



# GCE

## Economics

Advanced GCE A2 H461

Advanced Subsidiary GCE AS H061

# Mark Schemes for the Units

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## January 2010

**HX61/MS/R/10J**

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by Examiners. It does not indicate the details of the discussions which took place at an Examiners' meeting before marking commenced.

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.

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Any enquiries about publications should be addressed to:

OCR Publications  
PO Box 5050  
Annesley  
NOTTINGHAM  
NG15 0DL

Telephone: 0870 770 6622  
Facsimile: 01223 552610  
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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.
- 5 The quality of written communication will be assessed in the answer to the final part question.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are 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

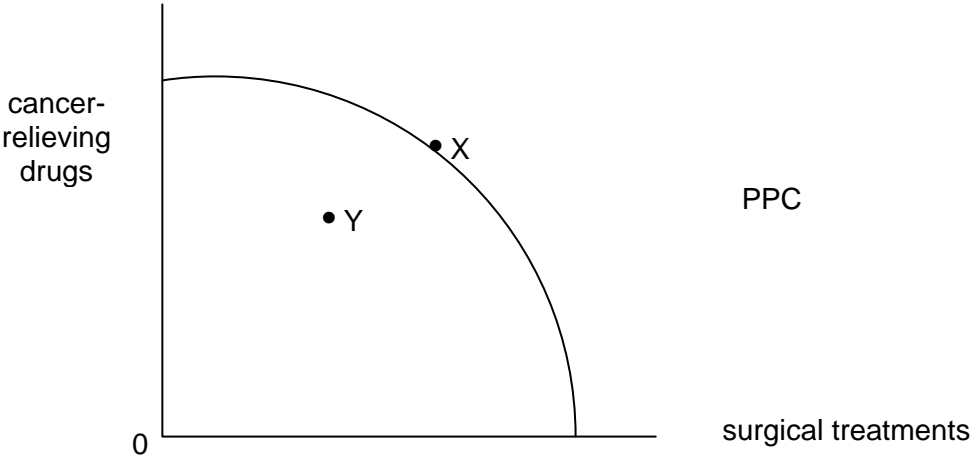
Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar,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

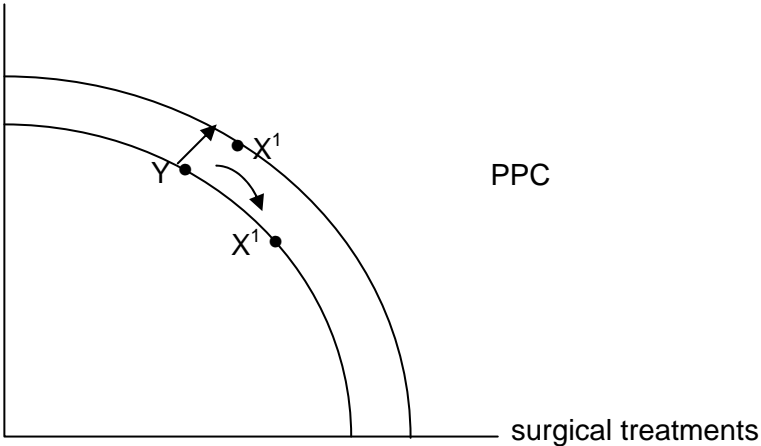
### Level 1

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.

Exceptionally, answers which are assessed as L1, L2 or L3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question.

| Question | Expected Answer  | Marks      | Guidance  |
|----------|--|------------|---|
| 1        | <p><b>(a)</b> Up to 2 marks for a correct definition of the economic problem such as 'how to allocate scarce <u>resources</u> among alternative uses.'</p> <p>Award 1 mark for a statement of scarcity or choice only.</p> <p>Up to 2 marks for application to health care - limited resources, choice and unlimited wants.</p> <p>Award 1 mark where this application is only that of scarcity or choice.</p> | <b>[4]</b> | <p>Use a green tick to identify</p> <ul style="list-style-type: none"> <li>- limited resources/scarcity</li> <li>- unlimited wants/choice</li> </ul> <p>Watch out for 'need' – not the same as 'want'.</p> <p>Only one side of the economic problem has been addressed.</p> <p>Use green ticks again to indicate where both aspects are applied.</p> <p>Application can be either from the case or more widely with respect to health care.</p> <p>Accept 'quantity and quality' as application of choice.</p> <p>Watch out for demand and supply answers – not relevant.</p> |
|          | <p><b>(b)</b> Various possibilities including:</p> <ul style="list-style-type: none"> <li>• an increase in throughput/output</li> <li>• a wider range of services become available</li> <li>• an increase in efficiency</li> <li>• better use of labour which increases productivity.</li> <li>• Improvement in quality</li> </ul> <p>NB: The question does not ask for a definition of specialisation.</p>    | <b>[2]</b> | <p>The question is a general one and not in context. Although reference to maternity services can be credited.</p> <p>Accept economies of scale and reduced costs as this may be given by A2 candidates.</p> <p>A typical 1 mark answer might be 'more efficient' (1); for 2 marks 'the decision to concentrate resources means there is a larger unit so more patients can be treated more efficiently'.(2)</p>  |

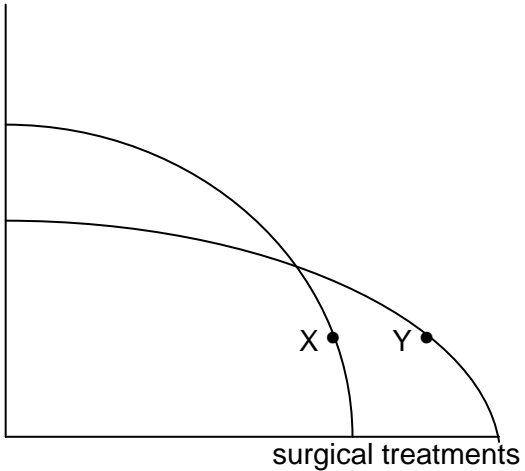
| Question            | Expected Answer  | Marks      | Guidance   |
|---------------------|--|------------|--|
| <p>2</p> <p>(a)</p> | <p>For example:</p>    | <p>[2]</p> | <p>Use a green tick to identify whether the points inserted are correct.</p> <p>One mark for each correct point label.</p> <p>Y can be anywhere inside the PPC, with or without a point.</p> <p>X must specifically be on the PPC.</p> |
| <p>(b)</p>          | <p>X which is on the PPC (1) represents a point of maximum output or productive efficiency (1).</p> <p>All resources are being fully used (1)</p> <p>Y which is inside the PPC (1) since it is possible to produce more drugs without sacrificing surgical treatments (2)</p> <p>No opportunity cost (1) of producing more output (1)</p> <p>(No marks for efficiency)</p> | <p>[4]</p> | <p>OFR might apply exceptionally if X and Y in part a are the wrong way round.</p>   |

| Question | Expected Answer   | Marks      | Guidance  |
|----------|---|------------|---|
| (c)      | <p>0</p>  <p>PPC</p> <p>0</p> <p>surgical treatments</p>  |            | <p>NB Accept a pivot diagram also.</p>  |
|          | <p>Various possibilities</p> <ul style="list-style-type: none"> <li>• a movement along the PPC Y to X<sup>1</sup> towards the maximum number of surgical treatments</li> <li>• a shift outwards of the PPC to coincide with an overall increase in resources available for both treatments</li> <li>• a pivot from the original point on the cancer relieving drugs axis, indicative of an increase in efficiency of surgical treatments (not shown above)</li> <li>• a movement from a point within the PPC to one where there are more surgical treatments</li> <li>• a re-allocation of potential output (see guidance)</li> </ul> | <p>[4]</p> | <p>Diagram – award 1 mark for original position plus 1 mark for position indicating more surgical treatments; 1 mark only for change of PPC showing potential for producing more surgical treatments.</p> <p>No marks if only one position indicated.</p> |

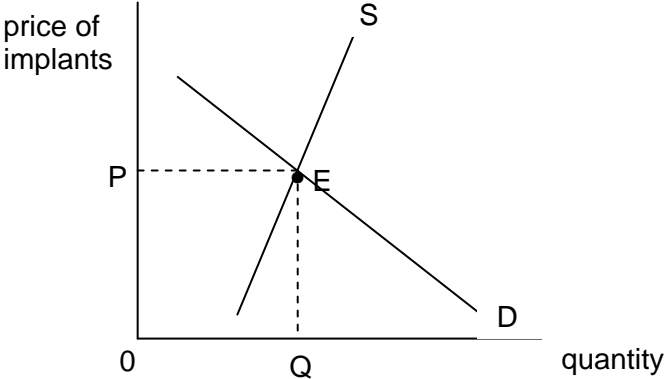
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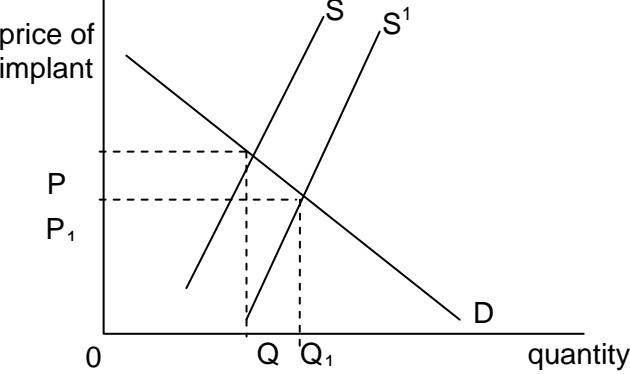
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| Question | Expected Answer  | Marks | Guidance   |
|----------|--|-------|--|
|          | <p>Award 2 marks for correct new diagram.<br/>Award up to 2 marks for an appropriate explanation.<br/>Give 1 mark for a less than clear explanation.</p> <p>(1 mark if pivot only with new position not indicated)</p> |       | <p>Explanation for 1 mark should make clear that the outcome is more surgical treatments.</p> <p>1 mark for explaining why; impact on quantity of cancer relieving drugs (1) re-allocating resources (1).</p>  |



| Question | Expected Answer  | Marks | Guidance   |
|----------|--|-------|--|
| 3        | (a)  |       |  |
|          |    |       |  |
|          | <p>Award 1 mark each for</p> <ul style="list-style-type: none"> <li>• downward sloping D</li> <li>• upward sloping S</li> <li>• correct equilibrium point/position, labelled.</li> </ul> | [3]   | <p>Accept diagram with shift of D if original equilibrium position is OK.</p> <p>Use a green tick in each case to identify each of the adjacent points.</p> <p>If S and D are wrong way round, then award 1 mark for correct equilibrium position.</p> |

| Question | Expected Answer   | Marks | Guidance   |
|----------|---|-------|--|
| (b)      | <p>Various possibilities including:</p> <ul style="list-style-type: none"> <li>• a fall in their price</li> <li>• an increase in real income of consumers</li> <li>• an increase in fashion awareness or taste</li> <li>• an increase in the price of alternatives/availability of alternatives</li> <li>• an increase in population/market</li> </ul> <p>Award 1 mark for a valid reason; 1 mark for some elaboration such as:</p> <ul style="list-style-type: none"> <li>• implants are now more affordable</li> <li>• discretionary income has increased</li> <li>• benefit of implants now better known and understood</li> <li>• increase in price of dentures.</li> </ul> | [4]   | <p>The determinant should broadly coincide with what is to be found in text books.</p> <p>Do not accept 'lower cost'.</p> <p>Advertising can be an appropriate explanation of the fashion/taste factor.</p> <p>Beware of 'quality' explanations – 0 marks.</p> <p>Use a green tick to identify each correct point.</p> |
| (c)      |  <p>2 marks for new diagram showing shift of S and new equilibrium position.</p> <p>Up to 3 marks for an analysis. An increase in the number of dentists leads to a shift to the right of S (1); this results in a fall in price (1) and an increase in the quantity (1).</p>   | [5]   | <p>Use a green tick to show where the diagram marks have been awarded.</p> <p>Accept reference back to diagram for increase in supply; no marks for simple 'increase in supply'.</p>   |

| Question | Expected Answer   | Marks      | Guidance  |
|----------|---|------------|---|
| 4        | <p>Award up to 4 marks for an understanding of income elasticity and interpretation of the data. These marks can be awarded for :</p> <ul style="list-style-type: none"> <li>• correct definition (2) or formula (2)</li> <li>• normal goods (1) superior goods (1)</li> <li>• elastic (1) inelastic (1)</li> <li>• numerical interpretation of data (2)</li> <li>• interpretation of elasticity or type of good (1x2)</li> </ul> <p>Up to 4 marks for a relevant comment such as the high positive estimate for above average income earners is good news for implant dentists. They can expect the demand for implants to increase in the future, assuming real incomes increase. Maybe not as strong a market at the time of a recession. Dentists could target their services to the above average income group. It should be remembered that the data are only estimates and that given the sensitive nature of both income and health issues, there is likely to be some misreporting from respondents to the survey.</p> | <b>[8]</b> | <p>A typical explanation of income elasticity of demand is 'the response of demand to a <u>change</u> in income'. Give 1 mark where the <u>change</u> aspect is not made clear.</p> <p>Two comment points are required for full marks. Likely to consist of a comment on the use of the data and its accuracy.</p> <p>One comment point well done can get 3 marks.</p> <p>Use green ticks throughout to indicate all marks awarded.</p> <p>Watch out for answers in terms of price elasticity of demand, for example in the comment part of the answer – 0 marks.</p> |

| Question | Expected Answer  | Marks | Guidance   |
|----------|--|-------|--|
| 5        | <p>Award 2 marks for a clear understanding of information failure (the lack of information only 1 mark) to include some reference to the effects of this form of market failure in terms of not maximising welfare.</p> <p>Award up to 2 marks for application to the case of sausages, bacon and other red meat and why consumers are not aware of the dangers of over consumption or where advertising of these products is not necessarily in the best interests of consumers. Reference to de-merit goods (1), explanation with respect to information failure (1).<br/>Examples of why consumers are not fully aware; e.g. complexity of labelling, lack of nutritional education (2).</p> <p>Award 2 marks for an appropriate comment either in terms of the inequality of information between producers and consumers or why many consumers do not bother to find out or are not even bothered about the health properties of what they eat. Time to transmit information. Lack or inadequacy of government provision (2), confusing or limited evidence (2), how information failure might be reduced (2).<br/>Award 1 mark if these points are just a hint.</p> | [6]   | <p>First time of asking so try to be generous on the comment aspect especially.<br/>Accept asymmetric information in the definition.</p> <p>Either of these two instances of information failure can get 2 marks – 1 mark for the context, 1 mark for the effect on consumers.</p> <p>Accept answers that say it is because of market failure or an inefficient allocation of resources.</p> |

| Question | Expected Answer  | Marks | Guidance  |
|----------|--|-------|---|
| 6        | <p>This question requires a discussion of the arguments for and against the provision of health care by the government or the private sector. Answers should be in context, although some theoretical principles, particularly with respect to merit goods, need to be included at all levels.</p> <p><i>The case for providing health care in the UK as a merit good is well established and stems from the view that a national system of health care provides more private benefits for consumers than they actually realise. Merit goods such as health care also have positive externalities for the economy in terms of increased output and for the community as a whole. (It is not in anyone’s interest to have a lot of sick people around.) The problem for the government is that it has to make various judgements on the information available to it – this information is not available to the same degree to the vast majority of the population. Reference the opportunity cost of government spending on health is relevant.</i></p> <p><i>A very good answer is likely to question whether there really is such a thing as a merit good, arguing that for a personal thing such as health care, individuals should be left to decide what is best for them. In many other countries, this controversially is the case – private health insurance is absolutely essential in such ‘pay as you consume’ situations. In the absence of such insurance, certain groups in the population will go without certain types of health care as they are unable to afford it. This has wider macroeconomic implications on the supply side.</i></p> <p><i>A very relevant point is that increasingly in the UK the private sector is providing for some what the NHS is unable to provide for all. So, in some respects, health care is already provided by a combination of the public and private sectors.</i></p> | [18]  | <p>Weaker answers that do not answer in terms of merit goods are unlikely to get beyond L2.</p> <p>Discussion on the opportunity cost of government spending is relevant.</p> |

| Question | Expected Answer   | Marks | Guidance   |
|----------|---|-------|--|
|          | <p><b>L4 For a <u>discussion</u> of whether health care should be provided by the government or the private sector. (13-18)</b></p> <p>A balanced answer is required, with a discussion of some of the points stated above.</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><b>L3 For an <u>analysis</u> of why health care may be provided by the government or the private sector. (9-12)</b></p> <p>Answers should be underpinned with relevant analysis.</p> <p>For 11+ marks, the analysis should have some depth and are likely to include an explained diagram showing under consumption or positive externalities.</p> <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> |       | <p><b>Band 3 17-18 marks</b><br/>For a two sided discussion which makes clear whether health care is best provided by the government or by the private sector. A second case is where the answer questions whether health care is really a merit good.</p> <p><b>Band 2 15-16 marks</b><br/>A good balanced discussion but not reaching that bit further.</p> <p><b>Band 1 13-14 marks</b><br/>An unbalanced discussion or one that is a weak discussion.</p> <p><b>Band 2 11-12 marks</b><br/>Must include relevant theory of merit goods and/or efficiency case for private sector.</p> <p><b>Band 1 9-10 marks</b><br/>Weak analysis of merit goods and/or relative efficiency of private sector.</p> |

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| Question | Expected Answer   | Marks | Guidance   |
|----------|---|-------|--|
|          | <p><b>L2 For an <u>application</u> of knowledge as to why some healthcare is provided by the government. (5-8)</b></p> <p>These answers will consider the various reasons why, in the UK, health care has traditionally been provided by the government.</p> <p>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.</p> |       | <p><b>Band 2 7-8 marks</b><br/>Simple explanation e.g. merit goods and some application to healthcare or why healthcare is provided by the government.</p> <p><b>Band 1 5-6 marks</b><br/>Application of benefits of healthcare.</p> |
|          | <p><b>L1 For a <u>knowledge and understanding</u> of the government and private sector. (1-4)</b></p> <p>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><b>Band 2 3-4 marks</b><br/>Clearer understanding of government and private sector.</p> <p><b>Band 1 1-2 marks</b><br/>Limited understanding of government or private sector.</p>   |