

EC3 GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate 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.

Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS – EC3

Summer 2012

SECTION A

Q.1 The diagram shows the cost and revenue curves for a profit-maximising monopolist in the long-run situation.

(a) Using the letters in the diagram, identify:

(i) the monopolist's profit-maximising output; [1]

OQ (or Q) (1) *Not R or S*

(ii) the firm's monopolist's abnormal profit. [1]

PRST (1) *or equivalent description of rectangle e.g. TPRS*

(b) Explain why a monopolist is able to earn abnormal profits in the long-run. [3]

Explanation/definition of abnormal profits. (1)

Explanation of barriers to entry preventing abnormal profits being competed away (using appropriate example). (3)

Can get 3 without defining abnormal profit but must describe price falling

Q.2 The diagram shows the long-run average total cost (LRATC) of firms in an industry at different levels of output.

Explain why it may benefit the consumer to have one monopoly provider producing 3000 units per week rather than three smaller firms producing 1000 per week each. [4]

Identification of lower costs for monopolist (referring to diagram)
e.g. £80 v £100/£120 lower (2)

Explanation of benefits, e.g. natural monopoly operating at lowest-costs output/MES/economies of scale/would be able to charge lower prices and still be profitable. (Credit argument consumer may not benefit if monopolist does not pass on cost reductions) (4)

For 4 must explain rather than assume that consumer will benefit from lower ATC

Q.3 The diagram shows the marginal product of labour (MPL) and average product of labour (APL) for a bakery using increasing amounts of labour in the short-run.

Explain the shape of the marginal product of labour (MPL) curve. [4]

Explanation of SR situation/at least one fixed factor/definition of MPP/DMR (2)
(description of curve only = 1)

Explanation of why MPP eventually falls/becomes negative at OB, e.g. limited size of factory, labour has insufficient capital equipment, etc.
(No credit for economies/diseconomies of scale). (2)

- Q.4 The diagram above shows a justification for a carbon tax on coal-fired electricity power stations. Using the diagram, discuss the case for this carbon tax. [6]**

Explanation of case for heavier tax, e.g. demerit goods create negative externalities, will reduce demand, therefore, lower external costs, deadweight/welfare loss, *divert to cleaner technologies, revenue can be used for other purposes*, reference to diagram.

Evaluation, e.g. difficulty of measuring externalities, may be inflationary, tax revenue not necessarily hypothecated to dealing with external effects, effects on employment/output in coal/electricity industries.

Max of 4 marks for one side of argument only.

- Q.5 Explain why the claimant count measure of unemployment is usually lower than that produced by the Labour Force Survey. [3]**

Identification of difference in way unemployed measured, e.g. CC by benefits claims, LFS by survey. (1)

Development, e/g/ explanation (with example) of people included in LFS but not in CC. (2)

- Q.6 (a) Using the data, explain what happened to the UK's terms of trade between 2000 and 2010. [2]**

Rose/improved between 2004, mostly fell/worsened thereafter/rose slightly over period. (1)

Use of figures/ referring to *changes in X and M prices, explanation of TOT index*. (1)

- (b) Explain possible reasons for the changes in export and import prices.[4]**

Identification and explanation of appropriate factors, e.g. changes in UK productivity, relative inflation rates, exchange rates, *cost of raw materials, tariffs. Must refer to prices rather than X and M volumes*. (2x2)

- Q.7 Discuss whether the Monetary Policy Committee (MPC) was right to keep interest rates at 0.5% [6]**

Explanation of arguments for maintaining rate, e.g. higher rates would reduce demand and GDP growth further. exaggerate effects of Government spending cut/deepen recession.

Evaluation, e.g. inflation well above target, will rise further unless MPC raises rates, possibility of wage-price spiral.

Max of 4 marks for one side only

- Q.8 Using appropriate economic theory, discuss the extent to which the data shows a trade-off between unemployment and inflation. [6]**

Descriptive explanation of possible relationship using figures, e.g. appears to be trade-off in some periods (late 80s, late noughties) but positive relationship for other periods. (3)

Development using appropriate theory, e.g. AS/AD, Phillips curve. (3)

SECTION B
Answer **one** question

The following levels should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	<p>Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p>
Level 3	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
Level 4	16-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

Q.9 To what extent should governments intervene to correct market failure? [20]

Definition & explanation of possible sources of market failure, e.g.

- external costs and benefits
- public, merit and demerit goods
- information failure
- uncertainty
- monopoly/power
- factor immobility

Explanation of types of government intervention/reasons for intervention, e.g.

- to reduce pollution
- redistribute income
- correct information failure, e.g. demerit goods

Evaluation of reasons/effects of government intervention (government failure) e.g.

- creation of disincentives to effort and enterprise
- higher taxes/Government spending
- higher costs/prices
- appropriate diagrammatic illustration

NB: Candidates are not expected to discuss **all** types of market failure.

Q.10 'Many UK industries are dominated by a few large firms.' How far is this situation bad for the UK economy? [20]

Explanation referring to 'domination'/'large firms', e.g. referring to market share/% of total sales, identification of oligopoly without explanation.

Explanation and evaluation of possible extent of competition, e.g.

- small number of producers may limit competition
- possible limited price competition
- large producers may be able to dominate market
- inter-dependence between producers
- still have to compete to keep business
- non-price competition
- possible anti-competitive practices
- explanation of oligopolistic model
- may lead to occasional price wars
- economies of scale/generation of investment funds

Level 4 answers should refer to wider macro-economic issues such as international competitiveness and employment.

Q.11 Discuss the view that the Government should encourage an increase in the number of mergers between UK firms. [20]

Definition and explanation of merger.

Explanation of possible advantages of mergers, e.g.

- possible lower prices
- better technology/production methods
- increased international competitiveness
- more secure jobs

Evaluation of benefits of mergers, e.g.

- limited evidence that they have worked in past
- possible diseconomies of scale
- may lead to anti-competitive practices
- may conflict with EU legislation/competition policy

Attempt to balance these arguments/refer to possible macro-economic effects, e.g. on growth, employment, balance of payments, external economies.