



General Certificate of Education

Economics 5141

ECN3 Markets at Work

Mark Scheme

2005 examination – June 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.

Advanced Subsidiary Economics

June 2005

ECN3

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) to (d) 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 4 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for marking part (e) 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 3. 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 shown on page 4. 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 (e) 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 views 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' MARK 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 or 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 (e) 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 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.

OPTION 1: THE HOUSING MARKET**Total for this question: 40 marks****1**1 (a) Define the term “base interest rates” (**Extract A**, line 2).*(3 marks)*

For an acceptable definition (eg the rate of interest set by the Bank of England/banks as a guide to all other rates of interest).

3 marks

If the definition is incomplete, marks may be broken down, for example as follows:

An explanation of what an ‘interest rate’ is, in terms of a return on lending (1) and/or cost of borrowing (1) (for 2 marks, must give both lender’s and borrower’s point of view)

up to 2 marks

Bank of England’s rate

1 mark

Set by the MPC at its monthly meetings

1 mark

Other interest rates follow suit

1 mark**MAXIMUM FOR PART (a) 3 MARKS**

1 (b) The number of households in Britain is increasing at a much faster rate than the size of the population. State and explain **one** of the “long run changes in Britain’s economy and society” (**Extract A**, line 12) that might have caused this trend.

(4 marks)

For full marks candidates only need to identify and discuss a possible link between a social /economic change (eg cost of living, delayed childbirth, family break-up, later marriages, longer lives) and the number of households. Award **1 mark** for identification, **up to 3 marks** for a sensible explanation.

MAXIMUM FOR PART (b) 4 MARKS

1 (c) Using the concept of income elasticity of demand to help you, explain how “short term house prices are driven by earnings and affordability” (**Extract A**, lines 25 and 26). *(8 marks)*

For explaining income elasticity, through definition, description or an equation **up to 3 marks**

For explaining how:

Mortgage lending is related to incomes (eg lenders traditionally advance 2.5 times annual income) **up to 3 marks**

Monthly mortgage repayments are a more important determinant of affordability than total price **up to 3 marks**

Borrowers tend to balance repayments against monthly incomes. Therefore changes in income are more likely to affect demand than changes in price. Therefore income elasticity is more crucial than price elasticity **up to 3 marks**

Any other reasonable explanation **up to 2 marks**

(Maximum of 6 marks if the income elasticity concept is not used to explain the quotation)

MAXIMUM FOR PART (c) 8 MARKS

1 (d) With the help of a supply and demand diagram, explain the possible effects on house prices of a major housebuilding programme in the South East. (10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

For a plausible change, eg shift in supply to the right **up to 2 marks**

House prices fall **1 mark**

Quantity demanded extends **up to 2 marks**

For a plausible long-run change **up to 2 marks**

For a comment about demand, e.g that demand influences might be more volatile/ significant than supply changes; changes in migration patterns might affect demand in other parts of country **up to 2 marks**

Further explanation/ analysis, eg for a comment on the importance of building the right type of dwelling (1 bedroom versus 4 bedrooms) **up to 2 marks**

Overall assessment of written answer:

For describing the processes in the diagram **up to 3 marks**

For going beyond description of the basic diagram **up to 3 marks**

**Maximum 6 marks for written explanation
(Maximum 5 marks if no diagram)**

For a relevant diagram for either short or long run (or for both) **5 marks**

Diagram:

Axes labelled, S & D lines correct (1)

Shift in appropriate direction (1)

2 equilibrium points identified (1)

Change in price (1)

Change in quantity (1)

MAXIMUM FOR PART (d) 10 MARKS

1 (e) “Rising house prices are good for the economy, while falling house prices are bad”. Identify and evaluate the arguments **for** and **against** this view. (15 marks)

Relevant points that could be raised include:

- Advantages of rising prices
 - Wealth effect
 - Removes negative equity/ creates positive equity
 - Consumer confidence
 - Multiplier effects
- Advantages of falling prices
 - Affordability (especially for first-time buyers)
 - Lower general rate of inflation
 - Policy response: lower interest rates
 - Knock-on effects of interest rates (eg industrial investment)
- More complex arguments (not clearly advantages or disadvantages), eg the effects on labour mobility of rising/ falling prices

Alternatively, candidates could, of course consider the disadvantages of falling versus rising prices. Give credit for a distinction between falling prices, and a slow down in the rate of increase of prices. Evaluation is likely to come from a consideration of the pros versus cons. Give credit to candidates who recognise that whether rising prices are good or bad depends on one’s point of view, eg existing owner versus first time buyer; borrower or lender.

Maximum of 7 marks if there is no attempt to evaluate

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (e) 15 MARKS

OPTION 2: THE ENVIRONMENT**2****Total for this question: 40 marks**

2 (a) Define the term “renewable resources” (Extract C , lines 9–10).	(3 marks)
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For an acceptable general definition of renewable resources, eg resources that produce an output and can then be replaced. **3 marks**

If the definition is incomplete, marks may be broken down, for example:

A notion of ‘economic resource’ **1 mark**

A notion of ‘replacement’ **1 mark**

Contrast with a non-renewable **1 mark**

An example, eg wind, solar, tidal energy **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

2 (b) State and explain one reason why economists might “disagree” (Extract C , line 21) with geologists about the availability of oil deposits.	(4 marks)
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The context is that some economists give higher estimates of oil reserves than geologists.

Examples of points that could be raised:

Geology a natural science, economics a social science/ geology is a more ‘exact’ science **1 mark**

Economists are making predictions (1) about future market conditions (1) **2 marks**

and the effects of prices on supply of oil **up to 2 marks**

as a result of incentives to seek new sources **up to 2 marks**

Geologists are looking at actual reserves (1);
these economists are looking at potentially greater reserves that might be made economic by price changes (1). **2 marks**

MAXIMUM FOR PART (b) 4 MARKS

2 (c) Using the concept of derived demand, explain why oil is important not just for the transport industry, but also for the economy as a whole. *(8 marks)*

Points for explanation include:

- Definition of derived demand

Importance to the transport industry

- Extract mentions large percentage of road transport depending on oil
- Aviation and shipping also dependent

Importance to other industries

- Transport is an important cost
- Oil is also a raw material, eg plastics, textiles, pharmaceuticals

Macroeconomic effects

- Effects on employment, inflation, BOP, growth
- AD/AS

Up to 3 marks per point stated (1) and explained (2)

**Maximum 6 marks for a mere list, or if derived demand not used,
or if answers are restricted to transport**

MAXIMUM FOR PART (c) 8 MARKS

2 (d) With the help of a supply and demand diagram, explain the effect on the market for oil of the “production crunch” (**Extract C**, lines 1 and 15). (10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

For a plausible effect, eg demand shifts to the right , or supply shifts to the left **2 marks**

Prices rise **1 mark**

Higher prices stimulate supply **up to 2 marks**
 however supply is inelastic **up to 2 marks**

This acts as a ‘signal’ to producers of alternatives **up to 2 marks**

Overall assessment of written answer:

For describing the processes in the diagram **up to 3 marks**

For going beyond description of the basic diagram **up to 3 marks**

**Max. 6 marks for written explanation
 (Max. 5 marks if no diagram)**

For a relevant diagram **5 marks**

Diagram:

Axes labelled, S & D lines correct (1)

Shift in appropriate direction (1)

2 equilibrium points (1)

Change in price (1)

Change in quantity (1)

MAXIMUM FOR PART (d) 10 MARKS

- 2 (e) Discuss whether the problem of falling oil reserves can be solved by market forces, or whether government intervention is necessary. *(15 marks)*

Points that could be raised include:

Reasons for non-action

- The price mechanism will perform a signalling and rationing function, eg supply shifts left, price rises;

or

- Markets will efficiently detect consumer wants
- ..and stimulate supply

Reasons for action

- Markets detect what is happening now, not in 10 or 20 years
- Therefore long-term planning is necessary
- Non action could lead to wider problems, such as inflation, unemployment
- There are externalities that are not detected by prices
- Govt funding for new techniques
- Need to encourage new technologies/ alternative technologies through taxes/ subsidies

Give credit for discussing methods of intervention if linked to oil

Evaluation should come from assessing the alternatives/ whether action necessary or not/ whether markets can do the job

Maximum of 7 marks if there is no attempt to evaluate

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (e) 15 MARKS

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE**3****Total for this question: 40 marks**

3 (a) Define the term “social costs” (**Extract F**, line 15). (3 marks)

For an acceptable definition, eg the sum of internal and external costs **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

notion of internal costs **up to 2 marks**

notion of external costs/ negative externalities **up to 2 marks**

MAXIMUM FOR PART (a) 3 MARKS

3 (b) Explain how a “multiplier” effect (**Extract F**, lines 7 and 12) can arise. (4 marks)

General definition of multiplier **up to 2 marks**

For an example, eg tourists coming into a country and spending **1 mark**

Describing the process, eg explaining how an increased payroll creates further jobs and incomes **up to 3 marks**

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Explain possible ways in which price elasticity of demand can help to account for the patterns in the prices quoted in **Extract G**. (8 marks)

Definition/ description of elasticity/ use of formula

up to 3 marks

Discussion of patterns, eg;

Elasticity depends to a large extent on alternatives/ substitutes

Alternatives/ substitutes likely to be greater, hence elasticity greater, the further in advance the booking is made

Elasticity lower, and therefore prices can be higher on certain weekdays, eg Fridays

Up to 3 marks for each point stated (1) and explained (2)

6 marks

Use of evidence from the table

up to 2 marks

Relationship between elasticity and revenue management (raising or lowering prices will raise or lower total revenue depending on P.E.D.)

up to 2 marks

(Max. 6 if no use of the PED concept)

MAXIMUM FOR PART (c) 8 MARKS

- 3 (d) With the help of a supply and demand diagram, explain why Travelodge reduces its prices at some locations at certain times of the week or year (**Extract E**, lines 4-6). (10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

For a plausible change, eg demand at certain locations falls to the left at non-peak times **up to 2 marks**

Supply is fixed (but full marks can be obtained with an ordinary upward sloping supply curve) **1 mark**

up to 2 marks

Prices fall

Provided costs are low, the lower prices are still profitable **up to 2 marks**

...Advertising/ promotions might increase demand **1 mark**

Overall assessment of written answer:

For describing the processes in the diagram

up to 3 marks

For going beyond description of the basic diagram
(eg discussion of vertical supply curve)

up to 3 marks

**Max. 6 marks for written explanation
(Max. 5 marks if no diagram)**

For a relevant diagram for Travelodge

5 marks

Diagram:

Axes labelled, S & D lines correct (1)

Shift in appropriate direction (1)

2 equilibrium points (1)

Change in price (1)

Change in quantity (or vertical supply curve) (1)

MAXIMUM FOR PART (d) 10 MARKS

- 3 (e) Discuss arguments **for** and **against** the government increasing taxes on the travel and leisure industries. *(15 marks)*

Relevant points that could be raised include:

- Reasons for not raising taxes
 - Wider consumer choice
 - Markets know best
 - Multiplier effects of tourism
 - Cheaper airline prices reduce business costs
 - Govt. failure – market forces
- Reasons for raising taxes
 - Market failure
 - Negative multipliers
 - Externalities/ environmental effects
 - Equity: other transport methods are subsidised less/ taxed more
 - To reduce use of resources
 - To raise revenue
- Linked arguments, eg government failure/ market failure; signalling function of prices; possible policies other than taxes (eg subsidies, regulatory frameworks)

Evaluation is likely to come from a consideration of the pros versus the cons.

**Maximum of 7 marks if there is no attempt to evaluate
the significance of the various costs and benefits identified**

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (e) 15 MARKS