



# **GCE A LEVEL MARKING SCHEME**

**AUTUMN 2021**

**A LEVEL  
ECONOMICS - COMPONENT 2  
A520U20-1**

## INTRODUCTION

This marking scheme was used by WJEC for the 2021 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

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

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

## GENERAL MARKING GUIDANCE

### Positive Marking

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

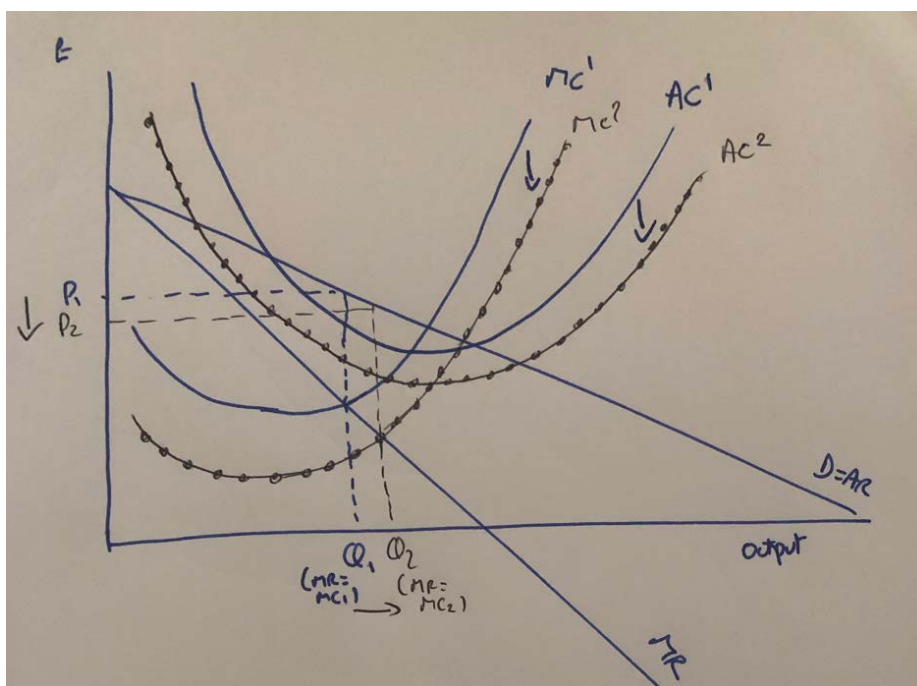
For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level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

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

## EDUQAS GCE A LEVEL ECONOMICS - COMPONENT 2

## AUTUMN 2021 MARK SCHEME

1. (a)	Using a cost and revenue diagram, explain how Amazon has been able to continually drive down prices. [6]		
Band	AO1	AO2	AO3
	2 marks	2 marks	2 marks
2	<p><b>2 marks</b> Good understanding</p> <p>Accurate diagram showing how MC and AC fall and that the profit maximising output rises with price falling</p>	<p><b>2 marks</b> Good application</p> <p>Relevant data is well used to support the answer</p> <p>Examples of how costs are driven down are developed</p>	<p><b>2 marks</b> Good analysis</p> <p>The answer develops a chain of reasoning that shows how a reduction in costs will mean that firms will have an incentive to cut price</p> <p>There is good use of economic theory</p>
	<p><b>1 mark</b> Limited understanding</p> <p>The diagram, while showing that costs falls has errors</p>	<p><b>1 mark</b> Limited application</p> <p>Relevant data is used to support the answer, but examples have not been well developed</p>	<p><b>1 mark</b> Limited analysis</p> <p>Reasons for a price fall are identified but chains of reasoning may not be fully developed</p> <p>Use of economic theory is more limited</p>
0	<p><b>0 marks</b> Diagram is not appropriate</p>	<p><b>0 marks</b> No application of the data</p>	<p><b>0 marks</b> No analysis</p>

**Indicative content:****AO1****AO2**

Power over suppliers allows input costs to be cut, reducing MC. Dispute with Hachette/JK Rowling over royalties (but generic 'bulk buying is OK if linked to the case).

Power over employees, driving up productivity using remote tracking and therefore reducing unit costs.

Highly automated fulfilment centres which reduce the cost of processing an item, again reducing MC.

**AO3**

There are a variety of angles that might be taken in terms of development but the key for good analysis is a line of argument which explains why prices fall rather than just costs force price down (which is limited).

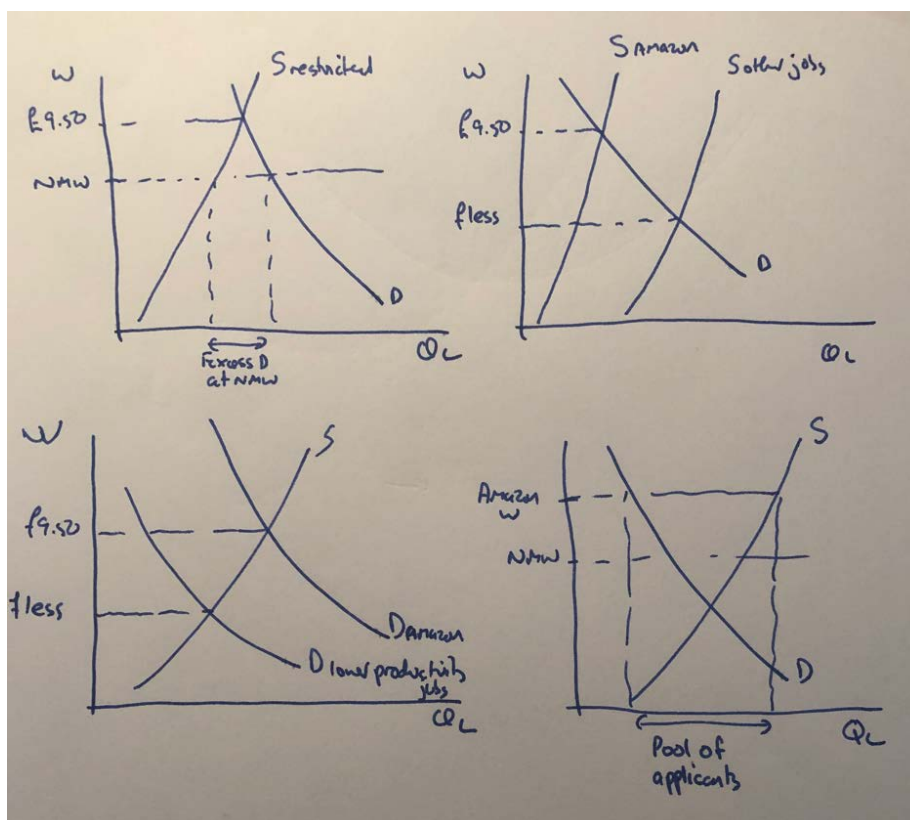
One might be to link each concept from the case to MC/AC and then argue that this leads to a fall in price via  $MC=MR$  (lower MC means more units are now profitable, but to sell these, price will need to be cut).

Another might be to talk about internal economies of scale or increasing returns to scale more generally, which is fine as long as there is a clear link made to why price falls.

<b>1. (b)</b>	<b>Using a diagram, explain why Amazon might pay workers more than the minimum wage. [6]</b>		
<b>Band</b>	<b>AO1</b>	<b>AO2</b>	<b>AO3</b>
	2 marks	2 marks	2 marks
<b>2</b>	<p><b>2 marks</b> Good understanding</p> <p>Accurate diagram showing either that the equilibrium wage rate is above the minimum wage rate <b>or</b> that Amazon chooses to pay workers above both the equilibrium rate and the minimum wage</p>	<p><b>2 marks</b> Good application</p> <p>Relevant data is well used to support the answer referring to the nature of work in Amazon or market conditions in the UK generally.</p> <p>Points are well developed as part of a broader argument</p>	<p><b>2 marks</b> Good analysis</p> <p>The answer develops a chain of reasoning that shows how supply and/or demand factors combine to allow workers to Amazon to be paid above the minimum wage</p> <p>The mechanics of the higher wage are clear with good use of economic theory</p>
	<b>1</b>	<p><b>1 mark</b> Limited understanding</p> <p>The diagram has some inaccuracies but still supports the arguments made</p>	<p><b>1 mark</b> Limited application</p> <p>Relevant data is used to support the answer, but examples have not been well developed</p>
<b>0</b>	<p><b>0 marks</b> Diagram is not appropriate</p>	<p><b>0 marks</b> No application of the data</p>	<p><b>0 marks</b> No analysis</p>

**Indicative content:****AO1**

Allow diagrams that makes sense but some possible approaches below:

**AO2**

Conditions in Amazon warehouses are tough which may mean that the supply of workers willing to work there is limited.

Productivity is clearly high, allowing Amazon's workers to add value. This allows a higher wage to be paid (in diagrammatic terms, D shifts right relative to low productivity).

Because of their dismissal practices, Amazon may want to have excess supply of workers, so that there is always a ready pool of replacement workers to take the place of those dismissed.

UK labour market is relatively tight, implying excess demand for workers at the minimum wage.

**AO3**

At the minimum wage there is excess demand for labour, meaning that Amazon would be unable to get the workers that it needs.

The demanding nature of work means that at a given wage, supply is lower for this job than it might for others, creating a shortage of workers and driving up wages.

Amazon may be keen to attract efficient and dedicated workers and therefore pays above the equilibrium rate to get the best. These workers more than repay their wages via the value that they add.

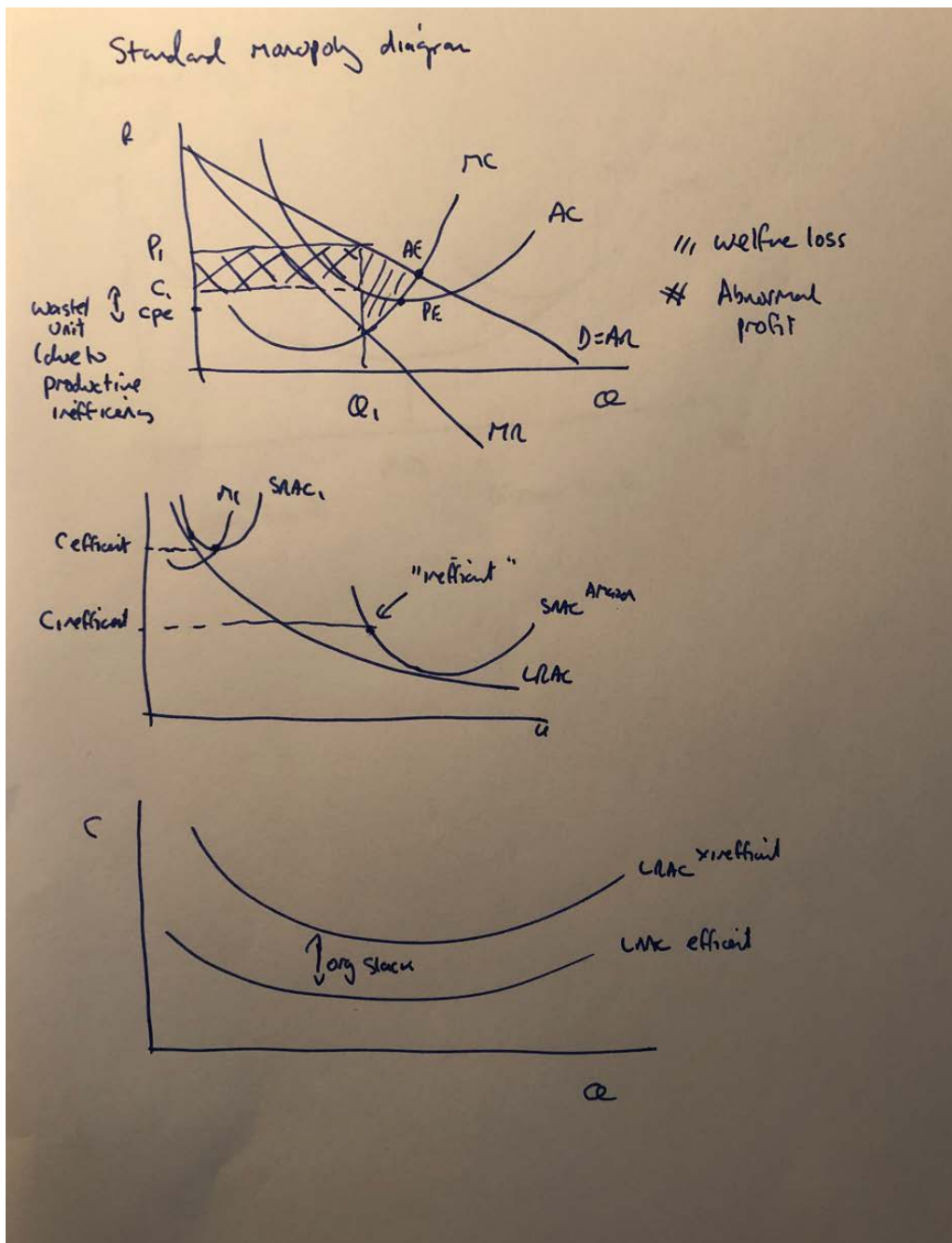
1. (c)		Using cost and revenue diagrams, consider whether Amazon is efficient. [8]			
Band	AO1	AO2	AO3	AO4	
	2 marks	2 marks	2 marks	2 marks	
2	<p><b>2 marks</b> Good understanding</p> <p>Good accurate diagrams that are used as part of the answer</p>	<p><b>2 marks</b> Good application</p> <p>Effective use of relevant data to support arguments on both sides of the case</p>	<p><b>2 marks</b> Good analysis</p> <p>Arguments have been well developed on one side of the discussion showing a good understanding of either efficiency or inefficiency</p>	<p><b>2 marks</b> Good evaluation</p> <p>Well-developed counter-arguments are made</p>	
	<p><b>1 mark</b> Limited understanding</p> <p>Diagrams have significant errors or are not effectively used as part of the answer</p>	<p><b>1 mark</b> Limited application</p> <p>Relevant data has been used but only on one side of the case <b>or</b> data used on both sides but superficially</p>	<p><b>1 mark</b> Limited analysis</p> <p>Arguments are present on one side of the discussion but are not well-developed.</p> <p>An understanding of at least one type of efficiency or inefficiency is developed to some extent</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Counter-arguments are present but lack development</p>	
0	<p><b>0 marks</b> Diagram is not appropriate</p>	<p><b>0 marks</b> No application</p>	<p><b>0 marks</b> No analysis</p>	<p><b>0 marks</b> No evaluation</p>	

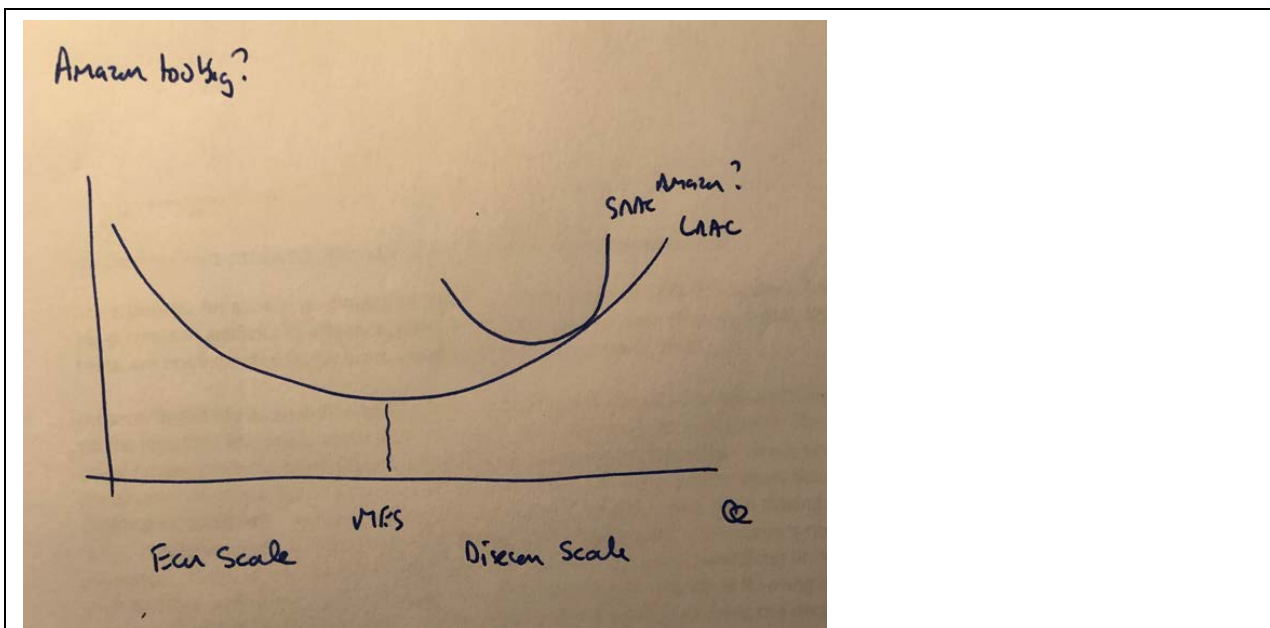


Indicative content:

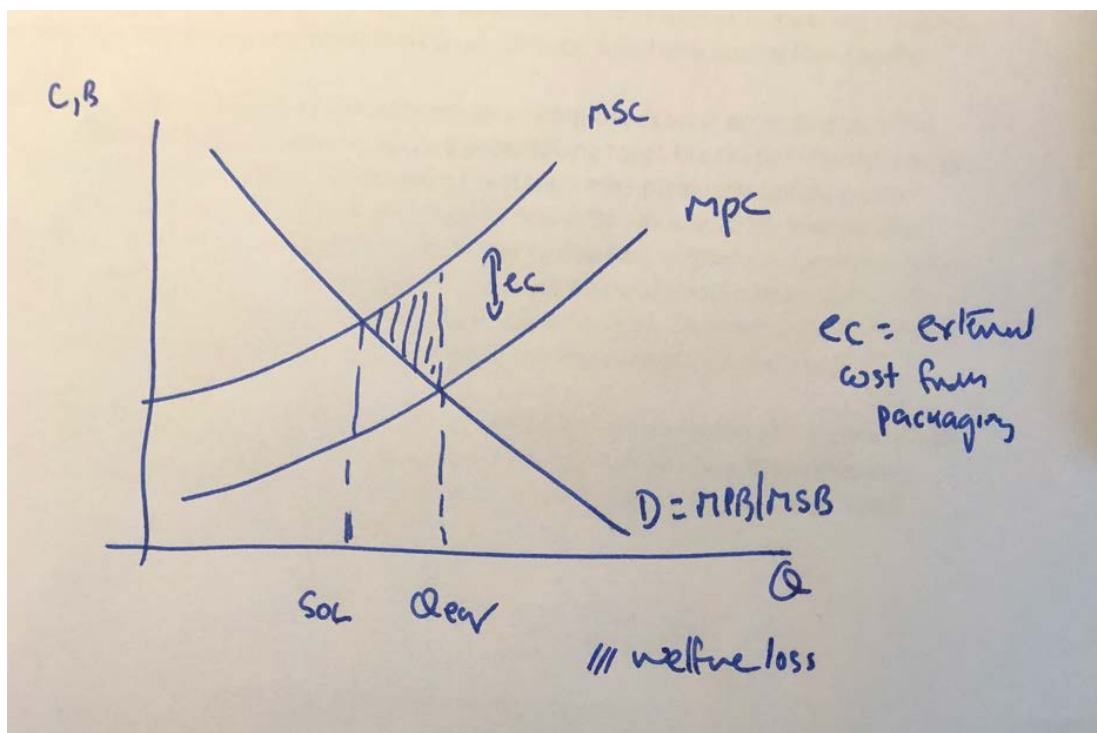
A01

Diagrams might include (but allow other plausible diagrams):





Most likely diagram for packaging will be this one, where they don't think about the fact that S/D assumes Perfect Competition (very unlikely anyone would think of that qualification). Give this full credit if used well:



### AO2/3

Amazon has a strong focus on price and therefore is attempting to drive down unit costs. This should lead to unit costs being close to minimum AC, or the presence of economies of scale will allow unit costs to be very low even if the firm isn't strictly productively efficient.

- Buyer power
- High productivity
- Highly automated warehouses.

Might be argued that Amazon has tight customer focus as well. In many markets it faces lots of competition (streaming, cloud computing), where price might be close to MC as a result, allocatively efficient.

Evidence of switch to profit maximisation (record profits in Q1 2019) which might suggest that in narrow theoretical terms the firm produces at  $MC=MR$  and therefore neither productively nor allocatively efficient.

In dynamic efficiency terms, Amazon has clearly reinvested significant amounts of profit into both product and process innovation, although not all of this has been successful (Fire phone).

Heavy use of packaging may imply that the firm isn't focused on social efficiency and environmental goals, resulting in an overall welfare loss/deadweight loss.

Although there is lots of evidence of focus on cost reduction, some suggestion that there might be organisational slack (the ice bear). Likewise, the diversified nature of Amazon might suggest some risk of diseconomies of scale.

#### **AO3/4**

Answer likely to refer to:

**Productive efficiency:** Whether or not Amazon produces at the output at which  $MC=AC$ , or linked to this whether economies of scale make that less relevant (large scale but not at  $MC=AC$  still lower cost than productively efficient at lower scale?)

**Allocative efficiency:** Whether or not Amazon responds closely to consumer needs and produces the output at which  $P/AR=MC$ . In neoclassical theory terms, if Amazon maximises profit at  $MC=MR$  then it won't be producing at  $AR=MC$  and therefore there will be a welfare loss. But with larger scale, welfare might be higher under a very large firm than a group of smaller ones due to the big reduction in MC.

**Dynamic efficiency:** In principle Amazon has both the abnormal profit and the competitive threat to suggest that it would innovate. This may vary by market, however – there are clearly some sectors in which competition and innovation are likely to be more important for Amazon than others.

**X efficiency:** Looks at the extent to which there is likely to be organisational slack resulting in the firm's LRAC being higher than it might otherwise be.

**Social efficiency:** Looks at the extent to which resources are truly allocated optimally. If external costs and benefits are present, then in the absence of government intervention, the equilibrium output is likely to be sub-optimal.

There is the possibility that Amazon might be regarded as being close to a natural monopoly, with continually falling LRAC which would mean that it isn't possible to be strictly productively efficient and that being allocatively efficient would mean operating at a loss.

Amazon is so large and diversified that there is the risk that it might be experiencing diseconomies of scale (although no evidence to suggest that this is so)

1. (d)	Discuss whether at its current stage of development, Amazon's main objective should be profit or growth. [10]		
Band	AO2	AO3	AO4
	3 marks	3 marks	4 marks
3	<p><b>3 marks</b> Excellent application</p> <p>The data is used comprehensively on both sides of the argument, linking to the current stage of development</p>	<p><b>3 marks</b> Excellent analysis</p> <p>Well-developed chains of argument showing a thorough understanding of arguments in favour of <b>both</b> growth and profit as objectives for Amazon</p>	<p><b>3-4 marks</b> Excellent evaluation</p> <p>Well-developed chains of argument showing a good understanding of arguments suggesting the limitations of growth <b>and</b> profit as objectives for Amazon</p> <p><b>OR</b> answer <b>fully</b> balances the reasons for profit against the reasons for growth in an evaluative manner</p> <p>Top band answers will come to a reasoned judgement based on earlier analysis linking back to Amazon's current stage of development</p>
2	<p><b>2 marks</b> Good application</p> <p>The data is well used on one side of the argument or well used on both</p>	<p><b>2 marks</b> Good analysis</p> <p>Well-developed chains of argument showing a good understanding of arguments in favour of <b>either</b> growth <b>or</b> profit as objectives for Amazon</p> <p>There is some development of the other objective</p>	<p><b>2 marks</b> Good evaluation</p> <p>Well-developed chains of argument showing a good understanding of arguments suggesting the limitations of <b>either</b> growth <b>or</b> profit as objectives for Amazon</p> <p>There is some development of the limitations of the other objective. <b>OR</b> answer balances the reasons for profit against the reasons for growth in an evaluative manner</p>
1	<p><b>1 mark</b> Limited application</p> <p>Use of the data is less effective. Relevant data has been used but not well developed</p>	<p><b>1 mark</b> Limited analysis</p> <p>There is a limited explanation of the reasons that growth or profit might be objectives for a firm</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Counter-arguments are present but lack development. Some attempt to show reasons why growth or profit aren't appropriate are present</p>
0	<p><b>0 marks</b> No use is made of the data</p>	<p><b>0 marks</b> No analysis</p>	<p><b>0 marks</b> No valid evaluation</p>

**Indicative content:****AO2**

Amazon has come to dominate a wide number of sectors, but as Fig 1 shows, growth has been the key and hasn't led to significant retained profits. Arguably the time has now come to profit-take rather than to continue to grow ever-larger with the attendant risk of diseconomies of scale.

Further growth may start to attract regulatory attention (as seen in the Deliveroo case) – Amazon is now so large that there is a danger that it may be accused of predatory pricing in whichever markets it seeks to develop.

Unless Amazon begins to deliver profits at some stage so that dividends can be paid, shareholders may become disillusioned with the organisation, making it harder to raise additional share capital in the longer term.

The economies of scale resulting from growth are probably already fully exploited – with 7.7% of all retail sales in the US and completely dominant in the book market, its size is such that it must have reached its minimum efficient scale.

The nature of Amazon's next steps is likely to be very costly (AI in particular) suggesting that a more profit-focused approach might make sense.

Profits are likely to be essential to finance Amazon's innovation given the inherent risk of failures.

Amazon's competitors in most spheres are all huge and growing themselves. Amazon will need to continue to grow to be able to compete on a level playing field.

The nature of many of Amazon's markets are that they are interrelated (streaming, music, film, TV) meaning that to stay successful in one may require growth into others.

Growth leads to lower costs, lower prices and therefore lower growth.

In reality, Amazon has been profitable in the past but has simply committed all of those profits to further growth.

**AO3****Growth**

Increased market share makes the firm harder to push out – more collateral for loans and so on.

Increased market share gives the firm price setting power and an ability to drive the product agenda

Increased market share generates a whole range of economies of scale allowing the organisation to continue to grow in a virtuous circle.

- Physical – fulfilment centres and so on
- Financial – more assets and bank confidence leads to lower interest rates
- Marketing economies – Amazon so well-known doesn't need to advertise as much
- Buyer power over workers and suppliers drives down costs.

**Profit**

Profits are essential for:

- (i) Maintaining share price
- (ii) Paying dividends
- (iii) Financing future growth

**AO4**

Growth and profits are not mutually exclusive – might be possible to focus on both.

Growth serves no purpose in and of itself – its purpose is to create the platform for future profit, which is the stage that Amazon appears to have reached.

Uncontrolled growth may run into issues in terms of lack of expertise, lack of real opportunities and diseconomies of scale.

If growth is the pure objective, then failures such as the Fire phone may become more likely as growth becomes the end rather than a means to an end.

Might depend on the type of growth – trying to dominate existing sectors or continually looking to diversify?

**Profit**

Risk of short termism – that overly focusing on profits risks losing the focus on customer service. Might also lead to short-term profit taking which damages the organisation in the long term.

Some growth is clearly needed to keep up with competitors and to remain dynamic; may be hard to retain top talent in a static organisation.

Long term profit only really comes from a successful focus on other objectives – meeting customer needs and so on, which might suggest that growth is a more sensible strategy.

At the present time, Amazon has huge scale but also the nature of its markets is such that it probably needs to continue to expand to maximise the opportunities. But it may well be at a stage where it can focus more on profit than in the past.

1. (e)	Discuss whether Amazon should be more heavily regulated. [10]		
Band	A02	A03	A04
	3 marks	3 marks	4 marks
<b>3</b>	<p><b>3 marks</b> Excellent application</p> <p>The data is well used on both sides of the argument</p>	<p><b>3 marks</b> Excellent analysis</p> <p>Well-developed chains of argument showing a thorough understanding of arguments in favour of greater regulation covering a couple of key areas</p>	<p><b>3-4 marks</b> Excellent evaluation</p> <p>Well-developed chains of counter-argument showing a thorough understanding of the case against heavier regulation</p> <p>Top band answers will come to a final conclusion judging whether heavier regulation is really needed</p>
<b>2</b>	<p><b>2 marks</b> Good application</p> <p>The data is very well used on one side of the argument but more superficial use on the other side of the case</p>	<p><b>2 marks</b> Good analysis</p> <p>Well-developed chain of argument showing a good understanding of an argument in favour of greater regulation</p>	<p><b>2 marks</b> Good evaluation</p> <p>Well-developed chain of counter-argument arguing that greater regulation is unnecessary or counterproductive</p>
<b>1</b>	<p><b>1 mark</b> Limited application</p> <p>Use of the data is less effective. Relevant data has been used but not well developed</p>	<p><b>1 mark</b> Limited analysis</p> <p>There is a limited explanation of the reasons that greater regulation is needed.</p> <p>Chains of argument are not well-developed</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Counter-arguments are present but lack development.</p>
<b>0</b>	<p><b>0 marks</b> No use is made of the data</p>	<p><b>0 marks</b> No analysis</p>	<p><b>0 marks</b> No valid evaluation</p>

**Indicative content:****AO2**

There is some evidence that Amazon is using its power to disadvantage suppliers, who find that their profits are reduced. Similar to accusations levied at UK supermarkets. Regulation of these relationships might be in order. On the other hand, Amazon marketplace allows smaller suppliers to access a global audience, increasing competition in a range of sectors that might otherwise lack effective online competition. If regulation was to inhibit this then consumers' choice and value for money might well be damaged.

There is some evidence that greater regulation surrounding worker rights might be in order, with strikes occurring in 2019 over pay and conditions – evidence that workers don't have time for toilet breaks if they are to achieve productivity targets.

In competition terms, Amazon continues to break into new sectors and enhance competition – streaming, Premiership football rights and so on. On the other hand, its scale is such that in markets with smaller less-established players, there is a risk that Amazon's presence might generate a rapid transition to monopoly (the concerns of the CMA in the market for takeaway food delivery).

In terms of price competition, Amazon clearly doesn't need regulating at the present time – its entire business model is based on range and value. However, there is always the danger in the longer run that prices may be driven up as monopoly power becomes consolidated, although the nature of online retailing is that barriers to entry tend to be relatively low.

Amazon's market share in some sectors is extremely high, making effective competition difficult (89% of US e-books).

Introduction of non-recyclable packaging a concern.

**AO3**

Regulation covers a range of areas, as made clear in AO2.

Competition: Regulators are interested in price, quality, reliability and so on, seeking to promote the public interest/welfare of consumers. Regulators might well be worried about Amazon's dominant position in a number of markets and seek to regulate further, perhaps to reduce barriers to entry (as seen in the case of Google). Hence further regulation might be needed in some of the sectors in which Amazon operates.

Environment. Big concern here is packaging – case for greater regulation here, but obviously not of Amazon specifically.

Labour. Are existing regulations strong enough when dealing with organisations the size of Amazon?

Supplier relationships – some suggestion that Amazon abuses its power over suppliers.



**AO4**

Difficult to specifically regulate Amazon more – any changes will affect all firms; therefore, the case needs to be broad-based rather than Amazon specific.

Are existing regulations enforced effectively - do we really need more or just to do more with the ones that we have? Not clear that Amazon is any more in need of regulation than some of the other giants, but that doesn't mean that more regulation isn't needed overall.

Varies by area of regulation and also by area of competition. In some sectors Amazon is the incumbent, which requires one type of regulation, in others it has an established monopoly position which requires a different type. Its turnover makes it bigger than many European countries, suggesting that special regulation is needed. Amazon Marketplace has brought competition and choice to a wide range of areas where it would otherwise be very limited.

In many sectors, Amazon is complying with the regulations that there are, so the question is whether in general these are the regulations that are wanted.

Depends on economic perspective. One school of thought would argue that they should be less heavily regulated – that it isn't the role of the government to do so. With lower regulations then Amazon would have more profit to innovate.

Amazon competes internationally with organisations in low-regulation environments, so excessive regulations on Amazon might put them at a competitive disadvantage.

2. (a)	Explain the shape of the Laffer curve.	Total
	<p>AO1: 2 marks</p> <p>Award <b>2</b> marks for good knowledge of the Laffer curve Diagrams, if used, are accurate Award <b>1</b> mark for limited knowledge of the Laffer curve</p> <p>AO3: 2 marks</p> <p>Award <b>2</b> marks for good analysis. A clear chain of reasoning is demonstrated as to why tax revenue at first rises then falls as a result of rising marginal tax rates</p> <p>Award <b>1</b> mark for limited analysis. A superficial or partially correct chain of reasoning is demonstrated of the relationship between tax revenue and tax rates.</p> <p><b>Indicative content:</b> When tax rates are 0% no revenue is collected and when tax rates are 100% no revenue is collected.</p> <p>As tax rates rise revenue increases because a higher income tax rate leads to lower disposable income, then a worker may feel the need to work longer hours to maintain his/her target level of income. Therefore, the income effect means that higher tax may mean some workers feel the need to work more hours and tax revenue rises. BUT if higher income tax leads to lower disposable income then work becomes relatively less attractive than leisure. Thus the substitution effect of higher tax is that workers will want to work less and tax revenue falls.</p> <p>The overall effect on tax revenues depends on the relative strength of the income and substitution effects –explaining the shape of the Laffer curve.</p>	4

<b>2. (b)</b>	<b>With reference to Figure 1 and the data discuss whether cuts in the top rate of income tax will be beneficial to an economy. [8]</b>		
<b>Band</b>	<b>AO2</b>	<b>AO3</b>	<b>AO4</b>
	2 marks	3 marks	3 marks
<b>3</b>		<p><b>3 marks</b> Excellent analysis</p> <p>There are strong chains of reasoning showing how tax cuts benefit the economy, covering the supply side effectively</p>	<p><b>3 marks</b> Excellent evaluation</p> <p>Evaluation is good with a strong counter-argument on the benefits against cuts in income tax rates either covering both growth and revenue effects or coming to a well-judged conclusion</p>
<b>2</b>	<p><b>2 marks</b> Good application</p> <p>The data in Figure 1 and the case have been used effectively in the answer</p>	<p><b>2 marks</b> Good analysis</p> <p>There are strong chains of reasoning showing how tax cuts benefit the economy</p> <p>Supply side aspects may not be fully developed</p>	<p><b>2 marks</b> Good evaluation</p> <p>Evaluation is good with a strong counter-argument against the benefits of cuts in income tax rates</p>
<b>1</b>	<p><b>1 mark</b> Limited application</p> <p>The data in Figure 1 and the case are used but it is undeveloped</p> <p>Either Figure 1 or the case is not referred to</p>	<p><b>1 mark</b> Limited analysis</p> <p>Analysis is weak and chains of reasoning are unconvincing/lacking in detail/superficial</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Evaluation does contain counter-argument but it is not well developed/superficial</p>
<b>0</b>	<p><b>0 marks</b> No use of the data is made</p>	<p><b>0 marks</b> No valid analysis</p>	<p><b>0 marks</b> No evaluation present</p>

**Indicative content:**

Cuts in top income tax rates increase incentives to work/enterprise (data) increasing potential rates of economic growth and LRAS also increasing tax revenue

May create incentives for enterprise and new business start-ups, contributing both to employment and long run growth.

Cuts in top income tax rates are likely to boost AD, creating actual growth.

Reference to the US with a top rate of tax below the revenue maximising rate (Figure 1).

Less avoidance and evasion.

**BUT**

- AD effects may be limited – top earners have low MPC and data suggests that spending multiplier larger than tax one.
- AD effects might be inflationary
- Depends where the country is on the Laffer curve – Figure 1.
- Cuts in top rates of income tax make the tax system less progressive –data social policy/Sweden (Figure 1).
- Cuts in top income tax rates might lead to less government revenue for public/merit goods/ increase in budget deficit/national debt
- Reversible answer.

<b>2. (c) (i)</b>	<b>A worker on the National Minimum Wage in the UK would earn around £15 000 per year. Calculate how much income tax this person would pay in the 2019-20 tax year.</b>	<b>Total</b>
	<p>AO2: 2 marks</p> <p>Award <b>2</b> marks for correct answer Award <b>1</b> mark for a partially correct approach but with an incorrect answer</p> <p>£500 paid in tax</p> <p>£15 000 - £12 500 personal allowance = £2 500 taxable income. Basic rate of tax = 20%. Therefore, tax is 20% of £2 500 = £500.</p>	2
<b>(ii)</b>	<b>UK MPs earn around £80 000 per year. Calculate how much income tax an MP would pay in the 2019-20 tax year.</b>	
	<p>AO2: 2 marks</p> <p>Award <b>2</b> marks for correct answer Award <b>1</b> mark for a partially correct approach but with an incorrect answer</p> <p>£19 500 paid in tax £80 000 - £50 000 = £30 000 at 40% = £12 000 £50 000 - £12 500 = £37 500 at 20% = £7 500</p>	2

2. (c) (iii)	Using the data discuss the relative merits and demerits of direct taxes and indirect taxes. [10]		
Band	AO2	AO3	AO4
	3 marks	3 marks	4 marks
3	<p><b>3 marks</b> Good application</p> <p>The data in Figure 2 and the case have been used effectively in the answer</p>	<p><b>3 marks</b> Excellent analysis</p> <p>There are strong chains of reasoning showing convincingly the merits of both direct and indirect taxation</p>	<p><b>3–4 marks</b> Excellent evaluation</p> <p>Evaluation is good with strong counterarguments on both types of tax.</p> <p>Top band answers will have made an attempt to compare the merits of each type of taxation and to examine their relative strengths</p>
2	<p><b>2 marks</b> Good application</p> <p>The data in Figure 2 or the case have been used effectively in the answer</p>	<p><b>2 marks</b> Good analysis</p> <p>There are strong chains of reasoning showing convincingly the merits of either direct or indirect taxation or the merits of both are covered but one is less convincing.</p>	<p><b>2 marks</b> Good evaluation</p> <p>There is no real attempt to compare the two types of taxation but a developed attempt has been made to look the disadvantages of one type of tax</p>
1	<p><b>1 mark</b> Limited application</p> <p>The data in Figure 2 and the case are used but it is undeveloped</p> <p>Either Figure 2 or the case is not referred to</p>	<p><b>1 mark</b> Limited analysis</p> <p>Analysis is weak and chains of reasoning for both type of taxes are unconvincing/lacking in detail/superficial</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Evaluation does contain counter-argument but it is not well-developed/ superficial</p>
0	<p><b>0 marks</b> No use of the data is made</p>	<p><b>0 marks</b> No valid analysis</p>	<p><b>0 marks</b> No evaluation present</p>

**Indicative content:****AO2**

Figure 2 shows that the UK tax system is progressive, but is less progressive than it was.

Top rates of tax in the 1970s (83% and 70% in the UK and US) would clearly have a major impact on incentives to work.

Evidence on the UK experiment with a 50% top tax rate.

Laffer's arguments themselves

**AO3/4****Indirect taxes**

Can impact on the pattern of demand – can be targeted at demerit goods or to internalise production externalities, for example.

Do not create incentives to work and invest.

Easier to change than direct taxes – less complex to administer

Harder to avoid/evade

BUT

- Risk of cost-push inflationary pressure
- Generally regressive
- Can create misallocations of resources in product markets – welfare loss
- Direct taxes
- Generally progressive, helping to reduce inequalities in income
- Impact on those who are in work – hence fairer.

BUT

- Creates disincentives to work and invest
- Encourages misallocation of time into avoidance and evasion and are easier to avoid and evade than indirect taxes
- Candidates may make reference to Adam Smith's Canons of Taxation when developing their chains of reasoning and in overall evaluation ie equity, certainly, economy and convenience. Other 'canons' have been added such as effects on productivity.

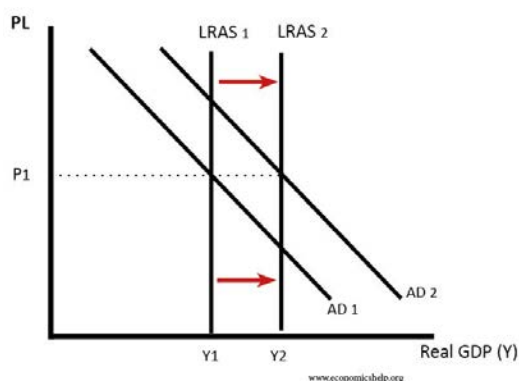
<b>2. (d)</b>	<b>Outline the difference between a structural and a cyclical budget/fiscal deficit (line 22).</b> <span style="float: right;"><b>[4]</b></span>
<b>Band</b>	<b>AO1</b>
	4 marks
<b>2</b>	<b>3–4 marks</b>
	Good understanding Good understanding of structural and cyclical deficits is demonstrated with the distinction between the two shown with clarity and detail Both types of deficit will be covered well although at the bottom of this band one of the two may be lacking in detail
<b>1</b>	<b>1–2 marks</b>
	Limited understanding Limited understanding of structural and cyclical deficits is demonstrated either through lack of detail or a lack of clarity One type of deficit may not be covered or be inaccurately explained. At the bottom of this band knowledge and understanding is very superficial although have some validity
<b>0</b>	<b>0 marks</b> No valid content
<b>Indicative content:</b>	
Structural deficit is the deficit that is present wherever the economy is at the top of the trade cycle/is present at all stages of the economic cycle i.e. it will not disappear when the economy is at full employment.	
Cyclical deficit is the deficit that occurs during a recession or very low economic growth: automatic stabilisers lead to the deficit in recession but during high economic growth higher tax revenue and less on transfer spending will eliminate the cyclical part of the deficit. The deficit will disappear as the economy recovers.	



2. (e)	<b>With the use of AD/AS diagrams and the data, discuss the extent to which government capital spending is preferable to government current spending.</b> <b>[10]</b>			
<b>Band</b>	<b>AO1</b>	<b>AO2</b>	<b>AO3</b>	<b>AO4</b>
	2 marks	2 marks	2 marks	4 marks
<b>3</b>				<b>3-4 marks</b> Excellent evaluation  Strong evaluation showing a clear comparison between capital and current spending assessing their relative merits with a reasoned overall judgment
<b>2</b>	<b>2 marks</b> Good understanding  AD/AS diagrams are drawn and used effectively to illustrate the effects of increased current and capital spending	<b>2 marks</b> Good application  The case is used effectively with examples of current and capital spending being drawn from the data	<b>2 marks</b> Good analysis  Chains of reasoning are strong when analysing the strengths of capital <b>and</b> current spending to the economy	<b>2 marks</b> Good evaluation  Strong evaluation showing a clear comparison between capital and current spending assessing their relative merits
<b>1</b>	<b>1 mark</b> Limited understanding  Accurate AD/AS diagrams drawn but not used OR diagrams contain minor errors but are used effectively	<b>1 mark</b> Limited application  The case is used but superficially and data from either current or capital spending is not used	<b>1 mark</b> Limited analysis  Depth of analysis and chains of reasoning are less convincing for both types of spending	<b>1 mark</b> Limited evaluation  Counterarguments have been made but development is limited
<b>0</b>	<b>0 marks</b> No valid diagrams are drawn	<b>0 marks</b> No valid application	<b>0 marks</b> No valid analysis	<b>0 marks</b> No valid evaluation

**Indicative content:**

A number of alternative AD/AS diagrams are acceptable to support an answer.



**Capital spending** increases AD and AS – actual and potential growth. It can increase factor productivity and competitiveness.

Benefits are felt for years to come eg full fibre broadband.

Strong multiplier effect as a result of labour intensive sectors such as construction and engineering

Positive externalities from the growth in social capital – new roads, hospitals and schools.

BUT

- Spending can be badly directed (HS2?), can lead to future problems eg PFI.
- There are long time lags before benefits are seen (may not be 'shovel-ready').
- Often capital spending projects often have huge cost overruns and delays eg Crossrail, HS2.
- Danger that politicians choose costly big capital 'vanity' projects rather than a number of smaller ones that are more effective.
- Risk of white elephants – unnecessary expenditure that then has to be maintained in the long run.

**Current spending**

Increases AD – multiplier effect.

Shortages of nurses and teachers mean there is a need to increase wages in these sectors.

BUT

- There is no tangible benefit long term from this spending – does not increase the social capital of the economy (depending on exactly which areas are targeted)
- Increases AD but not AS thus potentially inflationary.

Evaluation:

Both can benefit the economy and can be targeted to particular needs.

Danger of resource and financial crowding out from both.

Potential with both for government failure and the law of unintended consequences.

	<b>AO1</b>	<b>AO2</b>	<b>AO3</b>	<b>AO4</b>	<b>Total</b>	<b>QS</b>
1. (a)	<b>2</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>6</b>	<b>2</b>
(b)	<b>2</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>6</b>	<b>2</b>
(c)	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>8</b>	<b>2</b>
(d)	<b>-</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>10</b>	<b>2</b>
(e)	<b>-</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>10</b>	<b>2</b>
2. (a)	<b>2</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>4</b>	<b>-</b>
(b)	<b>-</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>8</b>	<b>2</b>
(c) (i)	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>2</b>
(c) (ii)	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>2</b>
(c) (iii)	<b>-</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>10</b>	<b>3</b>
(d)	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>
(e)	<b>2</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>10</b>	<b>2</b>
	<b>14</b>	<b>23</b>	<b>22</b>	<b>21</b>		
	<b>(11-16)</b>	<b>(21-26)</b>	<b>(18-24)</b>	<b>(18-24)</b>	<b>80</b>	<b>21</b>