

UNIT 3: EXPLORING ECONOMIC BEHAVIOUR**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 omission. It should be possible for a very good learner 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.

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

AO1

Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues

AO2

Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues

AO3

Analyse issues within economics, showing an understanding of their impact on economic agents

AO4

Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

Q.	Mark scheme	Total
1 (a)	<p>Explain what is meant by the principle of diminishing returns to a factor.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for full correct understanding - as variable resources are added to fixed resources the marginal output falls.</p> <p>Award 1 mark for incomplete understanding or brief definition.</p>	2
1 (b)	<p>At which output do diminishing returns begin?</p> <p>AO2: 1 mark</p> <p>Award 1 mark for</p> <p>3rd unit</p>	1
1 (c)	<p>Calculate the firm's marginal revenue if it produces and sells a 7th unit and comment on your answer.</p> <p>AO2: 2 marks</p> <p>Award 1 mark for identification of correct figures.</p> <p>Award 1 mark for correct calculation.</p> <p>$\text{£}28 - \text{£}30 = \text{£}-2$</p> <p>AO1: 1 mark</p> <p>Award 1 mark for valid comment linked to the answer.</p> <p>MR is negative indicating TR is falling or the firm would actually lose money by selling one more unit or demand is inelastic.</p>	3

Q.	Mark scheme	Total
2	<p data-bbox="300 253 1212 353">Add the firm's marginal cost and average total cost curves to the diagram above to illustrate the long-run equilibrium for a firm in monopolistic competition. Justify your answer.</p> <div data-bbox="454 405 1161 757" style="text-align: center;"> </div> <p data-bbox="300 797 475 824">AO2: 2 marks</p> <p data-bbox="300 860 1182 887">Award 2 marks for the correct marginal cost and average total cost curves.</p> <p data-bbox="300 922 1305 981">Award 1 mark for correct marginal or average cost curves or for MC clearly not going through minimum point of ATC.</p> <p data-bbox="300 1016 475 1043">AO1: 2 marks</p> <p data-bbox="300 1079 831 1106">Award 2 marks for full correct understanding.</p> <p data-bbox="300 1142 884 1169">Award 1 mark for brief incomplete understanding.</p> <p data-bbox="300 1205 1086 1232">Identification of low barriers to entry and lots of firms in the market.</p> <p data-bbox="300 1267 475 1294">AO3: 2 marks</p> <p data-bbox="300 1330 1299 1411">Award 2 marks for full development of points to say that abnormal profits are eroded away to normal profit by new firms entering the market. Credit a statement which instead explains why only normal profits will be made in long run equilibrium.</p> <p data-bbox="300 1447 868 1473">Award 1 mark for limited or partial development.</p> <p data-bbox="300 1509 1283 1626">Credit to be given for reference to AR and MR shifting to the left as a result of new firms entering the market and eating away the market share of existing firms. An alternative approach in which firms were initially loss-making and therefore AR and MR shift to the right as other firms leave is also valid.</p>	6

GCE AS & A LEVEL ECONOMICS Specimen Assessment Materials 70

Q.3	Based on the data above, discuss the extent to which it is fair to conclude that living standards in Swaziland are higher than those in Chad? [8]	
Band	AO2	AO4
	6 marks	2 marks
3	<p style="text-align: center;">5-6 marks</p> <p>Information in the data is fully used in the development of the answer.</p> <p>Learner shows good depth of understanding of a wide range of the variables, focussing on 3 or 4.</p> <p>A strong understanding of the link between the variables selected and living standards.</p> <p>A good answer will focus on variables from the 3 underpinning ideas behind development – income, health and education.</p>	
2	<p style="text-align: center;">3-4 marks</p> <p>The link between selected variables and living standards is made.</p> <p>The link between the variables and living standards is not fully developed or the range of variables selected is narrow.</p>	<p style="text-align: center;">2 marks</p> <p>Clear evaluation of the living standards in Swaziland and Chad.</p> <p>Will offer an overall conclusion/judgement.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Limited use of the information in the data.</p> <p>Data has been used, but the link to living standards is only asserted.</p> <p>A narrower range of data is covered, missing out on important sectors, or focussing on only one country.</p>	<p style="text-align: center;">1 mark</p> <p>Limited evaluation on the living standards in Swaziland and Chad.</p> <p>May offer an overall brief conclusion.</p>
0	<p style="text-align: center;">0 marks</p> <p>No data used from the passage.</p>	<p style="text-align: center;">0 marks</p> <p>No evaluation.</p>

Indicative content:

Swaziland has significantly (about 3.5 times) higher GNI per capita at PPP, suggesting that both the tax base and personal income will be higher, implying higher living standards.

However, this does not seem to leverage into higher life expectancy at birth, because in spite of spending twice as much on health as a percentage of GDP, life expectancy in Swaziland is 2 years lower than Chad.

On the other hand, the infant mortality rate is 56/1000 in Swaziland compared with 89/1000 in Chad, which suggests that the low life expectancy is likely to be primarily a factor of the high HIV rates rather than deficiencies in health provision per se.

The education system in Swaziland also looks good on the surface, with mean years of schooling over 4 times higher than in Chad. The difference narrows when looking at the current generation, but adult literacy is still over twice as high.

The final piece of evidence is the HDI. There is no surprise that this is higher in Swaziland, given that it is based on income, health and education.

On balance, Swaziland seems broadly to have higher living standards except for the terrible HIV/AIDS epidemic, which country really has the higher living standards will therefore depend on the priorities of the observer.

Q.	Mark scheme	Total
4	<p>Explain two possible reasons why a period of low interest rates may have improved the UK's inequality problem.</p> <p>AO1: 2 marks</p> <p>Award 1 mark for each correct reason identified.</p> <p>AO3: 2 marks</p> <p>Award 1 mark for development for each reason identified.</p> <p>Indicative content:</p> <p>Reduced interest rates mean that mortgages have become more affordable/accessible to low income families and therefore more people are now on the property ladder.</p> <p>Similarly other consumer goods such as cars, furniture, etc become more affordable bought on credit.</p> <p>Rates on loans and overdrafts are likely to have fallen, benefitting those on low incomes the most.</p> <p>Savings have grown very little in four years which means that people with their wealth saved in banks have seen little return on the last four years.</p> <p>As a result of interest rates being low, rates of return on other forms of wealth such as bonds are likely to have decreased.</p>	4

GCE AS & A LEVEL ECONOMICS Specimen Assessment Materials 73

Q.	Mark scheme	Total
5 (a)	<p>Calculate the opportunity of producing 1 iPad in Springland</p> <p>AO2: 1 mark</p> <p>Award 1 mark for correct answer.</p> <p>20 barrels of oil</p>	1

Q.5 (b)	Discuss whether trade will be beneficial for both Springland and Rosemoor. [6]	
Band	AO2	AO4
	4 marks	2 marks
2	<p>3-4 marks</p> <p>Learner shows a clear understanding that comparative advantage exists in the scenario and identifies that Springland has a comparative advantage in oil/Rosemoor in iPads.</p> <p>Learner shows an understanding of the benefits of specialisation such as consuming outside of the PPF.</p> <p>The top mark is reserved for any learner who meets criteria above and also offers a correct reference to mutually beneficial terms of trade.</p>	<p>2 marks</p> <p>Well-reasoned judgement of at least one-side of the argument.</p> <p>At least 1 well-developed evaluative point is discussed as to why trade might not be beneficial.</p>
	<p>1-2 marks</p> <p>Learner shows an understanding of comparative advantage in the scenario and identifies that Springland has comparative advantage in oil/Rosemoor in iPads.</p> <p>No development or comments on the likely benefits of that of comparative advantage.</p>	<p>1 mark</p> <p>Learner offers very limited evaluation.</p> <p>Learner only offers a generic evaluative point such as it depends on the terms of trade/ER.</p>
0	<p>0 marks</p> <p>No reference to the scenario.</p>	<p>0 marks</p> <p>No valid evaluation.</p>

Indicative content:

Physical terms of trade (or the limits of trade) will need to lie between a ratio of 1:4 and 1:20 iPads: barrels of oil (or between 1 Oil: 0.05 – 0.25 iPads). If so, both countries will experience an increase in their consumption possibilities.

Rosemoor can only produce 30 iPads, which (even if they specialised) may not be enough for Springland's population.

Rosemoor may not wish to be completely dependent on another country for its oil.

One of the countries may have a number of jobs in that particular industry which they may not wish to lose.

Depends whether respective governments impose protectionist measures.

Depends on the cost of transportation between the two countries.

GCE AS & A LEVEL ECONOMICS Specimen Assessment Materials 74

Q.	Mark scheme	Total
6 (a)	<p>Explain how economists measure inflation using indices such as CPI.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a full and clear understanding.</p> <p>Award 1 mark for brief or incomplete understanding.</p> <p>AO3: 1 mark</p> <p>Award 1 mark for development.</p> <p>Basket of goods designed to cover most major sectors of expenditure.</p> <p>Some sense of process being measured over time.</p> <p>Reference to the idea of a weighted average using price information from a wide variety of retailers over a wide geographical area, collected on a regular and consistent basis.</p> <p>Adjusted over time to reflect changing patterns of consumer spending.</p>	3

Q.6 (b)	How important is it for the UK to cut its inflation rate if it is to remain in the EU? [6]	
Band	AO3	AO4
	2 marks	4 marks
2	2 marks	3-4 marks
	<p>Clear analysis of the consequences of inflation for the UK linked to EU membership.</p> <p>Learner provides a logical and developed argument that the UK needs to cut its inflation rate.</p>	<p>A critical evaluation of the relevance of cutting inflation to remain in the EU.</p> <p>The evaluation will include reference to evaluative points as to why reducing inflation is not that important.</p> <p>The points will gain greater credit if they are in context and not generic.</p>
1	1 mark	1-2 marks
	<p>Limited analysis of the the consequences of inflation for the UK linked to EU membership.</p> <p>Learner only makes generic statements about inflation and problems associated with it without actually mentioning the idea of competitiveness.</p>	<p>Brief or one-sided evaluation.</p> <p>Learner only makes 1 evaluative statement.</p> <p>Evaluative points are very generic with no further development.</p> <p>Evaluative points are only partially correct in their reasoning.</p>
0	0 marks	0 marks
	<p>Little or no analysis.</p>	<p>No valid evaluation.</p>

Indicative content:

UK has highest rate of inflation of all EU member states therefore exports are likely to be uncompetitive/sales of exports are likely to decrease **or** some reference to deteriorating competitiveness leading to a fall in AD **or** a fall in the number of jobs **or** a fall in GDP.

EU is a big market for the UK; therefore deteriorating competitiveness is likely to be a serious problem.

UK produces unique goods and services/inelastic goods and services and so it will continue to export lots of products to EU countries anyway.

UK is not in the EMU and therefore exchange rate matters more than inflation rate, for example if the £ is very weak, then the price of UK exports will seem low anyway.

UK is a net importer and therefore that fact that imports are still much cheaper than domestic products is good for the UK economy.

There is no EU requirement for the UK to have any given target rate of inflation.

It is not clear how leaving the EU would make things any better.

Staying in the EU will tend to help reduce inflation because of direct competition.

Section B – Data Response

Q.7	In the 1960s significant quantities of oil were discovered in Nigeria, generating huge revenues. Nigeria looked set to become an economic giant”. Explain this statement. [4]	
Band	AO2	AO3
	2 marks	2 marks
2	2 marks	2 marks
	Good use of the data in the case study.	Clear analysis of the data. Good well-developed answer explaining how increased oil revenue would lead to economic growth.
1	1 mark	1 mark
	Limited use of the data.	Limited analysis of the data. Answer makes it clear that oil revenue will increase economic growth, but the mechanism through which this might happen is not fully clear.
0	0 marks	0 marks
	Little or no use of the data, a largely theoretical answer.	Little or no analysis of the data.

Indicative content:

In principle the discovery of abundant resources such as oil can lead to rapid economic growth, both actual and potential. Exploitation of the resource can lead to rapid build-up of infrastructure and increases in employment, all of which will have multiplier effects throughout the economy. Likewise, the oil revenue can help to build the government’s tax base, which will allow the investment of money into health and education which will both improve living standards and lead to an increase in potential growth.

In this case, it can be seen that there has been a substantial increase in oil revenue per capita, from \$33 in 1960 to \$325 – this should have led to a significant increase in AD and in government sector activity. As the text makes clear, an economy like Norway has managed to harness the power of its oil and gas to create a strong economy. Australia, Chile, Canada and Botswana are also quoted.

Q.8	Using the data, discuss the extent to which economic growth in Nigeria since the 1960s has led to higher living standards. [8]	
Band	AO2	AO4
	4 marks	4 marks
2	3-4 marks	3-4 marks
	<p>Clear reference to the data throughout the answer.</p> <p>A wide range of data is used to support the answer.</p> <p>Data selected supports both sides of the debate and is developed to show its relevance.</p>	<p>A critical evaluation on economic growth and higher living standards.</p> <p>An evidenced judgement about whether or not living standards have risen over the last 50 years and whether this is linked to GDP growth.</p> <p>Both sides of the argument are well-qualified throughout.</p>
1	1-2 marks	1-2 marks
	<p>The learner uses some pieces of supporting data, but not consistently.</p> <p>Development is limited.</p> <p>The answer may contain a wide range of scattered points or 1 or 2 well-developed pieces of data.</p>	<p>Brief or one-sided evaluation.</p> <p>Attempts to qualify some of their points, but the evaluation is not well-developed.</p> <p>Explanation of the evaluative points is underdeveloped.</p>
0	0 marks	0 marks
	<p>Little or no use of the data, a largely theoretical answer.</p>	<p>No valid evaluation.</p>

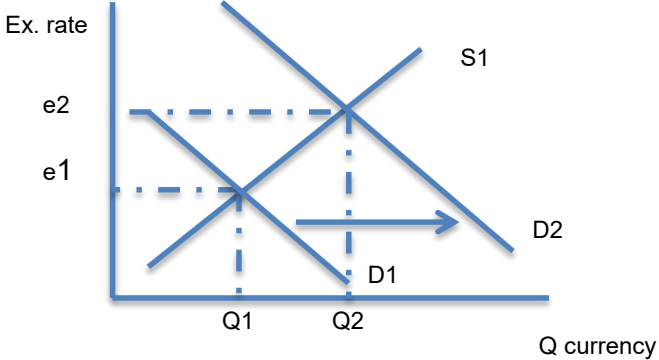
Indicative content:

Life expectancy has risen from 26 to 52 since 1960, **but** since GDP/capita has not increased, it is more likely that this is due to improvements in technology and vaccines rather than anything internal to the Nigerian economy.

Nigeria's HDI has risen from 0.434 in 2005 to 0.471 in 2012 **but** this suggests that very little happened between 1960 and 2005 because an HDI of below 0.5 is fairly poor.

Inequality has increased significantly over the 1990s, suggesting that any benefits of economic growth are likely to be concentrated in the hands of a small minority – whilst oil revenue per capita has risen from \$33 to \$325 per person, GDP/person remains unchanged.

The case argues that Nigeria has endemic corruption and poor institutions of government which will make it difficult to leverage economic growth into actual improvements in living standards because of the limited feed-through into health and education.

Q.	Mark scheme	Total
9 (a)	<p>With reference to the data and using a diagram, explain what is meant by 'Dutch Disease'.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a correct diagram.</p> <p>Award 1 mark for a diagram that has features missing.</p> <p>Exchange rate diagram showing demand shift right, and an appreciation in the price of currency.</p>  <p>The diagram is a coordinate system with 'Ex. rate' on the vertical axis and 'Q currency' on the horizontal axis. An upward-sloping supply curve is labeled 'S1'. Two downward-sloping demand curves are shown: 'D1' and 'D2'. A horizontal arrow points from 'D1' to 'D2', indicating a rightward shift in demand. The initial equilibrium is at the intersection of 'S1' and 'D1', with a vertical dashed line to 'Q1' on the horizontal axis and a horizontal dashed line to 'e1' on the vertical axis. The new equilibrium is at the intersection of 'S1' and 'D2', with a vertical dashed line to 'Q2' on the horizontal axis and a horizontal dashed line to 'e2' on the vertical axis. 'e2' is higher than 'e1', and 'Q2' is further to the right than 'Q1'.</p> <p>AO2: 2 marks</p> <p>Award 2 marks clear reference to the data in explaining 'Dutch Disease'.</p> <p>Award 1 mark for brief or limited reference to the data.</p> <p>Discovery of new resources increases demand for currency/capital inflow increase and as result ER appreciates and export prices increase.</p>	4

Q.9 (b)	Explain why 'Dutch Disease' might damage other sectors of the Nigerian economy.	[4]
Band	AO2	
	4 marks	
	3-4 marks	
2	<p>Clear reference to the data throughout the answer.</p> <p>A wide range of data is used to support the answer.</p> <p>Learner shows an appreciation of what 'Dutch Disease' is (specifically, there is a need to make reference to the appreciation of the exchange rate) and then successfully develops a fully explained reason why this is disadvantageous for a "local productive sector", e.g. firms look to external markets in order to sell their goods but if the exchange rate is high, the price of exports is high and this will reduce the number of exports that firms can sell.</p>	
	1-2 marks	
1	<p>The learner uses some pieces of supporting data, but not consistently.</p> <p>Development is limited.</p> <p>Learner cannot develop beyond the idea that 'Dutch Disease' causes exchange rate to appreciate. There may be an appreciation of what local productive sector is but the link between exchange rates is not made successfully.</p>	
	0 marks	
0	Little or no use of the data, a largely theoretical answer.	

Q.10	With reference to the data, discuss whether having an abundance of resources is a blessing or a curse for a developing country. [10]		
Band	AO2	AO3	AO4
	4 marks	2 marks	4 marks
2	3-4 marks Clear reference to the data throughout the answer. A wide range of data is used to support the answer. Data selected supports both sides of the debate and is developed to show its relevance.	2 marks Clear analysis of the data. Good well-developed answer explaining the impacts of an abundance of resources for a developing country.	3-4 marks A critical evaluation which considers the advantages and disadvantages of an abundance of resources. The evaluation is supported by economic theory and reference to the context.
1	1-2 marks The learner uses some pieces of supporting data, but not consistently. Development is limited. The answer may contain a wide range of scattered points or 1 or 2 well-developed pieces of data that do not really cover the range that would be expected.	1 mark Limited analysis of the data. An attempt is made to explain the impacts of an abundance of resources for a developing country.	1-2 marks Limited or brief evaluation of the importance of resources to a country. Unsupported judgements.
0	0 marks Little or no use of the data, a largely theoretical answer.	0 marks No impacts identified or explained.	0 marks No valid evaluation.

Indicative content:

In principle significant amounts of natural resources can be a major benefit:

The revenue generated from these resources can be used by the government to invest into the infrastructure of the economy and improve health and education. This can lead to an expansion of other sectors of the economy in the medium term, and an expansion of AS (potential growth).

Revenue can be invested (as in the case of Norway) to build a sovereign wealth fund that will provide long term income for the government after the resource has run out.

Exports can boast actual growth, creating jobs. Exploitation of the resource may lead to a build-up of ancillary sectors.

The resource may attract FDI, bringing technology, skills and investment.

But

There is a risk of corruption and conflict (the resource curse) meaning that, as in the case of Nigeria, the resource does not produce the expected benefits.

Risk of Dutch Disease.

Prices of primary products can be very volatile, meaning big swings in GDP and the government's tax base.

GCE AS & A LEVEL ECONOMICS Specimen Assessment Materials 81

There is a danger that the resources benefit only a narrow elite and also that the elite has no need of tax revenue from the population, reducing the need to supply merit goods and so on.

As in the case of Nigeria, the resource may become exploited by MNCs, providing little residual benefit to the economy.

The resource will benefit the economy most if the revenue can be used to add further value (eg by developing refining capacity).

Commodity prices may tend to fall over time, worsening the terms of trade for primary dependent countries.

May make the economy dependent on imports if resource production comes to dominate.

Q.11	To what extent should Chinese investment in Nigeria be encouraged by the Nigerian Government? [10]	
Band	AO3	AO4
	6 marks	4 marks
3	<p>5-6 marks</p> <p>An excellent, clear and well-developed analysis of the impacts of FDI.</p> <p>The analysis is developed fully in the context of the data and supported by relevant economic theory.</p> <p>The learner develops a clear chain of argument with logical chains of reasoning.</p>	
	<p>3-4 marks</p> <p>A good analysis of the impacts of FDI.</p> <p>The learner shows a good understanding of the advantages/benefits of a country having an increased level of FDI.</p> <p>An attempt is made to develop points.</p> <p>Reference is made to the context to support the analysis.</p>	<p>3-4 marks</p> <p>A good evaluation of FDI.</p> <p>Learner demonstrates an appreciation of both the advantages and disadvantages of increasing expenditure.</p> <p>Economic theory and real-life context are used to support and justify the evaluation.</p>
1	<p>1-2 marks</p> <p>Limited analysis of the impacts of FDI.</p> <p>Undeveloped points are made with little or no reference to the context.</p>	<p>1-2 marks</p> <p>Limited evaluation of FDI.</p> <p>Unsupported judgements are made with little or no reference to the context.</p> <p>Generic answers with absolutely no reference to the context.</p>
	<p>0 marks</p> <p>No valid analysis.</p>	<p>0 marks</p> <p>No valid evaluation.</p>

Indicative content:

Inward investment has a number of possible benefits:

MNCs may bring investment to allow the resource to be fully exploited.

This investment may help to create jobs and therefore local multiplier effects.

MNCs may invest in the development of infrastructure – especially roads and rail links, which has spill-over benefits to other sectors.

Inward investment may allow new skills and technologies to spread throughout the economy.

Rising inward investment is likely to increase the government's tax base, as well as increasing GDP and local multiplier effects.

But

Some MNCs import the skilled labour that they need, reducing the benefits to the local economy.

Some MNCs exploit local workers, providing poor pay and conditions.

MNCs may help to prop up corrupt elites.

MNCs may repatriate profits, meaning that GNI is far lower than GDP.

MNCs may use internal accounting techniques to avoid making profit in the country, reducing the tax benefits to the government.