

EC3

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS - EC3

MARK SCHEME - SUMMER 2014

Question	Answer	Mark allocation	Assessment objective
1.	<p>Explain two reasons why companies such as Sainsbury may have environmentally friendly policies as a major objective.</p> <p>Identification of appropriate reasons with explanation e.g. cutting costs, increasing profits, PR advantages, Government policies e.g. carbon tax, non-price competition in oligopoly, Ethical objectives.</p> <p>(2x2 1 for identification + 1 for explanation)</p>	4	AO2 2 AO3 2
2. (a)	<p>Adapt the diagrams to show how the firm's price, output and profits will be affected by an increase in demand in the short-run.</p> <p>Illustration of industry price rise resulting in upward shift of individual firm's demand curve (1) resulting in increase in firm's price (1) firm's output (1) and abnormal profits (1)</p> <p>Marks are only awarded for changes to the diagram for the individual firm (right hand side diagram).</p>	4	AO1 2 AO2 2
(b)	<p>Explain what will happen to the firm's price, output and profits in the long-run.</p> <p>Explanation of new entrants to the industry pushing industry supply curve to the right and reducing price back to OP. (2)</p> <p>Explanation of firm's output returning to OQ and abnormal profits being competed away or return to normal profit. (2)</p>	4	AO1 2 AO2 2
3.	<p>A car manufacturer is faced with a large increase in demand for its product. As a result it needs to increase its production.</p> <p>Using the diagram explain why its long run costs fall when its output expands from Q1 to Q2.</p> <p>Descriptive explanation of economies of scale with appropriate examples/use of diagram. (2)</p> <p>Explanation of no fixed factors/change of scale in long-run enabling reduction in LAC. (4)</p> <p>Use of diagram does not need to be explicit.</p>	4	AO1 2 AO2 2

Question	Answer	Mark allocation	Assessment objective
4. (a)	<p>Explain why companies such as Asahi and Pilkington might form a cartel.</p> <p>Identification (1) and explanation (1) of reasons for forming cartel e.g. reduce advertising/marketing costs, charge higher prices because of limited competition, monopoly profits.</p>	2	AO3 2
(b)	<p>Explain why the EU might fine companies for taking part in such cartels.</p> <p>Reduces competition only/anti competitive only. (1) Explanation/development of how anti competitiveness harms consumers or firms or the economy. (1)</p>	2	AO3 2
5. (a)	<p>Explain ONE reason why there may be significant differences in the rate of inflation as measured by the Consumer Prices Index (CPI) and the Retail Prices Index (RPI).</p> <p>Identification and explanation of one factor e.g. RPI includes changes in mortgage interest and other housing costs, CPI doesn't. CPI includes highest and lowest income groups, RPI doesn't. CPI assumes consumers adjust spending to price rises, RPI doesn't. CPI calculated using geometric mean, RPI arithmetical mean.</p>	2	AO2 2
(b)	<p>In 2010 the Government announced plans to make pensions rise in line with the CPI rather than the RPI as previously. Discuss the possible effects of this decision.</p> <p>Possible advantages, e.g. would save Government money fairer because pensioners less likely to have mortgages CPI is more stable normally than RPI. Appropriate disadvantages e.g. would mean lower incomes for pensioners, will widen gap between pensions and wages if real wages rise.</p>	4	AO3 2 AO4 2

Question	Answer	Mark allocation	Assessment objective
6.	<p>Discuss the view that ‘a UK exit from the European Union would be "devastating" for the UK economy’.</p> <p>Identification and explanation of arguments for statement e.g.</p> <ul style="list-style-type: none"> • EU major trading partner • might discourage FDI from outside EU • loss of benefits of Single European Market (free movement of goods/labour/capital) • loss of EU regional/other financial support • loss of exports, therefore lower AD, lower GDP, higher unemployment. <p>Identification and explanation of arguments against statement, e.g.</p> <ul style="list-style-type: none"> • costs of EU regulations • still a major trading partner with fastest-growing economies (e.g. BRIC) • reductions in UK budget contributions. <p>(max 4 for one side only)</p>	6	AO3 2 AO4 4
7.	<p>Discuss whether the UK Government was right to increase its spending on development aid whilst cutting its overall spending.</p> <p>Identification and explanation of arguments for increased spending on aid, e.g.</p> <ul style="list-style-type: none"> • honouring UN commitment/duty to poorer nations • UK prosperity dependent upon growth in other countries • 0.7% still small percentage of overall Government budget • Aid more stable than FDI as source of income for developing countries. <p>Identification and explanation of arguments against increased spending on aid, e.g.</p> <ul style="list-style-type: none"> • other Government spending being cut • aid sometimes wasted/ineffective • FDI/trade flows/protectionism far more important • effects upon developing countries • should not be cutting jobs/health spending because of effect on UK economy. <p>(max 5 for one side only)</p> <p>(max 4 for focusing only on the cut in government spending)</p>	8	AO3 2 AO4 6

Section B
Answer **one** question

The following level should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	<p>Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</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 spelling, punctuation and grammar, but these are not intrusive.</p>
Level 3	11-15	<p>Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with sound logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
Level 4	16-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

Question	Answer	Mark allocation	Assessment objective
8.	<p>“The Government should use taxes and subsidies to encourage people to use buses and trains rather than private cars”. Discuss.</p> <p>Identification/explanation of potential private and external costs, e.g.</p> <ul style="list-style-type: none"> • fuel • labour • equipment • pollution • noise/explanation of possible taxes and subsidies. <p>Analysis/evaluation of whether private motorists should pay more, e.g. car manufacturers don't pay for external costs, e.g.</p> <ul style="list-style-type: none"> • poor air quality, global warming. • private road travel creates congestion, pollution emissions, noise, increased taxes and subsidies may reduce these externalities road users will 'internalise' external costs rail and bus travel provide transport for people on low incomes, creation of employment in public transport sector. <p>Appropriate diagrammatic analysis e.g. $MSC > MSB$ because manufacturers/car owners ignore external costs</p> <p>Definition and explanation of socially optimum output i.e. $MSB = MSC$, takes into account external costs and benefits</p> <p>Evaluation of case for higher taxes and subsidies e.g.</p> <ul style="list-style-type: none"> • higher taxes would cause job losses/raise prices • taxes may be ineffective if demand for fuel/cars, etc.is inelastic • non-price factors e.g. reliability, convenience may be more important • may increase business costs and therefore prices • unfair to rural residents • cost to Government/taxpayer, opportunity costs of subsidies • other policies e.g. road-pricing, congestion-charging may be more effective. <p>Application to wider economy e.g. possible effects upon employment, inflation, international competitiveness and growth</p>	20	<p>AO1 4</p> <p>AO2 4</p> <p>AO3 6</p> <p>AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
9.	<p>Discuss the view that highly concentrated markets are bad for the UK economy.</p> <p>Definition of highly concentrated markets/oligopoly/monopoly e.g. single/dominant producer/existence of entry barriers/no close substitutes</p> <p>Explanation of possible adverse effects of monopoly power with appropriate diagrammatic analysis, e.g.</p> <ul style="list-style-type: none"> • X-inefficiency/higher prices • lower output • anti-competitive practices • may be able to exploit consumers/reduced consumer surplus • monopolies may be contrived/complex • deliberate erection of barriers to entry • productive and allocative inefficiency. <p>Evaluation of case against monopoly. e.g.</p> <ul style="list-style-type: none"> • monopoly power may lead to scale economies and therefore lower-cost production • may be natural monopoly • monopolies may be large employers • UK firms may need to be large to compete • internationally/may be major exporters • firms grow by satisfying consumers • monopoly power reward for high quality/low prices/low costs/R&D/innovation • new firms can enter if efficient enough. <p>Attempt to balance these arguments, e.g. explanation of why efficiency may vary between different situations.</p>	20	<p>AO1 4</p> <p>AO2 4</p> <p>AO3 6</p> <p>AO4 6</p>

Question	Answer	Mark allocation	Assessment objective
<p>10.</p>	<p>Discuss the view that Government intervention in the market for merit and demerit goods does more harm than good.</p> <p>Definition and examples of merit and demerit goods referring to external costs and benefits</p> <p>Explanation of argument against Government intervention, e.g.</p> <ul style="list-style-type: none"> • people made to pay for services they may not want • reduces competition and choice • public services may be less efficient than private producers • merit goods could be provided by private producers (possibly more efficiently) • provision of merit goods implies a value judgment • involves 'rationing' system for merit goods • some taxpayers subsidise others e.g. non-parents pay for education • possible higher taxes • opportunity cost of Government spending. <p>Evaluation of argument against Government intervention. e.g.</p> <ul style="list-style-type: none"> • provision of merit goods ensures minimum standard of living/fairer to people on low incomes • increases tax burden • increased efficiency if education & health care provided to all • efficient police/defence/governance provides stable economic environment • production can be moved to socially optimum level • MSC=MSB • other forms of Government failure <p>Evaluation referring to wider economic effects/theoretical development, e.g.</p> <ul style="list-style-type: none"> • effects upon macroeconomic variables • reference to different types of merit & demerit goods 	<p>20</p>	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>