

Version 1



**General Certificate of Education (A-level)**  
**January 2012**

**Economics**

**ECON3**

**(Specification 2140)**

**Unit 3: Business Economics and the  
Distribution of Income**

**Final**

***Mark Scheme***

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Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

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### Advanced Level Economics Unit 3

#### General Instructions

Marks awarded to students should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the student to score full marks in a variety of ways. Where the student's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the student's answer does not deserve credit, then no marks should be given.

Occasionally, a student may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

- (i) **An issue based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data response questions (**Section A**) and the first part of each essay question (**Section B**) adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the student might include in the answer.
- (ii) **A levels approach.** This approach is used for parts **03** and **06** of the data response questions (**Section A**) and the second part of each essay question (**Section B**). The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the student. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

**AQA ADVANCED LEVEL (A2) ECONOMICS**

**LEVELS OF RESPONSE MARK SCHEME**

**FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**

<b>A2 LEVELS OF RESPONSE</b>	<b>AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology</b>	<b>AO2 APPLICATION of theories, concepts and terminology</b>	<b>AO3 ANALYSIS of economic problems and issues</b>	<b>AO4 EVALUATION of economic arguments and evidence, making informed judgements</b>
<b>Level 5</b> 22-25 marks (mid-point 24)  <b>Good analysis and good evaluation</b>	Good throughout the answer with few errors and weaknesses	Good application to issues  Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning  Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
<b>Level 4</b> 17-21 marks (mid-point 19)  <b>Good analysis <u>but</u> limited evaluation</b>  <b>OR</b>  <b>Reasonable analysis and reasonable evaluation</b>	Good throughout the answer with few errors and weaknesses      Good throughout much of the answer with few errors and weaknesses	Good application to issues  Where appropriate, good use of data to support answer    Some good application to issues  Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning  Good awareness of the inter-relatedness of economic issues    Largely relevant and well organised with reasonable logic and coherence  Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view      Reasonable, showing an appreciation of alternative points of view
<b>Level 3</b> 10-16 marks (mid-point 13)  <b>Reasonable answer, including some correct analysis but very limited evaluation</b>	Satisfactory but some weaknesses shown	Reasonable application to issues  Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present  Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
<b>Level 2</b> 4-9 marks (mid-point 7)  <b>Weak with some understanding</b>	Limited and some errors are made	Partial application to issues with some errors  Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development  Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
<b>Level 1</b> 0-3 marks (mid-point 2)  <b>Very weak</b>	Weak with a number of errors	Little, if any, application to issues  Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

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### THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the student to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the student.
- K** Where the student demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the student's response to the question. This should also be used where the student quotes relevant examples.
- Ap** Where the student demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- An** Where the student demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the student **EVALUATES** and makes judgements about the significance of various issues and arguments.

### Synoptic Assessment

All questions in this unit are synoptic. Therefore, students will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

Students should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

### QUALITY OF WRITTEN COMMUNICATION

**Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.**

Students will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

**1 THE GLOBAL CONTEXT**

**Total for this context: 40 marks**

**01** Using **Extract A**, calculate the index of UK production of natural gas for **Year X** and identify **one** significant feature of the data shown for the years 2007 to 2009. (5 marks)

**The calculation:**

For a correct answer (80). Working out need not be shown. No units necessary here.	<b>3 marks</b>
For showing a correct method but arriving at a wrong answer, eg <u>Any number</u> x 100 = wrong answer Any number	<b>1 mark</b>

**Identifying one significant feature:**

For identifying a significant feature	<b>1 mark</b>
For providing accurate supporting data with appropriate unit of measurement (GWh or mention of index)	<b>1 mark for appropriate data + 1 mark for GWh or mention of index</b>

**Significant features from 2007 to 2009 include:**

- UK production falls continuously from 840 000 to 700 000 GWh (or from index 120 to 100)
- imports rise from 340 000 to 460 000 GWh (or index 74 to 100)
- the imports do not entirely replace lost production (with relevant figures to support this)
- production was highest in 2007 at 840 000 GWh (or an index of 120)
- production was lowest in 2009 at 700 000 (or an index of 100)
- imports were highest in 2009 at 460 000 GWh (or an index of 100)
- imports were lowest in 2007 at 340 000 GWh (or an index of 74).

**Do not credit a feature which relates to the forecast Year X.**

**MAXIMUM FOR PART 01: 5 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

**02** Explain what is meant by ‘concentrated markets’ (**Extract B**, line 21) **and** analyse **two** possible consequences of energy being supplied through concentrated markets.  
(10 marks)

**Explanation:**

For a relevant definition/explanation of concentrated market, eg <ul style="list-style-type: none"> <li>• a small number of firms (2)</li> <li>• high market share (2)</li> <li>• brief explanation of market structure (2)</li> <li>• concentration ratio (2).</li> </ul>	<b>Up to 4 marks</b>
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**Maximum of 4 marks for the explanation**

**Analysis:**

<b>Award up to 6 marks for each of two consequences. 1 mark should be awarded for identifying the consequence and up to a further 5 marks for elaboration. Award one mark for each step in a logical chain of argument. Examples include:</b>	
Concentration reduces consumer choice ( <b>1 mark</b> ), because there are few alternatives ( <b>1 mark</b> ), firms have some ability to fix prices ( <b>1 mark</b> ), and part of the consumer price becomes supernormal profit ( <b>1 mark</b> ), so there is a loss of consumer surplus ( <b>1 mark</b> ) and a gain in producer surplus ( <b>1 mark</b> ).	<b>Up to 6 marks</b>
Other examples, eg possible benefits of concentration, eg. research and development; problems arising due to supply from limited sources	<b>Up to 6 marks</b>
Make appropriate use of diagrams to support the explanation and/or analysis, eg monopoly / oligopoly / kinked demand curve	<b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks</b>

**Maximum of 6 marks if one of only the explanation OR the analysis is attempted.**

**Maximum of 8 marks if only one consequence is analysed.**

**Maximum of 8 marks if there is no explicit reference to energy market.**

**MAXIMUM FOR PART 02: 10 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

**03** ‘...given the activities with which it is involved, there are commercial and wider economic and social arguments against a body such as the MHPA being privatised’ (**Extract B**, line 12-14).

Using the data and your economic knowledge, do you agree with the view that enterprises such as the MHPA should be privatised? Justify your answer.

(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

A maximum of **21 marks** if there is no explicit use of the data.

<b>Level 5</b>	<b>Good analysis and good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis but limited evaluation OR Reasonable analysis and reasonable evaluation</b>	<b>17-21 marks (mid-point 19)</b>
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

**Issues and areas for discussion include:**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>definitions/descriptions of <ul style="list-style-type: none"> <li>privatisation</li> <li>public-private partnership (PPP).</li> </ul> </li> </ul>
<b>Developing the response to the question (application)</b>	<ul style="list-style-type: none"> <li>Evidence from the data used to support arguments for or against privatisation, eg references to <ul style="list-style-type: none"> <li>competition</li> <li>concentration</li> <li>strategic industry</li> <li>public/private partnerships</li> <li>need for coordination across government levels</li> <li>environmental considerations.</li> <li>employment</li> </ul> </li> </ul>



Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

<p><b>Developing the response to the question (analysis)</b></p>	<ul style="list-style-type: none"> <li>• general arguments <b>FOR</b> privatisation, eg privatisation increases efficiency because the organisation becomes accountable to shareholders instead of politicians/ taxpayers and therefore has to focus on profits.</li> <li>• general arguments <b>AGAINST</b>, eg an organisation of this type needs to have wider social objectives as well as narrow commercial objectives; the large capital costs and the strategic nature of LNG make it appropriate for the state to intervene.</li> <li>• reasons for the PPP format, eg to supply funds in the national interest; to negotiate enforceable contracts with foreign governments</li> <li>• reasons why the MHPA's activities might create negative externalities and impact of state versus private control.</li> </ul>
<p><b>Evaluation</b></p>	<ul style="list-style-type: none"> <li>• effects on competition and consumer choice can go either way; could possibly reduce competition and choice</li> <li>• spill-over effects from LNG industry creating costs for others in the area, eg tourism</li> <li>• possibility of market failure</li> <li>• possibility of government failure, eg wrongly predicting the market for energy</li> <li>• knock-on effects on the labour market</li> <li>• conflict of policies, eg with renewable energy</li> <li>• critique of the PPP format, eg may lead to               <ul style="list-style-type: none"> <li>○ inefficiency</li> <li>○ monopoly</li> </ul> </li> <li>• impact of regulation</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<p><b>Also give credit for</b></p>	<ul style="list-style-type: none"> <li>• relevant use of evidence and examples not contained in the data</li> <li>• relevant diagrams</li> <li>• an overall judgement on the issues raised.</li> </ul>

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 03: 25 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

**2 THE EUROPEAN UNION CONTEXT**

**Total for this Context: 40 marks**

**04** Using **Extract C**, calculate the index of quantity of fish for **Year Y** and identify **one** significant feature of the data for the period 2003 – 2009. **(5 marks)**

**The calculation:**

For a correct answer (80). Working out need not be shown. No units necessary here.	<b>3 marks</b>
For showing a correct method but arriving at a wrong answer, eg <u>Any number</u> x 100 = wrong number Any number	<b>1 mark</b>

**Identifying one significant feature:**

For identifying a significant feature	<b>1 mark</b>
For providing accurate supporting data with appropriate unit of measurement (tonnes or £million or mention of index)	<b>1 mark for appropriate data</b> <b>+</b> <b>1 mark for tonnes or £million or mention of index</b>

**Significant features for the years 2003 to 2009 include:**

- quantity falls continuously from 700 000 to 500 000 tonnes (or from index 140 to 100)
- value rises from £475m to £611m (or index 78 to 100)
- the price of fish must be increasing, since fewer landings have a higher value (with relevant figures to support this).
- quantity was highest in 2003 at 700 000 tonnes
- quantity was lowest in 2009 at 500 000 tonnes
- value was highest in 2009 at £611m
- value was highest in 2003 at £475m

**Do not credit a feature which relates to the forecast Year Y.**

**MAXIMUM FOR PART 04: 5 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

**05** Explain what is meant by ‘economies of scale’ (**Extract D**, line 3) **and** analyse how **two** types of economy of scale could affect the fishing industry. (10 marks)

**Explanation:**

For a relevant definition/explanation of economies of scale, eg a reduction in long-run average costs (2) due to the growth of the firm or industry (2), internal economies, external economies.	<b>Up to 4 marks</b>
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**Maximum of 4 marks for the explanation**

**Analysis:**

<b>Award up to 6 marks for each of two types. 1 mark should be awarded for identifying the type and up to a further 5 marks for elaboration. Award one mark for each step in a logical chain of argument. Examples include:</b>	
Technical economies (1 mark), related to the use of large scale machinery (1 mark), reference to factory ships (1 mark), more capital intensive (1 mark), less labour employed (1 mark) problems such as ‘hoovering up’ the seas (1 mark).	<b>Up to 6 marks</b>
Other economies, eg financial, managerial, risk bearing/marketing etc (note: fishing industry can be interpreted to include markets and processing). Reward EXTERNAL as well as INTERNAL economies.	<b>Up to 6 marks</b>
Make appropriate use of diagrams to support the analysis, eg LRAC, minimum efficient scale	<b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) To a maximum of 3 marks</b>

**Maximum of 6 marks if one of only the explanation OR the analysis is attempted.**

**Maximum of 8 marks if only one type of economy of scale is analysed.**

**Maximum of 8 marks if there is no explicit reference to the fishing industry.**

**MAXIMUM FOR PART 02: 10 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

- 06** Using the data and your economic knowledge, evaluate the view that intervention in the fishing industry by the EU is unlikely to correct market failure but is likely to result in government failure in **both** UK product markets **and** UK labour markets.  
(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Award a maximum of **21 marks** if either UK product or UK labour markets are **not** included in answer.

A maximum of **21 marks** if there is no explicit use of data.

<b>Level 5</b>	<b>Good analysis <u>and</u> good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis <u>but</u> limited evaluation</b>	<b>17-21 marks (mid-point 19)</b>
	<b>OR</b> <b>Reasonable analysis <u>and</u> reasonable evaluation</b>	
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

**Issues and areas for discussion include:**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>the characteristics of government intervention</li> <li>distinction between product and labour markets</li> <li>meaning of market failure, government failure</li> <li>meaning of market failure in the fishing industry</li> </ul>
<b>Developing the response to the question (application)</b>	<p>Discussion based on information from the data related to, for example,</p> <ul style="list-style-type: none"> <li>product market, eg price and quantity of fish, effects of quotas</li> <li>labour market, eg collapse of employment in the trawler industry</li> <li>wider fishing industry, eg processing.</li> </ul>
<b>Developing the response to the question (analysis)</b>	<ul style="list-style-type: none"> <li>marginal cost and marginal private benefit of fishing: an overfishing equilibrium</li> <li>types of government intervention, eg taxes, subsidies, quotas</li> <li>effects of government intervention on prices and quantities</li> <li>the possibility that the CFP actually encourages large-scale fishing and therefore defeats the conservation objective (there are strong hints in the data pointing to this conclusion)</li> <li>links between product markets and labour markets, eg. the concept of derived demand</li> <li>market failures in the fish product market, eg lack of information, externalities</li> </ul>

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

	<ul style="list-style-type: none"> <li>• higher fish prices do not incentivise further supply from 'producer', as the producer is nature not man</li> <li>• higher prices incentivise even more over-fishing for the profits available</li> <li>• market failures in the fishing labour market, eg occupational immobility, geographical immobility</li> <li>• the inefficiency of EU bureaucracy</li> <li>• government failure in the fishing market, eg bureaucracy, irrational policies (waste of dumping the 'wrong' fish), information failure</li> <li>• regional downward multiplier effects.</li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• need for international action</li> <li>• rationale for EU intervention</li> <li>• possibility that EU and national governments act out of step, or even in conflict with each other</li> <li>• possibility that a policy can benefit a product market while harming a labour market, or vice versa</li> <li>• the option of non-intervention; argument that product markets work</li> <li>• arguments that labour markets work, eg the data mentions diversification in the Grimsby area</li> <li>• depends on what is done over what time period, to what extent, and state of the UK economy.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• relevant use of evidence and examples not contained in the data</li> <li>• diagrams</li> <li>• an overall judgement on the issues raised.</li> </ul>

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR QUESTION 06: 25 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

**SECTION B**

**Essay 1**

**Total for this Essay: 40 marks**

- 07** 'A pharmaceutical company can expect to make supernormal profits on a new drug or medicine in the short run.'

Explain why some firms might be able to **continue** to make supernormal profits in the **long run**.  
(15 marks)

For relevant definitions, eg

- normal/supernormal profits
- short run/long run

**Up to 2 marks for each to a maximum of 4 marks**

**Award one mark for each step in a logical chain of argument up to 15 marks, for example**

- Barriers to entry are a reason (**1 mark**). These can include patents (**1 mark**) which are relevant to pharmaceuticals (**1 mark**); they reduce competition (**1 mark**) and allow a degree of monopoly (**1 mark**) preventing prices from falling in the long run (**1 mark**) and thus maintaining supernormal profits (**1 mark**).
- Structure of the industry, product differentiation, imperfect knowledge, technological change collusion, limit pricing etc.

Use of appropriate diagrams to help support explanations, eg monopoly and/or perfect competition diagram accompanied by analysis of the effects of entry barriers

**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.**

**MAXIMUM FOR PART 07: 15 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

<b>08</b>	Evaluate whether profit maximisation is always the most important objective of firms. <span style="float: right;">(25 marks)</span>
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In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

<b>Level 5</b>	<b>Good analysis <u>and</u> good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis <u>but</u> limited evaluation</b>  <b>OR</b>  <b>Reasonable analysis <u>and</u> reasonable evaluation</b>	<b>17-21 marks (mid-point 19)</b>
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

**Issues and areas for discussion include:**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• profit as a factor reward</li> <li>• rationale for profit maximisation</li> <li>• explanation of profit maximisation.</li> </ul>
<b>Developing the response to the question (application/analysis)</b>	<ul style="list-style-type: none"> <li>• influence of the ownership/control 'divorce'</li> <li>• size/complexity of firms</li> <li>• alternative objectives, eg               <ul style="list-style-type: none"> <li>○ maximisation of                   <ul style="list-style-type: none"> <li>▪ sales</li> <li>▪ output/production</li> <li>▪ revenue</li> <li>▪ social welfare</li> </ul> </li> <li>○ minimisation of                   <ul style="list-style-type: none"> <li>▪ money costs</li> <li>▪ social costs</li> </ul> </li> <li>○ satisficing behaviour</li> </ul> </li> <li>• circumstances when different objectives might be appropriate</li> <li>• consequences of different objectives.</li> </ul>

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• feasibility of some or all of the possible objectives, (eg are firms able to track their marginal costs and revenues as accurately as theory suggests?)</li> <li>• inter-industry differences, eg manufacturing versus services; private versus public sector</li> <li>• are objectives exclusive?, or             <ul style="list-style-type: none"> <li>○ can several objectives be followed at once?</li> <li>○ are any objectives possible without profits being made?</li> </ul> </li> <li>• short/long run objectives.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• relevant use of examples</li> <li>• diagrams</li> <li>• an overall judgement on the issues raised.</li> </ul>

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 08: 25 MARKS**



Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

**Essay 2**

**Total for this Essay: 40 marks**

<b>09</b>	Explain why competition might lead to <b>both</b> productive efficiency <b>and</b> allocative efficiency. (15 marks)
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For relevant definitions, eg competition, efficiency	<b>Up to 2 marks for each to a maximum of 4 marks</b>
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<b>Award one mark for each step in a logical chain of argument up to 15 marks, for example</b>	
<ul style="list-style-type: none"> <li>Allocative: Perfect competition leads to an efficient allocation of resources (<b>1 mark</b>). Price = marginal cost (<b>1 mark</b>) so that producers are compensated for the effort of production (<b>1 mark</b>) and consumers receive benefit (<b>1 mark</b>) both of which are reflected in the price (<b>1 mark</b>). Movement away from this equilibrium rewards one group at the expense of the other (<b>1 mark</b>).</li> <li>Productive efficiency arising out of competition, marginal cost = average cost, average cost minimised</li> </ul>	
Use of appropriate diagrams to help support explanations, eg LR equilibrium under perfect competition, monopoly equilibrium	<b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.</b>

**Maximum of 10 marks if only one of the types of efficiency in the question is considered.**

**MAXIMUM FOR PART 09: 15 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

<b>10</b>	Evaluate the view that, providing there is market contestability, government intervention to ensure competition is unnecessary. (25 marks)
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In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

<b>Level 5</b>	<b>Good analysis <u>and</u> good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation</b>	<b>17-21 marks (mid-point 19)</b>
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

**Issues and areas for discussion include:**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>the characteristics of a market</li> <li>the meaning of 'contestability', eg a market where firms can enter or leave easily so that firms face competition from potential entrants</li> <li>types of government intervention</li> <li>types of competition.</li> </ul>
<b>Developing the response to the question(application/analysis)</b>	<ul style="list-style-type: none"> <li>examples of markets that are non-contestable and contestable <ul style="list-style-type: none"> <li>non-contestable: domestic piped water (natural monopoly)</li> <li>contestable: bottled mineral water;</li> </ul> </li> <li>contestable markets in terms of <ul style="list-style-type: none"> <li>structure</li> <li>performance</li> <li>conduct.</li> </ul> </li> <li>could be argued that budget air travel is more contestable than full-service air travel</li> <li>strategies for firms in contestable markets, <ul style="list-style-type: none"> <li>legitimate/legal strategies <ul style="list-style-type: none"> <li>eg limit pricing</li> </ul> </li> <li>illegitimate/illegal strategies <ul style="list-style-type: none"> <li>eg collusion</li> </ul> </li> </ul> </li> <li>contestable markets and oligopoly <ul style="list-style-type: none"> <li>cartels</li> <li>'gaming behaviour</li> </ul> </li> <li>government influence on contestability, eg <ul style="list-style-type: none"> <li>competition policy</li> <li>franchising, eg ensuring a new operator for the National Lottery could enter with minimum cost, and an existing one leave without penalty</li> <li>use of law, regulation.</li> </ul> </li> </ul>

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• government intervention might still be necessary due to abuse of monopoly power, even if the market is contestable</li> <li>• the possibility that an industry that looks monopolistic or oligopolistic in terms of scale or structure might actually behave very competitively in certain aspects, eg the car industry supplying the global market for family cars</li> <li>• the effects on conduct (eg persuasive/ informative advertising, product differentiation) and performance (costs, efficiency, externalities)</li> <li>• the issue of whether small firms are necessarily more competitive than large firms</li> <li>• government/market failure issues.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• relevant use of examples</li> <li>• diagrams</li> <li>• an overall judgement on the issues raised.</li> </ul>

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 10: 25 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

**Essay 3**

**Total for this Essay: 40 marks**

- |           |  |
|-----------|--|
| <b>11</b> | Explain how marginal revenue product can help to determine <b>both</b> wage rates <b>and</b> employment in particular occupations.<br><span style="float: right;"><i>(15 marks)</i></span> |
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For relevant definitions, eg

- marginal product
- marginal revenue product
- wage rates.

**Up to 2 marks for each to a maximum of 4 marks**

**Award one mark for each step in a logical chain of argument up to 15 marks, for example**

- Employment: In a perfectly competitive labour market (**1 mark**) the wage rate is the price of labour (**1 mark**) and the employer is a price taker (**1 mark**) MRP falls as a firm takes on more employees (**1 mark**); as long as wage rate < MRP it is worth taking on more staff (**1 mark**); where  $WR = MRP$  the employer stops taking on more employees (**1 mark**).
- Wage rates: determined on the labour market; within a firm the above theory suggest that each worker receives MRP; conditions for a perfect labour market.
- Wider arguments: elasticity of demand for labour, MRP considers demand side; must also consider supply side of labour; can argue that MRP is of limited use, due to market 'imperfections', bilateral monopoly, collective bargaining etc.

Use of appropriate diagrams to help support explanations, eg supply and demand for labour, MRP

**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.**

**This question lends itself to an over-arching diagram, eg perfect/imperfect competition in the labour market, for which 4 marks may be awarded.**

**Maximum of 10 marks if either wage rates or employment not considered.**

**MAXIMUM FOR PART 11: 15 MARKS**

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

<b>12</b>	<p>A government wishes to make the distribution of <b>both</b> income <b>and</b> wealth more equal.</p> <p>Discuss whether the most effective way to achieve these aims is to tax income more progressively. <span style="float: right;">(25 marks)</span></p>
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In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

<b>Level 5</b>	<b>Good analysis <u>and</u> good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis <u>but</u> limited evaluation</b>  <b>OR</b>  <b>Reasonable analysis <u>and</u> reasonable evaluation</b>	<b>17-21 marks (mid-point 19)</b>
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

**Issues and areas for discussion include**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>details of inequalities</li> <li>the distinction between income and wealth</li> <li>progressive, proportional and regressive taxation.</li> </ul>
<b>Developing the response to the question(application/analysis)</b>	<ul style="list-style-type: none"> <li>the relationships between income and wealth</li> <li>examples of taxes on income and wealth</li> <li>ways in which income affects wealth and wealth affects income</li> <li>horizontal and vertical equity in the taxation of income and wealth</li> <li>the use of taxes for re-distribution purposes</li> <li>the effects of various taxes on income and wealth distribution</li> <li>influences other than taxes, eg the provision of public services free at the point of use</li> <li>ways in which taxing income affects income</li> <li>ways in which taxing income might affect wealth</li> <li>the concept of 'ability to pay'</li> <li>the idea that progressive income taxes reduce incentives</li> <li>demand side effects, supply-side effects.</li> </ul>

Mark Scheme – General Certificate of Education (A-level) Economics –  
Unit 3: Business Economics and the Distribution of Income – January 2012

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• market forces versus government intervention</li> <li>• different treatment of income and wealth</li> <li>• income is not just wages: also rent, interest, profit</li> <li>• consideration of the claim for progressive income taxation made in the question</li> <li>• critique of various ‘theories’ such as ‘trickle down’</li> <li>• reference to claims about relative success of more equal societies</li> <li>• strengths and weaknesses of alternative methods of redistribution, eg education and training, min wage.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• relevant use of examples</li> <li>• diagrams</li> <li>• an overall judgement on the issues raised</li> </ul>

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 10: 25 MARKS**