reasoned developments of one side of the case making it clear why free health care/charging for health care would or would not be 'right'.</p> <p>It is the quality of argument that is being judged here.</p>        | <p style="text-align: center;"><b>3-4 marks</b></p> <ul style="list-style-type: none"> <li>• Well-reasoned judgements of at least one side of the case, showing a depth of analysis.</li> <li>• Alternatively the answer might judge each side to a more limited extent, but clear counter-arguments and qualifications are present on both sides.</li> <li>• Answers in this band are likely (but not certain – this is neither necessary nor sufficient for band 2) to have an overall conclusion as to how advisable a cut in interest rates is likely to be, in context.</li> </ul> <p>It is the quality of the evaluation that is being judged here.</p> |
| <b>1</b> | <p style="text-align: center;"><b>1 mark</b></p> <p>The case is used, but references are sporadic, perhaps picking just 1 or 2 points of interest, which are not well developed in the context. Answer feels like it is theoretical with examples tacked on rather than the response really focussing on the context.</p>   | <p style="text-align: center;"><b>1 mark</b></p> <p>One side of the case is argued (advisable or inadvisable), making some undeveloped points, or perhaps has only 1 point with some development.</p> <p>Superficial development of both sides would also be in this level.</p> | <p style="text-align: center;"><b>1-2 marks</b></p> <p>One side of the argument is qualified, showing an awareness that costs or benefits may not always be true, or that there are counter-arguments.</p> <p>Learners might directly contrast the advantages and disadvantages, but not simply listing +/- points – there is an attempt to match the advantages to the disadvantages.</p>  |
| <b>0</b> | <p style="text-align: center;"><b>0 marks</b></p> <p>No relevant points of application made.</p>  | <p style="text-align: center;"><b>0 marks</b></p> <p>Response not credit worthy or not attempted.</p>   | <p style="text-align: center;"><b>0 marks</b></p> <p>Response not credit worthy or not attempted.</p>   |

## Indicative content

Learners might refer to issues to do with:

- Inequality – poor people may be unable to access healthcare unless it is free at the point of use; this could be particularly problematic in the case of A & E.
  - **But**, perhaps a system where it is means-tested might overcome this problem.
  - Externalities – healthcare is often assumed to have external benefits, meaning that free healthcare is advisable. Might refer to idea of merit goods here. Effective use of a diagram to support this, showing welfare loss from under-provision in a market would count as band 2 analysis.
  - **But**, external costs are more of an issue with some types of healthcare than others, meaning that a universal free service may actually be a waste of resources – government failure.
  - Free healthcare might create issues in terms of being over-used. It is clear from the data that hospital admissions are rising, and that this might be deterred by using a fee.
  - **But**, in the data, it is only proposed to charge for A & E admissions, not general healthcare, and a refund has been proposed if the treatment is seen as necessary. Hence it is not a tax on the poor, but a tax on misuse.
- Free healthcare is very expensive, creating opportunity costs. Healthcare costs over £100bn per year and we still have a budget deficit and very significant national debt.
  - **But** failing to provide healthcare for free may stack up problems for the future, spreading diseases, damaging productivity and reducing potential growth.
- Free healthcare may suppress the operation of market forces, perhaps meaning that quality and innovation may be reduced.
  - **But** systems like the US suffer from the Principal-Agent problem, meaning that market forces encourage doctors to provide the most expensive but not necessarily most cost-effective treatment.
- Might not be practical to charge – in some cases this is an emergency. Who would be paid; ambulance drivers? Receptionists? What if patients have no way of paying immediately?

| Q.24 | Discuss the extent to which the trends shown in the chart above are likely to be beneficial for the UK economy. [6]   |  |  |
|------|---|--|--|
| Band | AO2 1a  | AO3  | AO4 1abc   |
|      | 2 marks   | 2 marks  | 2 marks  |
|      | How well is the chart used?   | Are there well developed arguments about the cut?  | How good is the judgement of the arguments made?   |
| 2    | <p><b>2 marks</b></p> <p>The chart is used effectively to support analysis, observing the 2 key features, commenting on the absolute (UK corporation tax has fallen) and relative (UK tax rates are lower than most leading competitors except Ireland) features of the data.</p> <p>Alternatively, the learner makes very good use of 1 or the other features, by applying it effectively to the context of the UK economy (for example a response to threat posed by English speaking Ireland, given its position as member of the eurozone).</p> | <p><b>2 marks</b></p> <p>Well-reasoned developments of one side of the case making it clear why the reduction in corporation tax rates is or is not likely to be beneficial to the UK.</p> <p>It is the quality of argument that is being judged here.</p> | <p><b>2 marks</b></p> <p>Well-reasoned judgements of at least one side of the case, showing a depth of analysis in judgements.</p> <p>Alternatively learners might judge each side to a more limited extent, but clear counter-arguments and qualifications are present on both sides.</p> <p>It is the quality of the evaluation that is being judged here.</p> |
| 1    | <p><b>1 mark</b></p> <p>The chart is not fully used to support the learner's analysis. Answers lack precision in terms of raw data use, and ignore either the absolute or relative effect without compensating for it with depth on the other one.</p>  | <p><b>1 mark</b></p> <p>One side of the case argued (beneficial or not), making some undeveloped points, or perhaps has only 1 point with some development.</p> <p>Superficial development of both sides would also be in this level.</p>                  | <p><b>1 mark</b></p> <p>One side of the argument is qualified, showing an awareness that costs or benefits may not always be true, or that there are counter-arguments.</p> <p>However, judgements are under-developed, lacking the depth or context of response needed for a band 2 answer.</p>   |
| 0    | <p><b>0 marks</b></p> <p>Learner makes some use of the data, but it is not well developed or makes no use of the data at all.</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

UK firms will have higher retained profit for investment, hence enhancing dynamic efficiency and increasing the chance of potential growth. But, many firms have been hoarding cash, and cuts in corporation tax may not lead to rising investment.

UK firms will have higher retained profits allowing higher dividend payouts, which is important given historically low interest rates. But these may only benefit small sectors of society – not everyone has private pensions/share portfolios and may therefore serve only to exacerbate already rising income inequalities.

The UK will be more attractive as a destination for FDI, hence increasing both actual and potential growth, creating jobs etc. But, many multinationals pay very little tax in the UK anyway (Starbucks, Amazon) so it may not make much difference. FDI may increase GDP but not GNI – Ireland's GNI is far lower than its GDP, therefore not as beneficial as might at first be thought.

Sends out a signal that Britain is open for business, increasing business confidence in an intangible way.

### Not so beneficial

Might reduce tax yield for the UK government, hence reducing scope for manoeuvre when the fiscal position is already stretched. But, depends on Laffer curve style issues although tax rates are already low relative to competitors, so probably not a big issue. Also corporation tax is a relatively small source of tax revenue for the government, so might not make that much difference.

Opportunity cost – money might have been better spent elsewhere to achieve similar or better results, whilst not widening inequality.

Irish corporation tax rates are still much lower, than those in the UK.

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| Q.25 | With reference to the chart above, discuss the extent to which GNI per capita is a good indicator of living standards within a country. [8]  |  |  |
|------|--|--|--|
| Band | AO2 1a   | AO3  | AO4 1ab  |
|      | 2 marks  | 2 marks  | 4 marks  |
|      | Is there good use of the data provided?  | Are there well-developed arguments about how good an indicator it is?  | How good is the judgement of the arguments made?   |
| 2    | <p><b>2 marks</b></p> <p>Learners make good use of the data to support their answer. For example:</p> <ul style="list-style-type: none"> <li>• They make clear use of the readings from both axes to illustrate the correlation between the two.</li> <li>• They pick specific counter-examples to show that the trend is not perfect.</li> </ul> <p>The key here is direct, specific use of the data to support a given point. 1 good example of data use is all that is required here.</p> | <p><b>2 marks</b></p> <p>Well-reasoned developments of at least one side of the case making it clear why GNI is or is not a good indicator of living standards.</p> <p>It is the quality of argument that is being judged here, not the range of points.</p> | <p><b>3-4 marks</b></p> <p>Well-reasoned judgements of at least one side of the case, showing a depth of analysis in their judgements. Alternatively they might judge each side to a more limited extent and come to a conclusion.</p> <p>Answers in this level are likely to have an overall conclusion as to how good GNI/capita statistics are as an indicator of living standards, probably rooted to some extent in the data.</p>   |
| 1    | <p><b>1 mark</b></p> <p>Learners make fair use of the data to support their answer. Answers may lack precision in terms of the use of raw data from the two axes, or may fail to pick specific examples and counter-examples, focussing on the broad trend of the data.</p>  | <p><b>1 mark</b></p> <p>Learners argues one side of the case (good/not good), making some undeveloped points, or perhaps has only 1 point with some development.</p>   | <p><b>1-2 marks</b></p> <p>Learners qualifies one side of the argument, possibly by directly contrasting the advantages and disadvantages, but not simply listing +/- points – there is an attempt to match the advantages to the disadvantages.</p> <p>Learners might qualify a side by looking directly at its merits – in other words, how GNI is used within the economy may influence its effectiveness – inequality, corruption and so on may make it less effective.</p> <p>Learners might evaluate by using the data to point out that there are irregularities and inconsistencies that SOL is not HDI and so on.</p> |
| 0    | <p><b>0 marks</b></p> <p>Data use is vague, for example simply stating that there is a correlation or naming counter-examples without attaching the data to them.</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

### Yes

GNI is well correlated with HDI – with the exception of Equatorial Guinea there is strong linearity. This suggests that increases in GNI/capita are well correlated with health and education. This is possibly because increasing per capita incomes gives:

- (i) Citizens better access to diet, education and healthcare
- (ii) Governments a stronger tax base, implying better public services.

### But

Which way does the correlation work – might better health and education be preconditions for higher income?

GNI per capita is a logarithmic scale meaning that in absolute terms the significance of income begins to diminish – the move from \$1,000 to \$10,000 is clearly more important than the move from \$10,000 to \$20,000 in terms of impact on HDI.

HDI doesn't directly measure living standards – living standards encompass a broader variety of indicators than life expectancy, income and years of schooling. HDI is course reflects GNI/capita because GNI/capita is part of the HDI.

The correlation isn't perfect – countries with high levels of inequalities or other issues deviate negatively from the main band (Equatorial Guinea, South Africa), whereas other countries, often with a more socialist context seem to punch above their weight in HDI terms (Cuba, Vietnam) – learners might compare countries with the same level of HDI and different income levels (for example Vietnam and South Africa) or the same level of income and different HDI (for example South Africa, Brazil).

General criticisms of GNI/capita – inequality, measurement, role of the state, need for PPP, etc.

### Overall

Correlation is very good, but HDI isn't the same as a measurement of living standards. There are deviations, so not guaranteed.

Works better for some countries than others (with examples).

| Q.26 | Discuss whether a cut in interest rates would be advisable in Australia at this point in time. [8]  |  |   |
|------|---|--|---|
| Band | AO2 1c  | AO3  | AO4 1abc  |
|      | 2 marks   | 2 marks  | 4 marks   |
|      | How well is the case study used?  | How well is the impact of a cut developed?   | How good is the judgement of the arguments made?  |
| 2    | <p><b>2 marks</b></p> <p>Clear reference to the case study with strong use of actual numerical and qualitative data to support most points – the answer is wholly informed by an Australian context.</p>  | <p><b>2 marks</b></p> <p>Well-reasoned developments of one side of the case making it clear why a cut in interest rates would be either advisable or inadvisable.</p> <p>It is the quality of argument that is being judged here.</p>                    | <p><b>3-4 marks</b></p> <p>Well-reasoned judgements of at least one side of the case, showing a depth of analysis in their judgements. Alternatively each side might be judged to a more limited extent and a conclusion reached.</p> <p>Answers in this level are likely to have an overall conclusion as to how advisable a cut in interest rates is likely to be, in context.</p> <p>It is the quality of the evaluation that is being judged here.</p>  |
| 1    | <p><b>1 mark</b></p> <p>The case is used, but references are sporadic, perhaps picking just 1 or 2 points of interest, which are not well developed in the context. Answer feels like it is theoretical with examples tacked on rather than the response really focussing on the context.</p> | <p><b>1 mark</b></p> <p>Learner argues one side of the case (advisable or inadvisable), making some undeveloped points, or perhaps has only 1 point with some development.</p> <p>Superficial development of both sides would also be in this level.</p> | <p><b>1-2 marks</b></p> <p>Learner qualifies one side of the argument, possibly by directly contrasting the advantages and disadvantages, but not simply listing +/- points – there is an attempt to match the advantages to the disadvantages.</p> <p>Learner might qualify a side by looking directly at its merits – in other words, how significant a cut in interest rates is likely to be, with justification. Simple lines such as ‘it depends on the size of the cut should not be credited unless developed.</p> |
| 0    | <p><b>0 marks</b></p> <p>Answer is largely theoretical with only very occasional and non-specific use of the context. Hence, to get to band 1, use of the context has to be at least fair.</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****Advisable**

Unemployment is rising (highest for 15 years, 722,000, 5.7% to 5.8%) and a cut in interest rates might help with this; interest rates will stimulate AD, hence helping to forestall an increase in unemployment.

Good answers will develop how a cut in interest rates might help to increase AD, perhaps with the assistance of a diagram.

**Inadvisable**

Inflation is rising, so a cut in interest rates might make this worse; description of the mechanism through which this might happen (possible increases C, I and X together with reduced M through weaker A\$). Australian dollar might weaken further, explained. Good answers will have a chain of reasoning – hence will be showing why problems are likely, not just asserting that they will be so.

**Evaluation ideas**

Unemployment is mainly in primary product producing states which are dependent on the global marketplace. Broad cuts in interest rates might not have much effect on demand in those states and may fuel inflationary pressure elsewhere.

If the A\$ falls further, jobs may actually be lost in import-dependent sectors, meaning the effect on unemployment might not be that large.

Cuts in interest rates aren't guaranteed to have an impact on jobs – time lags, confidence, central vs. market rates etc.

The A\$ may not fall if interest rates are cut because a fall in interest rates is already priced into the market.

Inflation is still well within the Australian central bank's target range, so no need for action.