



GCE

Economics

Advanced Subsidiary GCE

Unit **F581**: Markets in Action

Mark Scheme for June 2013

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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.

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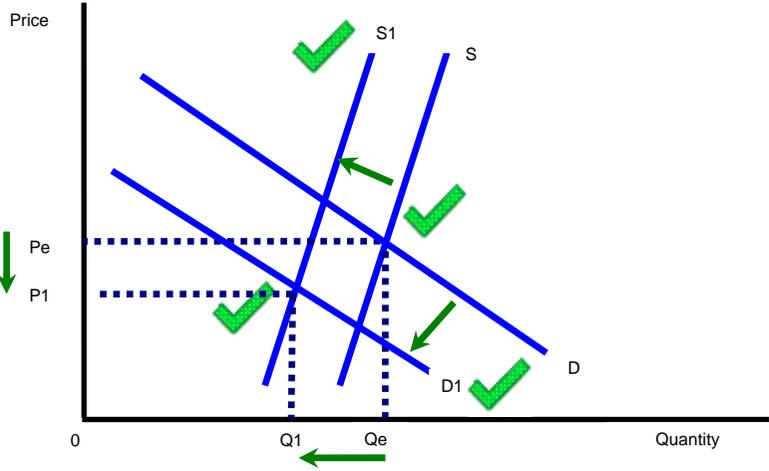
Annotation	Meaning
	Tick
	Cross
	Comment
	Benefit of doubt
	Level 1
	Level 2
	Level 3
	Level 4
	Effective evaluation
	Omission mark
	Not answered question
	Noted but no credit given
	Too vague
	Own figure rule

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Question	Answer	Marks	Guidance
1	<p>Using an example in each case, state two factors of production used in the provision of holidays.</p> <p>One mark for each correctly stated factor plus a further mark for an appropriate example (2x2) Possibilities include:</p> <ul style="list-style-type: none"> • land – site of airport/hotels/holiday resorts/parks, campsite, scenery, rivers, beaches, oil • labour – holiday reps, tour guides, travel agents, pilots • capital – transport such as trains/coaches, airports, hotel buildings, theme-park machinery • enterprise – risk taking/organisation of factors of production/ decision making in offering the holidays 	4	<p>Do not accept illustrations that are not applied to the provision of holidays, i.e. no marks for 'natural resources', 'buildings'...</p> <p>Do not accept "fuel" as an example of land.</p> <p>No credit for 'workers' but one mark for 'workers in the holiday industry' or similar application.</p>
2	<p>(a) Using information in the case study, identify and explain two reasons for the decrease in the supply of flights.</p> <p>One mark each for reasons for the shift of the supply curve to the left. The case material gives:</p> <ul style="list-style-type: none"> • tighter regulation • sharp rise in the cost of fuel • increase in green taxes <p>eg "Regulation (1) raises costs of production (1) meaning firms can make less profit (1)."</p> <p>"A sharp rise in the cost of fuel (1) has increased production costs (1) and therefore firms are less willing to supply flights (1)."</p> <p>"The increase in green taxes (1) has increased the cost of flying (1) thus resulting in fewer firms being able to supply flights. (1)"</p>	6	<p>One mark for each correct identification, up to a maximum of two identifications, plus up to a further two marks for each of two explanations.</p> <p>An answer getting full marks is likely to follow the following pattern:</p> <ul style="list-style-type: none"> • identification of the reason (1) • explanation that this increases costs or limits production (1)... • ...causing firms to be less willing or able to supply/earn less profit (1) <p>Do NOT credit "therefore supply will decrease" or "therefore the supply curve shifts to the left" with an explanation mark.</p> <p>Do NOT accept demand side explanations or a price change causing a movement down the supply curve/contraction of supply.</p>

Question	Answer	Marks	Guidance
<p>(b)</p>	<p>Using a demand and supply diagram, comment on the extent to which changes in the demand and supply of holidays mentioned in the case study may have affected the market equilibrium for foreign holidays.</p>  <p>Award up to four marks for a correct diagram:</p> <ul style="list-style-type: none"> • original equilibrium (1) • shift left of supply (1) • shift left of demand (1) • new equilibrium (1) <p>Up to two marks for a comment on how the overall impact depends upon:</p> <ul style="list-style-type: none"> • the extent to which supply and/or demand curves shift (1 only), elaborated with reference to effect on price or quantity (1) • the elasticity of demand and/or supply (1) elaborated with reference to effect on price or quantity (1) • other factors affecting demand or supply (up to 2) 	<p>6</p>	<p>If lines wrongly labelled (eg macro labels)/not labelled, no marks for diagram.</p> <p>If only one shift is shown, or one shift is to the right, maximum two marks for the diagram.</p> <p>Use annotation E in left margin for comments.</p> <p>If both shifts are incorrect, no marks can be awarded for a comment.</p> <p>If only one shift is correct, cap comment marks at 1.</p>

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Question		Answer	Marks	Guidance
3	(a)	<p>Define the term 'consumer surplus'.</p> <p>Up to two marks for a clear definition such as:</p> <p>The extra amount that a consumer is willing to pay for a product above the price that is actually paid. (2)</p> <p>The difference between the value a consumer places on the good/service purchased and the equilibrium price in the market. (2)</p> <p>The difference between the price that consumers are willing to pay and the market price. (2)</p> <p>The value that consumers gain from consuming a good or service over and above the price paid. (2)</p>	2	<p>Accept 'amount paid' for 'price'.</p> <p>If there is no clear sense of the 'difference' no marks can be awarded.</p> <p>Award one mark for recognition of a difference between two prices.</p>
	(b)	<p>Using a diagram, show how consumer surplus changes with a rise in the price of flights.</p> <p>Up to four marks for a diagram which clearly illustrates a loss in consumer surplus and rise in price:</p> <ul style="list-style-type: none"> • correctly labelled, downward sloping demand curve (1) • original consumer surplus identified (1) • new consumer surplus identified (1) • consumer surplus will decrease (1) • area of consumer surplus lost indicated by letters or labels (1) 	4	<p>If demand curve is not labelled, no marks can be awarded.</p> <p>Do NOT credit an area labelled 'consumer surplus' unless the candidate makes clear whether this is the original, new or lost consumer surplus.</p> <p>Do NOT accept 'difference' or 'change' for loss/decrease.</p>

Question		Answer	Marks	Guidance
4	(a)	<p>Define the term ‘income elasticity of demand’.</p> <p>Two marks for a clear definition such as:</p> <p>The responsiveness of demand/quantity demanded to a change in income (2).</p> <p>The extent to which demand changes as a result of a change in income (2).</p> <p>A measure of the sensitivity of quantity demanded to a change in consumer incomes (2).</p> <p>OR</p> <p>Correct formula: $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$ or $\frac{\% \Delta QD}{\% \Delta Y}$ (2)</p>	2	<p>Award one mark for an understanding of a relationship between income and demand.</p> <p>No marks for “responsiveness of a CHANGE in demand/quantity demanded...”</p> <p>Award one mark if the formula omits “Q”</p> <p>Do NOT award any marks if the formula is presented without “%” or “percentage”</p>
	(b)	<p>There is expected to be a 10% fall in UK consumers’ income in the next two years. Using the information in Fig. 1, comment on the likely impact of this fall in income on the holiday market.</p> <p>Up to three marks for an analysis of the figures given:</p> <ul style="list-style-type: none"> foreign holidays are normal/luxury/superior goods (1) UK holidays/staycations are inferior goods (1) both/either are income-elastic (1) but only credit this once there will be greater change in demand for foreign holidays than for UK holidays in response to a change in income (1) fall in income will lead to a fall in demand for foreign holidays (1) fall in income will lead to a rise in demand for UK holidays (1) relevant numerical example (1) but only credit this once <p>Up to three marks for relevant comments such as:</p> <ul style="list-style-type: none"> UK holiday companies will benefit in the future from the falling incomes but foreign companies are likely to lose custom incomes may not fall in line with the 10% prediction – so future is uncertain assumes ceteris paribus which may not apply the figures are estimates (1) could be inaccurate (1) unreliable(1) change over time (1) max 2 for estimates comments 	6	<p>YED for foreign holidays = +2.0 YED for UK holidays/staycations = -1.6</p> <p>Do NOT credit attempts to interpret the PED figures (-1.7, -0.8) given in the case study.</p> <p>No OFR marks are available as candidates were not required to calculate estimates.</p> <p>Do NOT credit ‘fall in foreign holidays’ or ‘rise in UK holidays’ without reference to demand.</p> <p>Numerical examples – demand for foreign holidays falls by 20%, demand for UK holidays rises by 16%.</p> <p>Comment marks can only be awarded where at least one analysis mark has been awarded.</p> <p>Up to three marks for one well-developed comment.</p>

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Question		Answer	Marks	Guidance
5	(a)	<p>Define what is meant by the term ‘allocative efficiency’.</p> <p>Award two marks for a clear definition such as:</p> <ul style="list-style-type: none"> • when consumer satisfaction is maximised • when welfare is maximised • where quantity supplied is equal to the quantity demanded/S=D • where the market is in equilibrium/market clears <p>Also accept:</p> <ul style="list-style-type: none"> • where $P = MC$ • where $AR = MC$ 	2	<p>Award one mark for an incomplete definition which nonetheless relates to the concept, e.g. “where consumers are happy/more satisfied” or “where resources are allocated to meet demand”.</p>
	(b)	<p>Using information in the case study, explain whether the UK holiday market has become more allocatively efficient.</p> <p>Award one mark for a statement that the market has become more allocatively efficient.</p> <p>Award up to two marks for the use of evidence from the case study:</p> <p>UK holiday companies have</p> <ul style="list-style-type: none"> • increased the quantity of UK holidays (1) • improved the quality of UK holidays (1) <p>Award one mark for linking evidence in the case study to allocative efficiency, e.g. “consumer satisfaction is increased with better quality campsites”, “a greater range of specialist leisure activities caters for an increasing breadth of consumer taste” or “increasing numbers of holidays means consumers can purchase the holiday they desire”.</p>	4	<p>Award max one mark to candidates who use “more up-market campsites and a greater range of specialist leisure activities” as an example of greater quantity or quality.</p> <p>A valid alternative approach is for candidates to argue that the market is still clearing and cannot become more efficient:</p> <ul style="list-style-type: none"> • the market has not become more efficient (1) • quantity of holidays is increasing (1) and quality improving (1) • therefore supply is still meeting (increased) demand (1) and the market is still clearing (1)

Question	Answer	Marks	Guidance
6	<p>Comment on the likely impact on consumers of information failure in the market for sun beds and tan accelerator products.</p> <p>Up to two marks for application of the impact on consumers of sun bed/tan accelerators:</p> <ul style="list-style-type: none"> • excessive consumption increases the risk of cancer/death/ blood pressure issues/skin disorders (1) • consumers lack awareness of harmful effects (1) • these will reduce quality of life and life expectancy (1) <p>Up to two marks for an economic analysis of the impact on consumers of sun bed/tan accelerators. Points might include:</p> <ul style="list-style-type: none"> • these are demerit goods (1) • leading to over-consumption (1) • consumers may behave irrationally through lack of information (1) • the industry demonstrates asymmetric information (1) • consumers' decisions do not maximise their welfare (1) <p>Up to two marks for relevant comment on the impact on consumers:</p> <ul style="list-style-type: none"> • depends on the extent of information failure • the evidence is still unclear • other factors lead to the use of such products – it is easy to access them • consumers may have the information but choose to ignore it • difficult to judge the impact since illegal consumption is unrecorded 	6	<p>NB – only reward answers which deal with the impact on consumers of sun beds and tan accelerator products. Negative externalities are not relevant (eg skin cancer raising costs to the NHS is not an acceptable application, as this is not an impact on consumers).</p> <p>“Unhealthy” or “risks to health” as an impact on consumers = too vague.</p> <p>Comment marks can only be awarded where at least one analysis mark has been awarded.</p> <p>One developed comment can gain both comment marks.</p>

Question		Answer	Marks	Content	Guidance
					Levels of response
7*		<p>Discuss whether regulation is the most effective solution to the market failure arising from information failure.</p> <p>EE 16–18 marks Stated or elaborated judgement.</p> <p>Level 4 13–15 marks Responses may include, but are not limited to:</p> <ul style="list-style-type: none"> • Regulation may be difficult and/or costly to enforce. • Opportunity cost of enforcement. • Black markets may develop. • Regulation may not be set at optimal level – government failure. • People might choose to ignore regulation/break the rules. • Consumers may not respond to the information provided. • Alternatives may be more/less effective than regulation – must be compared to regulation. <p>The above points may be credited as L2 if answer has not progressed to L3 B2.</p>	18	<p>18 marks: More thorough justification or elaboration.</p> <p>17 marks: Some justification or elaboration of the statement. Use second  annotation.</p> <p>16 marks: Regulation is/is not the most/an effective solution. Use one  to show where this statement appears.</p> <p>15 marks: Three evaluative points or a well developed evaluative point.</p> <p>14 marks: Two evaluative points or a partially developed evaluative point.</p> <p>13 marks: One evaluative point OR a list of stated points. Use one  annotation for each of the first three discussion points.</p>	<p>Level 4 (13–18 marks): For a discussion as to whether regulation is the most effective solution to the market failure arising from information failure.</p> <p>All answers at this level must be underpinned with appropriate theoretical concepts.</p> <p>17–18 marks: There must be a supported judgment based on the preceding analysis which may consider alternative solutions.</p> <p>16 Marks: There must be a stated judgement.</p> <p>All answers at this level must be underpinned with appropriate analysis.</p> <p>13–15 marks: There must be a discussion of points for and against regulation or a direct comparison with other methods of correcting market failure.</p> <p><i>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured using appropriate terminology. There may be few, if any, errors of spelling, punctuation and grammar.</i></p>

Question			Answer	Marks	Content	Guidance
						Levels of response
			<p>Level 3 Band 2 11–12 marks</p> <ul style="list-style-type: none"> This solves overconsumption/ reduces consumption which corrects market failure Moves market (closer) to allocative efficiency Welfare is increased <p>Level 3 Band 1 9–10 marks</p> <ul style="list-style-type: none"> Diagram showing vertical supply curve imposed on market (to left of old equilibrium) Supply shifts to the left (because regulation may increase firms' costs) Demand shifts to the left (because regulation makes it more difficult for consumers to obtain the product) Price rises (from P to P1) Quantity falls (from Q to Q1) 		<p>12 marks: more than one Band 2 point made OR a developed Band 2 point.</p> <p>11 marks: one Band 2 point made Place second  annotation where L3 B2 is awarded.</p> <p>10 marks: more than one Band 1 point made OR a developed Band 1 point.</p> <p>9 marks: one Band 1 point made Place one  annotation where L3 B1 is awarded.</p>	<p>Level 3 (9–12 marks): For an analysis of the use of regulation to correct market failure.</p> <p>11–12 marks: For analysis of how moving to the new equilibrium solves the market failure arising from information failure.</p> <p>9–10 marks: Analysis which demonstrates the new equilibrium position after the imposition of regulation.</p> <p><i>Relatively straight forward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.</i></p>

Question		Answer	Marks	Content	Guidance
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		<p>Level 2 5–8 marks</p> <ul style="list-style-type: none"> • Application of regulation to any suitable market failure, eg sunbeds, cigarettes, alcohol • Regulation could take the form of banning under 18s from using sunbeds • Regulation could force firms to provide health warnings/ information • Unexplained regulation diagram showing relevant shift of S or D • Advantages or disadvantages of regulation applied to a market (where L3 B2 has not been attained). <p>Level 1 1–4 marks</p> <ul style="list-style-type: none"> • Regulation consists of laws/ restrictions imposed by the government • Market failure is where the free market fails to achieve allocative efficiency • Information failure occurs when a lack of information results in consumers and producers making decisions that do not maximise welfare. • Non-applied market failure diagram 		<p>8 marks: Four or more applied points.</p> <p>7 marks: Three applied points.</p> <p>6 marks: Two applied points OR unexplained diagram and one point applied to the market.</p> <p>5 marks: One point on regulation applied to the market OR unexplained regulation diagram.</p> <p>3–4 marks: knowledge of both regulation AND market failure.</p> <p>1–2 marks: knowledge of either regulation OR market failure.</p>	<p>Level 2 (5–8 marks): For an application of knowledge and understanding of regulation.</p> <p>This sort of response will include unsupported/unsubstantiated statements as to how regulation works, and how it can/cannot be used to solve market failure.</p> <p><i>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</i></p> <p>Level 1 (1–4 marks): For knowledge only of a regulation and/or market failure (which may include information failure).</p> <p><i>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.</i></p>

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