# GCE MARKING SCHEME

## ECONOMICS
## AS/Advanced

### SUMMER 2014

## INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2014 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were 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' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

**EC1**

## 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.

# GCE ECONOMICS - EC1

## MARK SCHEME - SUMMER 2014

| Question | Answer | Mark allocation | Assessment objective |
|---|---|---|---|
| 1 (a) | **Mark on the production possibility curve diagram in figure 1 China's production pattern in 2011.**<br><br>Candidate marks the correct proportion of capital goods inside the PPF (allowing for economy not at proportion)<br><br>Or<br><br>Candidate marks on the PPF the approximate level of capital goods and other goods. | 1 | AO1 1 |
| (b) | **Explain why the data shown in figure 2 might lead to higher economic growth in China.**<br><br>Candidate explains that high numbers of capital goods will increase productivity or will increase the stock of factors of production. (2)<br><br>Therefore with higher productivity/more FoPs, the potential of the economy will be greater, PPF/AS will shift outwards etc. (2)<br><br>Also: increased production of capital goods implies higher investment. Hence AD will increase which will create actual growth/rising GDP. (2)<br><br>Good use of data/diagrams will support the quality of the answer. | 4 | AO1 1<br>AO2 1<br>AO3 2 |
| 2 | **Define productivity and calculate the apparent change in productivity between 2010 and 2012.**<br><br>Productivity is measured by output per head *or* output per input (1)<br>2010 productivity = 50 (1)<br>2012 productivity = 40 (1)<br>Productivity falls by 10 (2)<br><br>Full calculation marks (2) if the candidate correctly calculates productivity in each year without working out the difference.<br><br>Some credit for candidates who show understanding of productivity and that it has fallen (lower output, more workers) without a correct definition or correct calculation. | 3 | AO1 1<br>AO2 2 |

| Question | Answer | Mark allocation | Assessment objective |
|---|---|---|---|
| 3 (a) | **Calculate the consumer surplus after the imposition of the tax.**<br><br>Consumer surplus clearly defined (Difference between the price a consumer is willing to pay and the actual market price). (1)<br><br>Or correctly identified on the diagram. (1)<br><br>Correct calculation £100. (2)<br>Correct calculation of consumer surplus before tax (£225). (1)<br><br>£ not needed for (2) | **2** | **AO1 1**<br>**AO2 1** |
| (b) | **Calculate the government's total tax revenue after the imposition of the tax.**<br><br>Tax revenue = £180 to £200 accepted. (2)<br><br>Tax area clearly identified. (1)<br>OR<br>£18-20 tax/unit identified. (1) | **2** | **AO1 1**<br>**AO2 1** |
| 4 | **How might uncontrolled market power of such monopolies result in market failure?**<br><br>Understanding of market failure (1)<br>Increase in inequality (1)<br>Restriction of competition (1)<br>Restriction of choice/producer sovereignty (1)<br>Welfare loss (1)<br>Higher prices/lower output (1)<br>Loss of consumer surplus (1)<br>Diagram (2) Demand and supply diagram showing a rise in price above the competitive price (1) with a reduced consumer surplus and/or welfare loss (1) | **3** | **AO1 1**<br>**AO2 1**<br>**AO3 1** |

| Question | Answer | Mark allocation | Assessment objective |
|---|---|---|---|
| 5 (a) | **Using a diagram explain why a reduction in the number of pollution permits would raise their price.**<br>Diagram showing a supply curve shifting to the left with a new higher price and lower quantity. (2)<br>Explanation: Good development of how fewer permits will reduce their supply shifting the supply curve to the left raising their price. (2)<br>If no diagram: Clear explanation of how market forces will push up the price of permits: Up to (2) | **4** | **AO1 1**<br>**AO2 1**<br>**AO3 2** |
| (b) | **Discuss whether an increase in the price of permits would be likely to cut carbon emissions.**<br>Yes it will cut emissions:<br>(1) Efficient/low polluting firms have an incentive to reduce pollution further so that they can make profits from selling the permits. (1-2)<br>(2) Inefficient/high polluting firms have an incentive to reduce pollution further by becoming more efficient/investing in new technology to avoid buying the more expensive permits. (1-3) 3= very well analysed argument.<br>(3) Pollution may fall because the increased cost of permits will increase prices, reducing output – therefore total production will fall, making pollution fall/higher costs drive firms out of business meaning that they are no longer polluting, (1-2)<br>BUT:<br>• Price may still not be high enough to incentivise firms to reduce pollution. (1-2)<br>• Firms may relocate to countries where there are no emissions limits. Hence total pollution will not fall. (1-2)<br>• The level of emissions is determined by the number of permits issued. (1)<br>• The scheme might not be administered properly/corruption/failures in measurement of $CO_2$. (1)<br>• If demand for final product is price inelastic, the impact may be smaller (because permit costs can be passed on). (2)<br>• Large profitable firms may be less affected (up to 2 but only if well explained).<br>Max 4 without evaluation. Reversible answer. | **6** | **AO1 1**<br>**AO2 2**<br>**AO3 1**<br>**AO4 2** |

| Question | Answer | Mark allocation | Assessment objective |
|---|---|---|---|
| **6** | **Using the data explain the meaning of the term government failure.**<br><br>Definition/Understanding of GF*:* Government attempts to correct market failure resulting in a greater welfare loss. (2)/Government intervention in a market which results in a misallocation of resources (2)/Other appropriate definition/understanding shown.<br><br>Evidence: the tax has led to a rise in emissions, when the purpose of the tax was to reduce emissions. Good developed data use required for 2 marks (ideally focus on increase in emissions due to use of connecting flights or very well developed argument on tax revenue), more general reference 1 mark. | **4** | **AO1 1**<br>**AO2 1**<br>**AO3 2** |
| **7** | **Discuss the view that a cut in interest rates is the best economic policy for this economy.**<br><br>Cuts in interest rates will increase AD: increase consumption (Greater incentive to borrow, reduced mortgage repayments, reduced incentive to save) and investment, reduce savings.<br><br>Depreciates the exchange rate, reducing export prices, causing a rise in exports. Rising import prices might reduce the value of imports. Again AD rises.<br><br>Resultant rise in national income and employment.<br><br>Well-developed point up to 3 (+potentially 1 for diagram).<br><br>BUT:<br><br>Possibly negative expectations prevent rises in C and I.<br>Exports may not rise despite the fall in export prices.<br>Depends how much interest rates are cut by.<br>Strength of the multiplier effect.<br>Another policy may be better- explanation.<br>Might cause inflation. Both demand pull (2) and cost push (2).<br>Low consumer or business confidence will negatively affect a cut in interest rates.<br><br>Good use of diagram on either side, up to 1 mark.<br><br>Depends on:<br>The rate of potential growth in the economy.<br>Whether the trade balance improves or deteriorates.<br><br>Max 4 without evaluation. | **8** | **AO1 2**<br>**AO2 2**<br>**AO4 4** |

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|---|---|---|---|
| 8 | **How effective might supply side policies be in solving the economic problems identified in the data?**<br><br>Definition/understanding of supply side policies. (1)<br><br>Explanation of how labour market policies might lead to reduced unemployment up to 3 marks per well-developed point:<br><br>Education/training.<br><br>Better information systems/IT/internet, etc. about vacancies.<br><br>Welfare reform-effect on incentives to work.<br><br>Tax reform- effect on incentives to work.<br><br>Increase in the national minimum wage.<br><br>Better infrastructure will enable workers to get jobs elsewhere/encourage firms to come to take advantage of high unemployment.<br><br>Lower corporation tax encourages business start-ups/higher profits for training<br><br>BUT:<br><br>Up to 2 marks per well-developed point:<br><br>Time – very long time before benefits are seen.<br><br>Potential for government failure – policy is ineffective (e.g. training is inappropriate for the needs of the labour market).<br><br>Policies offer poor value for money (ineffective in terms of cost/job).<br><br>Easier for firms to recruit trained labour from abroad.<br><br>Some unemployment may be demand deficient.<br><br>Reduced benefits may negatively affect those at risk in society.<br><br>Max 4 without evaluation.<br>Max 6 without clear data reference. | 8 | **AO1 2**<br>**AO2 2**<br>**AO4 4** |

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|---|---|---|---|
| 9 (a) | **By how much will imports fall as a result of the tariff?**<br><br>90m. (1) From 210m to 120m (1)<br>Accept answers without millions. | **1** | **AO1 1** |
| (b) | **What will be the government's revenue as a result of the tariff?**<br><br>£600M. (1)<br>Accept answer without millions. | **1** | **AO1 1** |
| (c) | **With reference to the diagram, explain how domestic producers might benefit from the imposition of tariffs?**<br><br>Increase in producer surplus: Use of diagram(1), more profits etc. (2)<br><br>Increase in domestic output: Use of diagram (1) –means more sales/revenue/profit. (2)<br><br>Higher price of imports (use of diagram – specified(1)). allows greater profits for domestic firms (2).<br><br>Reduced imports (shown/enumerated – use of diagram(1)) mean higher domestic market share (2). | **3** | **AO2 1**<br>**AO3 2** |