



# General Certificate of Education

## Economics 5141

### *ECN1 Markets and Market Failure*

# Mark Scheme

## *2006 examination – January series*

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

**AQA Advanced Subsidiary Economics**

**January 2006**

**ECN1/1**

The following list indicates the correct answers used in marking the candidates' responses.

**KEY LIST**

<b>1.</b>	<b>C</b>	<b>9.</b>	<b>A</b>
<b>2.</b>	<b>B</b>	<b>10.</b>	<b>B</b>
<b>3.</b>	<b>A</b>	<b>11.</b>	<b>D</b>
<b>4.</b>	<b>D</b>	<b>12.</b>	<b>D</b>
<b>5.</b>	<b>D</b>	<b>13.</b>	<b>A</b>
<b>6.</b>	<b>C</b>	<b>14.</b>	<b>D</b>
<b>7.</b>	<b>C</b>	<b>15.</b>	<b>C</b>
<b>8.</b>	<b>B</b>		

**Advanced Subsidiary Economics****January 2006****ECN1/2****Mark Scheme****General Instructions**

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme for the data response questions:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for marking part (c) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is also shown on page 5. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

## APPLYING THE 'LEVELS' MARK SCHEME

### Levels of Response Mark Band Descriptors

In part (c) of the data response questions approximately half the marks are available to award to candidates who demonstrate that they can 'evaluate economic arguments and evidence, and make informed judgements'. It is not necessary that the candidate identifies a wide range of issues. As indicated below, the Quality of Written Communication used should be taken into account when awarding the marks.

#### Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.

**0 to 3 marks**

*Mid-Point 2 marks*

#### Level 2

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused. There may be some attempt to present alternative points of view but any attempt at evaluation is superficial. The answer is likely to be poorly organised and is unlikely to have a clear structure. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

**4 to 6 marks**

*Mid-Point 5 marks*

#### Level 3

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated. There will be some attempt to present alternative points of view and to evaluate the issues, arguments and/or data. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand, but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.

**7 to 10 marks**

*Mid-Point 9 marks*

#### Level 4

Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology.

**11 to 13 marks**

*Mid-Point 12 marks*

#### Level 5

Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

**14 to 15 marks**

*Mid-Point 15 marks*

### **THE KEY TO BE USED WHEN USING THE ‘LEVELS’ MARKING SCHEME**

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments of features of the economy which help enhance the candidate’s response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

### **QUALITY OF WRITTEN COMMUNICATION**

The Mark Band Descriptors, which are used for assessing part (c) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

- (i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
- (ii) use of specialist vocabulary, where appropriate;
- (iii) legibility of handwriting;
- (iv) accuracy of spelling, punctuation and grammar.

**EITHER**

**1**

**Total for this question: 25 marks**

1 (a) Using <b>Extract A</b> , compare the sales of toys and games in 2003 with estimated sales in 2008. <i>(4 marks)</i>
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Examples of some of the main points are:

- (i) sales of video games hardware, video games software, and dolls/figures were expected to grow between 2003 and 2008, but sales of outdoor games were expected to fall;
- (ii) the absolute expected changes in video games hardware and software sales are much higher than those for traditional games;
- (iii) the percentage expected changes in video games hardware and software sales are much higher than those for traditional games;
- (iv) sales of video games were higher than sales of traditional toys in 2003 and the gap between the two is expected to grow by 2008.

**For candidates who:**

identify one of the changes indicated above:

**1 mark**

and back this up with statistics:

**1 mark**

**A maximum of 1 mark may be awarded if there is no comparison and a maximum of 2 marks if there is no use of statistics or if a candidate confines the comparison to just one indicator.**

**If the candidate simply trawls through the data, award a maximum of 2 marks.**

**A maximum of 3 marks may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.**

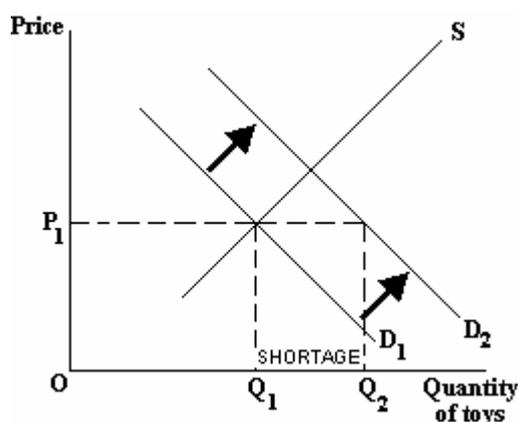
**MAXIMUM FOR PART (a) 4 MARKS**

1 (b) Lines 13 and 14 of **Extract B** state that ‘shortages of toys are caused by failure to predict the season’s biggest selling toys’. With the help of a supply and demand diagram, explain why such shortages occur in the market for toys. (6 marks)

**Diagram and explanation:**

The statement in Extract B, reproduced in the question, indicates that shortages occur because toy retailers and/or manufacturers fail to predict demand. Candidates can gain full marks by drawing accurately and explaining a supply and demand diagram for the toy market (or for a particular toy), illustrating the demand curve shifting rightward with excess demand (or a shortage) at the previous equilibrium price (or the price set by the retailer or manufacturer).

Good answers can earn a mark for explaining that if firms raise the price to a new, higher, equilibrium level, there is no shortage. Mention of possible inelastic supply also earns a mark, but full marks can be earned without these points.



**For candidates who, for the diagram:**

- |   |               |
|---|---------------|
| draw a properly labelled S & D diagram to show an initial equilibrium in the market shown by the diagram: | <b>1 mark</b> |
| illustrate a rightward shift of the demand curve:   | <b>1 mark</b> |
| show excess demand (or a shortage) at the initial price:  | <b>1 mark</b> |
| illustrate any other relevant point e.g. relating to elasticity:  | <b>1 mark</b> |

A diagram illustrating a shortage caused by a leftward shift of supply may earn a maximum of 2 marks

**Maximum of 4 marks for the diagram**

**Maximum of 3 marks if there is no written explanation of the diagram.**

**For candidates who, for the written explanation:**

- |   |                      |
|---|----------------------|
| explain the cause of the rightward shift of demand: | <b>Up to 2 marks</b> |
| explain the resulting shortage:                     | <b>Up to 2 marks</b> |
| explain any other relevant point:                   | <b>Up to 2 marks</b> |

An explanation of a shortage caused by a leftward shift of supply may earn a maximum of 2 marks.

**Maximum of 4 marks for the written explanation**

**Maximum of 3 marks if there is no relevant diagram accompanying the written explanation.**

**MAXIMUM FOR PART (b) 6 MARKS**

1 (c) Do you agree that the growth of monopoly and market power among toy retailers harms consumers and toy manufacturers? With the use of the data and your economic knowledge, justify your answer. (15 marks)
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The formal model of monopoly and associated diagrammatic analysis is not required at AS Level, so answers should be marked in accordance with the Module 1 specification advice: *Candidates should understand that monopolies have market power and that the basic model of monopoly suggests that higher prices, inefficiency and a misallocation of resources may result. Candidates should understand the potential benefits from monopoly, for example economies of scale and possibly more invention and innovation.*

Extract B suggests three ways in which monopoly in the toy market may harm consumers: less choice; brand devaluation; and less investment in innovative product lines. The Extract also indicates that consumers may benefit from lower prices and from extra services provided by the speciality retailers that survive the growth of monopoly.

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion, if they are to be awarded **more than 7 marks**.

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward more explicit evaluation, i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 or more marks)**, there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented in the answer.

Candidates should not be awarded more than **12 marks** if there is no explicit reference to the data.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- understanding the meaning of monopoly and market power;
- assessing the extent to which monopoly and the market power of manufacturers and/or retailers has grown and is growing in the toy market;
- possible disadvantages for consumers of growing market power;
- assessing whether consumers suffer these disadvantages;
- possible advantages for consumers of growing market power;
- assessing whether consumers experience these advantages
- how manufacturers may benefit from dealing with fewer distribution outlets
- how manufacturers may suffer from increased bargaining power of fewer retail outlets
- how greater competition among retail outlets might benefit consumers;
- resource allocation and efficiency issues.

**Also give credit for:**

- relevant use of data and/or candidate's knowledge;
- relevant use of prompts;
- relevant use of evidence;
- overall assessment.

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (c) 15 MARKS**

**OR**

**2**

**Total for this question: 25 marks**

2 (a) Using **Extract C**, compare the predicted effects of toll charges and higher fuel taxation on car ownership and car use. *(4 marks)*

Examples of some of the main points of comparison are:

- (i) both methods of road pricing caused both car ownership and car use to fall;
- (ii) for both methods of road pricing, the percentage change in car use was greater than the percentage change in car ownership;
- (iii) the percentage change in car ownership was greater for the toll charge;
- (iv) the percentage change in car use was greater for the toll charge.

Reward any other relevant comparison.

**For candidates who:**

identify one of the changes: **1 mark**

and back this up with statistics: **1 mark**

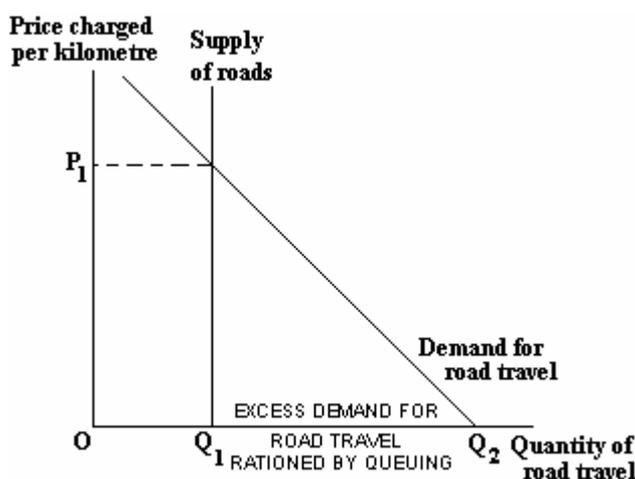
**A maximum of 1 mark may be awarded if there is no comparison and a maximum of 2 marks if there is no use of statistics or if a candidate confines the comparison to just one indicator.**

**If the candidate simply trawls through the data, award a maximum of 2 marks.**

**A maximum of 3 marks may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.**

**MAXIMUM FOR PART (a) 4 MARKS**

2 (b) Lines 6-7 of **Extract D** state that ‘The choice facing motorists is simple: queue or pay for scarce road space’. Using a supply and demand diagram, explain how road pricing may ration scarce road space. (6 marks)



**For candidates who, for the diagram:**

- draw a S & D diagram with the curves and axes labelled: 1 mark  
 (the supply curve need not be completely inelastic, as illustrated above.)  
 show a road use price equating supply and demand: 1 mark  
 show the difference between demand and supply at zero price, (i.e. when no road price is charged), or at a price set below the equilibrium price: 1 mark  
 label excess demand, or rationing by queuing, at zero price: 1 mark

**For candidates who, for the written explanation:**

- explain how a road price provides motorists with information (the signalling function of prices): 1 mark  
 explain how a road price creates an incentive for motorists to reduce car use up to 2 marks  
 (the incentive function of prices):  
 explain how a road price rations the use of road space 2 marks  
 (the allocative or rationing function of prices):  
 provide any other relevant explanation, e.g. the effect of price elasticity of demand: up to 2 marks per explanation

**Maximum of 4 marks for the diagram.**

**Maximum of 3 marks if there is no written explanation of the diagram.**

**Maximum of 4 marks for the written explanation.**

**Maximum of 3 marks if there is no relevant diagram accompanying the written explanation.**

**MAXIMUM FOR PART (b) 6 MARKS**

2 (c) Using the data and your economic knowledge, evaluate the **advantages** and **disadvantages** of alternative policies for reducing road congestion. (15 marks)

Candidates can earn full marks by discussing, and then assessing, the case for and against at least two possible policies for reducing road congestion. The policies mentioned in Extract D are: road pricing; regulation to ban cars from central city areas, car-pooling clubs, raising fuel duties, and improving public transport. Candidates may focus on different forms of road pricing, but credit analysis and evaluation of any reasonable measure, whether or not it is mentioned in the Extract.

Answers restricted to either advantages or disadvantages will not rise above Level 2.

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion, if they are to be awarded **more than 7 marks**.

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward more explicit evaluation, i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 or more marks)**, there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented in the answer.

Candidates should not be awarded more than **12 marks** if there is no explicit reference to the data.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- appreciation of congestion as a cause of market failure and as a negative externality;
- identification of alternative policies to reduce congestion;
- analysis of the advantages of particular policies;
- analysis of the disadvantages of particular policies;
- relating the case for charging to the signalling, incentive and allocative functions of prices;
- discussion of market-orientated policies;
- discussion of market-replacing policies;
- market failure and government failure issues;
- resource allocation and efficiency issues;

**Also give credit for:**

- relevant use of data and/or candidate's knowledge;
- relevant use of prompts;
- relevant use of evidence;
- overall assessment.

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (c) 15 MARKS**