

EC2

Question	Answer	Mark allocation	Assessment objective
1. (a)	<p>Using demand and supply diagrams explain why</p> <p>(i) 'house prices should have collapsed'.</p> <p>Falling demand for housing- difficulty in getting mortgages, rising unemployment. (2). Increased supply from repossessions. (2) Diagram (2).</p> <p>(ii) 'rents could increase dramatically'. Diagram (2).Lack of opportunity to buy a house increases the demand for rented property. (2) Diagram (2).</p>	<p>4</p> <p>4</p>	<p>AO1 2 AO2 4 AO3 2</p>
(b)	<p>How far do you agree with the view that the relaxation of the planning laws will produce only external costs but no external benefits?</p> <p>External costs; pollution, noise and congestion from construction of houses and new home owners. Destruction of the environment/natural beauty etc Max 4</p> <p>External benefits; increased geographical labour mobility, economic regeneration, local employment Max 4</p> <p>Definition of either external costs/benefits max 2. Max 4 without evaluation.</p>	6	<p>AO1 2 AO2 2 AO4 2</p>
(c)	<p>Define income elasticity demand and using the data explain why house ownership is a normal good.</p> <p>Formula/Definition of income elasticity of demand. (2) Use of data to justify house ownership as a normal good. (2)</p>	4	<p>AO1 2 AO2 2</p>
(d)	<p>Define price elasticity of supply and, with the aid of a diagram, explain why the proposed changes to planning laws might increase the price elasticity of supply of house building in the long run.</p> <p>Defines PES (2) Diagram (2) Planning simplification should make it more elastic – explains why and applies to the diagram. (2)</p>	6	<p>AO1 2 AO3 4</p>

Question	Answer	Mark allocation	Assessment objective
(e)	<p>To what extent is the level of consumption in the economy likely to be determined by the level of house prices?</p> <p>Increased house values increase the wealth of home owners and thus people feel better off and spend more (wealth effect). Also equity withdrawal becomes more popular. House prices increase therefore more spent on mortgages therefore consumption down(4) BUT Other factors affect consumption spending (interest rates/employment/availability of credit/income/many don't own a home(2) Max 4 without evaluation.</p>	6	AO1 2 AO2 2 AO4 2
(f)	<p>Using a diagram discuss whether the government should set a maximum rent on housing rented from private landlords.</p> <p>Beneficial to the housing market: 'rents could increase dramatically' (data) some protection for lower income tenants, important if mortgages are difficult to get or there is a high unemployment. Aids labour mobility. Use of the diagram Max 6. BUT Rent controls lead to excess demand and shortages of rented accommodation. Landlords sell rented property if rental returns are low. Use of the diagram. It also depends on the level of the maximum rent and PED/PES of rented housing. Max 6. Diagram 2 marks. Max 6 without evaluation.</p>	10	AO1 2 AO2 2 AO3 2 AO4 4

SECTIONS B and C

The following levels should be applied to each question.

Part (a) questions

Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made.
Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

Part (b) questions

Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. Likely to focus on just one side of the issue. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
Level 2 5 - 8	<p>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.</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 SPG, but these are not intrusive.</p>
Level 3 9 - 12	<p>Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.</p> <p>Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.</p>

SECTION B

Question	Answer	Mark allocation	Assessment objective
2.	<p>SCOTTISH PARLIAMENT TO VOTE ON MINIMUM PRICE FOR ALCOHOL.</p> <p>(a) Define consumer surplus and producer surplus and explain with the aid of a diagram explain how each are affected by a rise in demand for a product.</p> <p>Definition of consumer surplus (2) and producer surplus (2). Diagram showing a rise in demand (2) Explanation of how consumer and producer surplus are affected.</p> <p>(b) Evaluate the effects of a government fixing a minimum price per unit for alcoholic drinks.</p> <p>Minimum price raises price and consumer demand falls reducing external costs. (examples)</p> <p>Ped may be inelastic thus there is no major fall in demand. Depends where minimum price is set. Some prices of alcohol will not be affected. Avoidance – duty free purchases.</p> <p>Poor hit hardest. Employment/GDP effects. Diagram(2)</p> <p>Max 8 without evaluation (reversible).</p>	8	AO1 6 AO2 6 AO3 4 AO4 4
		12	

Question	Answer	Mark allocation	Assessment objective
3.	<p>CASTRO'S COMMUNIST CUBA TO EMBRACE FREE MARKETS.</p> <p>(a) Explain how resources are allocated in a free market economy.</p> <p>Explanation of the role of demand/supply in product and factor markets. Role of profit and the price mechanism (signalling, allocative and rationing function).</p> <p>(b) Discuss the view that the government rather than free markets should provide merit goods such as health and education</p> <p>Merit goods such as health and education are examples of market failure. They are under consumed and underprovided by the free market. External as well as private benefits – explained.</p> <p>State provision leads to excess demand (health), potential government failure, higher taxes, resources misallocated-explained. Role for markets in the health and education sectors. Private schools/hospitals working with state sector. Opportunity cost of government spending</p> <p>Max 8 without evaluation (reversible).</p>	8	AO1 6 AO2 6 AO3 4 AO4 4
		12	

Question	Answer	Mark allocation	Assessment objective
4.	<p>AIR PASSENGER DUTY MAY RISE AGAIN.</p> <p>(a) Air Passenger Duty (APD) is a specific tax which is charged on airlines for carrying passengers flying from a United Kingdom airport. Explain what is meant by a specific tax and using a diagram describe how APD may increase the price of air fares and reduce the number of flights.</p> <p>Description of a specific tax. (2) Diagram showing how the effects of the tax. (2) Explanation. (4) (% tax 1 mark)</p> <p>(b) To what extent is APD likely to be the most effective policy for correcting the market failure resulting from air travel.</p> <p>Definition of market failure and explanation of how air travel results in pollution (external costs). APD will in theory reduce the number of flights and reduce air pollution. Reference to tax- meant to internalise the externality (tax=MEC). Use of diagram/reference to diagram in (a).</p> <p>Damages airlines profitability/UK economy competitiveness Airlines may not pass on the tax to passengers in higher fares. Demand may be price inelastic. APD takes no account of load factor of plane/emissions of different types of plane. Only paid on passenger flights, not cargo. APD may not be equal to the external costs created. Other policies: tax per plane/emissions regulations/tradable permits. Max 4</p> <p>Max 8.</p>	8	AO1 6 AO2 6 AO3 4 AO4 4
		12	

Question	Answer	Mark allocation	Assessment objective
5.	<p>UK NEEDS TO IMPROVE INTERNATIONAL COMPETITIVENESS.</p> <p>(a) Define productivity and explain why productivity varies between economies.</p> <p>Productivity defined- output per worker. (2)Difference in productivity: skills of labour force/application of technology/investment/working practices/infrastructure. 3 x 2 marks.</p> <p>(b) Evaluate the policies available to governments wishing to raise the level of productivity in their economy.</p> <p>Raising levels of productivity: supply side policies to raise skills/education levels. Tax breaks for investment in new technology and R&D. Reform of trade unions/employment law.</p> <p>Many reforms are costly (higher taxes needed or lower spending elsewhere). Unpopular with workforce/less job security. Time before they have any effect. Possibility of government failure.</p> <p>Max 8 without evaluation.</p>	8	AO1 6 AO2 6 AO3 4 AO4 4
		12	

Question	Answer	Mark allocation	Assessment objective
6.	<p>UK ECONOMY STAGNATES WITH UNEMPLOYMENT RISING.</p> <p>(a) Explain the role of the Monetary Policy Committee of the Bank of England.</p> <p>MPC is expected to keep inflation at 2% (1) using the CPI measure (1) +/- 1% of the target allowed (1) use of interest rates/money supply/monetary policy to achieve the target. (2) monthly meetings (1) letter to the Chancellor if the target is not met (2).</p> <p>(b) Evaluate the effectiveness of monetary policy as a means of increasing employment and output in the UK economy.</p> <p>Definition of monetary policy. (Max 2) Monetary policy (lower interest rate/increased money supply will increase C, I and X –candidate explains why (possible use of a diagram). Consequent increase in GDP/employment.</p> <p>Max 8</p> <p>Time lags before any positive effects of the policy. Policies may not work when expectations are low (low UK interest rates for three years). Danger of inflation. Effective policy relies on good timing and accurate economic data. Effectiveness depends on the global economic situation.</p> <p>Diagram (2)</p> <p>Max 8 without evaluation.</p>	8	AO1 6 AO2 6 AO3 4 AO4 4

Question	Answer	Mark allocation	Assessment objective
7.	<p>JAPANESE GOVERNMENT INTERVENES TO PREVENT RISE IN THE YEN.</p> <p>(a) Using a diagram explain how exchange rates are determined.</p> <p>Definition of an exchange rate (1)</p> <p>Explain the determinants of the demand for pounds and the supply of pounds. (6) Diagram (2).</p> <p>(b) Max 3 for each factor.</p> <p>Comment on the view that a country is never justified in introducing protectionist measures against imports.</p> <p>Danger of retaliation, misallocation of resources, higher prices and less choice for consumers.</p> <p>But</p> <p>Protectionism: protect infant industries, keep out undesirable goods, and preserve employment, revenue for the government, increased profits for domestic firms. Improve the current a/c</p> <p>Diagram 2 marks</p> <p>Max 8 without evaluation.</p> <p>Reversible answer</p> <p>Max 10 if not explicit reference to the question.</p>	8	AO1 6 AO2 6 AO3 4 AO4 4
		12	



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