



# GCE

## Economics

Advanced GCE A2 H461

Advanced Subsidiary GCE AS H061

# Mark Schemes for the Units

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## January 2009

H061/H461/MS/R/09J

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# F581 Markets in Action

## Subject-specific Instructions

- 1 The paper is to be marked to AS standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, ie a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 4 The Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.

A set number of marks for written communication is not a requirement. However, where a level of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. This criteria is integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

### Level 4

Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

### Levels 2 and 3

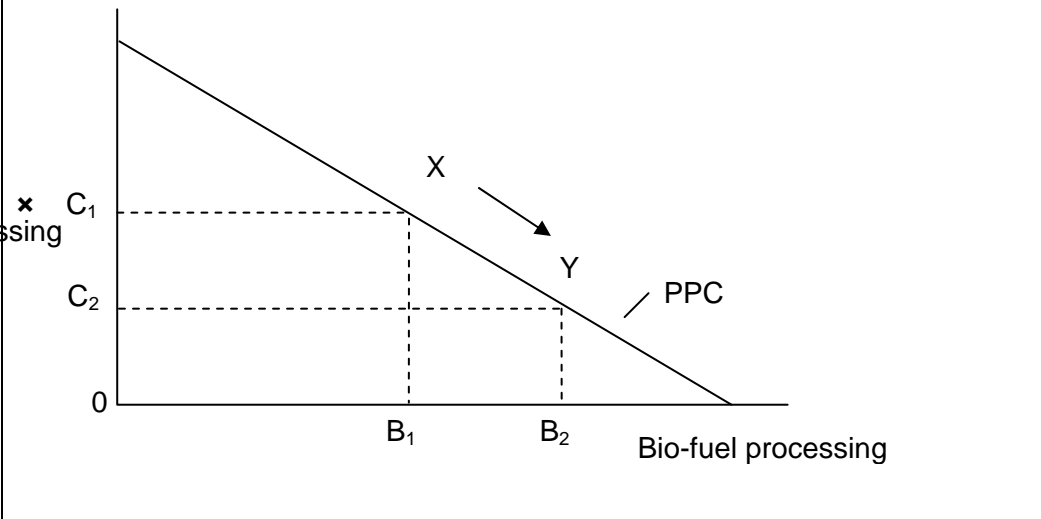
Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

### Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

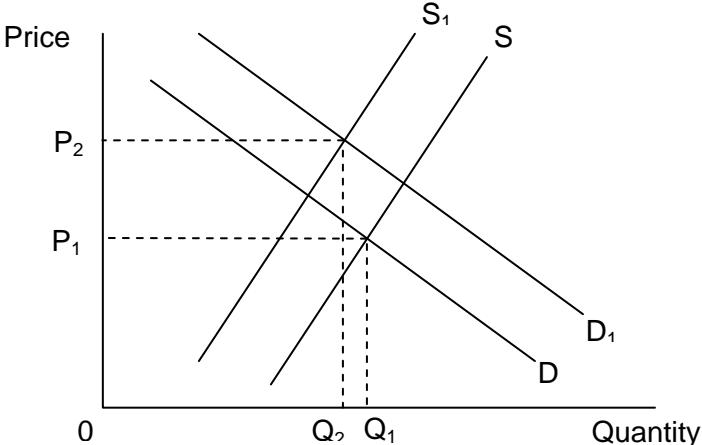
Mark Scheme

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Question	Expected Answer	Mark	Rationale
1	<p><b>Identify <u>two</u> factors of production which might be used in the processing of Caribbean sugar cane.</b></p> <p>One mark each for identification of any two out of:</p> <ul style="list-style-type: none"> <li>• land;</li> <li>• labour;</li> <li>• capital.</li> </ul>	[2]	<p>Basic knowledge. Recognition only is required.</p> <p>Enterprise is not acceptable as there is no reference to it in the case study.</p>
2	<p><b>(a) Define the term ‘opportunity cost’.</b></p> <p>Award 1 mark for each of the two components in the definition: cost/(next) best alternative (1) foregone/lost (1) i.e. ‘benefit lost’</p>	[2]	<p>Standard definition. Follow previous practice of awarding a mark for each aspect of the definition.</p> <p>Best alternative is equally acceptable for the first mark.</p>
	<p><b>(b) Using a production possibility curve diagram, explain how knowledge of opportunity cost can be used to explain the choices facing Caribbean sugar cane processors.</b></p> 	[6]	

Question		Expected Answer	Mark	Rationale
2 cont	(b)	<p>Award up to 4 marks for a correct diagram – 1 mark for each of:</p> <ul style="list-style-type: none"> <li>labelling axes (in context – must be sugar/biofuels related)</li> <li>straight line or curved PPC</li> <li>some indication of alternative points of production on PPC ( must be at least 2 points)</li> <li>change in production possibilities, ie more bio-fuel production, less cane sugar processing.</li> </ul> <p>Award up to 2 marks for an explanation of how opportunity cost can be used to explain the choices facing Caribbean sugar processors. Give 1 mark for an understanding of choice; 2 marks where this includes some reference back to the diagram.</p> <p><b>(see appendix a)</b></p>		<p>Two parts to this question. If axes are wrongly labelled as price/quantity or not labelled no marks to be awarded at all for diagram.</p> <p>If axes relate to two other goods, not in context, remaining 3 marks are available</p> <p>Change on respective axis must be evidenced for fourth mark e.g. arrow/c1 to c2 etc.</p> <p>Explanation must be applied to gain marks.</p>

Question	Expected Answer	Mark	Rationale
3	<b>Using information from the case study:</b>		
	<p><b>(a) state and explain <u>two</u> reasons for the increased global demand for food products:</b></p> <p>The extract gives three reasons:</p> <ul style="list-style-type: none"> <li>• an increase in the world's population</li> <li>• growing affluence/income of people in China and India</li> <li>• a positive change in taste towards demanding more meat.</li> </ul> <p>Award 1 mark for recognition plus 1 further mark where there is a specific explanation as to how this determinant has resulted in an increased global demand for food (x2)</p>	[4]	The stem requires an answer that draws on the case study - no other reasons therefore should be credited. Explanation should be in terms of why the reason has increased the global demand for food products.
	<p><b>(b) state and explain <u>two</u> reasons for the fall in the global supply of food products.</b></p> <p>The extract gives five reasons:</p> <ul style="list-style-type: none"> <li>• the EU has exhausted its stored supply of food products</li> <li>• world grain stocks are at their lowest level</li> <li>• the EU's agricultural reforms have resulted in a fall in supply</li> <li>• more cereal crops are being used to produce bio-fuels/ animal feed.</li> <li>• farmers are switching to tourism</li> </ul> <p>Award 1 mark for recognition plus 1 further mark where there is a specific explanation as to how this determinant has resulted in reduced global supply (x2)</p>	[4]	Do not accept excess demand/shortage of supply as a stand alone reason because it is an explanation of bullet points 1 and 2. Must have supply in explanation.

Question	Expected Answer	Mark	Rationale
<p>4</p>	<p><b>Using a demand and supply diagram, comment on the extent to which changes in the global demand and supply of food may have affected the market equilibrium.</b></p>  <p>Award up to 4 marks for a correctly drawn diagram. 1 mark for each of:</p> <ul style="list-style-type: none"> <li>• initial equilibrium</li> <li>• shift to right of D</li> <li>• shift to left of S</li> <li>• new equilibrium.</li> </ul> <p>If full marks have not been awarded for the diagram, up to 2 additional marks <b>up to a maximum of 4</b> can be awarded for an analysis of the changes, for example:</p> <ul style="list-style-type: none"> <li>• the world price of food has increased;</li> <li>• the quantity supplied could have fallen.</li> </ul> <p>Award 1 mark for each relevant point.</p> <p>Award up to 2 marks for a comment on the size of the respective shifts in D and S, ideally including elasticity of supply or demand, and their variable effect on the equilibrium price and quantity.</p>	<p>[6]</p>	<p>The case material refers to both demand and supply factors. Both shifts have to be shown for 4 marks.</p> <p>If S and D are incorrectly labelled (eg wrong way round), then award no marks.</p> <p>2 diagrams are equally acceptable provided shifts of D and S are correct.</p> <p>One shift only - 2 marks.</p> <p>For equilibrium marks there must be equilibrium points or labelled points on the axes.</p> <p>NB 4 marks for diagram/explanation and 2 marks for a comment. Max 4 marks if only one shift</p> <p>The 'comment' element is difficult - be generous on any answer that gives an indication of scale/size of respective shifts and their effect on equilibrium price/quantity- 1 mark.</p> <p>Give 1 mark for reference to price changing greater than quantity.</p> <p>Must refer to Me for 6 marks</p>

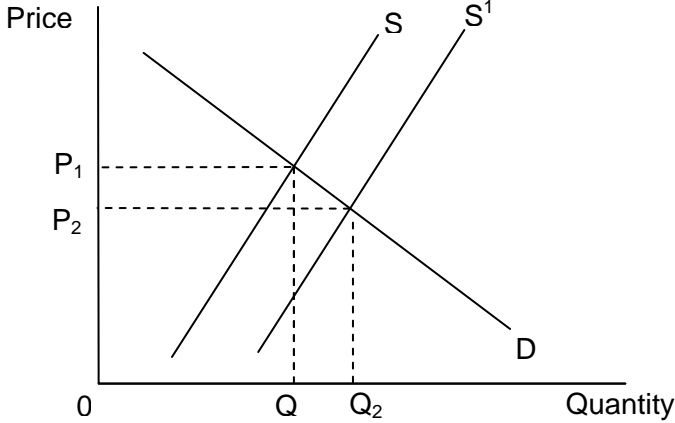


Question	Expected Answer	Mark	Rationale
5	<p><b>In China, the estimated income elasticity of demand for chicken is +1.5 and for pork it is +2.5.</b></p>		
	<p><b>(a) Define the term ‘income elasticity of demand’.</b></p> <p>Award 2 marks for a clear, correct definition such as ‘the responsiveness of (quantity) demanded to a change in income’. Correct formula is also acceptable for 2 marks.</p> <p>Give 1 mark for a vague idea where the change aspect is not fully understood.</p>	<b>[2]</b>	<p>Note ‘such as’ in the definition opposite.</p> <p>Watch out for confusion with price elasticity of demand.</p>
	<p><b>(b) Comment on the relevance of these estimates for meat producers in China.</b></p> <p>Up to 4 marks for an explanation of what the estimates mean. 1 mark for each of:</p> <ul style="list-style-type: none"> <li>• normal good/superior good;</li> <li>• an increase/decrease in income will lead to an increase/decrease in demand;</li> <li>• either or both estimates are income elastic;</li> <li>• there will be a greater change in demand for pork than chicken following a change in income or YED for pork is more elastic than YED for chicken</li> <li>• numerical interpretation.</li> </ul> <p>Up to 4 marks for a relevant comment that is elaborated such as:</p> <ul style="list-style-type: none"> <li>• the data is estimated and could be liable to inaccuracy;</li> <li>• the data may not hold true over time;</li> <li>• they appear to indicate good prospects for both types of producer, pork more so than chicken.</li> </ul>	<b>[8]</b>	<p>It must be clear <b>throughout</b> that responses are about income elasticity not price elasticity, otherwise 0 marks to be awarded.</p> <p>A good numerical interpretation or diagram can get 2 marks.</p> <p>Do not accept comments which concentrate on absolute levels rather than changes in income.</p> <p>Award up to 3 marks maximum for comments re quality of data (as long as they do not specify PED). A well-developed comment on future market opportunities can gain 4 marks.</p>

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Question	Expected Answer	Mark	Rationale
6	<p>Using a demand and supply diagram, explain how the introduction of a subsidy to producers affects the equilibrium position in a market.</p> 	[8]	A relatively easy question at this stage.
6 cont	<p>Award up to 4 marks for a <b>correctly</b> drawn diagram that shows:</p> <ul style="list-style-type: none"> <li>• correctly drawn and labelled D and S curves;</li> <li>• initial equilibrium position;</li> <li>• shift to the right of S;</li> <li>• new equilibrium position.</li> </ul> <p><b>NB axes must be labelled correctly to access diagram marks.</b></p>		For equilibrium marks there must be equilibrium points or labelled points on axes.

Question	Expected Answer	Mark	Rationale
6 cont	Award up to 4 marks for relevant explanation to include: <ul style="list-style-type: none"><li>• A subsidy will reduce the market price</li><li>• Lower cost of production</li><li>• An <b>incentive</b> for producers to supply more</li><li>• Quantity supplied will increase</li><li>• Quantity demanded increases</li><li>• Overproduction can occur</li><li>• Merit good</li></ul>		Any two points <b>elaborated</b> can get 4 marks. E.g. full reference back to the diagram

Question	Expected Answer	Mark	Rationale
7	<p><b>Discuss whether governments should subsidise food prices.</b></p> <p>This question requires a discussion of the arguments for and against the use of subsidies as a means of reducing food prices. Answers should be in context, not just in terms of the theoretical principles.</p> <p><i>The case for subsidising food prices is particularly practised in developing and socialist economies. The purpose is to increase the real income of consumers by keeping prices below what would otherwise be the market equilibrium. It is also a means of keeping supply at what might seem to be an artificially high level in order to guarantee supplies. Arguments against should focus on the inefficiency resulting from the introduction of subsidies. For example, some agricultural producers who are inefficient are kept in business due to the income they receive through subsidies – lower prices are paid by all consumers, irrespective of income. Excessive subsidies could even mean that demand outstrips supply, resulting in food queues and rationing.</i></p>	<b>[18]</b>	<p>This is not an easy question for AS students new to the subject.</p> <p>Reward general analysis of why governments find it appropriate to subsidise merit goods. L3</p> <p>Using diagram.</p>
	<p><b>L4 For a discussion of whether governments should subsidise food prices. (13 – 18)</b></p> <p>A balanced answer that puts forward both sides of the case for governments to subsidise food prices. There must be adequate analysis to underpin this discussion of some of the points given above.</p>		<p>A good approach is to see food as a merit good, particularly for those in poor countries such as Mexico.</p>
	<p>A one sided discussion - 15 max. This is more likely to be with respect to the case 'for' subsidizing food prices.</p> <p>A very good answer (16+ marks) may include discussion of :</p> <ul style="list-style-type: none"> <li>– the opportunity cost of subsidising food prices relative to other forms of government spending. E.g. NHS, education</li> <li>– the demand for some food products may be price inelastic so subsidies are likely to be irrelevant in increasing demand</li> </ul>		

Question	Expected Answer	Mark	Rationale
<p><b>7 cont</b></p>	<ul style="list-style-type: none"> <li>- governments should subsidise merit good foods e.g. essential/healthy foods rather than all food. Selective subsidies/ negative externalities.</li> <li>- positive externalities – helping society in general</li> <li>- Size of subsidy – how can it be calculated?</li> </ul> <p>For 16+ marks, there should be at least two points, one of which is discussed in a substantive way. A two sided discussion lacking this depth should get 13-15 marks.</p> <p>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.</p>		<p>Accept discussion of need to increase tax to cover subsidy.</p>
	<p><b>L3 For an analysis of why governments should subsidise food prices. (9-12)</b></p> <p>For 11+ marks, the analysis should have some reference to food. Answers for 9-10 marks may be unbalanced with an emphasis on why governments use subsidies.</p> <p>Example of analysis:</p> <ul style="list-style-type: none"> <li>• Positive externalities</li> <li>• Analysis of the diagram</li> <li>• Increased consumer surplus.</li> </ul> <p>Relatively straightforward 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.</p>		

Question	Expected Answer	Mark	Rationale
7 cont	<p><b>L2 For an application of knowledge as to whether governments subsidise food prices. (5-8)</b></p> <p>These answers may consider various issues but will lack analysis. For 7+ marks, some reference to both sides must be made. For 5-6 marks, answers may be unbalanced, with emphasis on one side only.</p> <p>Some simple ideas have been expressed in an appropriate context. They are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p>		<p>These answers will lack any analytical underpinning, but it is necessary at this level for them to be applied to food.</p> <p>At this level though a two sided answer using economic terms can be assessed as Level 4.</p>
	<p><b>L1 For a knowledge and understanding as to why governments subsidise (1-4)</b></p> <p>Knowledge of a subsidy is 1-2 marks.                      Very general points about why subsidies are required 1-2 marks.                      Unexplained diagram could get 3-4 marks.                      These answers will be shallow in scope and depth, containing a few simply made points.</p> <p>Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.</p>		<p>A relevant but unexplained diagram illustrates understanding.</p>