

EC4 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 – EC4

Summer 2012

- Q.1 (a) Using the data, explain the argument that there were 'more than enough taxis in Cardiff' in March 2010. [8]**

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|----------------------|---|
| Level 1 1-4 marks | <p>Identification of basic arguments, e.g.</p> <ul style="list-style-type: none"> • increase in taxi licences compared to rise in population • Cardiff has far more than similar cities |
| Level 2 5-8 marks | <p>Explanation of argument using figures, e.g.</p> <ul style="list-style-type: none"> • number of taxis almost doubled, population increased more slowly |

- (b) What does the data suggest about the structure of the taxi market in Cardiff? [8]**

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|----------------------|--|
| Level 1 1-4 marks | <p>Identification of basic structure, e.g.</p> <ul style="list-style-type: none"> • large number of businesses • none particularly dominant • customer loyalty important • few barriers to entry |
| Level 2 5-8 marks | <p>Development, e.g.</p> <ul style="list-style-type: none"> • monopolistically competitive • can only make normal profit at most <p><i>allow up to 4 for perfect competition with appropriate illustration</i></p> |

- (c) Discuss whether Cardiff Council were right to restrict the number of taxi licences to be issued in Cardiff. [12]**

| | |
|-----------------------|---|
| Level 1 1-6 marks | <p>Explanation of arguments for restriction, e.g.</p> <ul style="list-style-type: none"> • taxi-drivers unable to make sufficient income • long waiting times for drivers • demand much greater than supply • may avoid creating unemployment for taxi- drivers |
| Level 2 7-12 marks | <p>Evaluation of arguments against restriction, e.g.</p> <ul style="list-style-type: none"> • restricts competition • may make it more difficult for passengers to get taxis • more alcohol-related crime • lower quality of taxis • fewer wheelchair-accessible taxis |

- (d) **Some environmental campaigners have suggested that Cardiff Council should subsidise local buses and discourage taxi and private car access to the city centre. Discuss the case for and against this policy.** [12]

| | |
|-----------------------|---|
| Level 1 1-6 marks | Explanation of arguments for policies, e.g. <ul style="list-style-type: none"> • reduction of social costs such as pollution and congestion • fewer accidents • social benefits for lower income groups • has progressive effect • use of appropriate diagram(s) |
| Level 2 7-12 marks | Evaluation of argument, e.g. <ul style="list-style-type: none"> • higher Council spending • opportunity cost of subsidies • bus passengers should pay for own transport • too expensive/inefficient to have late-night buses • restricts consumer choice • loss of jobs for taxi-drivers • loss of trade/jobs in city centre <ul style="list-style-type: none"> • <i>bus companies may not pass on savings</i> |

- Q.2 (a) Describe how the structure of the UK economy has changed since 1980.** [8]

| | |
|----------------------|--|
| Level 1 1-4 marks | Identification of trends, e.g. <ul style="list-style-type: none"> • fall in manufacturing share of employment and output • rise in service sector • primary sector percentage little change |
| Level 2 5-8 marks | Development using figures. <i>Maximum 6 if don't use trade figures</i> |

- (b) Explain the factors which may have caused these changes.** [8]

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|----------------------|---|
| Level 1 1-4 marks | Identification of relevant factors, e.g. <ul style="list-style-type: none"> • foreign takeovers of UK firms • high UK inflation • high exchange rates • lower costs in other countries • success of UK financial services • decline in trade balance |
| Level 2 5-8 marks | Explanation of relevant factors, e.g. <ul style="list-style-type: none"> • foreign firms may not use local suppliers • higher productivity/technological change in manufacturing • high exchange rate makes exports dearer, imports cheaper <ul style="list-style-type: none"> • <i>higher Government spending has been mostly on services</i> |

- (c) **How far does the change in its industrial structure matter to the success of the UK economy?** [12]

| | |
|-----------------------|---|
| Level 1 1-6 marks | <p>Arguments for concern about trends, e.g.</p> <ul style="list-style-type: none"> • manufacturing industry important as customer for other sectors • decline may increase trader deficit • may hit particular regions harder than others • loss of skills • financial sector not as successful as previously |
| Level 2 7-12 marks | <p>Evaluation of reasons for concern, e.g.</p> <ul style="list-style-type: none"> • service sector replacing manufacturing jobs • need to concentrate upon areas where UK has comparative advantage • many manufacturing jobs low-skilled/low value-added <ul style="list-style-type: none"> • <i>interdependence of service & manufacturing sectors</i> |

- (d) **Recent Government economic policies have been focused on reducing the public sector deficit by increasing some taxes and cutting Government spending.**

Discuss whether these are the correct policies to help UK manufacturing firms. [12]

| | |
|-----------------------|---|
| Level 1 1-6 marks | <p>Explanation and evaluation of arguments for cutting spending/raising taxes, e.g.</p> <ul style="list-style-type: none"> • public sector debt may be unsustainable in the long-run • possible crowding-out • lower consumption in future years • lower long-term interest rates • will eventually reduce inflation and interest rates for manufacturing firms • will release finance for private sector manufacturers • lower tax burden eventually |
| Level 2 7-12 marks | <p>Arguments against policy, e.g.</p> <ul style="list-style-type: none"> • may make recession worse and cut demand for manufactured goods • possible higher unemployment • will lead to lower spending on education and training • will reduce growth and confidence in the UK economy • may lead to lower profits and investment • depends which taxes are reduced • other policies, e.g. developing skills, supply-side <ul style="list-style-type: none"> • <i>disincentives to effort</i> • <i>alternative policies e.g. supply-side, tariffs</i> |

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 sound 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.3 In 2012 it seems unlikely that the UK will now join the European monetary Union (EMU) in the near future.

Discuss whether continued absence from the EMU is good for the UK economy. [20]

Definition and explanation of EMU and implications, e.g.

- single European currency European Central Bank, common interest rates

Explanation and evaluation of possible advantages and disadvantages of adopting EMU, e.g.

- easier trading
- no exchange rate fluctuations
- lower transaction costs
- Government cannot devalue
- 'discipline' on inflation
- wider markets for UK firms/possibility of economies of scale
- possible higher growth and employment
- possible outward shift in PPC/AS curve
- if entry delayed will be more difficult to adjust in later years
- increased competition from abroad may lead to higher unemployment/lower growth
- reduced independence for UK economic policy
- not joining may lead to lower inward investment
- *British people happier and more confident abroad if used to using the euro*
 - common interest rate may be unsuitable for countries with different economic conditions/UK economy more sensitive to interest rate changes (e.g. because of variable-interest mortgages)
 - benefits/difficulties of having to meet convergence criteria
 - benefits partially dependent upon mobility of factors
 - costs to business of adjusting to Euro
 - effects upon London as financial centre
- *British people will feel lost if don't have the Queen's head on their currency*

Level 4 answers should make a judgement as to whether the Government should enter EMU and refer to wider macro-economic effects such as those on inflation, unemployment and growth as well as basic 'exchange' effects.

Q.4 In 2011 the UK's rate of inflation was rose to over 5%. Evaluate the view that the reduction of inflation should be the Government's main priority. [20]

Definition/explanation of inflation/causes of inflation

Descriptive explanation of problems caused by inflation, e.g.

- falling value of money
- shoe-leather and menu costs
- uncertainty
- reduced value of savings/fixed incomes
- distorts functions of money
- fiscal drag
- *Unfair redistribution of income away from pensioners, public sector workers etc*

Theoretical development linked to other macro-economic objectives, e.g.

- maintaining growth and employment
- meeting EMU convergence criteria
- self-perpetuating, e.g. wage-price spiral
- may increase Government spending, e.g. index-linked social security

Evaluation, e.g.

- consequences of Government anti-inflationary policy
- importance of other macro-economic objectives, e.g. getting economy out of recession/mass unemployment

Q.5 Evaluate the policies that poor developing countries might use when trying to compete with richer more developed countries. [20]

Explanation and illustration of possible problems, e.g.

- low levels of education/skill
- dependence upon particular industries
- dependence upon imports
- lack of appropriate technology
- high debt repayments
- protectionism
- *Use of appropriate theories e.g. Lewis, Rostow, Harrod-Domar*

Evaluation of possible methods for overcoming difficulties, e.g.

- encouraging strategic industries
- protectionist measures
- concentration upon import substitution
- relying upon free competition and trade
- attracting inward investment
- aid from other countries

Level 4 answers should attempt to balance relative merits of alternative policies, e.g. explanation of why best policies may vary between different countries.



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