



**GCE**

**Economics**

Unit **H060/01**: Themes in Microeconomics

Advanced Subsidiary GCE

**Mark Scheme for June 2016**

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

It is also responsible for developing new specifications to meet national requirements and the needs of students and teachers. OCR is a not-for-profit organisation; any surplus made is invested back into the establishment to help towards the development of qualifications and support, which keep pace with the changing needs of today's society.

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.
















All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

© OCR 2016

Annotations

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Benefit of doubt
	Level 1
	Level 2
	Level 3
	Level 4
	Analysis
	Evaluation
	Unclear point
	Not answered question
	Noted but no credit given
	Too vague
	Own figure rule

<b>Levels of response / Level descriptors</b>	<b>Knowledge and understanding/ Application</b>	<b>Analysis</b>	<b>Evaluation</b>
<b>Strong</b>	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
<b>Good</b>		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
<b>Reasonable</b>	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
<b>Limited</b>	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

<b>Multiple Choice Questions</b>	<b>Answer</b>
<b>1</b>	<b>B</b>
<b>2</b>	<b>D</b>
<b>3</b>	<b>D</b>
<b>4</b>	<b>D</b>
<b>5</b>	<b>B</b>
<b>6</b>	<b>C</b>
<b>7</b>	<b>B</b>
<b>8</b>	<b>B</b>
<b>9</b>	<b>B</b>
<b>10</b>	<b>C</b>
<b>11</b>	<b>C</b>
<b>12</b>	<b>D</b>
<b>13</b>	<b>C</b>
<b>14</b>	<b>A</b>
<b>15</b>	<b>C</b>

Q	Key	Rationale	A0	Quantitative Skills
1	B	<p><b>Rationale</b></p> <p>A This is an example of land.</p> <p>B <b>Correct:</b> cars are a human-made good used to produce a service.</p> <p>C This is not a factor of production.</p> <p>D This is also not a factor of production.</p>	1	
2	D	<p><b>Rationale</b></p> <p>A Costs and revenue are determined separately. Costs may be less than, equal to or greater than revenue.</p> <p>B Total revenue is not the equivalent of profit</p> <p>C Total revenue is maximised when price elasticity of demand = -1</p> <p>D <b>Correct:</b> Total revenue of a firm = the price of each unit times the number of units sold.</p>	1	
3	D	<p><b>Rationale</b></p> <p>A The is an example of market failure.</p> <p>B Harmful effects (and negative externalities) of exposure to sun are reduced.</p> <p>C This is an example of successful provision of information to reduce overconsumption of a demerit good.</p> <p>D <b>Correct:</b> This will make it more difficult for poor people to rent accommodation.</p>	2	
4	D	<p><b>Rationale</b></p> <p>A. This is a problem in terms of allocation of resources but it is not the basic economic problem</p> <p>B. This may be a government priority but it is not the basic economic problem.</p> <p>C. This may be a policy issue for government but it is not the basic economic problem.</p> <p>D. <b>Correct:</b> This explains why the basic economic problem of scarcity occurs.</p>	1	
5	B	<p><b>Rationale</b></p> <p>A Allocative efficiency would be achieved where consumer surplus plus producer surplus is maximised.</p> <p>B <b>Correct:</b> Marginal social benefit equalling marginal social cost ensures that the value society places on the last unit produced equals the cost of that unit.</p> <p>C The existence of externalities is likely to mean that market failure will occur.</p> <p>D To ascertain whether allocative efficiency is being achieved, it is not sufficient just to compare external benefits and costs – social benefits and costs needed to be compared.</p>	1	

Q	Key	Rationale	A0	Quantitative Skills
6	C	<p><b>Rationale</b></p> <p><b>A</b> Competitive demand occurs when goods are substitutes.</p> <p><b>B</b> Composite demand occurs when a product has multiple uses.</p> <p><b>C</b> <b>Correct:</b> derived demand is when the demand for one good or service is dependent on the demand for another good or service.</p> <p><b>D</b> Joint demand occurs when products are complements.</p>	1	
7	B	<p><b>Rationale</b></p> <p><b>A</b> Product X may be a luxury but if Product Y is non-habit forming it is likely to have elastic demand rather than inelastic demand.</p> <p><b>B</b> <b>Correct:</b> Product X has elastic demand whilst Product Y has inelastic demand. So Product X is likely to have substitutes while Product Y may be a necessity.</p> <p><b>C</b> In this case, both products are likely to have inelastic demand, which is not the case with Product X.</p> <p><b>D</b> Product X could be non-habit forming but it is not likely that Product Y is a luxury as luxuries tend to have elastic demand.</p>	2	x
8	B	<p><b>Rationale</b></p> <p><b>A</b> A close complement would have a high negative XED.</p> <p><b>B</b> <b>Correct:</b> the minus figure indicates that the product is a complement and the low figure of 0.2 suggests that it is not very responsive to a change in the price of the product it is purchased to use with it.</p> <p><b>C</b> A close substitute would have a high positive XED.</p> <p><b>D</b> A distant substitute would have a low figure such 0.2 but it would be a positive and not a negative figure.</p>	2	
9	B	<p><b>Rationale</b></p> <p><b>A</b> The price mechanism provides an incentive (via profits) for firms to adjust their supply to match changes in consumer demand.</p> <p><b>B</b> <b>Correct:</b> The price mechanism does not ensure an even distribution of income. Indeed, it can result in some people earning very high incomes while other people receive low or no income.</p> <p><b>C</b> The price mechanism does signal consumer preferences, with more popular products rising in price while less popular products fall in price.</p> <p><b>D</b> The price mechanism allocates resources to the production of products in high demand.</p>	1	

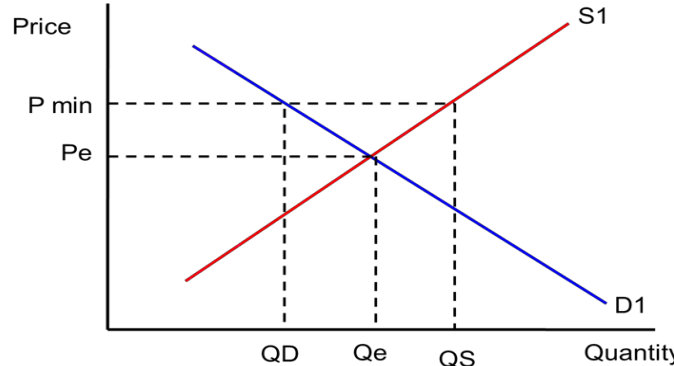
Q	Key	Rationale	A0	Quantitative Skills															
10	C	<p><b>Rationale</b></p> <p><b>A</b> W is attainable as it is inside the curve but it is not the only attainable production point.</p> <p><b>B</b> X and Y are attainable as they are on the curve but W is also attainable.</p> <p><b>C</b> <b>Correct:</b> W, X and Y are all attainable as they are on or inside the curve – there are sufficient resources to produce these different combinations.</p> <p><b>D</b> Z is not currently attainable as it is outside the curve indicating there are not sufficient resources to produce the combination.</p>	1																
11	C	<p><b>Rationale</b></p> <p><b>A</b> An equal shift to the left of the demand and supply curves will leave the equilibrium price unchanged.</p> <p><b>B</b> An equal shift to the left of the demand and supply curves will reduce the quantity traded.</p> <p><b>C</b> <b>Correct:</b> A decrease in supply on its own will push up the price but this would be offset by the downward pressure on the price resulting from a decrease in demand. Both lower supply and lower demand will reduce the quantity traded.</p> <p><b>D</b> If less is supplied and demand there will fewer products bought and sold.</p>	2	x															
12	D	<p><b>Rationale</b></p> <p><b>A</b> This is total variable cost divided by average fixed cost plus average total cost.</p> <p><b>B</b> This is total variable cost divided by average total cost.</p> <p><b>C</b> This is total variable cost divided by average fixed cost</p> <p><b>D</b> <b>Correct:</b> average total cost minus average fixed cost gives average variable cost. In this case, this is £9 - £6 = £3. Total variable cost divided by average variable cost equals output: £36,000/£3 = 12,000.</p>	3	x															
13	C	<p><b>Rationale</b></p> <table border="1" data-bbox="324 981 1451 1161"> <thead> <tr> <th></th> <th>Statement 1</th> <th>Statement 2</th> </tr> </thead> <tbody> <tr> <td><b>A</b></td> <td><b>Correct</b></td> <td><b>incorrect</b></td> </tr> <tr> <td><b>B</b></td> <td><b>Correct</b></td> <td><b>incorrect</b></td> </tr> <tr> <td><b>C</b></td> <td><b>Correct</b></td> <td><b>Correct</b></td> </tr> <tr> <td><b>D</b></td> <td><b>Incorrect</b></td> <td><b>incorrect</b></td> </tr> </tbody> </table> <p><b>C</b> Public goods involve non-excludability therefore it is impossible to charge an individual for use. They are also non-rival so one persons se does not reduce the availability for others.</p>		Statement 1	Statement 2	<b>A</b>	<b>Correct</b>	<b>incorrect</b>	<b>B</b>	<b>Correct</b>	<b>incorrect</b>	<b>C</b>	<b>Correct</b>	<b>Correct</b>	<b>D</b>	<b>Incorrect</b>	<b>incorrect</b>	2	
	Statement 1	Statement 2																	
<b>A</b>	<b>Correct</b>	<b>incorrect</b>																	
<b>B</b>	<b>Correct</b>	<b>incorrect</b>																	
<b>C</b>	<b>Correct</b>	<b>Correct</b>																	
<b>D</b>	<b>Incorrect</b>	<b>incorrect</b>																	



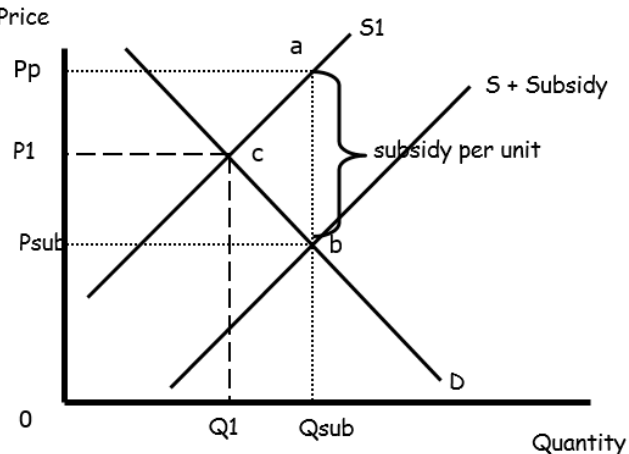
Q	Key	Rationale	A0	Quantitative Skills																														
14	A	<p><b>Rationale</b></p> <p><b>A</b> <b>Correct:</b> The initial equilibrium price is £16. When an indirect tax of £4 is imposed, the firms would receive the sale price minus the tax. So now at £20 they will supply what they previously supplied at £16. This will create a new supply curve.</p> <table border="1"> <thead> <tr> <th>Price (£)</th> <th>Quantity demanded per week</th> <th>New quantity supplied per week</th> </tr> </thead> <tbody> <tr> <td>20</td> <td>60</td> <td>1,200</td> </tr> <tr> <td>19</td> <td>180</td> <td>990</td> </tr> <tr> <td>18</td> <td>450</td> <td>850</td> </tr> <tr> <td>17</td> <td>780</td> <td>780</td> </tr> <tr> <td>16</td> <td>1,200</td> <td>450</td> </tr> <tr> <td>15</td> <td>1,800</td> <td></td> </tr> <tr> <td>14</td> <td>2,700</td> <td></td> </tr> <tr> <td>13</td> <td>4,000</td> <td></td> </tr> <tr> <td>12</td> <td>6,000</td> <td></td> </tr> </tbody> </table> <p>The new equilibrium price is now £17, a rise of £1. Consumers are bearing £1 of the tax and the firms £3.</p> <p><b>B</b> See above.  <b>C</b> See above.  <b>D</b> See above.</p>	Price (£)	Quantity demanded per week	New quantity supplied per week	20	60	1,200	19	180	990	18	450	850	17	780	780	16	1,200	450	15	1,800		14	2,700		13	4,000		12	6,000		2	X
Price (£)	Quantity demanded per week	New quantity supplied per week																																
20	60	1,200																																
19	180	990																																
18	450	850																																
17	780	780																																
16	1,200	450																																
15	1,800																																	
14	2,700																																	
13	4,000																																	
12	6,000																																	
15	C	<p><b>Rationale</b></p> <p><b>A</b> This is the rise in pay each of the original workers receive.  <b>B</b> This is the new wage.  <b>C</b> <b>Correct:</b> the rise in total wages is £32,940 - £31,200 or £540+60x£20  <b>D</b> This is the new total wage bill</p>	3	x																														

Question		Answer	Marks	Guidance
16	a	<i>State what is meant by the term 'opportunity cost'</i>		
		Accept the correct idea e.g. <b>sacrificing</b> the second most desired <b>choice</b> . Or Next best <b>alternative forgone</b>	1 (AO1)	
16	b	i	<i>Explain what is meant by the term 'price elasticity of demand'</i>	
			Award two marks for the responsiveness / sensitivity of quantity demanded to a change in price  Award one mark for correct formula only  0 marks for incorrect definition e.g. of YED or PES or if price is the dependent factor	2 (AO1)
16	b	ii	<i>Using information from the case study, calculate the price elasticity of demand for alcohol in Canada</i>	
			Award 2 marks for correct answer -1.6  Award only 1 mark for correct method but wrong answer e.g. 1.6	2 (AO2)
16	c	i	<i>Explain what is meant by the term 'negative externality'</i>	
			A harmful effect / cost (1)  imposed on a third party / spill over /outside economic transaction / not reflected in market price/ not compensated for (1)	2 (AO1)

Question			Answer	Marks	Guidance
16	c	ii	<i>Using information from the case study explain how excessive consumption of alcohol leads to negative externalities</i>		
			<p>one example with fully developed explanation (4)</p> <p>or</p> <p>Up to three marks for a developed explanation of one negative externality plus one further mark for identification of another negative externality.</p> <p>Or</p> <p>One mark for identification of the harmful effect on a third party from the case study (x2)</p>	<p>4 (AO1x2) (AO2x2)</p>	<p>e.g. Alcohol consumption leads to a loss of productivity (1) as workers are absent (1) which imposes costs on firms (1) for example lower profits (1).</p> <p>The additional cost to the NHS (1) of treating alcohol related illnesses (1) means other NHS users face longer waiting lists (1) which may negatively impact upon their quality of life. (1)</p> <p>The additional cost (£405m) to the NHS (1) of treating alcohol related illnesses (1) less available to spend in other areas (1).</p>
16	d		<i>Using information from the case study, explain <b>one</b> reason which could account for the trend in alcohol consumption in Scotland from 1995 to 2007.</i>		
			<p>One mark for correct identification of rising trend (1)</p> <p>One mark for stating one reason accounting for the trend. i.e. rising incomes (1) <b>or</b> falling relative prices (1)</p> <p>Up to two further marks for fully developed explanation of the reason identified</p>	<p>4 (AO1 x1) (AO2 x3)</p>	<p>Between 1995 and 2007 litres sold per adult increased (1) This may have been due to rise in disposable income (1) which means that consumers can afford to buy more alcohol (1) This suggests that alcohol is a normal good / with a positive income elasticity of demand (1)</p> <p>There has been a fall in the price of alcohol relative to people's incomes (1) so purchasing power has increased (1). Sales of alcohol have risen (1) as price and quantity are inversely related (1).</p> <p>The graph illustrates litres sold per adult therefore a rise in population would not explain the trend and should not be credited.</p>

Question	Answer	Marks	Guidance
16 e	<p>Comment, using an appropriate diagram(s), on the effects of imposing a minimum price for alcohol.</p>		
	<p><b>Level 3 (7-10 marks)</b></p> <p><b>Good – strong</b> analysis of a minimum pricing policy. <b>Good analysis</b> will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. The minimum price should reduce demand for alcohol by raising price above the equilibrium price. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p><b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good - strong</b> evaluation of a minimum pricing policy, weighing up both sides/comparing alternatives. <b>Strong evaluation</b> should include a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (4-6 marks)</b></p> <p><b>Reasonable</b> analysis of the effect of a minimum price in reducing demand for alcohol by raising price. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of a minimum pricing policy considering both sides/ comparing alternatives.</p>	<p>10 (AO2x1) (AO3x4) (AO4x5)</p>	 <p>In the diagram above the imposition of a minimum price of <math>P_{min}</math> (above equilibrium price <math>P_e</math>) results in a contraction in demand from <math>Q_e</math> to <math>Q_D</math>. This means that less alcohol is consumed which reduces the negative externalities arising from alcohol consumption such as increased crime or poor health.</p> <p>If demand is very price inelastic then the rise in price will have less effect on demand than if demand is price elastic and therefore the minimum price will be less effective.</p> <p>Although a government may make it illegal to sell alcohol below a set minimum price, suppliers may be tempted to break the law to increase revenue and profit. Minimum pricing will therefore require monitoring and enforcement and this may impose a cost to government. In addition, a minimum price may have a greater impact on those on lower incomes who will no longer be able to afford to buy alcohol and this may be seen as unfair (regressive). The effect will also depend upon how high the minimum price is. If it is close to the equilibrium price, then it will be less effective.</p>

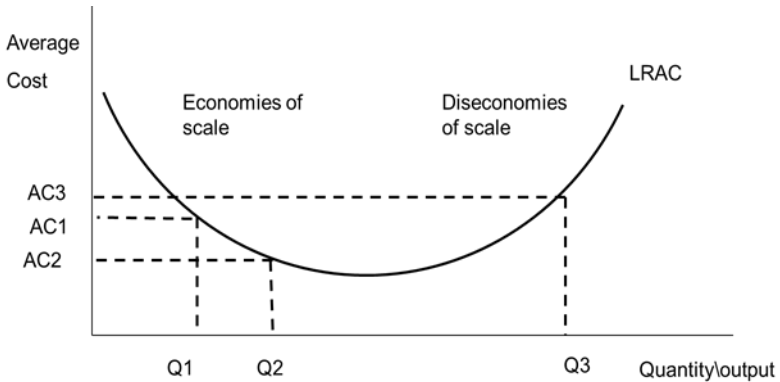
Question	Answer	Marks	Guidance
	<p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 1 (1-3 marks)</b>  <b>Limited</b> analysis based on application of knowledge and understanding of a minimum pricing policy, e.g. raising price or reducing quantity. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Any relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited</b> evaluation in the form of an unsupported assertion <b>or no</b> evaluation</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		
	<p><b>Descriptor</b></p> <p>Consistently meets the criteria for this level</p> <p>Meets the criteria but with some slight inconsistency</p> <p>Meets most of the criteria with some inconsistencies</p> <p>Just enough achievement on balance for this level</p> <p>On the borderline of this level and the one below</p>	<p><b>Award mark</b></p> <p>At top of level</p> <p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p> <p>Middle of level</p> <p>Above bottom and either below middle or at middle of level (depending on number of marks available)</p> <p>At bottom of level</p>	

Question	Answer	Marks	Guidance
17	<p><b>Level 4 (16-20 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effect of a subsidy in increasing production of a good that is under-produced</p> <p><b>Strong</b> analysis of the effect on supply equilibrium quantity and allocative efficiency/<math>MSC=MSB</math>/welfare 'gain'. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong</b> evaluation of the effect of a subsidy and conclusion drawn weighing up both sides/comparing alternatives and reaching a supported judgement  <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11-15 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effect of a subsidy in increasing the production of wind power</p> <p><b>Good</b> analysis of the effect of a subsidy (i.e. reduced costs of production), and the increase in supply on (equilibrium) quantity (Q1 to Q2).  There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. the analysis.</p>	<p>20  (AO1x3)  (AO2x4)  (AO3x6)  (AO4x7)</p>	 <p>The effect of a subsidy is to increase supply from S1 to S2 because it reduces producers' costs so more can be supplied at any given price. The subsidy is equal to <math>ab</math> (<math>P_p - P_{sub}</math>) per unit and the (total) cost to the government is <math>P_p ab P_{sub}</math>. As a result of the subsidy, price falls from <math>P_1</math> to <math>P_{sub}</math>, there is an extension in demand and the new market equilibrium is at <math>Q_{sub} P_{sub}</math>. If renewable energy is under-produced/ under-consumed, this new equilibrium will be closer to the social optimum where marginal social cost = marginal social benefit. At outputs between <math>Q_1</math> and <math>Q_{sub}</math> marginal social benefit is greater than marginal social cost. A subsidy therefore results in a gain in welfare. This will reduce market failure and mean that resources are allocated more efficiently.</p> <p>Subsidies work well if demand is price elastic therefore a relatively small subsidy/ fall in price will lead to a relatively large increase in production /consumption of wind power and therefore an output that is closer to the social optimum.</p>

Question	Answer	Marks	Guidance
	<p><b>Good</b> evaluation of the effect of a subsidy and a conclusion is drawn weighing up both sides/comparing alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6-10 marks)</b></p> <p><b>Reasonable</b> knowledge and understanding of the effect of a subsidy in increasing the production of wind power</p> <p><b>Reasonable</b> analysis of the effect on supply i.e. supply shifts outwards/increases from S1 to S2. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of a subsidy considering both sides/comparing alternatives.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p><b>Level 1 (1-5 marks)</b></p> <p><b>Limited</b> knowledge and understanding of how a subsidy in increasing the production of wind power</p> <p><b>Limited or no</b> analysis of the effect on the market. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled.</p>		<p>Arguments in favour might refer to increased production of merit good/positive externalities; reduced negative externalities from reduced use of less sustainable fuels; subsidies benefit the poor proportionately more than the rich (equity arguments); subsidies may incentivise producers to switch from traditional fuels to wind power; increased consumer/ producer surplus.</p> <p>Arguments against include cost to government; whether benefits mainly impact upon producers (depends on PES); may encourage inefficient producers; opportunity cost and size of subsidy to correctly address market failure (possibility of government failure).</p> <p>It is possible though not necessary for candidates to consider an alternative policy, provided that the alternative is directly compared to a subsidy on renewable energy.</p>

Question	Answer	Marks	Guidance
	<p>The relevant diagram(s) may not be present or incorrectly labelled.</p> <p><b>Limited</b> evaluation in the form of an unsupported assertion <b>or no</b> evaluation</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		
	<p><b>Descriptor</b></p> <p>Consistently meets the criteria for this level</p> <p>Meets the criteria but with some slight inconsistency</p> <p>Meets most of the criteria with some inconsistencies</p> <p>Just enough achievement on balance for this level</p> <p>On the borderline of this level and the one below</p>	<p><b>Award mark</b></p> <p>At top of level</p> <p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p> <p>Middle of level</p> <p>Above bottom and either below middle or at middle of level (depending on number of marks available)</p> <p>At bottom of level</p>	

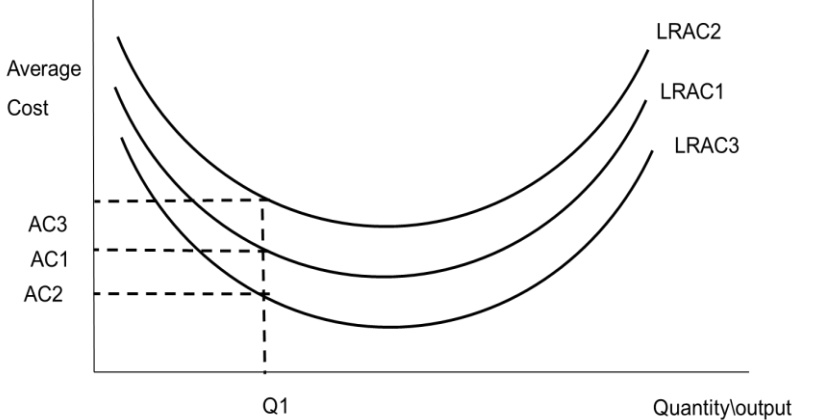


Question	Answer	Marks	Guidance
18	<p><b>Level 4 (16-20 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effect of increasing output/relocation on long run average costs</p> <p><b>Strong</b> analysis of the effect on costs of internal/external economies/diseconomies of scale. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong</b> evaluation of the relative costs and benefits of the decision facing the firm and a conclusion drawn weighing up both sides/comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11-15 marks)</b></p> <p><b>Good</b> knowledge and understanding of the effect of increasing output/relocation on long run average costs.</p> <p><b>Good</b> analysis of the effect of the increase in output on long run average costs and the impact of external economies or diseconomies of scale. There is correct analysis in the form of developed links. These links are developed through a clear chain of reasoning which addresses the question. The relevant diagram(s) are present, predominantly correct and linked to the analysis.</p>	<p>20 (AO1x3) (AO2x4) (AO3x6) (AO4x7)</p>	<p>The response should address the comparative benefits/costs of both alternatives. There should be reference to internal/external economies/diseconomies of scale.</p>  <p>An increase in the scale of production, Q1 to Q2, will result in a fall in LRAC from AC1 to AC2 as the firm benefits from economies of scale and productive efficiency increases. If the firm continues to increase output beyond lowest average cost output then LRAC will begin to increase (AC2 to AC3) as diseconomies of scale arise.</p>

H046/01

Mark Scheme

June 2016

Question	Answer	Marks	Guidance
	<p><b>Good</b> evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6-10 marks)</b></p> <p><b>Reasonable</b> knowledge and understanding of the effect of increasing output compared with relocating.</p> <p><b>Reasonable</b> analysis of the effect on some aspect of average costs e.g. internal economies or external economies of scale. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of relative costs and benefits of the decision facing the firm considering both sides/comparing alternatives.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p>		 <p>The effect of a concentration of firms in a particular area is to reduce costs for all firms and the LRAC of each firm shifts downwards from LRAC1 to LRAC 3. This means that at any given output e.g.Q1 the LRAC for all firms is lower (AC1 –AC2). External diseconomies will lead to the LRAC shifting upwards (e.g.LRAC1 to LRAC2). This means that for any given output average cost will be higher (AC1-AC3) for all firms</p> <p>The extent to which JJ Ltd benefits from economies of scale may depend upon how much they expand/how far they are already benefitting from economies of scale; whether expansion may lead to diseconomies of scale; a comparison of the relative merits of the two locations (in terms of internal/external economies of scale); increased competition vs external economies of scale in the new location; the opportunity cost of the alternative decision(s)</p> <p>Arguments in favour of expansion might include reference to technical economies of scale (e.g. due to new technology); managerial (e.g. can employ specialist managers) or financial (e.g. access to cheaper sources of finance)</p>

H046/01

Mark Scheme

June 2016

Question	Answer	Marks	Guidance
	<p><b>Level 1 (1-5 marks)</b></p> <p><b>Limited</b> knowledge and understanding of how the firm's costs might be affected by the choice it makes  <b>Limited or no</b> analysis or comparison of the two options. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled.  <b>Limited</b> evaluation in the form of an unsupported assertion <b>or no</b> evaluation</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		<p>Arguments against include: Firm/output may get too large and incur diseconomies of scale (e.g. the firm may become more difficult to manage with an increased labour force),</p> <p>Arguments in favour of relocation might include access to better transport links; and availability of skilled labour leads to reduced average cost of production.</p> <p>Arguments against might include increased competition from other engineering firms. Higher wages as more firms demand skilled labour, and congestion might increase the average cost of production.</p>
	<p><b>Descriptor</b></p> <p>Consistently meets the criteria for this level</p> <p>Meets the criteria but with some slight inconsistency</p> <p>Meets most of the criteria with some inconsistencies</p> <p>Just enough achievement on balance for this level</p> <p>On the borderline of this level and the one below</p>	<p><b>Award mark</b></p> <p>At top of level</p> <p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p> <p>Middle of level</p> <p>Above bottom and either below middle or at middle of level (depending on number of marks available)</p> <p>At bottom of level</p>	

**OCR (Oxford Cambridge and RSA Examinations)**  
1 Hills Road  
Cambridge  
CB1 2EU

**OCR Customer Contact Centre**

**Education and Learning**

Telephone: 01223 553998

Facsimile: 01223 552627

Email: [general.qualifications@ocr.org.uk](mailto:general.qualifications@ocr.org.uk)

[www.ocr.org.uk](http://www.ocr.org.uk)

For staff training purposes and as part of our quality assurance programme your call may be recorded or monitored

**Oxford Cambridge and RSA Examinations**  
is a Company Limited by Guarantee  
Registered in England  
Registered Office; 1 Hills Road, Cambridge, CB1 2EU  
Registered Company Number: 3484466  
OCR is an exempt Charity

**OCR (Oxford Cambridge and RSA Examinations)**  
Head office  
Telephone: 01223 552552  
Facsimile: 01223 552553

© OCR 2016

