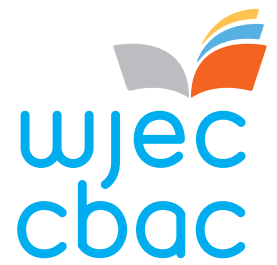


GCE AS/A LEVEL



WJEC GCE AS/A LEVEL in ECONOMICS

ACCREDITED BY WELSH GOVERNMENT

SPECIMEN ASSESSMENT MATERIALS

Teaching from 2015

This Welsh Government regulated qualification is not available to centres in England.



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Candidate Name	Centre Number					Candidate Number				
						2				



AS

ECONOMICS

Unit 1

Introduction to Economic Principles

SPECIMEN PAPER

1 hour 15 minutes

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in the spaces provided.

INFORMATION FOR CANDIDATES

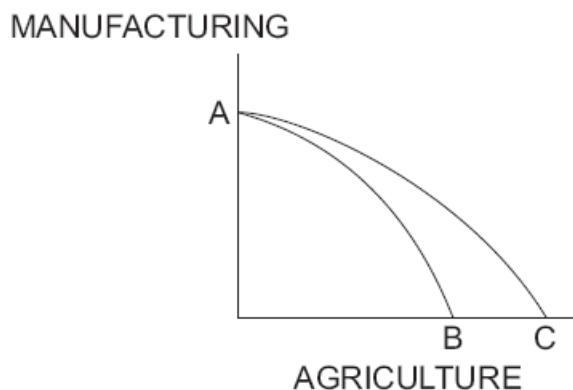
The number of marks is given in brackets at the end of each question or part-question.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

SECTION A

Answer **all** the questions in the spaces provided.

1. Study the production possibility frontier diagram below.



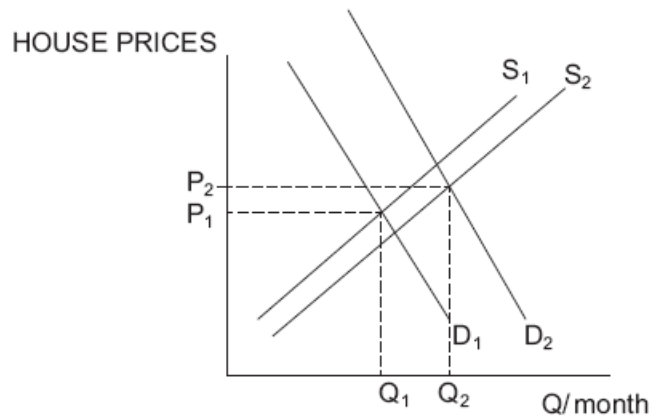
Which of the statements gives the most likely reason for a shift in the production possibility frontier from AB to AC?

ANSWER

Tick one box only

- | | | |
|----------|--|--------------------------|
| A | An increase in the population of the country | <input type="checkbox"/> |
| B | Resources are transferred from agriculture to the manufacturing industry | <input type="checkbox"/> |
| C | More efficient robotic equipment is introduced into the manufacturing industry | <input type="checkbox"/> |
| D | More disease-resistant seeds are developed in agriculture | <input type="checkbox"/> |
| E | Resources are transferred from the manufacturing industry to agriculture | <input type="checkbox"/> |

2. The diagram below shows the impact of the changes in the market for housing, initially in equilibrium at P_1 over a year.



The most likely explanation for the changes shown is a

- A** fall in mortgage interest rates and a rise in house building
- B** fall in mortgage interest rates and a fall in house building
- C** rise in mortgage interest rates and a rise in house building
- D** rise in mortgage interest rates and no change in house building
- E** rise in mortgage interest rates and a fall in house building

ANSWER
Tick one box only

3. Following the fall of the price of Good X by 10%, market researchers observe the following changes:

Good	X	Y	Z
Demand for that Good	+5%	+8%	-12%

It can be concluded, other things being equal, that:

ANSWER
Tick one box only

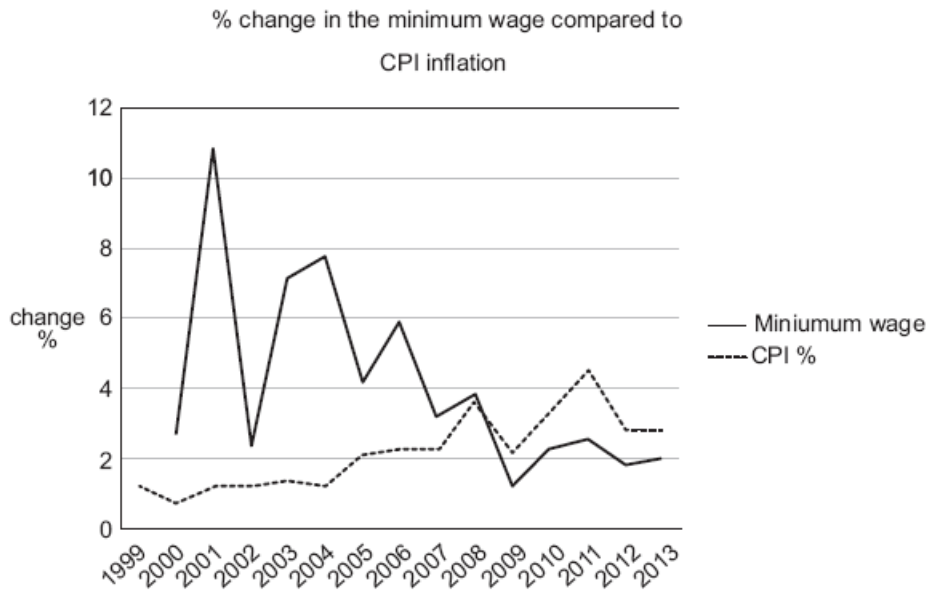
	Price elasticity of demand for X	Relationship between X and Y	Relationship between X and Z	
A	Inelastic	Substitutes	Complements	<input type="checkbox"/>
B	Elastic	Substitutes	Complements	<input type="checkbox"/>
C	Inelastic	Can't tell	Can't tell	<input type="checkbox"/>
D	Elastic	Complements	Substitutes	<input type="checkbox"/>
E	Inelastic	Complements	Substitutes	<input type="checkbox"/>

4. Which of the following provides the best justification for government intervention in a market?

ANSWER
Tick one box only

A	Markets may not always allocate resources optimally	<input type="checkbox"/>
B	In reality prices cannot adjust quickly enough for supply and demand to be equilibrium	<input type="checkbox"/>
C	Markets may supply too few demerit goods	<input type="checkbox"/>
D	Markets allow businesses to make profits	<input type="checkbox"/>
E	Only governments are capable of supplying merit goods	<input type="checkbox"/>

5. The chart below gives information on percentage changes in the national minimum wage and inflation over the period 1999 to 2013.



It can be concluded that

- A the nominal minimum wage fell sharply in 2002
- B prices were at their highest in 2011
- C the real minimum wage fell between 2009 and 2013
- D the nominal minimum wage fell between 2000 and 2013
- E the real minimum wage fell between 1999 and 2008

ANSWER
Tick one box only

6. If the social cost of producing chicken is greater than the private cost, then we can be sure that:

ANSWER
Tick one box only

- A** a positive externality exists
- B** chicken is healthy and more should be produced
- C** a negative externality exists
- D** the price of chicken is too high
- E** the production of chicken should be subsidised

7. Which of the following is seen as an example of an injection into the circular flow of income?

ANSWER
Tick one box only

- A** Imports
- B** Taxation
- C** Consumption
- D** Saving
- E** Exports

8. The table below shows national income statistics for Ireland in 2011:

Gross National Product	Gross Domestic Product
128.3 billion euros	156.4 billion euros

The most likely reason for this difference is that Ireland

ANSWER*Tick one box only*

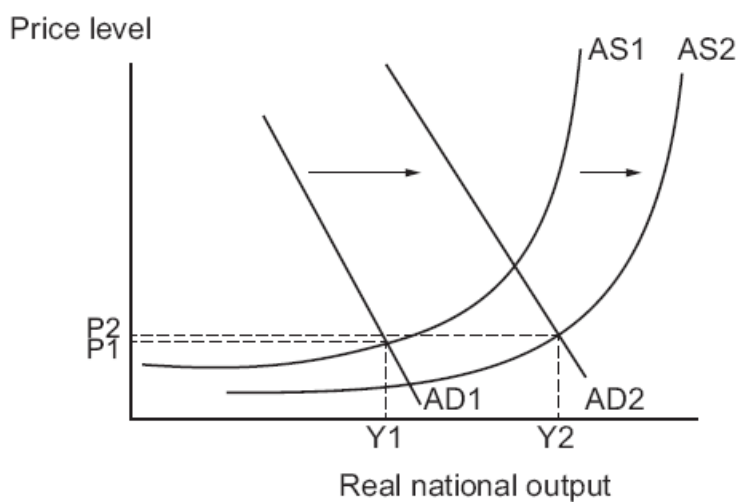
- | | | |
|----------|---|--------------------------|
| A | has been slow to recover from the global financial crisis | <input type="checkbox"/> |
| B | has large numbers of multinational corporations based there | <input type="checkbox"/> |
| C | imports far more than it exports | <input type="checkbox"/> |
| D | has significant property income coming in from abroad | <input type="checkbox"/> |
| E | has recently experienced deflation | <input type="checkbox"/> |

9. Total consumption expenditure in an economy is most likely to rise if there is a/an

ANSWER*Tick one box only*

- | | | |
|----------|--|--------------------------|
| A | significant rise in base interest rates | <input type="checkbox"/> |
| B | fall in tax allowances | <input type="checkbox"/> |
| C | sustained rise in house prices | <input type="checkbox"/> |
| D | sharp fall in the exchange rate | <input type="checkbox"/> |
| E | increase in the amount that people can save tax-free | <input type="checkbox"/> |

10. The diagram below shows changes over time in aggregate demand and aggregate supply in an economy.



These are most likely to have been caused by a/an

- A reduction in the national minimum wage
- B fall in corporation tax rates
- C reduction in trade union power
- D increase in the level of the state pension
- E sharp fall in the exchange rate

ANSWER

Tick one box only

11. A good example of an indirect tax is

ANSWER
Tick one box only

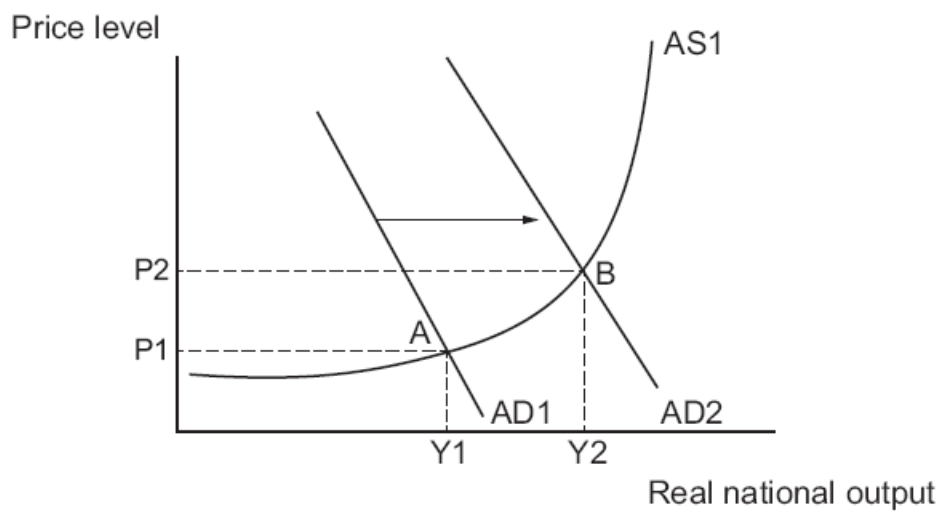
- | | | |
|----------|----------------------------------|--------------------------|
| A | National Insurance contributions | <input type="checkbox"/> |
| B | Income tax | <input type="checkbox"/> |
| C | Corporation tax | <input type="checkbox"/> |
| D | Capital gains tax | <input type="checkbox"/> |
| E | Value added tax | <input type="checkbox"/> |

12. As the economy nears full employment the aggregate supply curve tends to

ANSWER
Tick one box only

- | | | |
|----------|--------------------|--------------------------|
| A | become flatter | <input type="checkbox"/> |
| B | become steeper | <input type="checkbox"/> |
| C | shift to the left | <input type="checkbox"/> |
| D | shift to the right | <input type="checkbox"/> |
| E | shift upwards | <input type="checkbox"/> |

13. The diagram shows an economy where equilibrium has shifted from A to B

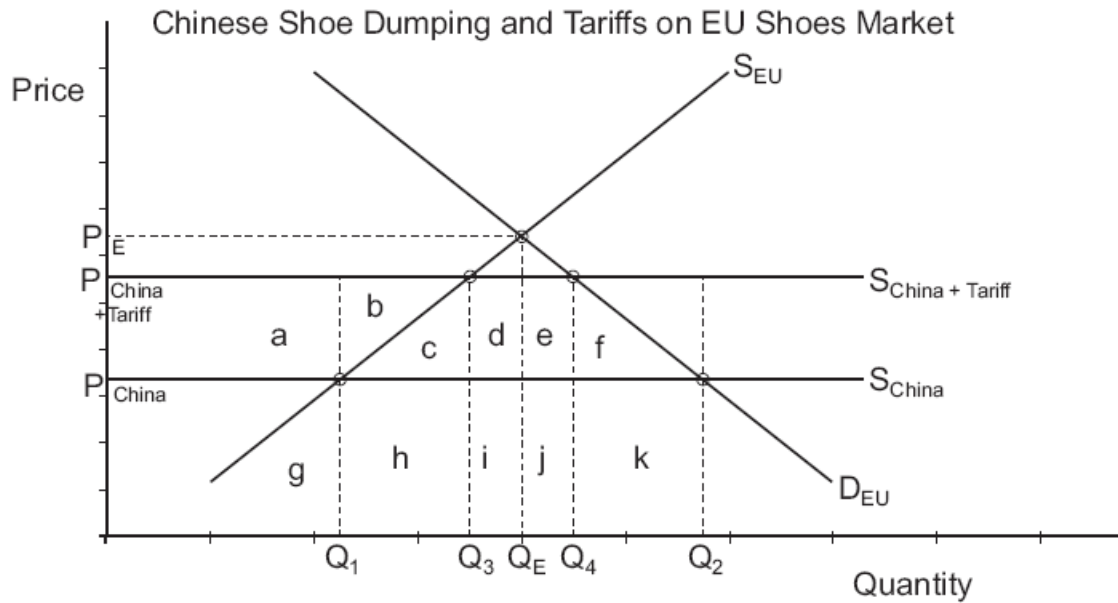


The most likely reason for this shift is an increase in

- A the price level
- B the skills of the workforce
- C consumer confidence
- D interest rates
- E the school leaving age

ANSWER
Tick one box only

14. The diagram below shows the impact of a tariff imposed by the EU in an attempt to stop alleged dumping of shoes by Chinese producers.



Which area represents the increase in producer surplus for EU shoe producers?

ANSWER

Tick one box only

A a+b

B d+e

C h+k

D a+b+c+g+h

E b+c+h

15. An unexpected increase in UK interest rates is most likely to cause the currency to appreciate because:

ANSWER

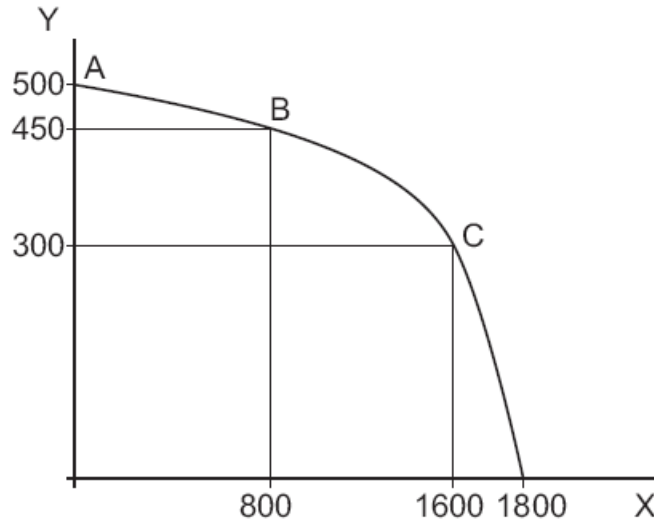
Tick one box only

- A of increased inflows of hot money
- B of increased outflows of hot money
- C government tax revenue will be higher
- D of an increased demand for UK exports
- E of increased investment by domestic firms

SECTION B

Answer **all** the questions in the spaces provided.

16. The production possibility frontier below shows the possible outputs of Goods X and Y that a country could produce.



- (a) Calculate the opportunity cost of an increase in the production of Good X:
- (i) as the economy moves from point A to point B [1]
-
-
- (ii) as the economy moves from point B to point C [1]
-
-
- (b) With reference to the PPF above, explain why the opportunity cost of producing Good X changes as the output of Good X increases. [3]
-
-
-
-
-
-

17. In 2002, McDonalds first launched its \$1 Menu in the USA. The \$1 Menu strategy involves offering customers a small range of basic products, such as a hamburger or a portion of fries, for just \$1. Since the economic crisis began in 2008 the \$1 Menu has helped McDonalds to increase its total US revenues. However, critics have argued that fast-food consumption has been shown to increase calorie intake, promote weight gain and increase the risk of diabetes.

As a result, under new healthcare legislation signed by Barack Obama in 2010, restaurants will be required to display calorie information for standard menu items. Furthermore, a recent proposal in San Francisco could see plastic toys banned from the McDonalds' "Happy Meals". Fast-food companies have responded by providing more healthier alternatives but they remain concerned at the growing number of regulations.

- (a) With reference to the data, explain why fast-food items could be classed as 'demerit goods'. [4]

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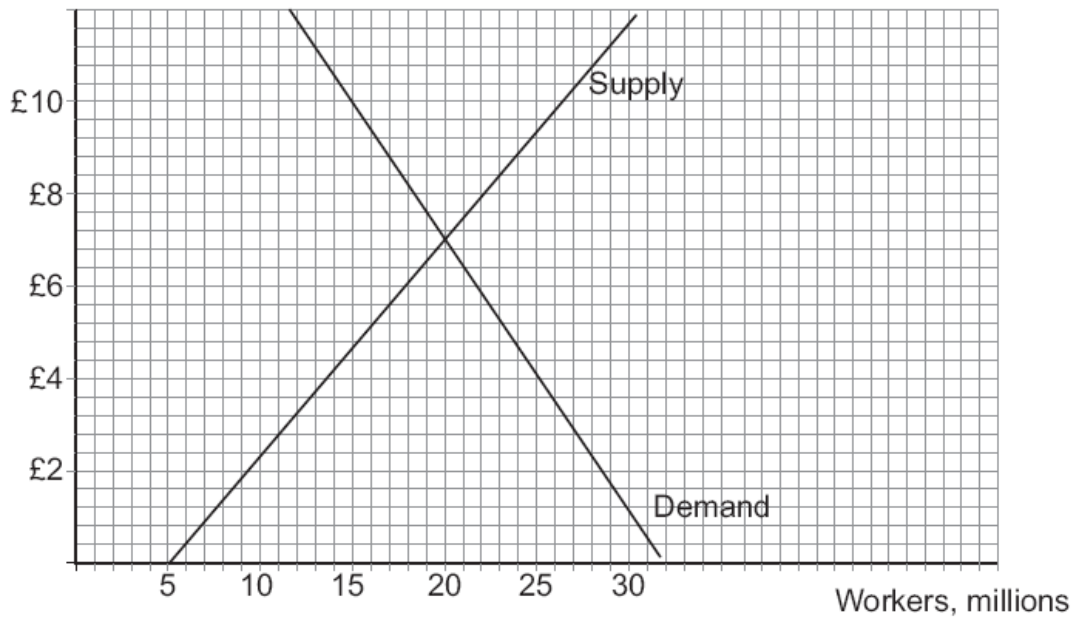
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18. In the diagram below the government decides to impose a minimum wage of £10 an hour.

Wage per hour



- (a) Identify the equilibrium wage level before the imposition of the minimum wage. [1]

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- (b) Calculate how many people will lose their jobs as a result of the minimum wage. [1]

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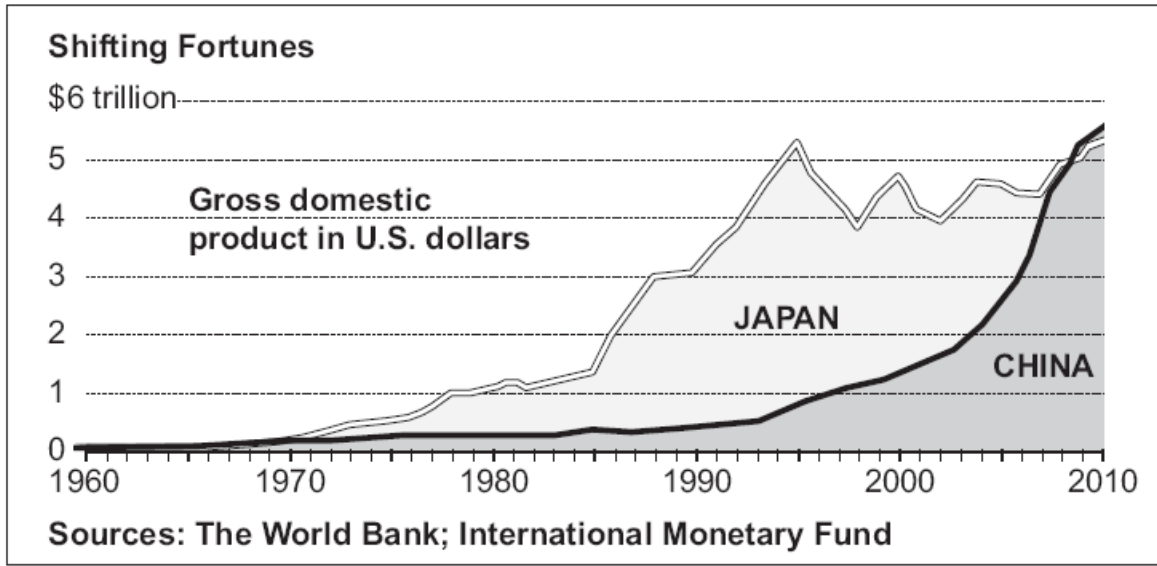
- (c) Calculate the total earnings of minimum wage earners after the imposition of a £10 per hour minimum wage. [1]

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19.



- (a) Calculate Japan's percentage increase in GDP for the twenty year period 1990-2010. [1]

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- (b) Explain one possible reason for the shifting fortunes of China and Japan between 1990-2010 as shown in the diagram. [3]

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AS
ECONOMICS
Unit 2
Economics in Action
SPECIMEN PAPER
2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a WJEC 20 page answer booklet (pink), which has been specifically designed for this examination paper. No other style of answer booklet should be used.

INSTRUCTIONS TO CANDIDATES

Answer all the questions
Use black ink or black ball-point pen.
Do not use pencil or gel pen.
Do not use correction fluid.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded for the need for good English and orderly, clear presentation in your answers.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

1. The Welsh tiger economy

A tiger economy is a term used to describe an economy of a country which undergoes rapid growth, generally above 6% per annum, usually accompanied by an increase in the standard of living. The term was initially used for South Korea, Singapore, Hong Kong and Taiwan (the Four Asian Tigers) after the Second World War. In the 1990s, it was also applied to the Republic of Ireland (the 'Celtic Tiger') and Dubai.

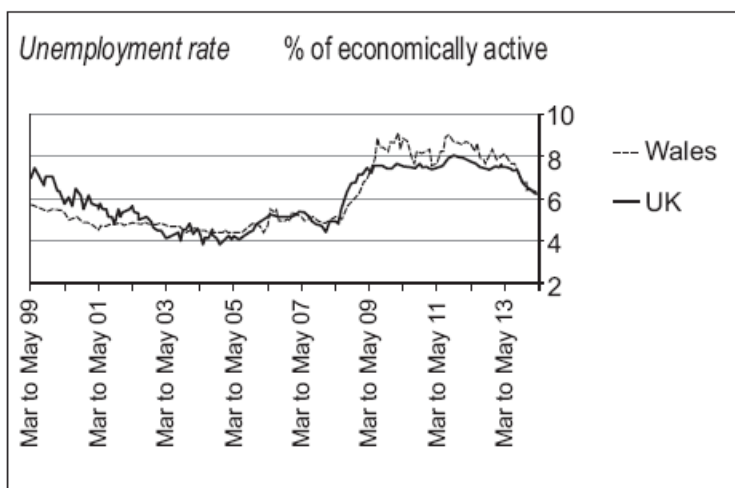


Figure 1

Figure 2

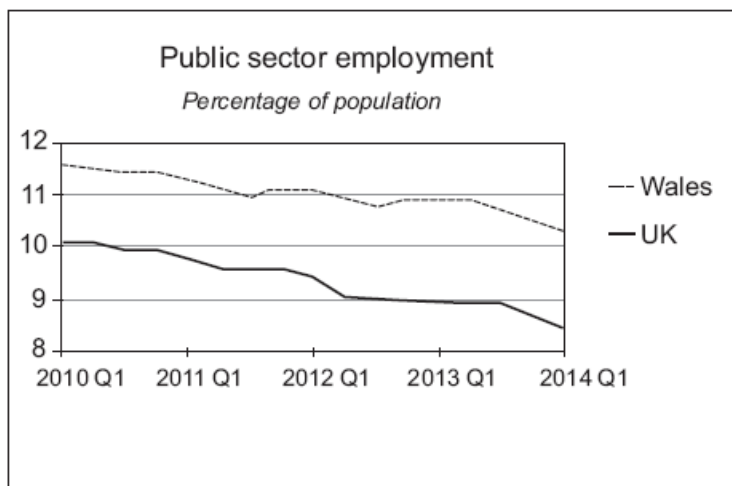
Top Welsh export destinations 2013	
United States	£3.09 billion
Ireland	£1.77 billion
Germany	£1.54 billion
France	£0.68 billion
China	£0.30 billion

Top five Welsh exporting industries 2013	
Power generating machinery	£4.2 billion
Petroleum, petroleum products and related materials	£3.8 billion
Iron and steel	£1.3 billion
Electric machinery	£0.7 billion
Organic chemicals	£0.37
The total value of international exports from Wales in 2013 was estimated at £14.8 billion.	

Figure 3

In April 2014, an article in *The Economist* asked the question: What would Wales need to do to become a tiger economy? At the time of the article's publication, the economy was showing some very encouraging signs; The Office for National Statistics, for example, showed that Welsh exports were up by 11% at the end of 2013 (whereas those of the rest of Britain rose by just 0.4%). In the labour market, there was a similar trend; the jobless total in Wales had fallen by 12,000 over the first three months of 2014 and, as a result, the unemployment rate in Wales had dropped to 6.7% which was lower than the rest of the UK. However, a figure of 6.7% still suggests an economy that has not yet escaped the problems associated with unemployment; also one in four jobs in Wales is in the public sector and this illustrates a country with structural labour market problems. Average earnings in Wales are 12%

below that of the UK as a whole.



Barry Johnston, lecturer in energy and engineering at Glyndwr University, said Wales had strengths in energy and water. He said: “Wales has a long history of being an exporter of natural resources to England. While most coal is now being left in the ground, another fossil fuel, shale gas and coal bed gas may be exploited soon. Wales also has one of Europe’s highest resources of wind and tidal energy in Europe and it exports water, in abundance, to England”. The conclusion of this article is that despite such resources, only an independent Welsh Government could develop and deliver policies to facilitate and incentivise such economic development. There is a clear suggestion that UK Government policies in Westminster have been consistently opposed to Wales’ needs and aspirations.

One obvious criticism of the independent Wales argument is that Wales does need the rest of the UK economically. According to Dr Rhys ap Gwilym, lecturer in economics at Bangor Business School, the Welsh public sector budget deficit at the moment is in the order of 20% of GDP (compared to around 5% for the UK as a whole), and it clearly wouldn’t be sustainable if a Welsh Government had to borrow on financial markets to fund this deficit on its own.

Underperformance in Welsh schools, which do poorly on measures of literacy and numeracy is a cause for concern. In last year’s global education rankings of Maths scores in 65 countries, England came 26th and Wales 43rd—a wider gap than in previous years.

One of the main ways in which the Welsh Government has been trying to achieve economic growth has been through the supply-side. The Welsh Government started its Jobs Growth Wales programme in April 2012 to get 16-24 year olds into work by creating job opportunities for a six month period paid at, or above, national minimum wage. Since then it has also offered non-repayable grants to firms that provide training for employees.

More recently, first minister Carwyn Jones has been supporting industries in which Wales can claim to be internationally competitive and champion them abroad. He has led delegations to Turkey, China, India and the USA to promote Welsh goods and services. He has argued since that Welsh ministers should do what they can to entice individual firms to Wales and he points to the example of Amazon’s decision to build a new distribution centre in Wales. The government clinched the deal by offering the retail giant a 30-acre site near Swansea with planning permission and good infrastructure links.

Source: adapted Wrexham Daily Post March 2014

- (a) (i) Explain the term ‘unemployment rate’. [2]
- (ii) Explain two problems that might be caused by unemployment. [4]
- (b) (i) Using the data in figure 2, calculate what percentage of Wales’ total international exports in 2013 were generated by petroleum, petroleum products and related materials. [2]
- (ii) Using an aggregate demand and supply diagram, explain how an increase in exports can lead to a decrease in unemployment. [4]
- (c) Evaluate the current performance of the Welsh economy. [8]
- (d) To what extent are the supply-side policies identified in the data likely to make Wales a tiger economy? [10]
- (e) Discuss the view that encouraging multi-national corporations to set up their business in Wales will benefit the Welsh economy. [10]

2. Floods hit West Country

During the winter months of 2014, a combination of heavy rain, bitter storms, and coastal surges caused great damage to the UK mainland. Met Office figures show that December and January combined were the wettest since records began in 1910. Unprecedented levels of flooding were seen up and down the country.

In the village of Moorland on the Somerset Levels, which was arguably the worst affected area, it was not uncommon to see the water submerging the first floor of many houses. Even when the storms had subsided, doubts over the structural safety of the buildings and the risk of water-borne infections kept many people out of their own homes. Questions on the time-scale of returning owners to their property remained unanswered, whilst the one certainty was that the price of the houses had dropped sharply as a result.

The Royal Institute of British Architects estimates that 1.5% of the UK is at risk from direct flooding from the sea and about 7% of the country is likely to flood at least once a century from rivers. It says about 1.7m homes are at risk from river or coastal flooding in England alone.

Yet despite these figures, the government were strongly criticised during this period for being unprepared. Critics pointed out that less than £1bn is spent on flood protection and management each year and the government's own official advisers, the Committee on Climate Change (CCC) had previously warned that cuts to annual flood management spending had left a £500m shortfall and would lead to £3bn of damage in the longer term. "Sometimes it takes a crisis like this to wake people up" noted Lord John Krebs, who led the CCC's work in this area. The CCC advises the UK Government on reducing greenhouse gas emissions.

Many climate scientists warn that extreme events such as floods and severe storms are likely to become more common as rising CO₂ emissions contribute to climate change and that it is reducing CO₂ emissions that need to take priority ahead of economic considerations.

Further up the coast between Devon and Cornwall, a key rail link between the South-West and the rest of the country (the Dawlish section of the Exeter to Plymouth line) was swept away during the storms. In 2013 the line was cut off for ten days at Exeter, and this was thought to have cost the Devon & Cornwall economies £175m.

Cornwall is one of the poorest areas of the UK with an economy worth about £7.54bn which makes up only 0.6% of the UK's overall GDP. It's heavily dependent on the agriculture and tourism industries which were both hit hard by the recession. Between 2008 and 2011 the number of registered businesses fell by 4.1%.

A quarter of Cornwall's households are "at risk of poverty" according to a study, which places it among the 5% worst areas in the UK for this measure of deprivation. The local council's most recent economic assessment stated that average workplace earnings were £17,390, about 79% of the UK average.

It isn't just the immediate cost, as David Parlby, chief executive of Plymouth chamber of commerce and industry commented "If businesses around the UK are thinking the South-West gets cut off virtually completely for significant periods, they aren't going to want to do business here".

- (a) Using supply and demand diagrams, explain:
- (i) why house prices are likely to fall sharply in flood affected areas? [4]
 - (ii) what might happen to the price and quantity of household flood defence devices being sold in the UK? [4]
- (b) Assuming that £1bn is spent on flood defences, what is the average spend per household at risk of coastal or river flooding in England? [2]
- (c) Given the increasing frequency of flooding in the UK, discuss with reference to the data, whether the government should increase its expenditure on flood defence systems. [10]
- (d) Assess whether transport links are the most important economic factor in ensuring the economic prosperity of regional areas like Cornwall. [10]
- (e) Evaluate ways in which the UK Government may reduce CO₂ emissions in the future. [10]

Candidate Name	Centre Number					Candidate Number				
						2				



A2 ECONOMICS

UNIT 3

Exploring Economic Behaviour

SPECIMEN PAPER

2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in the spaces provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

SECTION A

Answer **all** questions in the space provided.

1. The table below gives some cost and revenue information for a firm operating in the short run:

£ Price/AR	Output	£ Total Cost
11	0	10
10	1	14
9	2	17
8	3	21
7	4	26
6	5	32
5	6	39
4	7	47

- (a) Explain what is meant by the principle of diminishing returns to a factor. [2]

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- (b) At which output does diminishing returns begin? [1]

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- (c) Calculate the firm's marginal revenue if it produces and sells a 7th unit and comment on your answer. [3]

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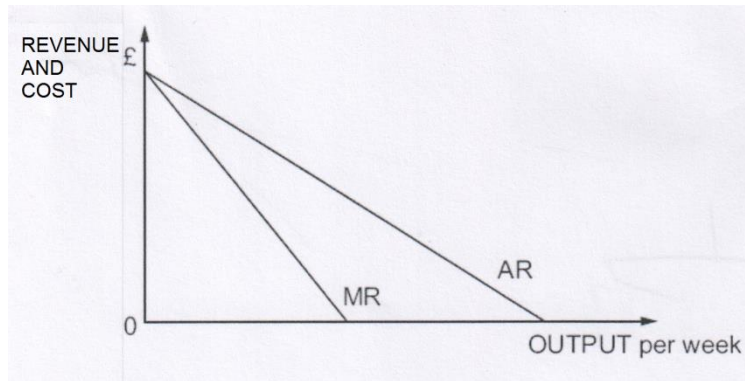
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2. The diagram below shows the average and marginal revenue curves of a firm within a monopolistic competitive market structure.



Add the firm's marginal cost and average total cost curves to the diagram above to illustrate the long-run equilibrium for a firm in monopolistic competition. Justify your answer. [6]

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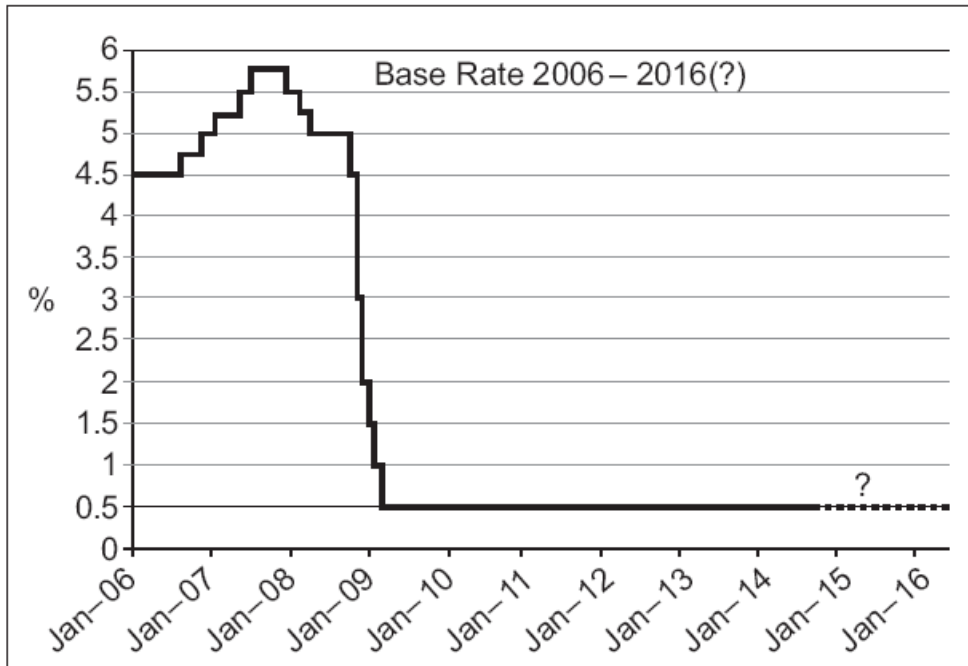
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4. Since March 2009 the Bank of England has held the base rate of interest at an historic low of 0.5%; new research from the Bank now indicates that this lengthy period of record low rates has improved the UK's inequality problem.



Explain two reasons why a period of low interest rates may have improved the UK's inequality problem. [4]

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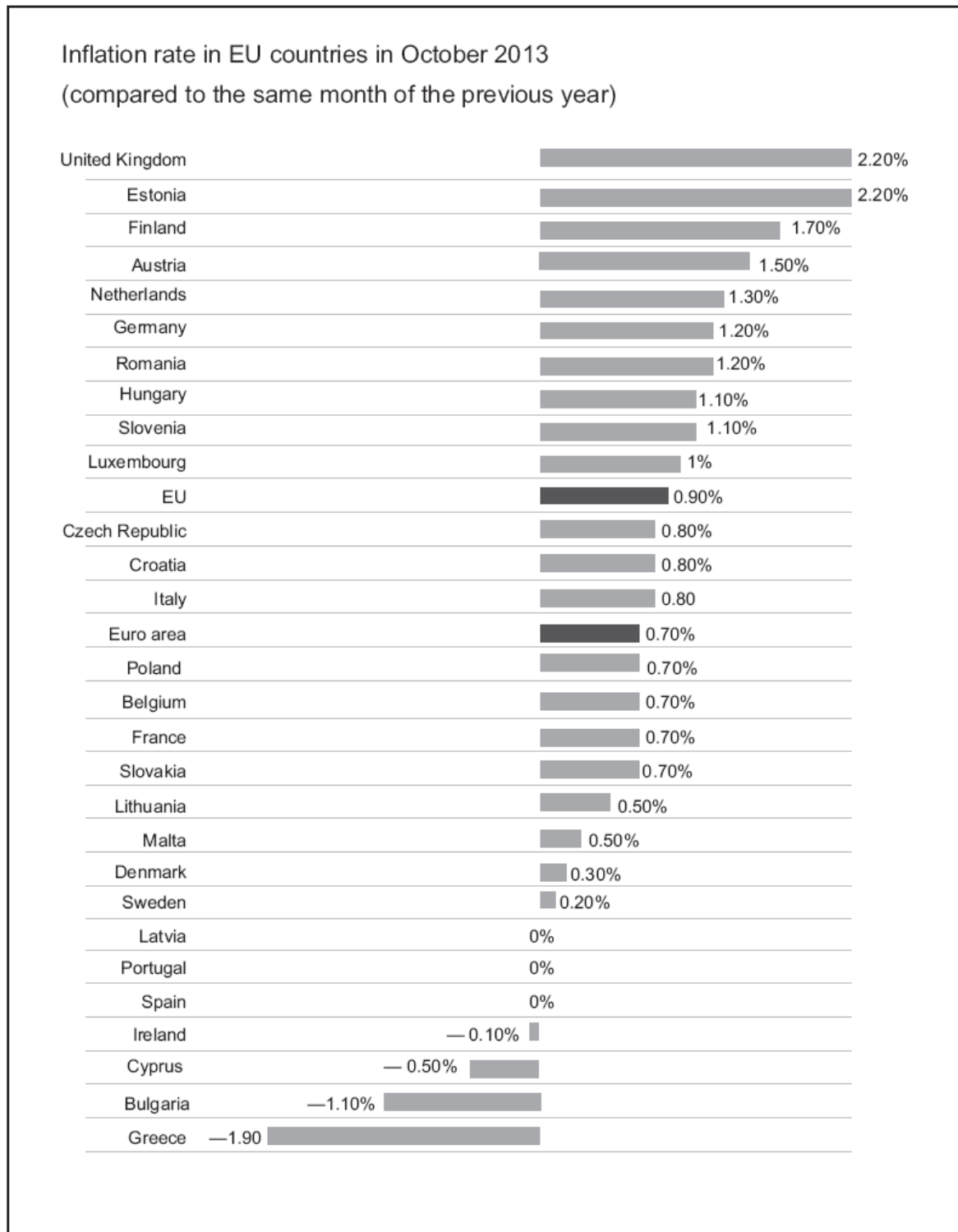
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6.



SECTION B

Answer **all** the questions in the spaces provided.

In the 1960s significant quantities of oil were discovered in Nigeria, generating huge revenues. Nigeria looked set to become an economic giant. The experience of the next 50 years, however, was extremely disappointing. In the mid-1960s oil revenue per capita was \$33 and GDP per capita was \$245. By the mid-2000s, whilst oil revenue had risen to \$325 per capita, GDP per capita remained at its 1960s level of \$245.

Years	Gini Coefficient
1991	0.48
1992	0.50
1993	0.51
1994	0.51
1995	0.51
1996	0.52
1997	0.53
1998	0.53
1999	0.55
2000	0.60

Many resource rich countries seem to have had similar problems and academics have come to call the problem the 'Resource Curse'.

There are several reasons why this might be the case; the discovery of abundant resources can attract a huge inflow of foreign money which can increase the exchange rate. As a result, firms in other sectors are unable to compete. This phenomenon was termed the 'Dutch Disease' since it was first observed in the Netherlands in the 1950s when abundant natural gas production brought rapid increases in foreign revenue but damaged other sectors of the economy.

Not every country with abundant resources experiences such a long-term drag on economic growth, however, and there are several exceptions such as Norway, Australia, Chile, Canada and Botswana. This has led critics to suggest that the problem lies with Nigeria's poor institutions of government with some arguing that the only sector that is growing and booming in the Nigerian system today is corruption. The excess inflow of foreign earnings has the tendency to create administrative recklessness and those resources that should have been used to boost other sectors of the economy only become a tool for politicians to amass wealth for themselves.

	Life expectancy	Income per person (GDP per capita, PPP\$)
1969	26	1100
2012	52	2484

Norway successfully avoided the 'Resource Curse' by building strong governmental institutions that eliminated corruption and made sure the oil revenues were ploughed back into the economy to create a strong productive base and to build a large wealth fund that generates revenue for the Norwegian Government from the shares and bonds that the fund has bought. In Nigeria, however, whilst there are hundreds of oil/gas vessels, rigs, barges and other offshore facilities deployed in the petroleum industry, there is not one Nigerian owned repair yard for these facilities. Furthermore, the government has so far been unable to force the major international companies to process the oil they produce in Nigeria, nor have they negotiated a deal to sell oil cheaply to local independent power projects.

In many oil rich countries government owned national oil companies are the engine of national development. The Malaysian Petronas and Brazilian Petrobras are two examples where resource rich countries are using the national oil companies to develop immunity against the 'Resource Curse'. Brazil's Petrobras is at the forefront of developing home-grown technology to tackle Brazil's deep offshore exploitation challenges. The Nigerian National Petroleum Company (NNPC), by contrast, has remained badly managed and continues to struggle. The NNPC seems more willing to invite foreign companies, particularly the Chinese, to strike for oil rather than doing it themselves.

7. “In the 1960s significant quantities of oil were discovered in Nigeria, generating huge revenues. Nigeria looked set to become an economic giant”. Explain this statement.

[4]

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8. Using the data, discuss the extent to which economic growth in Nigeria since the 1960s has led to higher living standards.

[8]

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9. (a) With reference to the data and using a diagram, explain what is meant by 'Dutch Disease'. [4]

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- (b) Explain why 'Dutch Disease' might damage other sectors of the Nigerian economy. [4]

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A2 ECONOMICS

UNIT 4

Evaluating Economic Models and Policies

SPECIMEN PAPER

2 hours 30 minutes

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a 20 page answer booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.
Do not use pencil or gel pen.
Do not use correction fluid.

Answer **one** question from Section A.
Answer **one** question from Section B.
Answer **one** question from Section C.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded of the need for good English and orderly, clear presentation in your answers.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

SECTION A

Answer **one** question from this section.

1. (a) Explain, using a diagram, how the price and output of a profit maximising monopoly would be determined in the short run. [10]
- (b) Evaluate the assumption that firms will always aim to maximise profits. [20]

OR

2. (a) With the aid of appropriate examples, explain the main features of oligopoly. [10]
- (b) Discuss the need for government intervention in UK energy markets. [20]

SECTION B

Answer **one** question from this section.

3. (a) Explain, using diagrams, the difference between demand-pull and cost-push inflation. [10]
- (b) Discuss the view that policies to reduce inflation will always lead to increasing levels of unemployment. [20]

OR

4. (a) Explain, using an appropriate diagram, why an increase in income tax might be associated with either a rise or fall in the budget deficit. [10]
- (b) “Cutting the national debt is more important than increasing government spending to promote economic growth”. Discuss [20]

SECTION C

Answer one question in this section.

5. (a) Explain the strengths of possible measures of economic development. [10]
- (b) To what extent does increasing levels of GDP in an LEDC guarantee increasing standards of living? [20]

OR

6. (a) Explain some of the ways in which a country can make its labour markets more flexible. [10]
- (b) To what extent is structural reform (free market policies) the best way of encouraging economic growth in LEDCs? [20]

UNIT 1: INTRODUCTION TO ECONOMIC PRINCIPLES

MARK SCHEME

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good learner 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.

Mark scheme

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

AO1

Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues.

AO2

Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues.

AO3

Analyse issues within economics, showing an understanding of their impact on economic agents.

AO4

Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

SECTION A

Question	Answer	Assessment Objective
1	D	AO1
2	A	AO2
3	E	AO2
4	A	AO1
5	C	AO2
6	C	AO1
7	E	AO1
8	B	AO2
9	C	AO1
10	B	AO1
11	E	AO1
12	B	AO1
13	C	AO1
14	A	AO2
15	A	AO1

SECTION B

Q.	Mark scheme	Total
16 (a)	<p>The production possibility frontier below shows the possible outputs of Goods X and Y that a country could produce.</p> <p>Calculate the opportunity cost of an increase in the production of Good X:</p> <p>(i) as the economy moves from point A to point B</p> <p>AO2: 1 mark</p> <p>Award 1 mark for 50 units.</p> <p>(ii) as the economy moves from point B to point C</p> <p>AO2: 1 mark</p> <p>Award 1 mark for 150 units.</p> <p>Accept per unit opportunity cost.</p>	2
16 (b)	<p>With reference to the PPF above, explain why the opportunity cost of producing Good X changes as output of Good X increases.</p> <p>AO1: 1 mark</p> <p>Award 1 mark for resources are not perfectly substitutable.</p> <p>AO2: 1 mark</p> <p>Award 1 mark for using the diagram to support the explanation.</p> <p>AO3: 1 mark</p> <p>Award 1 mark for development.</p> <p>As the production of Good X increases, less and less suitable resources have to be used, meaning that increasingly large amounts will be removed from Good Y. Therefore the opportunity cost of producing more X will increase.</p>	3

Q.	Mark scheme	Total
17 (a)	<p>With reference to the data, explain why fast-food items could be classed as 'demerit goods'.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a full definition and a clear understanding.</p> <p>Award 1 mark for incomplete definition.</p> <p>Definition of "demerit good". Negative externalities (or social costs higher than private costs).</p> <p>AO2: 2 marks</p> <p>Award 2 marks for a full and clear reference to the data.</p> <p>Award 1 mark for limited reference to the data.</p>	4

Q.17 (b)	To what extent can regulation alone be used to correct the market failure associated with the sale of fast-food? [8]	
Band	AO3	AO4
	4 marks	4 marks
2	3-4 marks	3-4 marks
	Learner analyses ways in which regulation can be used to correct market failure. The answer will be fully developed.	Well-reasoned judgements of at least one-side of the argument. The evaluation makes relevant points and qualifying statements to build an argument.
1	1-2 marks	1-2 marks
	Learner does appreciate the role of regulation in preventing market failure but does not offer a fully explained argument. Superficial development.	Limited or brief evaluation. Learner uses generic evaluative statements that are not related to the points they made in their analysis.
0	0 marks	0 marks
	Response not credit worthy or not attempted.	Response not credit worthy or not attempted.

Indicative content:**Argument**

Increased information can reduce asymmetry of information in the market thus reducing demand for the fast-food to the socially optimum level. Banning plastic toys can reduce demand to the socially optimum level.

The best answers will use a diagram to show the misallocation of resources but this is not essential.

Evaluation

Demand for fast-food is price inelastic therefore people will continue to buy it despite increased information and thus regulation is ineffective. Firms may try to circumvent regulation; example provided.

Difficult/costly to enforce. Needs to be backed up by credible punishments; example provided; if it is not, then regulation likely to be ineffective.

Therefore requires another type of solution such as an indirect tax.

Q.	Mark scheme	Total
	<p>In the diagram below, the government decides to impose a minimum wage of £10 an hour.</p>	3
18 (a)	<p>Identify the equilibrium wage level before the imposition of the minimum wage.</p> <p>AO2: 1 mark</p> <p>Award 1 mark for correct answer.</p> <p>£7.00</p>	
18 (b)	<p>Calculate how many people will lose their jobs as a result of the minimum wage.</p> <p>AO2: 1 mark</p> <p>Award 1 mark for correct answer.</p> <p>5 million</p>	
18 (c)	<p>Calculate the total earnings of minimum wage earners after the imposition of a £10 per hour minimum wage.</p> <p>AO2: 1 mark</p> <p>Award 1 mark for correct answer.</p> <p>£150 million</p>	

Q.	Mark scheme	Total
19 (a)	<p>Calculate Japan's percentage increase in GDP for the twenty year period 1990 – 2010.</p> <p>AO2: 1 mark</p> <p>Award 1 mark for correct answer.</p>	1
19 (b)	<p>Accept calculations with range of 70% -80%</p> <p>Explain one possible reason for the shifting fortunes of China and Japan between 1990-2010 as shown in the diagram.</p> <p>AO1: 1 mark</p> <p>Award 1 mark for the identification of a correct possible reason, such as technology, more capital investment.</p> <p>AO2: 2 marks</p> <p>Award 2 marks for a well-applied reference to the data, including reasons for growth.</p> <p>Award 1 mark for identifying that china has performed better than Japan.</p>	3

Q.19 (c)	To what extent will rapid economic growth, such as that seen in China, create only benefits for an economy? [8]		
Band	AO1	AO3	AO4
	2 marks	2 marks	4 marks
2	<p>Learner has a good understanding of the benefits of growth.</p> <p>At least 2 benefits of growth for an economy are identified.</p>	<p>Learner gives a clear and developed analysis of the benefits of growth.</p>	<p>Learner fully evaluates using economic theory and logic.</p> <p>The evaluation is in context.</p> <p>Makes relevant points and qualifying statements to build an argument.</p>
1	<p>Learner has limited understanding of the benefits of growth.</p> <p>1 benefit identified.</p>	<p>Learner only partially explains why these benefits have arisen from increased growth.</p> <p>Superficial development.</p>	<p>Limited or brief evaluation.</p> <p>The evaluation may be unbalanced or focus on 1 issue.</p> <p>The evaluation is superficial and not in the context of the data.</p>
0	<p>0 marks</p> <p>No benefits of growth identified.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content:

Leads to greater employment; leads to higher standards of living; could lead to greater investment and/or FDI.

Due to an increased derived demand for labour; because of increased incomes due to more employment; because there is a higher tax base, which means there is potential for more spending by the government; there is a bigger consumer market.

Evaluation

Could lead to demand-pull inflation, because increased demand creates upward pressure on the price of resources/goods and service.

Depends where economy is on the AS curve **or** if AS curve is shifting at the same rate. Could lead to uncompetitive prices and therefore a decrease in the trade balance.

Could lead to an increase in pollution levels as a consequence of the increased demand for production of goods and services.

Could lead to greater income inequality if the government is not redistributing income adequately.

Q.20	Using examples from the data above, explain how protectionist policies can help US workers to keep their jobs. [8]		
Band	AO1	AO2	AO3
	2 marks	2 marks	4 marks
2	2 marks Learner has a good understanding of protectionist policies. At least 2 examples clearly identified.	2 marks Clear reference to the data. Relevant content from the data is used to develop and support their argument.	3-4 marks Learner fully analyses using economy theory and logic. The analysis is in context.
1	1 mark Learner has limited understanding of protectionist policies. At least 1 example identified.	1 mark Limited use of the data. Knowledge and understanding may not be applied specifically to the context given in the data.	1-2 marks Limited or brief analysis. The analysis may be unbalanced or focus on 1 issue. The analysis is superficial and not in the context of the data.
0	0 marks No understanding of protectionist policies.	0 marks Response not credit worthy or not attempted.	0 marks Response not credit worthy or not attempted.

Indicative content:

Cheap imports from Japan would lead to reduced demand for cars produced in the US, which could threaten the jobs of American workers which could have a multiplier effect throughout the economy.

The impact of protectionist policies in the context of keeping US jobs, e.g. direct employment in protected industries and indirect employment created by the spending of protected firms and their employees.

Explanation of how quotas reduced the number of Japanese imports into the US and why this leads to increased revenue for US firms/greater job security for US workers plus diagram which is integrated into the answer.

Explanation of how a tariff could increase prices of Japanese imports into the US and why this leads to increased revenue for US firms/greater job security for US workers plus diagram which is integrated into the answer.

Explanation of how US subsidies, e.g. to US cotton farmers, allow US businesses to compete against cheaper imports from lower cost producers, e.g. in Brazil, and so protect US jobs.

UNIT 2: ECONOMICS IN ACTION

MARK SCHEME

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good learner 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.

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

AO1

Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues

AO2

Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues

AO3

Analyse issues within economics, showing an understanding of their impact on economic agents

AO4

Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues

Q.1	Mark scheme	Total
(a) (i)	<p>Explain the term ‘unemployment rate’.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a complete definition.</p> <p>Award 1 mark for incomplete or brief definition.</p> <p>Percentage of total workforce who are unemployed and are looking for a paid job, Claimant count.</p>	2
(a) (ii)	<p>Explain two problems that might be caused by unemployment.</p> <p>AO1: 2 marks</p> <p>Award 1 mark for each correct problem identified.</p> <ul style="list-style-type: none"> - Increased government spending on welfare - Increased crime rates - Waste of resources - Lower GDP <p>AO3: 2 marks</p> <p>Award 1 mark for each development of the problem.</p> <p>Development of points made to say why that problem may have been caused by unemployment.</p>	4
(b) (i)	<p>Using the data in figure 2, calculate what percentage of Wales’ total international exports in 2013 were generated by petroleum, petroleum products and related materials.</p> <p>AO2: 2 marks</p> <p>Award 1 mark for identification of correct figures.</p> <p>Award 1 mark for correct calculation.</p> <p>$(100/14.8bn) \times 3.8 = 25.7\%$</p>	2
(b) (ii)	<p>Using an aggregate demand and supply diagram, explain how an increase in exports can lead to a decrease in unemployment.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a correctly drawn diagram.</p> <p>Award 1 mark for a diagram that has key features missing.</p> <p>AD/AS diagram drawn With AD shifting to the right. Increase in GDP along the x-axis marked on.</p> <p>AO3: 2 marks</p> <p>Award 2 marks for a clear analysis that explains that as exports increase (since they are a component of AD) AD will increase and therefore GDP will increase, increasing the demand for labour and hence decreasing unemployment rate.</p> <p>Award 1 mark for an incomplete or brief analysis.</p>	4

Q.1.(c)	Evaluate the current performance of the Welsh economy. [8]	
Band	AO2	AO4
	4 marks	4 marks
2	3-4 marks Data is used effectively to support the idea that Wales is or is not performing well at the present time. Answers are likely to have 2 or 3 well applied pieces of evidence drawn from the data and explained.	3-4 marks The answer is well-balanced and a final judgement as to the overall strength of the performance of the Welsh economy is made or most points are well qualified at the point at which they are made. Evaluative points are generally developed.
	1-2 marks Appropriate data from the text is identified to support or oppose the idea that the Welsh economy is performing well, but either the range is too narrow or the points are too superficial to be worth a top band mark.	1-2 marks Some discussion is present and answers in this level will at the very least be clear two-sided responses. Alternatively a strong one-sided response is made in which the points are qualified to some extent.
0	0 marks No data used from the passage.	0 marks No evaluation or purely brief evaluation on one side of the argument only.

Indicative content:**Good performance:**

Exports rose by 11% in 2013, far above that of the rest of the UK, suggesting underlying industrial strength **but** from what base?

Unemployment is below that of the UK as a whole, again suggesting that the Welsh economy is relatively robust.

Wales has a strong base of natural resources to support its economy especially in wind and tidal power.

Wales has been successful in attracting big global multinationals which suggest both that the economy is strong and add to Welsh GDP and employment.

Weak performance

Unemployment of 6.7% is still relatively high – clearly the after-effects of the recession have not yet been resolved.

Many jobs in Wales (25%) are in the public sector, suggesting that the Welsh economy isn't quite as strong as the increase in exports might suggest.

Average incomes in Wales are below those of the UK as a whole, suggesting that many jobs are in low paid sectors.

The Welsh government is believed to have an underlying budget deficit of 20% of GDP, which is an extremely large figure, suggesting that the economy as a whole cannot generate the tax revenue it needs to provide public services, **although** this might not be the case if Wales had more independent tax-generating powers.

Overall

Wales seems to have recovered more quickly from the recession than the rest of the UK and appears to have a promising export sector, but as it stands, the economy may well be too dependent on public sector jobs, which have contributed to a significant budget deficit.

Q.1.(d)	To what extent are the supply-side policies identified in the text likely to make Wales a tiger economy? [10]		
Band	AO1	AO3	AO4
	3 marks 2-3 marks	3 marks 2-3 marks	4 marks 3-4 marks
2	Learner has a good understanding of supply-side policies. Learner correctly identifies at least 2 supply-side policies from the text.	Learner shows a good understanding of how each supply-side policy leads to economic growth. Learner should normally be expected to use an AD/AS diagram and explain thoroughly the movements in AS (and indeed AD) which arise from the chosen policy – but this is not absolutely essential.	Learner evaluates each policy in order to show good appreciation of the reasons why this policy may not bring about an increase in economics growth. Greater credit should be given for those answers that are evaluated in the context of Wales rather than purely theoretical/standard answers.
1	1 mark Learner has a limited understanding of supply-side policies. Only 1 supply-side policy correctly identified from the text.	1 mark Learner offers a limited understanding of the impact of supply-side policies on the economy and/or doesn't successfully explain why growth may result from the use of such a supply-side policy.	1-2 marks Limited or brief evaluation. The evaluation may be unbalanced or focus on 1 issue. The evaluation is superficial/theoretical and not in the context of the data.
0	0 marks Learner does not display an understanding of supply-side policies.	0 marks Analysis is incorrect or missing.	0 marks Evaluation is either missing or incorrect.

Indicative content:

Learners show some understanding of the nature of supply-side policies (SSP) - policies associated with improving the competitiveness and efficiency of markets.

Learners identify SSP from the text:

- Jobs Growth Wales
- Non-repayable grants to firms for training purposes
- Reduced bureaucracy in planning permission
- Infrastructure links

Weaker answers will have an AS/AD diagram to show how supply-side policies **in general** can create economic growth (higher GDP) and lower average prices. There will be little attempt to explain the SSP policies in the text and how they affect the AD/AS diagram

The **best** answers will link the SSP from the text to the AS/AD diagram they have drawn.

For example:

Grants paid to firms to subsidise training costs result in a more skilful labour force which allows the aggregate supply of the economy to increase therefore forcing down average price levels whilst stimulating economic growth.

Improving infrastructure such as roads and trains will reduce time taken in the movement of goods and people for businesses. This then allows the firm to become more efficient by reducing their transport costs and hence aggregate supply will increase. Improved infrastructure will also allow the AD curve to shift rightwards and this will help to increase economic growth.

Less bureaucracy in the way of form filling will allow firms to concentrate on their core business which means that the firm will become more efficient.

Evaluation

Learners appreciate that SSP are not always effective and at times have considerable opportunity costs. The **best** answers will evaluate in terms of the SSP referred to in the text. For instance:

The effect of SSP on average price levels and particularly GNP depend on what is happening to AD at the same time. If AD is falling then SSP may not have any discernible effect.

The infrastructure and training grants referred to in the text will be expensive for the Welsh Government to implement. There is an opportunity cost in that other areas of the Welsh economy may be forced to have cutbacks, such as education and health.

The Jobs Growth Wales project may provide work for 6 months for 16-24 year olds, but are those jobs maintained into the long-term? Are the job opportunities provided monitored for their fitness?

Reduced bureaucracy may be attractive but in some cases it protects the interests and safety of the public. If firms are able to side line rules and regulations then there is a possibility that consumer welfare is at risk.

SSP's referred to are often long-term in their effect. Eg major road improvements can take 2-4 years for businesses to see improvement and in the short-term there are increased delays and congestion.

Weaker answers will evaluate in generic terms and refer to SSP not mentioned in the text. Some limited credit should be given to these learners. For instance:

Trade union controls to create a more flexible labour market mean that some workers can be exploited.

Reductions in PAYE to encourage more people to take up work.

Reduce corporation tax to allow firms to invest more in new technology and equipment.
SSP's have a time lag problem.

Q.1.(e)	Discuss the view that encouraging multi-national corporations to set up their business in Wales will benefit the Welsh economy. [10]		
Band	AO1	AO3	AO4
	2 marks	4 marks	4 marks
2	<p>2 marks</p> <p>Learner correctly identifies at least 2 benefits to an economy of multi-national corporation (MNCs) setting up.</p>	<p>3-4 marks</p> <p>Learner shows a good understanding of how each MNCs can lead to benefits for an economy.</p> <p>Learner should focus their answer in an analysis of the macroeconomic objectives of an economy and to use an AD/AS diagram.</p> <p>The top mark is reserved for an answer that appreciates the main objectives that have been highlighted in the data concerning Wales (e.g. growth, unemployment and exports).</p>	<p>3-4 marks</p> <p>Learner fully evaluates the advantages and disadvantages of MNCs.</p> <p>Learner identifies and explains several downsides to MNCs which counter balance the benefits.</p> <p>Clear reference to economic theory and real-life context to justify judgement.</p> <p>Again, greater credit should be given for those answers that focus on the context of Wales rather than purely theoretical/standard answers.</p>
1	<p>1 mark</p> <p>Learner successfully identifies 1 benefit.</p>	<p>1-2 marks</p> <p>Learner offers a limited understanding of the role of MNCs on the economy.</p> <p>Superficial development of the benefits that may result from MNCs.</p> <p>The benefits identified are theoretically correct but not at all in context of Wales.</p>	<p>1-2 marks</p> <p>Learner offers only a limited evaluation of the impact of MNCs on the economy.</p> <p>Evaluation is one-sided with little development.</p>
0	<p>0 marks</p> <p>No benefits identified.</p>	<p>0 marks</p> <p>Analysis is incorrect or missing.</p>	<p>0 marks</p> <p>Evaluation is either missing or incorrect.</p>

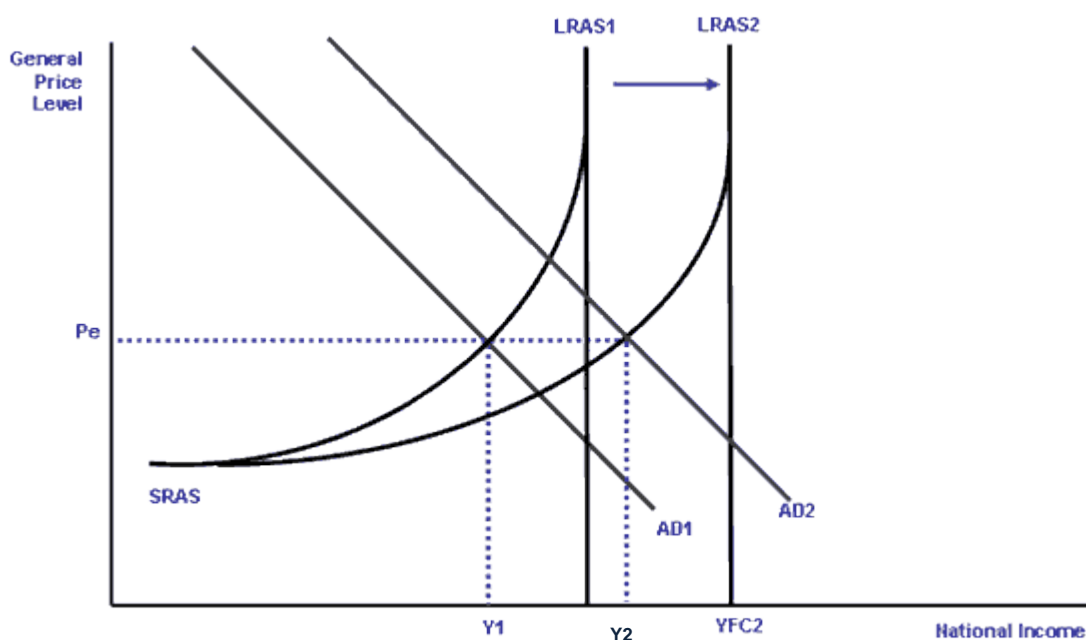
Indicative content:

If a multi-national company (MNC) set up business in Wales this is called foreign direct investment (FDI) and benefits the economy in a number of ways.

Foreign MNCs create direct employment in the running of their premises plus indirect employment via suppliers etc in the local economy.

MNCs increase investment in the economy and often export their products thus boosting aggregate demand.

The arrival of MNCs in countries such as Wales boosts the productive capacity of the economy and will also shift the aggregate supply curve to the right. These effects are shown in the diagram below with national income increase from Y1 to Y2.



However, MNCs coming to Wales may have a significant competitive advantage over Welsh firms vying for the same customers. This could put domestic firms out of business causing unemployment.

MNCs often import their own supplies of materials and components as well as repatriate their profits back to the overseas parent company, thus the balance of payments benefits are not always as good as expected.

Some MNCs have a poor record in relation to the treatment of their employees, an allegation made about Amazon's distribution centres – one of which is in Wales.

Q.2	Mark scheme	Total
(a) (i)	<p>Using supply and demand diagrams, explain why house prices are likely to fall sharply in flood affected areas.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a correct diagram showing demand curve shifting to the left thereby reducing price.</p> <p>Award 1 mark for a diagram that has features missing.</p> <p>AO2: 2 marks</p> <p>Award 2 marks for clear use of the data. Such as, that due to the floods, demand is likely to fall which in turn puts downward pressure on house prices.</p> <p>Award 1 mark for a partial reference to the data.</p>	4
(a) (ii)	<p>what might happen to the price and quantity of household flood defence devices being sold in the UK.</p> <p>AO2: 2 marks</p> <p>Award 2 marks for a correct diagram showing demand curve shifting to the right thereby increasing price and output.</p> <p>Award 1 mark for a diagram that has features missing.</p> <p>AO3: 2 marks</p> <p>Award 2 marks for a clear analysis that due to the floods, demand for household flood defence devices being sold in the UK is likely to increase therefore putting upwards pressure on price and increasing the number being sold.</p> <p>Award 1 mark for a brief analysis with little development.</p>	4
(b)	<p>Assuming that £1bn is spent on flood defences, what is the average spend per household at risk of coastal or river flooding in England?</p> <p>AO2: 2 marks</p> <p>Award 1 mark for identification of correct figures.</p> <p>Award 1 mark for correct calculation.</p> <p>1bn/1.7m = £588</p>	2

Q.2 (c)	Given the increasing frequency of flooding in the UK, discuss with reference to the data whether the government should increase its expenditure on flood defence systems. [10]		
Band	AO2	AO3	AO4
	2 marks	4 marks	4 marks
2	<p>2 marks</p> <p>Learner uses the context specifically to make their points.</p> <p>Clear reference to the data.</p>	<p>3-4 marks</p> <p>Clear chain of argument that analyse the advantages and disadvantages of an increase in expenditure.</p> <p>Learner shows a good understanding of the advantages/benefits of increasing expenditure.</p> <p>Several points are well developed in terms of their positive or negative impact.</p>	<p>3-4 marks</p> <p>A critical evaluation on the advantages and disadvantages of increasing expenditure.</p> <p>Learner demonstrates an appreciation of both the advantages and disadvantages of increasing expenditure and evaluates between them with economic theory and real-life context as justification.</p>
1	<p>1 mark</p> <p>Learner makes limited reference to the data.</p> <p>The data is not used specifically to build an argument.</p>	<p>1-2 marks</p> <p>Limited development and analysis.</p> <p>Superficial development.</p>	<p>1-2 marks</p> <p>Learner offers only a limited evaluation of the impact of increasing expenditure on flood defences.</p>
0	<p>0 marks</p> <p>No reference to the data.</p>	<p>0 marks</p> <p>Analysis is incorrect or missing.</p>	<p>0 marks</p> <p>Evaluation is either incorrect or missing.</p>

Indicative content:

Benefits may include:

- Fixing market failure
- Prevents the cost of clean-up/health problems that arise from flood water
- Allows industry (esp. agriculture) to keep working
- Keep house prices stable
- Public good – won't be supplied otherwise
- Floods often hit rural, poorer communities

But:

May be very expensive

Money may be wasted – policies may be ineffective

Opportunity cost – there are many other priorities for the government that may be more important

Credit other appropriate points.

Q.2.(d)	Assess whether transport links are the most important economic factor in ensuring the economic prosperity of regional areas like Cornwall. [10]		
Band	AO1	AO3	AO4
	2 marks 2 marks	4 marks 3-4 marks	4 marks 3-4 marks
2	Clear understanding of economic prosperity.	Learner offers a good analysis of why transport links can play a vital role in the improved economic prosperity of regional areas. Greater credit should be given to those answers that reflect the context of the question (Cornwall/SE England) or refer directly to the text/use figures from the data to justify arguments made.	A critical evaluation of whether transport links are the most important factor in areas such as Cornwall. Learner identifies and explains at least 1 other important economic factor in ensuring prosperity and then evaluates the relative merits of both. Again greater credit should be given for those answers that are applied in the context of the UK rather than purely theoretical/standard answers.
1	Limited understanding of the term 'economic prosperity'.	Learner offers a limited or only partially correct analysis of why transport links are so important to economic prosperity.	Learner offers only a limited evaluation of the importance of transport links to economic prosperity.
0	Very limited or no understanding.	Analysis is incorrect or missing.	Evaluation is either missing or incorrect.

Indicative content:

Cornwall is relatively isolated geographically therefore good transport links with the rest of the UK are likely to be very important.

Better transport links would reduce the costs for Cornish businesses buying goods and services from other parts of the UK. Leading to greater profitability and higher incomes.

Cornish exports to the rest of the UK and foreign countries (tourism and agricultural products) could be increased as tourists can get to Cornwall more quickly/more easily and food products could be delivered elsewhere in the UK more quickly and hence be fresher and command higher prices.

Cornish residents would have a wider area in which to work as commute times would be shortened. This could result in higher incomes and/or more jobs for Cornish residents.

All these points could help boost Cornish GDP per head; an important point as currently earnings in Cornwall are only 79% of average UK earnings.

Evaluation

Other factors could be equally or more important to the economic prosperity of Cornwall.

The provision of better transport links might not, in itself, be sufficient to boost tourism and agriculture. It may be that these industries need a big increase in their marketing effort making the rest of the country more aware of tourist attractions, hotels and the quality of Cornish food products.

Support from local and/or central government could boost the number of business start-ups in Cornwall leading to more job creation/higher incomes. This might be particularly important as both tourism and agriculture are highly seasonal industries. New businesses in other sectors would help fill the 'dead time' for jobs and incomes in tourism and agriculture.

Investment in skills through education and training could increase worker productivity and help generate a higher Cornish GDP. This could cover both skills in general but obviously also to provide the extra skilled workers who would be needed in the tourist industry.

Greater investment in the main sectors. Upgrading of facilities in hotels, B&Bs, restaurants; opening new tourist attractions etc. Similarly new investment in agriculture could increase both productivity and output.

Improved broadband access in the county would help stimulate more business start-ups as well as giving businesses, such as tourism and agriculture better access to their markets.

Q.2.(e)	Evaluate ways in which the UK government might reduce CO2 emissions in the future. [10]		
Band	AO1	AO2	AO4
	4 marks	2 marks	4 marks
2	<p>3-4 marks</p> <p>Learner shows a good understanding of at least 2 ways in which the government might reduce CO2 emissions.</p> <p>Policies are well-explained showing a good knowledge of how they would work in practice.</p>	<p>2 marks</p> <p>Policies are well anchored into the context of the UK at the present time and going forward.</p> <p>Policies are not purely abstract, but do show that the learner is aware of the UK's current situation.</p>	<p>3-4 marks</p> <p>Well-reasoned judgements.</p> <p>Policies are well-qualified with the learner showing a good awareness of the extent to which they are likely to work.</p> <p>Policies are weighed up in terms of their likely overall effectiveness and a good understanding of any limitations is shown.</p>
1	<p>1-2 marks</p> <p>Learner identifies 1 or 2 policies that are appropriate but fails to show a good understanding of how they might work to reduce emissions.</p>	<p>1 mark</p> <p>Policies are appropriate for an advanced economy such as that of the UK, but do not make specific reference to issues of contemporary relevance for the UK at the present time or in the near future.</p>	<p>1-2 marks</p> <p>Limited evaluation which will focus on the effectiveness of the policies.</p> <p>The evaluation is more of list of advantages and disadvantages rather than one which attempts to weigh up the likely effectiveness of policies.</p>
0	<p>0 marks</p> <p>No knowledge or understanding demonstrated.</p>	<p>0 marks</p> <p>Policies are not appropriate to the UK.</p>	<p>0 marks</p> <p>Evaluation is either missing or incorrect.</p>

Indicative content:

This question is deliberately wide-ranging to allow learners scope to write outside of the confines of the data. Hence it is likely that a wide range of possible policies will be discussed. The emphasis therefore is to assess the quality of the explanation of each policy and the limitations to its effectiveness.

Possible policies might include:

Carbon taxes, such as those on aviation, petrol and so on. Such taxes tend to internalise the external costs of emissions and provide a direct incentive to become more efficient in the use of fossil fuels as well as raising revenue for the government. However, they tend to be regressive, may not work if demand is inelastic, impact on domestic inflation and may reduce the international competitiveness of UK firms.

Subsidies for better home insulation and other energy-efficiency initiatives. These policies tend to be quite expensive and generally only have an impact in the medium term. However it might be argued that there is a limit to how effective taxes can be and how much further they can be increased and therefore policies which correct failings in the past, or encourage better use of modern technology in existing homes that were built a long time ago might make a big difference.

Regulations: These include limits on the power of domestic equipment, rules on new home buildings and energy-efficiency and so on. These policies are quite forward-looking and can help to ensure that emissions do not rise in the future. However they again drive up costs for manufacturers and builders and are difficult to make retrospective, meaning that existing homes may be unaffected.

Many of these policies are now introduced at an EU level, making it more difficult for the UK to act independently.

UNIT 3: EXPLORING ECONOMIC BEHAVIOUR

MARK SCHEME

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omission. It should be possible for a very good learner 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.

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

AO1

Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues

AO2

Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues

AO3

Analyse issues within economics, showing an understanding of their impact on economic agents

AO4

Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

Q.	Mark scheme	Total
1 (a)	<p>Explain what is meant by the principle of diminishing returns to a factor.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for full correct understanding - as variable resources are added to fixed resources the marginal output falls.</p> <p>Award 1 mark for incomplete understanding or brief definition.</p>	2
1 (b)	<p>At which output do diminishing returns begin?</p> <p>AO2: 1 mark</p> <p>Award 1 mark for</p> <p>3rd unit</p>	1
1 (c)	<p>Calculate the firm's marginal revenue if it produces and sells a 7th unit and comment on your answer.</p> <p>AO2: 2 marks</p> <p>Award 1 mark for identification of correct figures.</p> <p>Award 1 mark for correct calculation.</p> <p>$£28 - £30 = £-2$</p> <p>AO1: 1 mark</p> <p>Award 1 mark for valid comment linked to the answer.</p> <p>MR is negative indicating TR is falling or the firm would actually lose money by selling one more unit or demand is inelastic.</p>	3

Q.	Mark scheme	Total
2	<p data-bbox="300 255 1214 353">Add the firm's marginal cost and average total cost curves to the diagram above to illustrate the long-run equilibrium for a firm in monopolistic competition. Justify your answer.</p> <div data-bbox="454 407 1161 757" style="text-align: center;"> </div> <p data-bbox="300 797 475 828">AO2: 2 marks</p> <p data-bbox="300 860 1182 891">Award 2 marks for the correct marginal cost and average total cost curves.</p> <p data-bbox="300 922 1305 981">Award 1 mark for correct marginal or average cost curves or for MC clearly not going through minimum point of ATC.</p> <p data-bbox="300 1012 475 1043">AO1: 2 marks</p> <p data-bbox="300 1075 831 1106">Award 2 marks for full correct understanding.</p> <p data-bbox="300 1137 884 1169">Award 1 mark for brief incomplete understanding.</p> <p data-bbox="300 1200 1086 1232">Identification of low barriers to entry and lots of firms in the market.</p> <p data-bbox="300 1263 475 1294">AO3: 2 marks</p> <p data-bbox="300 1326 1299 1415">Award 2 marks for full development of points to say that abnormal profits are eroded away to normal profit by new firms entering the market. Credit a statement which instead explains why only normal profits will be made in long run equilibrium.</p> <p data-bbox="300 1447 868 1478">Award 1 mark for limited or partial development.</p> <p data-bbox="300 1509 1283 1630">Credit to be given for reference to AR and MR shifting to the left as a result of new firms entering the market and eating away the market share of existing firms. An alternative approach in which firms were initially loss-making and therefore AR and MR shift to the right as other firms leave is also valid.</p>	6

Q.3	Based on the data above, discuss the extent to which it is fair to conclude that living standards in Swaziland are higher than those in Chad? [8]	
Band	AO2	AO4
	6 marks	2 marks
3	5-6 marks	
	Information in the data is fully used in the development of the answer.	
	Learner shows good depth of understanding of a wide range of the variables, focussing on 3 or 4.	
	A strong understanding of the link between the variables selected and living standards.	
2	3-4 marks	2 marks
	The link between selected variables and living standards is made.	Clear evaluation of the living standards in Swaziland and Chad.
1	1-2 marks	1 mark
	Limited use of the information in the data.	Limited evaluation on the living standards in Swaziland and Chad.
0	0 marks	0 marks
	No data used from the passage.	No evaluation.

Indicative content:

Swaziland has significantly (about 3.5 times) higher GNI per capita at PPP, suggesting that both the tax base and personal income will be higher, implying higher living standards.

However, this does not seem to leverage into higher life expectancy at birth, because in spite of spending twice as much on health as a percentage of GDP, life expectancy in Swaziland is 2 years lower than Chad.

On the other hand, the infant mortality rate is 56/1000 in Swaziland compared with 89/1000 in Chad, which suggests that the low life expectancy is likely to be primarily a factor of the high HIV rates rather than deficiencies in health provision per se.

The education system in Swaziland also looks good on the surface, with mean years of schooling over 4 times higher than in Chad. The difference narrows when looking at the current generation, but adult literacy is still over twice as high.

The final piece of evidence is the HDI. There is no surprise that this is higher in Swaziland, given that it is based on income, health and education.

On balance, Swaziland seems broadly to have higher living standards except for the terrible HIV/AIDS epidemic, which country really has the higher living standards will therefore depend on the priorities of the observer.

Q.	Mark scheme	Total
4	<p>Explain two possible reasons why a period of low interest rates may have improved the UK's inequality problem.</p> <p>AO1: 2 marks</p> <p>Award 1 mark for each correct reason identified.</p> <p>AO3: 2 marks</p> <p>Award 1 mark for development for each reason identified.</p> <p>Indicative content:</p> <p>Reduced interest rates mean that mortgages have become more affordable/accessible to low income families and therefore more people are now on the property ladder.</p> <p>Similarly other consumer goods such as cars, furniture, etc become more affordable bought on credit.</p> <p>Rates on loans and overdrafts are likely to have fallen, benefitting those on low incomes the most.</p> <p>Savings have grown very little in four years which means that people with their wealth saved in banks have seen little return on the last four years.</p> <p>As a result of interest rates being low, rates of return on other forms of wealth such as bonds are likely to have decreased.</p>	4

Q.	Mark scheme	Total
5 (a)	<p>Calculate the opportunity of producing 1 iPad in Springland</p> <p>AO2: 1 mark</p> <p>Award 1 mark for correct answer.</p> <p>20 barrels of oil</p>	1

Q.5 (b)	Discuss whether trade will be beneficial for both Springland and Rosemoor. [6]	
Band	AO2	AO4
	4 marks	2 marks
2	<p>3-4 marks</p> <p>Learner shows a clear understanding that comparative advantage exists in the scenario and identifies that Springland has a comparative advantage in oil/Rosemoor in iPads.</p> <p>Learner shows an understanding of the benefits of specialisation such as consuming outside of the PPF.</p> <p>The top mark is reserved for any learner who meets criteria above and also offers a correct reference to mutually beneficial terms of trade.</p>	<p>2 marks</p> <p>Well-reasoned judgement of at least one-side of the argument.</p> <p>At least 1 well-developed evaluative point is discussed as to why trade might not be beneficial.</p>
	<p>1-2 marks</p> <p>Learner shows an understanding of comparative advantage in the scenario and identifies that Springland has comparative advantage in oil/Rosemoor in iPads.</p> <p>No development or comments on the likely benefits of that of comparative advantage.</p>	<p>1 mark</p> <p>Learner offers very limited evaluation.</p> <p>Learner only offers a generic evaluative point such as it depends on the terms of trade/ER.</p>
0	<p>0 marks</p> <p>No reference to the scenario.</p>	<p>0 marks</p> <p>No valid evaluation.</p>

Indicative content:

Physical terms of trade (or the limits of trade) will need to lie between a ratio of 1:4 and 1:20 iPads: barrels of oil (or between 1 Oil: 0.05 – 0.25 iPads). If so, both countries will experience an increase in their consumption possibilities.

Rosemoor can only produce 30 iPads, which (even if they specialised) may not be enough for Springland's population.

Rosemoor may not wish to be completely dependent on another country for its oil.

One of the countries may have a number of jobs in that particular industry which they may not wish to lose.

Depends whether respective governments impose protectionist measures.

Depends on the cost of transportation between the two countries.

Q.	Mark scheme	Total
6 (a)	<p>Explain how economists measure inflation using indices such as CPI.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a full and clear understanding.</p> <p>Award 1 mark for brief or incomplete understanding.</p> <p>AO3: 1 mark</p> <p>Award 1 mark for development.</p> <p>Basket of goods designed to cover most major sectors of expenditure.</p> <p>Some sense of process being measured over time.</p> <p>Reference to the idea of a weighted average using price information from a wide variety of retailers over a wide geographical area, collected on a regular and consistent basis.</p> <p>Adjusted over time to reflect changing patterns of consumer spending.</p>	3

Q.6 (b)	How important is it for the UK to cut its inflation rate if it is to remain in the EU? [6]	
Band	AO3	AO4
	2 marks	4 marks
2	2 marks	3-4 marks
	<p>Clear analysis of the consequences of inflation for the UK linked to EU membership.</p> <p>Learner provides a logical and developed argument that the UK needs to cut its inflation rate.</p>	<p>A critical evaluation of the relevance of cutting inflation to remain in the EU.</p> <p>The evaluation will include reference to evaluative points as to why reducing inflation is not that important.</p> <p>The points will gain greater credit if they are in context and not generic.</p>
1	1 mark	1-2 marks
	<p>Limited analysis of the the consequences of inflation for the UK linked to EU membership.</p> <p>Learner only makes generic statements about inflation and problems associated with it without actually mentioning the idea of competitiveness.</p>	<p>Brief or one-sided evaluation.</p> <p>Learner only makes 1 evaluative statement.</p> <p>Evaluative points are very generic with no further development.</p> <p>Evaluative points are only partially correct in their reasoning.</p>
0	0 marks	0 marks
	<p>Little or no analysis.</p>	<p>No valid evaluation.</p>

Indicative content:

UK has highest rate of inflation of all EU member states therefore exports are likely to be uncompetitive/sales of exports are likely to decrease **or** some reference to deteriorating competitiveness leading to a fall in AD **or** a fall in the number of jobs **or** a fall in GDP.

EU is a big market for the UK; therefore deteriorating competitiveness is likely to be a serious problem.

UK produces unique goods and services/inelastic goods and services and so it will continue to export lots of products to EU countries anyway.

UK is not in the EMU and therefore exchange rate matters more than inflation rate, for example if the £ is very weak, then the price of UK exports will seem low anyway.

UK is a net importer and therefore that fact that imports are still much cheaper than domestic products is good for the UK economy.

There is no EU requirement for the UK to have any given target rate of inflation.

It is not clear how leaving the EU would make things any better.

Staying in the EU will tend to help reduce inflation because of direct competition.

Section B – Data Response

Q.7	In the 1960s significant quantities of oil were discovered in Nigeria, generating huge revenues. Nigeria looked set to become an economic giant”. Explain this statement. [4]	
Band	AO2	AO3
	2 marks	2 marks
2	2 marks	2 marks
	Good use of the data in the case study.	Clear analysis of the data. Good well-developed answer explaining how increased oil revenue would lead to economic growth.
1	1 mark	1 mark
	Limited use of the data.	Limited analysis of the data. Answer makes it clear that oil revenue will increase economic growth, but the mechanism through which this might happen is not fully clear.
0	0 marks	0 marks
	Little or no use of the data, a largely theoretical answer.	Little or no analysis of the data.

Indicative content:

In principle the discovery of abundant resources such as oil can lead to rapid economic growth, both actual and potential. Exploitation of the resource can lead to rapid build-up of infrastructure and increases in employment, all of which will have multiplier effects throughout the economy. Likewise, the oil revenue can help to build the government’s tax base, which will allow the investment of money into health and education which will both improve living standards and lead to an increase in potential growth.

In this case, it can be seen that there has been a substantial increase in oil revenue per capita, from \$33 in 1960 to \$325 – this should have led to a significant increase in AD and in government sector activity. As the text makes clear, an economy like Norway has managed to harness the power of its oil and gas to create a strong economy. Australia, Chile, Canada and Botswana are also quoted.

Q.8	Using the data, discuss the extent to which economic growth in Nigeria since the 1960s has led to higher living standards. [8]	
Band	AO2	AO4
	4 marks	4 marks
2	3-4 marks	3-4 marks
	<p>Clear reference to the data throughout the answer.</p> <p>A wide range of data is used to support the answer.</p> <p>Data selected supports both sides of the debate and is developed to show its relevance.</p>	<p>A critical evaluation on economic growth and higher living standards.</p> <p>An evidenced judgement about whether or not living standards have risen over the last 50 years and whether this is linked to GDP growth.</p> <p>Both sides of the argument are well-qualified throughout.</p>
1	1-2 marks	1-2 marks
	<p>The learner uses some pieces of supporting data, but not consistently.</p> <p>Development is limited.</p> <p>The answer may contain a wide range of scattered points or 1 or 2 well-developed pieces of data.</p>	<p>Brief or one-sided evaluation.</p> <p>Attempts to qualify some of their points, but the evaluation is not well-developed.</p> <p>Explanation of the evaluative points is underdeveloped.</p>
0	0 marks	0 marks
	<p>Little or no use of the data, a largely theoretical answer.</p>	<p>No valid evaluation.</p>

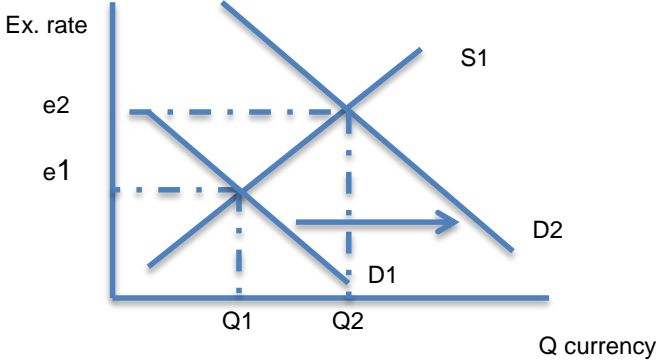
Indicative content:

Life expectancy has risen from 26 to 52 since 2012, **but** since GDP/capita has not increased, it is more likely that this is due to improvements in technology and vaccines rather than anything internal to the Nigerian economy.

Nigeria's HDI has risen from 0.434 in 2005 to 0.471 in 2012 **but** this suggests that very little happened between 1960 and 2005 because an HDI of below 0.5 is fairly poor.

Inequality has increased significantly over the 1990s, suggesting that any benefits of economic growth are likely to be concentrated in the hands of a small minority – whilst oil revenue per capita has risen from \$33 to \$325 per person, GDP/person remains unchanged.

The case argues that Nigeria has endemic corruption and poor institutions of government which will make it difficult to leverage economic growth into actual improvements in living standards because of the limited feed-through into health and education.

Q.	Mark scheme	Total
<p>9 (a)</p>	<p>With reference to the data and using a diagram, explain what is meant by 'Dutch Disease'.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a correct diagram.</p> <p>Award 1 mark for a diagram that has features missing.</p> <p>Exchange rate diagram showing demand shift right, and an appreciation in the price of currency.</p>  <p>AO2: 2 marks</p> <p>Award 2 marks clear reference to the data in explaining 'Dutch Disease'.</p> <p>Award 1 mark for brief or limited reference to the data.</p> <p>Discovery of new resources increases demand for currency/capital inflow increase and as result ER appreciates and export prices increase.</p>	<p>4</p>

Q.9 (b)	Explain why 'Dutch Disease' might damage other sectors of the Nigerian economy.	[4]
Band	AO2	
	4 marks	
	3-4 marks	
2	<p>Clear reference to the data throughout the answer.</p> <p>A wide range of data is used to support the answer.</p> <p>Learner shows an appreciation of what 'Dutch Disease' is (specifically, there is a need to make reference to the appreciation of the exchange rate) and then successfully develops a fully explained reason why this is disadvantageous for a "local productive sector", e.g. firms look to external markets in order to sell their goods but if the exchange rate is high, the price of exports is high and this will reduce the number of exports that firms can sell.</p>	
	1-2 marks	
1	<p>The learner uses some pieces of supporting data, but not consistently.</p> <p>Development is limited.</p> <p>Learner cannot develop beyond the idea that 'Dutch Disease' causes exchange rate to appreciate. There may be an appreciation of what local productive sector is but the link between exchange rates is not made successfully.</p>	
	0 marks	
0	Little or no use of the data, a largely theoretical answer.	

Q.10	With reference to the data, discuss whether having an abundance of resources is a blessing or a curse for a developing country. [10]		
Band	AO2	AO3	AO4
	4 marks	2 marks	4 marks
2	3-4 marks Clear reference to the data throughout the answer. A wide range of data is used to support the answer. Data selected supports both sides of the debate and is developed to show its relevance.	2 marks Clear analysis of the data. Good well-developed answer explaining the impacts of an abundance of resources for a developing country.	3-4 marks A critical evaluation which considers the advantages and disadvantages of an abundance of resources. The evaluation is supported by economic theory and reference to the context.
1	1-2 marks The learner uses some pieces of supporting data, but not consistently. Development is limited. The answer may contain a wide range of scattered points or 1 or 2 well-developed pieces of data that do not really cover the range that would be expected.	1 mark Limited analysis of the data. An attempt is made to explain the impacts of an abundance of resources for a developing country.	1-2 marks Limited or brief evaluation of the importance of resources to a country. Unsupported judgements.
0	0 marks Little or no use of the data, a largely theoretical answer.	0 marks No impacts identified or explained.	0 marks No valid evaluation.

Indicative content:

In principle significant amounts of natural resources can be a major benefit:

The revenue generated from these resources can be used by the government to invest into the infrastructure of the economy and improve health and education. This can lead to an expansion of other sectors of the economy in the medium term, and an expansion of AS (potential growth).

Revenue can be invested (as in the case of Norway) to build a sovereign wealth fund that will provide long term income for the government after the resource has run out.

Exports can boast actual growth, creating jobs. Exploitation of the resource may lead to a build-up of ancillary sectors.

The resource may attract FDI, bringing technology, skills and investment.

But

There is a risk of corruption and conflict (the resource curse) meaning that, as in the case of Nigeria, the resource does not produce the expected benefits.

Risk of Dutch Disease.

Prices of primary products can be very volatile, meaning big swings in GDP and the government's tax base.

There is a danger that the resources benefit only a narrow elite and also that the elite has no need of tax revenue from the population, reducing the need to supply merit goods and so on.

As in the case of Nigeria, the resource may become exploited by MNCs, providing little residual benefit to the economy.

The resource will benefit the economy most if the revenue can be used to add further value (eg by developing refining capacity).

Commodity prices may tend to fall over time, worsening the terms of trade for primary dependent countries.

May make the economy dependent on imports if resource production comes to dominate.

Q.11	To what extent should Chinese investment in Nigeria be encouraged by the Nigerian Government? [10]	
Band	AO3	AO4
	6 marks	4 marks
3	5-6 marks An excellent, clear and well-developed analysis of the impacts of FDI. The analysis is developed fully in the context of the data and supported by relevant economic theory. The learner develops a clear chain of argument with logical chains of reasoning.	
	3-4 marks A good analysis of the impacts of FDI. The learner shows a good understanding of the advantages/benefits of a country having an increased level of FDI. An attempt is made to develop points. Reference is made to the context to support the analysis.	3-4 marks A good evaluation of FDI. Learner demonstrates an appreciation of both the advantages and disadvantages of increasing expenditure. Economic theory and real-life context are used to support and justify the evaluation.
1	1-2 marks Limited analysis of the impacts of FDI. Undeveloped points are made with little or no reference to the context.	1-2 marks Limited evaluation of FDI. Unsupported judgements are made with little or no reference to the context. Generic answers with absolutely no reference to the context.
	0 marks No valid analysis.	0 marks No valid evaluation.

Indicative content:

Inward investment has a number of possible benefits:

MNCs may bring investment to allow the resource to be fully exploited.

This investment may help to create jobs and therefore local multiplier effects.

MNCs may invest in the development of infrastructure – especially roads and rail links, which has spill-over benefits to other sectors.

Inward investment may allow new skills and technologies to spread throughout the economy.

Rising inward investment is likely to increase the government's tax base, as well as increasing GDP and local multiplier effects.

But

Some MNCs import the skilled labour that they need, reducing the benefits to the local economy.

Some MNCs exploit local workers, providing poor pay and conditions.

MNCs may help to prop up corrupt elites.

MNCs may repatriate profits, meaning that GNI is far lower than GDP.

MNCs may use internal accounting techniques to avoid making profit in the country, reducing the tax benefits to the government.

UNIT 4: EVALUATING ECONOMIC MODELS AND POLICIES

MARK SCHEME

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omission. It should be possible for a very good learner 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.

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

AO1

Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues

AO2

Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues

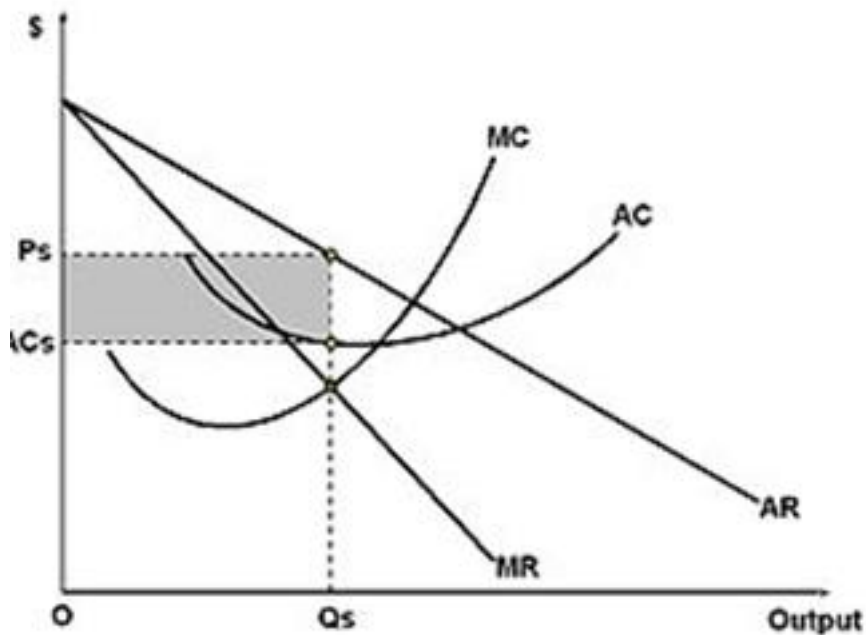
AO3

Analyse issues within economics, showing an understanding of their impact on economic agents

AO4

Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues

Q.1 (a)	Explain, using a diagram, how the price and output of a profit maximising monopoly would be determined in the short run. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	<p style="text-align: center;">5-6 marks</p> <p>Excellent understanding of monopoly in the short-run.</p> <p>Completely accurate diagram: MC cuts min point of AC MR is twice the gradient of AR Equilibrium, output is at MC=MR Equilibrium price is on AR at the equilibrium output.</p>	
2	<p style="text-align: center;">3-4 marks</p> <p>Good understanding of monopoly in the short-run.</p> <p>Diagram may contain a few minor errors, but correct in terms of its profit maximisation elements and a good understanding of monopoly in the short-run is shown.</p> <p>Or diagram is completely correct, but there is no reference to monopoly in the short-run.</p>	<p style="text-align: center;">3-4 marks</p> <p>Good clear analysis as to why profits are maximised at the output where MC=MR and why price will be determined by AR consistent with that output.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Limited understanding of monopoly in the short-run.</p> <p>Diagram is recognisable as monopoly, but gets either profit maximising output or price incorrect and also errors with respect to MC/AC or MR/AR.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited analysis.</p> <p>Either clear analysis as to why profits are maximised at MC=MR with no reference to price.</p> <p>Or limited, but not wholly convincing explanation of both price and output.</p>
0	<p style="text-align: center;">0 marks</p> <p>Diagram wholly incorrect.</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis present.</p>

Indicative content:

Monopoly firms have barriers to entry such as economies of scale, sunk costs, strategic advantages and so on and are hence able to set their own price. Pure monopolies have a 100% market share, meaning that the firm's demand curve is the industry demand curve.

Profits are maximised at the output at which $MC=MR$. Before this output, all units produced add more to revenue than cost, meaning that profits increase with each unit produced. Beyond this output, MC is above MR meaning that each unit produced adds more to cost than to revenue, hence profits will be reduced. Therefore profits are maximised at $MC=MR$.

Price will be set so that the profit maximising number of units are demanded by consumers. Because the AR curve is also the demand curve, price will be determined where Q_s in the diagram above intersects with the AR curve.

Q.1 (b)	Evaluate the assumption that firms will always aim to maximise profits.			[20]
Band	AO1	AO3	AO4	
	6 marks	6 marks	8 marks	
3	<p>5-6 marks</p> <p>Excellent understanding of the factors that determine whether firms aim to maximise profits.</p> <p>There is broad and deep coverage of the factors that are relevant with no significant omissions.</p> <p>Points are well-developed and linked back to the assumption of profit maximisation.</p>	<p>5-6 marks</p> <p>An excellent analysis of the assumption that firms will always want to maximise profits.</p> <p>A well-developed argument has been made with a focus on the assumption, not just profit maximisation.</p> <p>Arguments in this band do not simply talk about whether firms do/don't or can/cannot maximise profits, they link these points back to whether the assumption is sensible.</p>	<p>6-8 marks</p> <p>An excellent critical evaluation.</p> <p>Learner fully evaluates the assumption of profit maximisation pointing out that under certain circumstances that assumption is warranted, in other cases not.</p> <p>Very top band response will tend to separate out the assumption from the actual behaviour of the firms – i.e. even if firms do not in fact maximise profits, the assumption may still be useful.</p> <p>Clear judgements are made with supporting statements to build an argument.</p>	
2	<p>3-4 marks</p> <p>Good understanding of the factors that determine whether firms aim to maximise profits.</p> <p>Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band.</p>	<p>3-4 marks</p> <p>A good analysis of the assumption that firms will always want to maximise profits.</p> <p>Answers in this band show developed chains of argument with a sensible grasp of whether firms do, can or should maximise profits.</p> <p>Answers in this level may lack depth, diagrams may not always be well-integrated or completely correct, or key points are missing.</p>	<p>3-5 marks</p> <p>A good evaluation that includes most of the key issues.</p> <p>At least 2 points are evaluated with a clear discussion of why the assumption of profit maximisation might not be reasonable.</p> <p>Answers in this level will qualify arguments (profits are vital for reinvestment, but...) without really focusing back on whether this makes the assumption useful/sensible.</p>	
1	<p>1-2 marks</p> <p>Limited understanding of the factors that determine whether firms aim to maximise profits.</p> <p>Several advantages and disadvantage of monopoly are identified, but struggles to show understanding.</p>	<p>1-2 marks</p> <p>Limited analysis as to whether firms do/can/should maximise profits.</p> <p>Answer lacks key economic concepts and tends to avoid technical analysis.</p>	<p>1-2 marks</p> <p>Limited evaluation.</p> <p>The learner shows an awareness that profit maximisation may not always be a sensible assumption.</p> <p>There is some attempt to evaluate points, but evaluation tends to be asserted rather than explained.</p>	
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No relevant analysis.</p>	<p>0 marks</p> <p>No relevant evaluation.</p>	

Indicative content:

Firms will wish to maximise profits

They need funds for reinvestment.

High profits make it easier to sell shares in the longer term.

Profits are the reward for the entrepreneur who may well own the firm. **But** in the city, most large companies face the divorce of ownership from control, so this may not really be justified.

Profits are needed to keep shareholders happy – failure to maximise profits may lead to shareholder revolts at AGMs, shareholders may sell shares resulting in a fall in share price, making it harder to sell shares in the longer term and making the firm more vulnerable to takeover. But shareholders face difficulties in exerting control over decision takers due to information asymmetry, collective action and day-to-day control issues, meaning that managers may be free to pursue their own objective (hence managerial theories of the firm).

Firms may not wish to maximise profits

Risk of short-termism destroying the firm in the long-term – excess focus on short term profits may alienate consumers, workers etc.

Not all businesses operate with profit in mind – network rail, charities or alternatively, some firms see profit as a by-product of success rather than a goal to be pursued in and of its own right.

At times other objectives such as survival (hence prioritising cash flow) will make more sense.

Firms may have longer term goals – Amazon made no profits for its first 8 years of operation in an attempt to maximise its long-term profit.

Risk of excessive profit - leading to risk of tougher regulation in the longer term.

Firms may not be able to maximise profits

Divorce of ownership from control (see above).

Behavioural theories.

Lack of information on MC and MR.

Overall

May be a more sensible assumption for some firms than others, depending on circumstances.

Whether firms do or don't maximise profits may not be the key - the point is a useful assumption about firms' behaviour that provides a template for comparing the real world with – the whole point about assumptions is that they don't have to be realistic – their goal is by their very nature to simplify reality.

Without some level of profits, firms are not going to be able to survive in the long run, but whether it is necessary to maximise profit is probably open to debate.

Q.2 (a)	With the aid of appropriate examples, explain the main features of oligopoly. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	<p style="text-align: center;">5-6 marks</p> <p>Excellent understanding of the key features of oligopoly.</p> <p>Clear use of actual characteristics of oligopoly from different sectors.</p> <p>Examples may be broad based, to do with types of industry and precise specific case-studies are not required. For example, when talking about barriers to entry, learners might talk about the high cost of mobile phone licences, but in-depth knowledge is not required.</p>	
2	<p style="text-align: center;">3-4 marks</p> <p>Good understanding of the key characteristics of oligopoly.</p> <p>But these lack convincing examples; answer may talk about interdependence, but may be unable to give examples of circumstances in which this might occur.</p> <p>Or the answer may demonstrate good examples, but lack depth of explanation as to what the characteristics really mean in economic terms.</p>	<p style="text-align: center;">3-4 marks</p> <p>Good clear analysis why the features are inherent to oligopoly.</p> <p>Clear chain of argument that analyses the features and shows a clear connection between the features and why they are present in oligopoly.</p> <p>Where characteristics are unique to oligopoly, answers may contrast with other market structures explaining why the feature is key to oligopoly but does not occur elsewhere (interdependence, for example), but this is not required.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Limited understanding of the key characteristics of oligopoly.</p> <p>Learner lists a number of characteristics, but does not show understanding of what the characteristic really means.</p> <p>Low band answers will not have examples.</p> <p>If examples are being given, they may be anecdotal rather than clearly exemplifying the characteristic being described.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited analysis why the features are inherent to oligopoly.</p> <p>Either the link to oligopoly is superficial for all characteristics – it is not clear what it is about the nature of oligopoly that makes this characteristic central or important.</p> <p>Or only 1 or 2 of the characteristics are linked back effectively and the others are largely asserted.</p>
0	<p style="text-align: center;">0 marks</p> <p>Relevant features not identified.</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis present.</p>

Indicative content:

Features are likely to include

Interdependence – there are a small enough number of players that each will have to think about the probable response of others before embarking on strategic changes.

Uncertainty – the response of other firms cannot be predicted in advance, making it difficult to know what the optimum strategy will be.

Price stability under certain circumstances (may be illustrated with game theory/kinked demand curve), punctuated by occasional price wars.

Hence non-price competition may well dominate competitive strategies.

Possibility of collusion because there are a small enough number of firms for agreements (tacit or otherwise) to hold.

Barriers to entry allowing abnormal profits to be earned in the long-run.

A distinction may be made between structural and behavioural barriers to entry

Q.2 (b)	Discuss the need for government intervention in UK energy markets.			[20]
Band	AO1	AO3	AO4	
	6 marks	6 marks	8 marks	
3	<p>5-6 marks</p> <p>Excellent understanding of the need for regulation in energy markets.</p> <p>At least 4 points are identified which show a good understanding of both the problems of unregulated markets and the disadvantages of regulation.</p> <p>Answers in this band will contextualise their answers, referring to the UK energy sector.</p>	<p>5-6 marks</p> <p>An excellent analysis of the impact of government intervention on UK energy markets.</p> <p>At least 4 points are analysed with a clear line of argument linking them to the desirability or undesirability of government intervention in oligopoly markets.</p> <p>Answers in this level will use appropriate diagrams to support their analysis.</p>	<p>6-8 marks</p> <p>An excellent critical evaluation.</p> <p>At least 3 evaluation points are well-explained.</p> <p>There is a very well-developed argument.</p> <p>A well-reasoned conclusion may be included which looks at the circumstances in which intervention might be more or less desirable in energy markets.</p>	
2	<p>3-4 marks</p> <p>Good understanding of the need for regulation in energy markets.</p> <p>3 or 4 points are identified which show a good understanding of both the problems with unregulated markets and the disadvantages of regulation.</p> <p>Answers in this band will contextualise their answers, referring to the UK energy sector.</p>	<p>3-4 marks</p> <p>A good analysis of the impact of government intervention on UK energy markets.</p> <p>At least 2 or 3 points are analysed linking them to the desirability or undesirability of government intervention in oligopoly markets.</p> <p>Analysis may lack depth, diagrams may not always be well integrated or completely correct, or key points are missing.</p>	<p>3-5 marks</p> <p>A good evaluation.</p> <p>At least 2 points are evaluated with a clear understanding of why intervention may not always be desirable or undesirable.</p> <p>Answers in this level will tend to qualify arguments without giving an overview of what will make intervention more or less likely to produce beneficial or undesirable outcomes.</p> <p>Reference to energy markets is likely to be limited.</p>	
1	<p>1-2 marks</p> <p>Limited understanding of the need for regulation in energy markets.</p> <p>Several reasons for and against intervention are identified, but struggles to show understanding and examples are not present.</p>	<p>1-2 marks</p> <p>Limited analysis of how intervention is or is not undesirable.</p> <p>Answer lacks key economic concepts and tends to avoid technical analysis.</p>	<p>1-2 marks</p> <p>A limited evaluation.</p> <p>A brief attempt to show that intervention may not always produce desirable outcomes.</p> <p>There is some attempt to evaluate points, but evaluation tends to be asserted rather than explained.</p>	
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No relevant analysis.</p>	<p>0 marks</p> <p>No relevant evaluation.</p>	

Indicative content:

The case against

Free market economies will allocate resources optimally and although the energy market is not perfectly competitive, there are claims by some that the market delivers low prices relative to those in the rest of Europe.

Excessive intervention will impose costs on firms which will either erode profits, damaging investment into the long-term energy security of the country or will be passed on to consumers in the form of higher prices.

The UK may become unattractive to the sorts of multi-national entities that will be needed if the UK is to develop a privately funded nuclear power industry (for example).

Government intervention may result in government failure, where government initiatives to force firms to act will result in distortions which reduce economic welfare (subsidies for green energy, regulation over light bulbs etc.).

The case for

The big 6 energy firms appear to be acting as a cartel, with prices rising and falling simultaneously **but** the energy companies themselves argue that this is an inevitable by-product of the fluctuating wholesale price of gas and electricity **but** they themselves set these prices too due to vertical integration and evidence suggests that prices rise much more easily than they fall in response to changing wholesale prices.

Theoretical arguments about the need for intervention to deal with disadvantages of oligopoly markets:

- Protect consumer welfare
- Promote efficiency
- Support the wider needs of the economy as a whole.

Strong answers will relate these effectively back to the markets for energy- vulnerable consumers, fuel poverty and so on.

All markets need some degree of intervention even if simply in terms of background rules and regulations.

Judgement

Intervention comes in many forms and does not necessarily imply restrictions on firms – government sponsored initiatives to promote energy efficiency, for example would be classed as intervention.

Any intervention needs to balance the needs of current consumers with the needs of future consumers – if the impact of reducing bills to today is to create power shortages in the future then we will have failed the test of inter-generational efficiency.

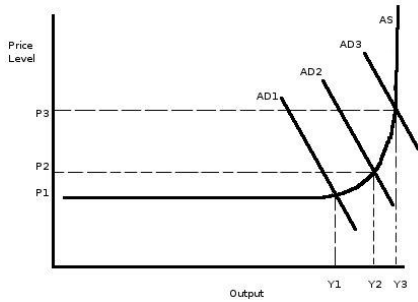
However, most commentators seems to feel that the market isn't working well for consumers, with smaller entrants struggling to access wholesale supplies, therefore some sort of intervention of some form might be seen to be desirable, but much will depend on that form.

Q.3 (a)	Explain, using diagrams, the difference between demand-pull and cost-push inflation.	
	[10]	
Band	AO1	AO3
	6 marks	4 marks
3	5-6 marks Excellent understanding of the 2 types of inflation. Diagrams are accurate and examples are appropriate. Answer demonstrates a clear awareness of what each type of inflation is.	
2	3-4 marks Good understanding of the 2 types of inflation. Answers in this band are likely to show a well-developed understanding of only 1 of the 2 causes of inflation.	3-4 marks Good clear analysis. Each type of inflation is explained in detail - there is direct use made of the diagrams and examples and the reason that prices rise in each case is made completely clear.
1	1-2 marks Limited understanding of the 2 types of inflation. Learner may focus on only 1 type. The diagrams have several major flaws.	1-2 marks Limited analysis. Only 1 of the 2 types of inflation is well-explained in terms of why prices are rising. Superficial explanation as to why prices are actually rising.
0	0 marks No knowledge or understanding present.	0 marks No valid analysis present.

Indicative content:

Demand-pull

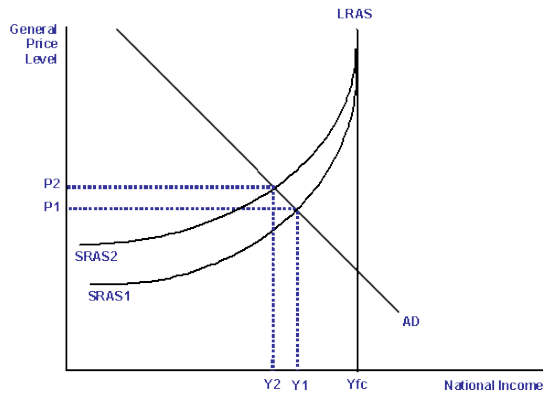
Demand-pull inflation occurs where AD rises faster than the capacity of the economy to cope – hence AD may be rising faster than potential growth without there being slack in the system to be able to accommodate it. As a result there is reduced competition in product markets, making it easier for firms to have more customers than they need. On top of this there is pressure in factor markets as a result of increased competition for resources, meaning that firms may be forced to increase their prices. Examples may be real (mid 00s as interest rates rise to control it) or theoretical with a clear explanation of why AD might be rising.



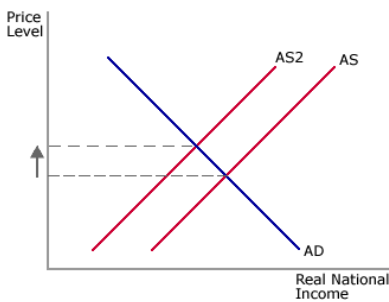
Cost-push

Cost-push inflation occurs where there is some sort of supply shock such as commodity prices or pay claims that drives up the cost base of domestic firms. Consequently firms are forced to pass on price increases to consumers to protect their profit margins.

Some answers may refer to the linkages between cost-push and demand-pull inflation, using the wage spiral to their advantage.



Or alternatively this diagram



Q.3 (b)	Discuss the view that policies to reduce inflation will always lead to increasing levels of unemployment. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks</p> <p>Excellent understanding of policies used to reduce inflation.</p> <p>At least 3 broad key strategies to reduce inflation are explained.</p> <p>The strategies have depth to them and there is clear understanding as to how they would be intended to operate (not just 'AD goes down so inflation falls').</p>	<p>5-6 marks</p> <p>An excellent analysis of why the policies to reduce inflation may impact on unemployment.</p> <p>Learner has a clear line of argument to explain how strategies will or will not increase unemployment.</p> <p>It is likely that at least 3 different strategies will be analysed, but the key here is the depth of explanation and analysis- a band 3 answer will be very clear exactly why the policy does or does not increase unemployment.</p>	<p>6-8 marks</p> <p>An excellent critical evaluation.</p> <p>Learner comes to a clear view as to the circumstances under which inflation reduction strategies will be likely to cause unemployment.</p> <p>The answer is likely to deal with the underlying cause of inflation and consider the idea that different types of strategy may be more or less appropriate depending on the circumstances being faced.</p>
2	<p>3-4 marks</p> <p>Good understanding of policies used to reduce inflation.</p> <p>At least 2 or 3 appropriate strategies are identified and attempt to explain in some detail how they would be intended to work.</p> <p>The explanation as to how the policy is intended to operate is not well developed, meaning that full understanding is not really demonstrated.</p>	<p>3-4 marks</p> <p>A good analysis of why the policies to reduce inflation may impact on unemployment.</p> <p>Answer may be strong only on 1 policy, with limited development of others.</p> <p>Alternatively, the answer may attempt to explain the links between the policy and unemployment, but may not be fully detailed in terms of its approach.</p>	<p>3-5 marks</p> <p>A good evaluation.</p> <p>Answers in this level will have qualified arguments but the answer lacks a fully rounded approach to the question – the evaluation feels fragmented probably arguing that 1 policy will be likely to increase unemployment but a different one won't – each policy is treated on its own merits rather than looking at the question as a coherent whole.</p>
1	<p>1-2 marks</p> <p>Limited understanding of policies used to reduce inflation.</p> <p>1 or 2 approaches are identified, but they are stated without explanation, meaning that an understanding of what the policies really are or how they might operate is not effectively conveyed.</p>	<p>1-2 marks</p> <p>A limited analysis of why the policies to reduce inflation may impact on unemployment.</p> <p>Analysis is limited primarily to diagram based assertion in which the impact of a policy is shown through AD/AS diagrams, but the forces which are driving the links between unemployment and inflation are not developed.</p>	<p>1-2 marks</p> <p>A limited evaluation.</p> <p>A basic attempt to show that policies to reduce inflation may not always increase unemployment.</p> <p>Points are qualified to a limited extent, but there is little depth of explanation.</p>
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No valid analysis present.</p>	<p>0 marks</p> <p>No valid evaluation present.</p>

Indicative content:

Much will depend on the state of the economy - it will be difficult to reduce cost-push inflation without increasing unemployment (although it may be possible, depending on which type of inflation reduction strategy is introduced). Demand-pull inflation is easier to control without significant job losses, although even here, it may well be the case that some job losses are unavoidable in industries that are most directly affected by the inflation reduction policies.

Policies are likely to come in 4 broad categories:

(1) Demand side

Good answers here will answer that the goal isn't necessarily to reduce AD, but to reduce that rate of growth of AD. Hence if these policies are being used to tackle demand-pull inflation, a major rise in unemployment is probably avoidable, although this will depend on how the policy is implemented.

Likely approaches include:

- (i) Monetary – answers might go down a standard interest rate control path or might attempt to use the quantity theory and look at control of the money supply (or might compromise and talk more generally about QE).
- (ii) Fiscal – answer might talk about cuts in G and increases in T and then assess the extent to which these are likely to create job losses.

It's likely that good answers will contain a couple of approaches from here.

(2) Supply-side

Stronger answers here will probably look at how SSPs in this context are designed to break the wage-price spiral by increasing competition in product markets and greater flexibility in labour markets. Hence, even though on an AD/AS diagram these policies appear to square the circle, the reality is that there may be significant job losses in the short-run, again depending on the type of inflation that they are introduced to combat. Good analysis requires that there is a clear understanding of the way in which the policy identified actually impacts on inflation and hence whether or not jobs are likely to be lost.

(3) Direct controls

This might be a reference to old-fashioned prices and incomes policies, could be control of public sector wages or could be direct control of process in state-run sectors in economies other than the UK. Might refer to regulation of the housing market to prevent the emergence of asset bubbles which can feed through into price inflation.

(4) Policies to influence inflationary expectations

Might be inflation targeting, forward guidance, central bank independence and so on.

Q.4 (a)	Explain, using an appropriate diagram, why an increase in income tax might be associated with either a rise or fall in the budget deficit. [10]	
Band	AO1 6 marks	AO3 4 marks
3	<p style="text-align: center;">5-6 marks</p> <p>Excellent understanding of the budget deficit.</p> <p>A clear diagram is used which shows that the learner is aware that changes in income tax might impact either positively or negatively on tax revenue and correctly identify the factors for this.</p> <p>A clear understanding of what is meant by a budget deficit is shown.</p>	
2	<p style="text-align: center;">3-4 marks</p> <p>Good understanding of the budget deficit.</p> <p>Answers in this band are likely to show a well-drawn diagram which illustrates the impact of income tax changes on tax revenue, but a clear understanding of what is meant by the budget deficit is not demonstrated, and the diagram may not be well-integrated into the answer.</p> <p>The answer may identify factors for either an increase or a decrease in the budget deficit not both, using an accurate diagram, but answering only part of the question.</p>	<p style="text-align: center;">3-4 marks</p> <p>Good clear analysis on the impact of tax on the budget deficit.</p> <p>There is a clear analysis as to how a rise in income tax might either increase or reduce tax revenue hence either reducing or increasing the budget deficit.</p> <p>The diagram is well-used to support the analysis.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Limited understanding of the budget deficit.</p> <p>The diagram has errors and the response tends to be centred around assertions about incentives to work and tax avoidance without explaining how these occur.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited analysis on the impact of tax on the budget deficit.</p>
0	<p style="text-align: center;">0 marks</p> <p>No knowledge or understanding present.</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis present.</p>

Indicative content:

The Laffer curve is likely to be the central part of the answer. Answers which go through AD/AS are unlikely to hit the top bands because they will struggle to produce alternate analysis for an increase or decrease in the budget deficit.

Improved budget deficit

Higher income tax rates will be likely to generate higher tax revenue because in reality most people face very little choice over whether or not they work. Therefore an increase in income tax rates, especially a modest one, is unlikely to have much impact on the willingness to work, except perhaps at the margin, and any such marginal effects will be dwarfed by the fact that the majority of income tax payers are effectively unable to avoid it by virtue of both having to work and having income tax deducted at source.

Worse budget deficit

Higher income tax rates, beyond a certain point, may begin to decrease tax revenue because of the possibility, especially for high income earners or the self-employed to engage in tax avoidance and evasion. Very high income earners who are internationally mobile may seek to rebase themselves in other domiciles to avoid high rates of tax. Low income groups may now find that it is more worth their while not to work if the benefits system is badly constructed, hence again reducing the government's tax revenue and also increasing spending on benefits.

Q.4 (b)	“Cutting the national debt is more important than increasing government spending to promote economic growth”. Discuss. [20]		
Band	AO1 6 marks	AO3 6 marks	AO4 8 marks
3	<p style="text-align: center;">5-6 marks</p> <p>Excellent understanding of the reasons why high national debt is undesirable.</p> <p>There are no major omissions in terms of main factors and there is good depth of explanation of why debt might be problematic.</p>	<p style="text-align: center;">5-6 marks</p> <p>An excellent analysis of the impact of high levels of national debt on economic growth.</p> <p>Learner has a clear line of argument explaining how each policy might be likely to promote growth.</p> <p>There are clear theoretical links to long-term growth here – the emphasis is not solely on AD.</p>	<p style="text-align: center;">6-8 marks</p> <p>An excellent critical evaluation of which policy will be most likely to promote growth.</p> <p>Learner comes to a clear view as to the circumstances under each policy will be more or less likely to create growth – each policy is well-discussed with the problems and limitations clearly identified.</p> <p>Top of the band responses will be well-anchored into the current situation in the UK.</p>
2	<p style="text-align: center;">3-4 marks</p> <p>Good understanding of the reasons why high national debt is undesirable.</p> <p>At least 2 or 3 key problems are identified but there is limited depth of explanation suggesting that not all of the points are fully understood.</p>	<p style="text-align: center;">3-4 marks</p> <p>A good analysis of the impact of high levels of national debt on economic growth.</p> <p>Answer may be strong only on 1 policy, with limited development of others.</p> <p>Alternatively, the answer may attempt to explain the links between the policy and growth, but may lack detail.</p> <p>Answer may tend to focus on problems with actual growth rather than looking beyond this.</p>	<p style="text-align: center;">3-5 marks</p> <p>A good evaluation of which policy will be most likely to promote growth.</p> <p>Answers in this level may evaluate one half of the title more effectively than the other, most likely discussing the impact of rising government spending well but being more one-sided with respect to debt.</p> <p>Alternatively, evaluation may not really centre on growth, being more the advantages and disadvantages of reducing debt/boosting spending.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Limited understanding of the reasons why high national debt is undesirable.</p> <p>1 or 2 problems are identified, but they are stated without explanation, meaning that an understanding of what the problems really are is not effectively conveyed.</p>	<p style="text-align: center;">1-2 marks</p> <p>A limited analysis of the impact of high levels of national debt on economic growth.</p> <p>Analysis is limited with simple AD/AS diagrams being linked to rising government spending and cuts in debt being linked to falling AD.</p>	<p style="text-align: center;">1-2 marks</p> <p>A limited evaluation of which policy will be most likely to promote growth.</p> <p>A basic attempt to show that policies may not always be beneficial.</p>
0	<p style="text-align: center;">0 marks</p> <p>No knowledge or understanding present.</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis present.</p>	<p style="text-align: center;">0 marks</p> <p>No valid evaluation present.</p>

Indicative content:**Cutting the debt is more important if growth is to be created**

High levels of national debt can have a number of negative impacts on the economy:

The opportunity cost of debt interest and repayments. In the current year, debt interest is £50bn, over 50% of the education budget, which implies less funding to contribute towards long-term economic growth. **On the other hand**, interest rates are historically low and a significant proportion of the debt is held by the Bank of England at the present time lessening the true impact. Also high rates of actual growth are likely to start to repay the debt in a few years' time without any need for further government action, although some argue that the deficit is still structural, implying that this argument itself may not hold.

The UK may become like Greece and be unable to access international capital markets, resulting in much more serious and sudden budget corrections which will plunge the economy into recession damaging actual and potential growth (as the government has to cut back on key areas of expenditure). **However**, UK bond yields remain at historic lows in spite of the size of the current budget deficit, suggesting that there is no imminent danger of a funding crisis.

High levels of borrowing may crowd out the private sector by driving up the cost of private capital and restricting the supply of funds to businesses (lenders preferring the security of gilts). Hence investment may be damaged, meaning that long-term growth may be negatively affected. Hence Reinhart-Rogoff. **However**, rates remain at historic lows and most analysis suggests that business borrowing is demand constrained rather than supply constrained and that what constraints there are on the supply-side are more to do with banks' capital requirements.

High levels of government debt may damage consumer and business confidence, again restricting investment.

Fears of instability in the UK system as a result of high public sector debt and a subsequent run on the pound may deter FDI, again restricting growth. **But** debt is relatively low by historic standards, bond yields are low and the UK has a good track record on meeting its obligations.

Increasing government spending is more important if growth is to be stimulated

Cutting debt via fiscal tightening may create the risk of debt deflation in which neither objective is achieved – growth is stunted and the debt remains high. Therefore increasing government spending may be a route to both lowering debt in the long-term and stimulating growth.

Government spending on infrastructure may stimulate I and FDI, contributing to an improved industrial base and growth.

Government support for science, enterprise and innovation may well stimulate growth and is important because most growth theory stresses the importance of technological advancement if diminishing returns to capital are to be avoided.

Government investment in skills and education is also likely to be important at a time when the population is relatively static and ageing.

However

In the short-term, such measures may increase the national debt exacerbating the issues identified above. Furthermore there is a risk of mal-investment and white elephants that create bubble risks and long term maintenance expenditure respectively.

Overall

Much depends on where the government spending is directed if G is increased. For this to work, it needs to be in areas that will underpin the long-term success of the economy (although Keynesians might well argue that any sort of government spending is valuable to promote short-term growth, but this argument is less applicable now that the economy is recovering strongly).

If the focus is on reducing debt, much may depend on the way in which debt is reduced and the speed at which it is reduced. Clearly in the long-term, debt of up towards 100% of GDP is undesirable, but growth itself may help to repay this. If short-term cuts in infrastructure spending damage potential growth then the policy may be self-defeating. On the other hand, well-directed cuts may allow the debt to be reduced more rapidly than it might otherwise have been without significant damage to economic growth.

Much may also depend on the underlying flexibility of product and labour markets. If these are fully flexible then the budget deficit can be reduced rapidly via a period of austerity with no real long-term consequences, but the evidence suggests that even in the UK this flexibility is not as great as it might be.

Q.5 (a)	Explain the strengths of possible measures of economic development.		[10]
Band	AO1	AO3	
	6 marks	4 marks	
3	<p>5-6 marks</p> <p>Excellent understanding of the measures of economic development.</p> <p>There is a good range of indicators used and the answer shows that these measures have been well-understood.</p> <p>Answer will have at least 1 major indicator out of national income per capita or the HDI.</p>		
2	<p>3-4 marks</p> <p>Good understanding of the measures of economic development.</p> <p>The answer lacks either range or depth, perhaps mainly focussing on 1 major indicator in-depth with others dealt with in passing.</p> <p>Alternatively there may be a wide range of indicators but a lack of depth of explanation.</p>	<p>3-4 marks</p> <p>Good clear analysis of the advantages/strengths of the measures identified.</p> <p>There is a clear link to why they will show development.</p>	
1	<p>1-2 marks</p> <p>Limited understanding of the measures of economic development.</p> <p>The answer may amount to little more than a thinly developed list of different factors.</p>	<p>1-2 marks</p> <p>Limited analysis of the advantages/strengths of the measures identified.</p> <p>The link between the measure and economic development is not made fully clear.</p>	
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No valid analysis present.</p>	

Indicative content:

The HDI

The Human Development Index measures three key components of development – education, health and living standards. Each of these areas has a sub-index and the final index is the geometric mean of the three sub-indices.

Each of the individual sub-indices is measured on a scale of 0-1, with 1 being the highest point on the scale, and is determined by the current best performing country in that area. Hence performance is relative- a country's HDI will fall if it fails to improve as quickly as the best performer. Another way in which the index is relative is the classification of development. There are four categories- very high, high, medium and low, but these are simply determined by quartiles- only the highest scoring 25% of the countries can have 'very high' human development.

The education sub index is centred around years of schooling - both the average in the country and the current expected number of years.

The health index is based on life expectancy at birth.

The income index is based on the logarithm of GNI/capita and PPP.

Strengths

The three sub-components reflect key elements of the Millennium Development Goals. Measuring years of health gives a good indicator as to the overall strength of the health system; if many children die young due to inadequate healthcare, the average life expectancy will be pulled down.

Education is important in development, encouraging people to invest in education and just as a measure of living standards in their own right.

GNI adjusted for purchasing power is important because rising income will allow greater access to diet, health and education for individuals as well as providing income for the state.

National income per capita (GDP/GNP/GNI)

Credit should be given to answers which distinguish between GDP and GNI/P as being more appropriate in different circumstances (generally focussed on the presence or otherwise of MNCs)

National income is useful because it shows both individual and state access to resources. Hence individuals will have better access to housing, health, education and diet whilst the state will have more resources for providing public and merit goods.

Other indexes

Might include the MDPI, Gross National Happiness, Green GDP and so on. As long as these are accurately explained then credit should be given.

Individual measures

Such as doctors/1000, internet access, child mortality rates and so on. Provided these are accurately explained and their relevance to development is explained, these are fully credit-worthy.

Q.5 (b)	To what extent do increasing levels of GDP in an LEDC guarantee increasing standards of living? [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks</p> <p>Excellent understanding of the advantages and disadvantages of rising GDP.</p> <p>Answer shows a detailed understanding of at least 4 key issues on either side of the debate.</p>	<p>5-6 marks</p> <p>An excellent analysis of how increasing levels of GDP impact on living standards.</p> <p>Learner has a clear line of argument to explain how the factors that they identify actually impact positively or negatively on living standards.</p>	<p>6-8 marks</p> <p>An excellent critical evaluation.</p> <p>Learner comes to a clear view as to the circumstances under which rising GDP will be likely to improve living standards.</p> <p>There is more than just a two-sided answer here - each point is well-discussed with the problems and limitations clearly identified.</p> <p>Top of band responses will be likely to have a well-rounded conclusion.</p>
2	<p>3-4 marks</p> <p>Good understanding of the advantages and disadvantages of rising GDP.</p> <p>At least 2 key issues are identified with understanding shown.</p>	<p>3-4 marks</p> <p>A good analysis of how increasing levels of GDP impact on living standards.</p> <p>Answer may be strong only on some of the factors identified, with a limited development of others in terms of the impact on living standards.</p>	<p>3-5 marks</p> <p>A good evaluation.</p> <p>Answers in this level may evaluate one half of the title more effectively than the other.</p>
1	<p>1-2 marks</p> <p>Limited understanding of the advantages and disadvantages of rising GDP.</p> <p>1 or 2 issues are identified, but they are stated without explanation.</p>	<p>1-2 marks</p> <p>A limited analysis of how increasing levels of GDP impact on living standards.</p>	<p>1-2 marks</p> <p>A limited evaluation.</p> <p>A basic attempt to show that rising GDP may not always be beneficial.</p>
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No valid analysis present.</p>	<p>0 marks</p> <p>No valid evaluation present.</p>

Indicative content:**Rising GDP may increase living standards.**

Rising GDP will increase the government's tax base, hence allowing the government to increase spending on healthcare, education and infrastructure, all of which should feed into higher living standards. **However**, this assumes that GDP is growing faster than the population, because otherwise the increased demand for government provided services will mean that there may not be any real improvement. Also it assumes that the government is able to collect tax from the additional GDP, which may not always be straightforward.

Increasing levels of GDP should mean an increase in GDP/capita, provided that GDP is growing faster than the population as a whole. This will mean that individual households can access better housing, diet, education and healthcare (where these are not provided by the state). These should lead directly to an improved quality of life. **However**, this presupposes that the increase in GDP is evenly distributed- if there are significant income inequalities present, then rising GDP may not increase the living standards of the majority, and indeed, if higher incomes in some groups results in inflation, living standards may actually fall for low income rural groups.

In the long run, rising GDP may begin to allow a trade-off of income for leisure – working hours may fall and access to labour saving devices may allow greater free time as well. The relevance of this point will depend on exactly what stage of development the LEDC is at.

Further evaluation

Much will depend upon the role of the state in (i) ensuring even income distribution and (ii) making effective use of the increased tax income – different countries' governments have different priorities with respect to (say) defence v's health – where government finances are allocated will clearly have an impact on living standards.

Rising GDP implies increasing industrialisation. This may lead to rising external costs in the form of pollution, especially in urban areas, which may mean that improvements in living standards may be lower than it at first appears. Likewise it is difficult to place a value on the threat to community/family life that industrialisation may entail.

Some research suggest that in areas with a high prevalence of HIV, increased growth implied increased economic activity which seems to lead to a more rapid spread of the disease because of greater internal trade.

GDP is not GNI – if substantial amounts of the increased output comes from MNCs, which then repatriate significant amounts of profit, the impact on living standards may be lower than might at first be thought.

The rise in GDP will obviously need to be in real terms – hence inflation adjusted GDP is the key.

Overall

Most developed countries have a high GDP/capita. Most LEDCs have low GDP/capita. Whilst this is a correlation not a causation (and the correlation between log GDP/capita and PPP and the HDI is striking) it is obviously the case that rising GDP can make a major contribution to rising living standards if managed in the right way.

Q.6 (a)	Explain some of the ways in which a country can make its labour markets more flexible. [10]	
Band	AO1 6 marks	AO3 4 marks
3	<p style="text-align: center;">5-6 marks</p> <p>Excellent understanding of a flexible labour market.</p> <p>There is a well-articulated explanation that flexibility refers to adapting/responding quickly to changes in the macro economy.</p> <p>The student identifies a number of labour market policies or changes that would make it more flexible.</p>	
2	<p style="text-align: center;">3-4 marks</p> <p>Good understanding of a flexible labour market.</p> <p>The answer understands clearly what a labour market (or even labour force) is.</p> <p>Some development linking the labour market and flexibility.</p>	<p style="text-align: center;">3-4 marks</p> <p>Good clear analysis of how the methods identified will make the labour market more flexible. Each method is linked clearly to the impact on labour market flexibility.</p> <p>The best answers will use correct economic terminology throughout.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Limited understanding of a flexible labour market.</p> <p>The answer understands what the labour market (or even labour force is) but cannot link to the concept of adapting quickly nor identify any particular issues.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited analysis of how the methods identified will make labour markets more flexible. The method itself may be clearly explained, but the link back to labour market flexibility may be unclear.</p>
0	<p style="text-align: center;">0 marks</p> <p>No knowledge or understanding present.</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis present.</p>

Indicative content:

The labour force is the actual number of people available for work and labour market flexibility refers to the ability of the labour force, as a whole, to respond to changes in the macro-economy quickly. These changes might include the impact of innovation and changing technology, shifts in consumer preferences and external shocks. Economists who believe in the power of freely functioning markets for goods, services, capital and people are supporters of flexible labour markets.

The table below summaries different aspects of labour market flexibility with examples for each:

Price (wage) flexibility	Numerical flexibility	Temporal flexibility	Occupational flexibility	Location flexibility
Regional and local pay agreement rather than national wage settlements	Expansion of short term employment contracts	Flexibility of working time i.e. overtime and weekend working	Ability of labour force to use varied technology	Geographical flexibility
Pay packets reflecting skill differentials	Growth of home working	Increased use of part-time staff to meet changes in demand	Transferable skills within the workplace	Willingness to relocate
Use of performance-related-pay to boost productivity		Core of full-time employees on contracts		

Taking one (occupation flexibility); in order for a labour force to remain flexible it is essential that workers have a number of transferable skills. This means that when consumer preferences change from one product to another and industry reallocates its resources into the production of that particular good, workers can complement that change by being able to make the new product without the need for extra re-training or education (which is expensive and time consuming). It is unrealistic to think that everyone could be trained for every possible job but it is possible to educate people with transferable skills such as Maths, English, and IT that makes transition from one job to the next quicker and smoother.

Q.6 (b)	To what extent is structural reform (free market policies) the best way of encouraging economic growth in LEDCs? [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks</p> <p>Excellent understanding of structural reform.</p> <p>Answer shows an understanding of structural reform and gives at least 2 examples of possible structural reform policies.</p>	<p>5-6 marks</p> <p>An excellent analysis on the impact of structural reform on economic growth in LEDCs.</p> <p>Learner has a clear line of argument explaining how the factors that they identify actually impact positively or negatively on economic growth in LEDCs.</p> <p>Greater credit will be given to answers that include real-life examples as support for arguments.</p>	<p>6-8 marks</p> <p>An excellent critical evaluation.</p> <p>Learner comes to a clear view as to the extent to which structural reform is the best way of encouraging growth in LEDCs.</p> <p>There is more than just a two-sided answer here – each point is well-discussed with the problems and limitations clearly identified.</p> <p>There is also either a direct or implied comparison to other ways in which economic growth can be achieved in LEDCs.</p> <p>Top of band responses will be likely to have a well-rounded conclusion.</p>
2	<p>3-4 marks</p> <p>Good understanding of structural reform.</p> <p>Answer shows an understanding of structural reform, but only offers 1 example of possible structural reform policies.</p>	<p>3-4 marks</p> <p>A good analysis on the impact of structural reform on economic growth in LEDCs.</p> <p>Answer may be strong only on some of the factors identified, with limited development of others in terms of the impact on economic growth.</p>	<p>3-5 marks</p> <p>A good evaluation.</p> <p>Answers in this level may evaluate one half of the title more effectively than the other most likely over emphasising the advantages of structural reform without really balancing them against the real context of a developing country and why they may be harmful.</p> <p>Alternatively, evaluation may not really centre on structural reform but focus on a comparison with other growth strategies.</p>
1	<p>1-2 marks</p> <p>Limited understanding of structural reform.</p> <p>Answer shows limited understanding of structural reform policies.</p>	<p>1-2 marks</p> <p>Limited analysis on the impact of structural reform on economic growth in LEDCs.</p> <p>Analysis is limited and the link between structural reform and economic growth is not made.</p>	<p>1-2 marks</p> <p>A limited evaluation.</p> <p>Answer may well simply identify strengths and weaknesses of structural reform without any attempt to balance these or compare with alternate approaches.</p>
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No valid analysis present.</p>	<p>0 marks</p> <p>No valid evaluation present.</p>

Indicative content:

Free market policies are policies that are concerned with the expansion of markets within the domestic economy. They include fiscal discipline and the avoidance of fiscal deficits, privatisation of state enterprises, liberalisation of inward foreign investment, deregulation etc.

The advantages of encouraging free market policies lies in the belief that privately owned firms that are producing for profit with lead to greater economic growth in the economy. For example, the learner could focus on areas such as:

Private firms minimising cost (thus becoming more competitive).

Greater incentive for firms to innovate and for more entrepreneurs to get started.

Consumer sovereignty is maximised (leading to more efficient allocation of resources and less wastage in the economy) – could be linked to PPF diagram.

Tax base is increased, government borrowing can be reduced.

Will attract inward investment.

Each line of analysis should show a linkage to economic growth by way of an explanation of how the above causes GDP to increase. In several cases an AD/AS diagram is appropriate (though not strictly necessary).

However

Domestic firms will only produce what is profitable.

May ignore public goods/under-produce merit goods.

May ignore negative externalities.

May lead to monopoly power.

Domestic firms may be unable to compete with foreign importers.

May widen income distribution/have a regressive effect.

Normally the learner will develop a line of argument with an acknowledgement that growth is likely to occur but at some cost. In some cases (domestic firms can't compete), it may be that the learner questions altogether whether or not economic growth is a net result from the introduction of free market policies.

Question	ASSESSMENT OBJECTIVES					Quantitative skills marks
	AO1 marks	AO2 marks	AO3 marks	AO4 marks	Total marks	
AS UNIT 1: Introduction to Economic Principles						
Multiple choice questions	10	5	-	-	15	7
16 (a) (i)	-	1	-	-	1	1
16 (a) (ii)	-	1	-	-	1	1
16 (b)	1	1	1	-	3	3
17 (a)	2	2	-	-	4	-
17 (b)	-	-	4	4	8	-
18 (a)	-	1	-	-	1	1
18 (b)	-	1	-	-	1	1
18 (c)	-	1	-	-	1	1
19 (a)	-	1	-	-	1	1
19 (b)	1	2	-	-	3	2
19 (c)	2	-	2	4	8	-
20	2	2	4	-	8	-
TOTAL	18	18	11	8	55	18
AS UNIT 2: Economics in Action						
1.(a) (i)	2	-	-	-	2	-
1.(a) (ii)	2	-	2	-	4	-
1.(b) (i)	-	2	-	-	2	2
1.(b) (ii)	2	-	2	-	4	2
1.(c)	-	4	-	4	8	4
1.(d)	3	-	3	4	10	-
1.(e)	2	-	4	4	10	-
2.(a) (i)	2	2	-	-	4	4
2.(a) (ii)	-	2	2	-	4	4
2.(b)	-	2	-	-	2	2
2.(c)	-	2	4	4	10	-
2.(d)	2	-	4	4	10	-
2.(e)	4	2	-	4	10	-
TOTAL	19	16	21	24	80	18

	AO1 marks	AO2 marks	AO3 marks	AO4 marks	Total marks	Quantitative skills marks
Total AS mark per series	37	34	32	32	135	36
Total mark as a percentage	27%	25%	24%	24%	100%	27%

Question	ASSESSMENT OBJECTIVES					Quantitative skills marks
	AO1 marks	AO2 marks	AO3 marks	AO4 marks	Total marks	
A2 UNIT 3: Exploring Economic Behaviour						
1 (a)	2	-	-	-	2	-
1 (b)	-	1	-	-	1	1
1 (c)	1	2	-	-	3	3
2	2	2	2	-	6	4
3	-	6	-	2	8	6
4	2	-	2	-	4	-
5 (a)	-	1	-	-	1	1
5 (b)	-	4	-	2	6	4
6 (a)	2	-	1	-	3	-
6 (b)	-	-	2	4	6	-
7	-	2	2	-	4	-
8	-	4	-	4	8	4
9(a)	2	2	-	-	4	2
9(b)	-	4	-	-	4	-
10	-	4	2	4	10	-
11	-	-	6	4	10	-
TOTAL	11	32	17	20	80	25
A2 UNIT 4: Evaluating Economic Models and Policies						
1, 2, 3, 4, 5, 6 (a)	6	-	4	-	10	-
1, 2, 3, 4, 5, 6 (b)	6	-	6	8	20	-
Total per essay	12	-	10	8	30	-
Total per paper	36	-	30	24	90	-
Total specification per series	84	66	79	76	305	61
Total mark as percentage	27%	22%	26%	25%	100%	20%