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# **GCE AS MARKING SCHEME**

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**SUMMER 2016**

**ECONOMICS - NEW AS UNIT 1  
252OU10-1**

## **INTRODUCTION**

This marking scheme was used by WJEC for the 2016 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was 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 conference was to ensure that the marking scheme was 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' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

## **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 omissions. 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.

For each question there is a list of indicative content which suggest the range of economic concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

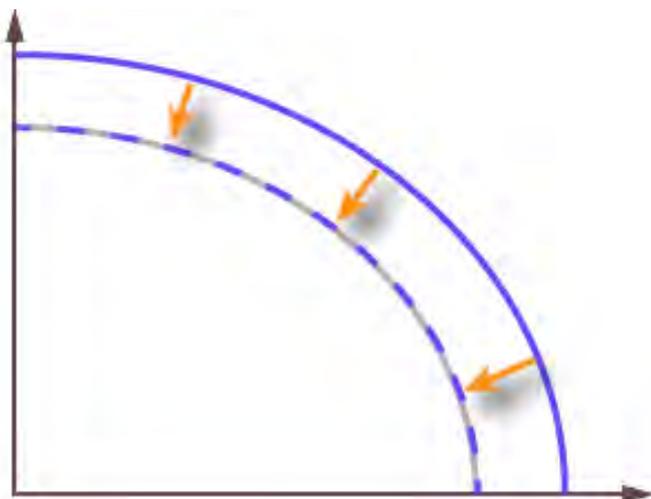
The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

**GCE ECONOMICS - NEW AS UNIT 1****SUMMER 2016 MARK SCHEME****SECTION A**

<b>Question</b>	<b>Answer</b>	<b>Assessment Objective</b>
1	E	AO2
2	A	AO1
3	C	AO1
4	B	AO1
5	B	AO1
6	B	AO1
7	D	AO2
8	B	AO2
9	D	AO2
10	A	AO2
11	C	AO1
12	D	AO1
13	B	AO1
14	A	AO1
15	A	AO2

## SECTION B

<b>Q.16</b>	<b>Explain what has happened to the Ukrainian economy as a result of the civil war. Illustrate your answer using a production possibility diagram. [4]</b>	
<b>Band</b>	<b>A01</b>	<b>A02</b>
	<b>2 marks</b>	<b>2 marks</b>
	Is the diagram correct?	Has the diagram been well explained?
<b>2</b>	<b>2 marks</b> Correct PPF diagram showing an inward shift.	<b>2 marks</b> Full explanation linking the data to the correct diagram.
<b>1</b>	<b>1 mark</b> Partially correct diagram showing limited understanding of PPF diagrams.	<b>1 mark</b> Partial explanation which uses the data.
<b>0</b>	<b>0 marks</b> No diagram or totally incorrect diagram.	<b>0 marks</b> Nothing worth crediting in the application of the data.

**Indicative content:**

Correct PPF diagram showing the PPF shifting inwards.

Correct explanation linking the diagram to loss of capacity and infrastructure in the Ukrainian economy and the effect upon potential production.

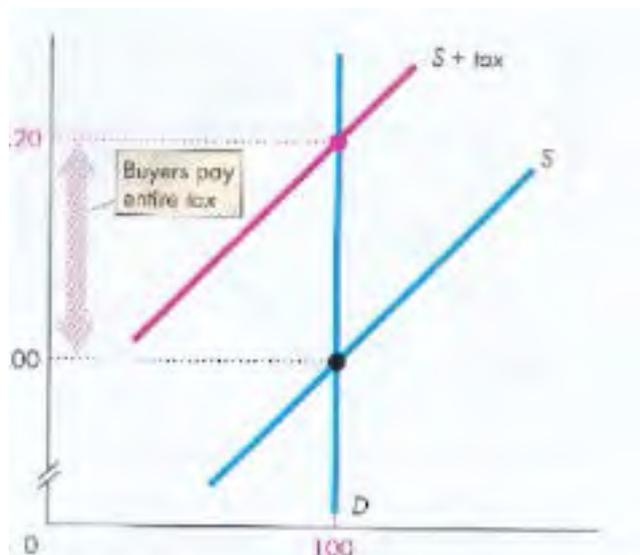
No label on axes or reasonable label on axes both acceptable.

Unreasonable labelling e.g price/quantity/civilian deaths partially correct.

<b>Q.17</b>	<b>Suppose the price elasticity of demand for luxury yachts is equal to zero. Explain, with the use of a diagram, what the effect of imposing an indirect tax would be on the price, quantity sold and tax revenue gained from the sales of luxury yachts. [6]</b>		
<b>Band</b>	<b>AO1 (diagram)</b>	<b>AO1 (elasticity)</b>	<b>AO3</b>
	<b>2 marks</b>	<b>2 marks</b>	<b>2 marks</b>
	Is the diagram correct?	Explanation of price increase but Quantity remains constant; is the answer applied to the context of $PED=0$ ?	Has the answer effectively analysed the effects on the tax revenue gained?
<b>2</b>	<p><b>2 marks</b></p> <p>Demand curve is drawn vertical and Supply curve is shifted to the left.</p> <p>Parallel shifts <u>or</u> Pivot shifts can both be credited.</p>	<p><b>2 marks</b></p> <p>Price increases. (1)</p> <p>Quantity stays the same. (1)</p>	<p><b>2 marks</b></p> <p>The 'tax box' in the diagram is correctly labelled with a clear explanation.</p> <p>OR</p> <p>A clear analysis that as a result of the sales staying constant, the tax revenue collected must therefore increase with the full tax burden falling on the consumer.</p> <p>Note If a learner drew an elastic demand curve and then correctly identified that 'tax box' on his/her diagram they may still gain 2 marks.</p>
<b>1</b>	<p><b>1 mark</b></p> <p>Only one of the above is true.</p> <p>Two or more errors on labelling the diagram.</p>	<p><b>1 mark</b></p> <p>Only one of the above.</p>	<p><b>1 mark</b></p> <p>A limited analysis that the tax revenue has increase but does not illustrate it on the diagram OR does not adequately explain why it has increased with reference to the quantity of sales.</p>
<b>0</b>	<p><b>0 marks</b></p> <p>No diagram or totally incorrect diagram.</p>	<p><b>0 marks</b></p> <p>Incorrect or no understanding.</p>	<p><b>0 marks</b></p> <p>Incorrect or no analysis.</p>

**Indicative content:**

Correct D&S Diagram – Demand is vertical and Supply shifts left. Price has increased, Sales remain constant and the tax receipts have increased.



Correct Explanation: The PED for luxury yachts equals zero, therefore sales are unresponsive to price. The demand for the good is perfectly inelastic. When the sales tax on yachts is increased this has the effect of shifting Supply to the left (due to increasing costs) and this causes an excess of demand and so there is upwards pressure on price. At the new price, however, sales remain constant because the demand for the good is perfectly inelastic.

The tax received by the Government increases because the number of units sold remains the same but there is more tax on each one. The increase in tax revenue is shown by the box in the diagram above. The consumers pay all of the tax.

<b>Q.18</b>	<b>To what extent could the payday lending market be considered to demonstrate market failure before the FCA intervened?</b>				<b>[8]</b>
<b>Band</b>	<b>AO1</b>	<b>AO2</b>	<b>AO3</b>	<b>AO4</b>	
	<b>1 mark</b>	<b>2 marks</b>	<b>3 marks</b>	<b>2 marks</b>	
	Is the concept of market failure understood?	Is the answer well applied to the context of payday lending?	Has economic theory been well developed to explain why payday lending could be seen as a market failure?	Is the argument made that payday lending is not a market failure?	
<b>3</b>			<b>3 marks</b> An excellent analysis of market failure.  Theory is thoroughly linked back to the idea of a misallocation of resources throughout the answer.		
<b>2</b>		<b>2 marks</b> Clear reference to the data.  Use of the data to justify a correct economic argument.	<b>2 marks</b> A good analysis of market failure.  Theory is linked back to the idea of a misallocation of resources in parts of the answer.	<b>2 marks</b> Clear well-reasoned evaluation that payday lending demonstrates market failure.  The evaluation is in context.	
<b>1</b>	<b>1 mark</b> Clear understanding of market failure.  Accept either an explicit definition of market failure or it is implicitly explained in the answer.	<b>1 mark</b> Limited use of the data.  Knowledge and understanding may not be applied specifically to the context given in the data.	<b>1 mark</b> A limited analysis of market failure.  Limited reference to misallocation of resources.  Superficial development.	<b>1 mark</b> Limited or brief evaluation that payday lending demonstrates market failure.  The evaluation is superficial and not in the context of the data.	
<b>0</b>	<b>0 marks</b> No understanding of market failure.	<b>0 marks</b> A generic explanation of any market failure and there is no mention of payday lending in the explanation.	<b>0 marks</b> No or incorrect analysis of market failure.	<b>0 marks</b> No valid evaluation.	

**Indicative Content:**

Good definition of market failure - for example, it is a misallocation of resources caused by the unrestricted operation of the free market OR it causes net welfare loss to society.

Market failure can be identified in this context in two main ways:

1. Negative externalities (stress, depression). In taking out payday loans, people are buying a product which then causes them stress, depression and financial difficulties. This then causes issues for the third party/society in that there will be cost to bear by the public/taxpayer to support these issues. Diagrammatically, this can be shown as an over-allocation of resources in the market. People are buying too much because they do not take into account the external cost of their loan on the third party which, in this case, is the taxpayer through the provision of medical services.
2. Asymmetric information. People often don't realise the hefty fees involved with payday loans. As a result, they would not have taken the loan if they really knew how much they were getting into. To that end, it is argued that there is an over-allocation of resources in the market – again, people are taking more loans than they would have done if they had had perfect information.

Answers might also refer to monopoly, income inequality (to demonstrate market failure).

**BUT**

Payday lenders can provide a valuable service for consumers (who want to 'purchase' money). For example,

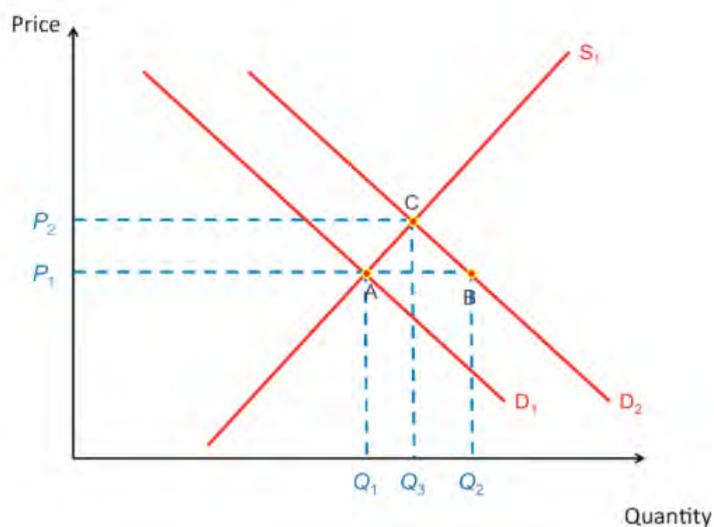
1. There are people who understand the APR and still decide that they will take the loan. For example this could be a person/business with a temporary cash-flow problem and taking a short-term, high-cost loan may actually be their best option.
2. There are lots of people who simply were unable to access money after the financial crisis. The high rate of loan is simply the reflection of the market price and the risk that the lender has to bear when taking the risk to lend to these individuals. The price is high but it is justified.
3. The availability of payday loans actually eases financial pressures on individuals and reduces stress/anxiety.

The answer is reversible. However, the criteria for AO3 reaching band 2 and 3 would be that the answer includes some reference to the correct allocation of resources or the social optimum level, whichever way round the argument is made.

Q.		Total
19 (a) (i)	<p><b>Using the figures above, calculate: (i) New Jersey's GDP per person in 2014</b> [1]</p> <p>AO2: 1 mark</p> <p>Award <b>1</b> mark for correct answer.</p>	<b>1</b>
19 (a) (ii)	<p>Calculation of New Jersey's GDP/Capita = <math>(504\text{bn}/8.93\text{m}) = \mathbf{\\$56\ 439}</math> (allow \$56 500 to \$56 400).</p> <p><b>The percentage of New Jersey's GDP that came from tourism</b> [1]</p> <p>AO2: 1 mark</p> <p>Award <b>1</b> mark for correct answer.</p> <p>GDP = \$504bn. Tourism spending \$36.4bn. Therefore tourism accounts for <math>\\$36.4\text{bn}/\\$504\text{bn} = \mathbf{7.2\%}</math>.</p>	<b>1</b>

<b>Q.19 (b)</b>	<b>Using a diagram, and with reference to the data, explain why holiday accommodation prices have increased between 2014 and 2015. [4]</b>	
<b>Band</b>	<b>AO1</b>	<b>AO2</b>
	<b>2 marks</b>	<b>2 marks</b>
	Is the diagram correct?	Has the diagram been well applied to the context?
<b>2</b>	<b>2 marks</b> Correct D&S diagram showing demand shift right and price increasing.  One error on labelling the diagram allowed.	<b>2 marks</b> Clear reference to the data.  Relevant content from the data is used to develop and support their argument.  Demand increases leading to an increase in price (1) because of (1)
	<b>1</b>	<b>1 mark</b> Partially correct diagram showing limited understanding. For example, the new price is not shown.
<b>0</b>	<b>0 marks</b> No diagram or totally incorrect diagram.	<b>0 marks</b> Nothing worth crediting in the application of the data.

### Indicative Content:



Correct Diagram showing demand shifting right and price increasing.

Correct explanation linking the diagram to an increase in sunny weather or travel costs.

<b>Q.19 (c)</b>	<b>Discuss the likely effects of increasing the rate of VAT in New Jersey on the level of employment in the state. [8]</b>		
<b>Band</b>	<b>AO2</b>	<b>AO3</b>	<b>AO4</b>
	<b>2 marks</b>	<b>4 marks</b>	<b>2 marks</b>
	Has economic theory been well developed to support arguments with regards to the context of New Jersey?	Has economic theory been well developed to support arguments and, in particular, with regards to employment levels?	Has economic theory been used to evaluate the arguments made?
<b>2</b>	<b>2 marks</b> Clear reference to the data.  Relevant content from the data is used to develop and support their argument.	<b>3-4 marks</b> A good analysis.  A clear identification of at least one likely economic consequence as a result of the increase in sales tax. This is fully developed to make a strong logical argument with regards to employment levels.	<b>2 marks</b>  Clear well-reasoned and balanced evaluation.  Clear reference to economic theory to justify the judgement.
	<b>1 mark</b> Limited use of the data.	<b>1-2 marks</b> A limited analysis.  Fails to link to employment levels.  OR  Economic theory is limited.	<b>1 mark</b> Limited evaluation.  The evaluation may be unbalanced and superficial.
<b>0</b>	<b>0 marks</b> No use of the data.	<b>0 marks</b> No or incorrect analysis.	<b>0 marks</b> No evaluation offered.

**Indicative content:**

Learners may make one of the following credible arguments:

*Unemployment will increase*

- Sales taxes will increase prices. This leads to a reduction in the number of total sales (due to a contraction along the demand curve) and therefore there is a reduction in the number of jobs available.
- Higher prices might put off tourists and therefore sales to tourists might decline – thereby reducing potential jobs.
- Low-paid earners are likely to most affected since their products/services are low price and increasing sales taxes will have a greater percentage change on their cost (likely to decrease number of sales and therefore jobs). High-paid earners, on the other hand, will not see a large % increase in their products/services and therefore they may see little change in their sales revenue. Therefore, unemployment is more likely to rise in those sectors which cater for low paid workers e.g. fast food outlets.
- Sales taxes are regressive and therefore poorer consumers (with higher Marginal Propensities to Consume) will be greatly affected. Sectors whose customer-base is largely made up of low-income households (again, fast food outlets) will see their revenues fall the most – thus jobs in those areas are under threat.

*Employment will not be affected greatly*

- New Jersey is a rich state and therefore higher prices will not necessarily affect sales to a large degree. Might be linked to likely inelastic PED values given that New Jersey is a rich state. Therefore there is continued demand for goods and services – and (as a result) for jobs.
- Tourism levels are increasing. Tourists account for a large number of sales in the State and therefore citizens of New Jersey should still be able to find work – based on the expenditure of out-of-State visitors.
- The State Government may use the increased tax revenue to put into employment programmes such as training courses or wage subsidies.
- In a country such as the USA, the likely impact of a sales tax increase should always be considered in relation to the level of sales taxes in neighbouring States, since Americans are quite likely to travel across State boundaries to access lower prices.
- Higher sales taxes may be offset by lower taxes elsewhere (such as property taxes) which may well leave citizens' disposable incomes largely the same.
- Increase in sales taxes do not act as a disincentive to earning like incomes taxes do.

This not an exhaustive list and examiners should be prepared to credit other answers if they are appropriate.

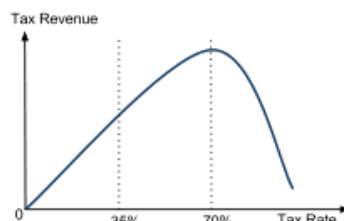
<b>Q.20</b>	<b>With reference to the data, and using relevant economic theory, evaluate the view expressed by John Redwood. [8]</b>		
<b>Band</b>	<b>A02</b>	<b>A03</b>	<b>A04</b>
	<b>2 marks</b>	<b>2 marks</b>	<b>4 marks</b>
	Has the data been well used to support or refute the argument?	Has economic theory been well developed?	Have data and economic theory been combined to judge whether the claim is justified?
<b>2</b>	<p><b>2 marks</b></p> <p>Clear reference to the data.</p> <p>Relevant content from the data is used to develop and support their argument.</p>	<p><b>2 marks</b></p> <p>A good analysis.</p> <p>Economic theory is used to explain the impact of income tax rates.</p>	<p><b>3-4 marks</b></p> <p>A well-balanced evaluation.</p> <p>Makes relevant points and qualifying statements to build an argument.</p> <p>One single, well-developed argument could gain full credit, but likewise well-contextualised shorter arguments could do so provided there is some development.</p> <p>May make a final judgement.</p>
<b>1</b>	<p><b>1 mark</b></p> <p>Limited use of the data.</p>	<p><b>1 mark</b></p> <p>A limited analysis.</p> <p>Superficial or brief use of economic theory to explain the impact of income tax rates.</p>	<p><b>1-2 marks</b></p> <p>Limited or brief evaluation.</p> <p>The evaluation may be unbalanced or focus on 1 issue.</p> <p>Superficial points made.</p>
<b>0</b>	<p><b>0 marks</b></p> <p>No use of the data or incorrect conclusions drawn from the data.</p>	<p><b>0 marks</b></p> <p>No or incorrect analysis.</p>	<p><b>0 marks</b></p> <p>No evaluation offered.</p>

## Indicative content:

### Theory:

There may well be mix and match from the strands identified.

- Laffer Curve:



Recognition of reduced incentives at higher tax rates resulting in emigration/tax avoidance or evasion. Recent evidence that 45p top rate produced more revenue than the 50p rate.

- Income/Substitution Effects

Role of the income and substitution effects – high tax rates make working an extra hour less attractive (meaning workers may substitute work for leisure) but high tax rates reduce total after tax incomes, creating incentives to work harder. Evidence inconclusive.

- AD/AS

Higher direct tax rates may create disincentives to work, hence reducing the rate of potential growth. But, some evidence that higher direct tax rates may create incentive to work harder to maintain income – therefore impact on AS is uncertain.

High direct tax rates may reduce AD (which may or may not be a bad thing depending on the state of the economy), but this is by no means certain and the impact may in any case depend on what is done with the higher revenue (e.g. increased government spending may outweigh loss of consumer spending)

- Progressivity

Direct taxes are generally more progressive than indirect taxes, a system with high indirect taxes may therefore narrow income inequalities, which may help to reduce a range of socio-economic problems, provided that the impact on incentives is not too extreme.

### Data

UK system takes a higher percentage of income from top earners than any other system shown and the proportion taken from median earners is the second highest of the countries shown. This suggests that the UK economy is labouring under a large tax burden and that the comments made by Redwood may have some validity.

### However:

Not all the countries are directly comparable. Looking at the US, Germany and the UK, the differences in the proportions paid by a top earner are relatively small. The fact that Mexico's taxes are so much lower probably reflects the fact that its public services are less well developed.

The UK is very similar to the US in fact (often viewed as a low tax economy) but we get universal health coverage – therefore arguably we are getting good value for money.

Difficult to judge without knowing the tax picture as a whole (a) we only have two specific groups shown and (b) we don't know about other taxes, such as the indirect tax picture and corporate taxes.

UK system appears to be significantly more progressive than that of Germany (note – because the German system has generous tax advantages for those with children).

Perhaps the UK system is OK at the top rate, but taxes on median earners are too high, given that this is only in the mid £20ks.

And so on – allow any intelligent use of the data given or comments on its limitations, but not general throw-away comments like 'we don't know how reliable the data is' or 'we don't know about other factors' – for these to be worth anything the criticisms have to be specific – what extra data so they want? Why are they concerned about the validity of the data?

Answer is reversible.