



General Certificate of Education

Economics 6141

**ECN5 Business Economics and the
Distribution of Income**

Mark Scheme

2008 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.

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Advanced Level Economics**January 2008****ECN5****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:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. 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 parts (c) and (d) of the data response question and part (b) of the essay 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

Level 1:

Few, if any, relevant issues recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. 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 very little use of specialist vocabulary.

0 to 6 marks (*Mid-Point: 3 marks*)

Level 2:

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

7 to 12 marks (*Mid-Point: 10 marks*)

Level 3:

A few issues recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. 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. Some use of specialist vocabulary which is applied appropriately.

13 to 20 marks (*Mid-Point: 17 marks*)

Level 4:

Several relevant issues identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. 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. A wide range of specialist vocabulary is used with facility.

21 to 26 marks

(*Mid-Point: 24 marks*)

Level 5:

Several relevant issues identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.

27 to 30 marks (*Mid-Point: 29 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 Question 1 (d) and part (b) of the essay 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 format 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.

Synoptic Assessment

All questions in this unit are synoptic. Therefore candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

Section A**1****Total for this question: 50 marks**

1 (a) Using **Extract A**, compare the changes in market shares in the UK grocery market over the period 2002 to 2005. *(4 marks)*

The data shows the percentage market shares of the four largest supermarket chains in the UK grocery market over the period 2002 to 2005. However, the data does not show directly the total percentage share of other supermarket chains such as Waitrose and smaller independent shops that are outside the 'Big 4'. Since, at the beginning of 2002, the combined share of the 'Big 4' was approximately 73% (Tesco 25% + Sainsbury 17% + Asda 16% + Morrisons/Safeway 15%), 'others' must therefore at that date have been approximately 27%. At the end of 2006, the market share for the 'big four' was 76%.

Award one mark for each valid point made and one mark for the supporting reference to the data. Points might include:

- comparison of the 2002 and 2005 changes for the 'Big Four' (increased from 73% to 76% approx.)
- the percentage share of 'others', at the beginning, or end, or an intermediary point in the data series (decreased from 27% to 24%)
- the market share of Tesco rose (from 25% to 31% approx.)
- the market share of Morrisons fell (from 15% to 12% approx.)
- the market share of Sainsbury and Asda was fairly stable (fluctuated around 15% to 17%)
- Asda had a smaller market share than Sainsbury in 2002 but by 2005 the position was reversed (Asda 16% to 17%, Sainsbury 17% to 16%)
- Tesco had the highest market share throughout the period (8% higher than its nearest rival at the start of 2002 and 14% higher at the end of 2005)

A maximum of **1 mark** may be awarded if the candidate simply trawls through the data, with no attempt at overview, or if only one time period is referred to.

A maximum of **2 marks** may be awarded if no use is made of relevant statistics **and/or no comparison is attempted**

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

MAXIMUM FOR PART (a) 4 MARKS

1 (b) '...£10, if spent in a local independent shop, generates £25 for the local economy, compared with only £14 if spent in a supermarket' (**Extract B**, lines 11-12).

Explain this statement.

(6 marks)

This is a synoptic question, testing knowledge and application of the multiplier concept. The Module 2 specification (which is the only specification mentioning the multiplier), states:

*'Knowledge of the multiplier formulae and calculations also are **not** required, but candidates should understand that an initial change in expenditure may lead to a larger impact upon local or national income.'*

Candidates can earn full marks by explaining how (with reference to the figures in the question, but without a calculation) the initial change in expenditure may lead to a larger impact upon local or national income. Candidates do NOT have to explicitly mention the multiplier to be awarded full marks.

Award 1 mark for relevant points such as the following:

explaining that "£10 spent in a local independent shop increases the income of someone living locally

explaining that the people whose income rises then go on to spend some of the income locally

explaining one or more further stages leading to an eventual increase in local income to £25

explaining that much of the £10 spent in a supermarket increases the income of someone living outside the region:

explaining that this increases incomes outside but not inside the local region

explaining that because some of the £10 is spent locally, there is an eventual increase in local income to £14

Additionally, for candidates who:

mention the multiplier (1) and provide a definition (1) (e.g. an initial increase in spending leads to a larger increase in income **up to 2 marks**

use multiplier analysis relevantly: **up to 4 further marks**

Maximum of 4 marks for an answer that doesn't explain why the local independent shop generates MORE income for the local economy than a supermarket

Maximum of 5 marks for an answer that makes no reference to the statistics in the question

MAXIMUM FOR PART (b) 6 MARKS

- 1(c) Analyse possible reasons why items such as bread and milk are often sold at cheaper prices by supermarket chains than by local independent stores
(**Extract C**, line 3). (10 marks)

The question mentions reasons (in the plural) rather than a single reason, so answers that analyse only one reason should be restricted to a maximum mark at mid-Level 2 (6 marks). Two or more reasons analysed can earn full marks, but an answer that provides a bullet point list without any analysis should be restricted to a maximum at lower Level 2 (4 marks).

Issues and areas for analysis include:

- Supermarkets and independent stores buying goods for sale at different prices
- Supermarkets exploiting farmers etc (the exercise of monopsony power)
- Economy of scale arguments, including the effects of bulk buying
- The better organisation of supermarket chains which reduces average costs
- The exercise of monopoly power to gain control of the market, increasing market share
- Particular pricing policies: loss leaders, limit pricing, predatory pricing etc.
- Consumers using local independent stores as 'convenience' stores for buying bread and milk enables the stores to charge higher prices
- Use of evidence

LEVEL 1

At the bottom of the range, a superficial statement without analysis, of just **one** reason why supermarkets charge lower prices. At the top of the range, superficial statements, without analysis, of **two or more reasons** why supermarkets charge lower prices. **1 to 3 marks**

LEVEL 2

At the bottom of the range, basic analysis of just **one** reason why supermarkets charge lower prices. At the top of the range, basic analysis of **two or more reasons** why supermarkets charge lower prices, or developed analysis of **one reason** why supermarkets charge lower prices. **4 to 7 marks**

LEVEL 3

At the bottom of the range, developed analysis of **two or more reasons** why supermarkets charge lower prices. At the top of the range, developed analysis of **two or more reasons** why supermarkets charge lower prices, **together with** use of relevant examples **or** appreciation of the fact that independent stores sometimes charge prices that are lower than those charged by supermarket chains. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

1(d) In relation to large supermarkets, **Extract D** (lines 12-14) states that the OFT was 'unable to identify any particular case which amounted to an abuse of buying power or other anti-competitive practice'.

Using the data and your economic knowledge, evaluate the view that the largest supermarket firms in the UK should be free to operate without any government interference. (30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least **three** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Extracts B, C, and D refer to a number of disadvantages of supermarkets, but with the exception of the lower prices mentioned in Extract C, the information in the Extracts is biased towards the disadvantages of supermarkets. The possible disadvantages of supermarkets summarised in the Extracts are: the destruction of high-street shopping that binds people and communities together; income and spending power leaving a community; loss of jobs (all Extract B); supermarkets putting prices up in areas where there was no strong competition; adverse effects on the viability of a rural community and the closure of many village shops; unfair competition resulting from price cutting (all in Extract C); unnecessary car travel leading to pollution and congestion; unnecessary transport costs of food; lack of use of local produce; supermarkets playing farmers around the world off against each other so that they can get the lowest price (all in Extract D). Discussion of disadvantages may also pick up on the prompt in the question about abuse of buying power and anti-competitive practices.

Besides lower prices that might benefit consumers, the advantages of supermarkets include: convenience; possibly wider choice; possibly better quality; ease of car parking; uniform standards; provision of other services such as online buying and home delivery, and financial services.

Evaluation could be in terms of: assessing the benefits and costs of free market forces in the case of the supermarket industry; discussing the benefits and costs of government intervention; discussing the costs and benefits of different forms of government intervention; assessing the advantages and disadvantages of supermarkets compared to alternative methods of providing groceries etc.

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:

- Identifying and explaining the advantages and disadvantages of supermarkets
- Application of relevant economic theories, e.g. relating to cost curves, market structures, pricing policy
- the benefits of market forces and the application of these benefits to the supermarket industry
- sources of market failure relevant to the supermarket industry e.g. monopoly power, externalities, short-termism
- Considering the method(s) of government intervention
- Considering the effects of government intervention
- Government failure in relation to the methods of regulation that might be applied to the supermarket industry

Other equally valid points may be discussed and should be given due credit

Also give credit for:

- an overall judgement of the issues raised
- use of diagrams
- relevant reference to the real world

Where there is no explicit reference to the data, award a maximum of **24 marks**.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (d) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

Section B**Total for this question: 50 marks**

2 (a) Explain how technological change can affect a firm's costs of production **and** its methods of production. *(20 marks)*

For candidates who:

define technological change, e.g. in terms of invention and/or innovation: **Up to 2 marks**

explain how investment in R&D can lead to technological change **Up to 2 marks**

explain that technical change can lead to completely new products (or goods and/or services) and that this may affect methods of production **Up to 4 marks**

With regard to costs of production, for candidates who:

define costs of production (e.g. payments made for factors of production): **Up to 2 marks**

simply state that technological change is likely to reduce costs **1 mark**

define/distinguish between different types of production cost (short-run costs, long-run costs, fixed, variable, total, marginal, average variable, average fixed and average total costs):
Up to 2 marks per definition, to a maximum of 4 marks

explain how technical change may affect a particular type of production cost
Up to 4 marks for each type of cost

use examples to illustrate how technological change has affected production costs
Up to 4 mark per example, to a maximum of 8 marks

use a relevant diagram (e.g. a downward movement in a firm's average cost curve (in either the short run or the long run), a rightward shift in the supply curve):

for each diagram, **1 mark** for correct labelling of axes, **1 mark** for correct labelling of information provided, eg cost curve(s), **1 mark** for correct representation of information, eg downward movement of cost curve, **1 mark** for accurate drawing and labelling of relevant coordinates.

A **diagram that is of limited value** in the context of the question **should be awarded less than 4 marks** even if labelling etc. is correct
up to 4 marks per relevant diagram, to a maximum of 6 marks

Maximum of 14 marks for explaining how technological change can affect costs of production

With regard to methods of production, for candidates who:

state that technological change is often embodied in capital equipment and hence involves investment **2 marks**

explain how technological change might result in more capital intensive methods of production **Up to 4 marks**

explain how technical change might result in more knowledge intensive methods of production and require the employment of highly trained, skilled labour **Up to 4 marks**

explain any other relevant point relating to the effect on factor combinations **Up to 4 marks**

explain how technological change affects productivity **Up to 4 marks**

explain how technological change may affect the scale of production **Up to 4 marks**

use examples to illustrate how technological change has affected production methods
Up to 4 marks per example, to a maximum of 8 marks

Maximum of 14 marks for explaining how technological change can affect methods of production

Maximum of 12 marks for a candidate who explains only the effects on methods of production OR the effects on costs of production

MAXIMUM FOR PART (a) 20 MARKS

2 (b) Some firms, such as Amazon, Google, Microsoft and Apple, currently operate in markets undergoing rapid technological change.

Evaluate whether technological change leads to more competitive or more monopolistic markets. (30 marks)

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Evaluation could be in terms of: discussing the extent to which technological change is leading to more or less monopoly power in the markets identified in the question or in other markets. Examples of issues might include: (i) promoting competition, e.g. by reducing entry barriers, and (ii) promoting monopoly, e.g. through firms patenting their innovations; (iii) discussion of how technical change reduces the power of established monopolies by creating new and competing products, e.g. digital photography reducing the monopoly power of Kodak (iv) the internet providing better information to consumers and producers. It might also be in terms of the short run versus long run effects on a market.

Some credit can be given for implicit evaluation provided the candidate discusses reasons why technological change can lead to a more competitive market **AND** why it may increase monopoly power. If the candidate also attempts to assess the likelihood of technological change leading to more competitive or monopolistic market there is scope to reward the candidate well for evaluation.

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:

- The general features of competitive and monopolistic markets (e.g. nature of the product, number of firms, barriers to entry, knowledge.....)
- Relevant application of knowledge of particular market structures: perfect competition, monopoly and oligopoly
- Examples of technical progress affecting market structures
- How technical progress has affected the companies stated in the question
- How technical progress has affected companies other than those stated in the question
- How technical progress has affected/may affect entry barriers
- How technical progress can affect the number of competitors/concentration
- Technological progress, patents and the implications for competition
- Creative destruction and competition
- Application of contestable market theory

Other equally valid points may be discussed and should be given due credit.

Also give credit for:

- an overall judgement of the issues raised
- use of diagrams

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

Total for this question: 50 marks

3 (a) Explain how the wage rate is determined in a competitive labour market. (20 marks)

The Module 5 specification mentions competitive labour markets, without explicit reference to perfect competition. Most candidates will write about perfectly competitive labour markets, though it is equally valid to write about labour markets at the competitive end of the spectrum of imperfectly competitive labour markets. Full marks can be earned by an answer that focuses on the whole labour market (and not on the firms within the labour market), provided relevant reference is made to the factors affecting the demand for, and the supply of, labour.

For candidates who:

explain the meaning of the term 'wage rate': **2 marks**

explain the meaning of a competitive labour market: **2 marks**

state that in a competitive market the wage rate is determined by market forces, or by demand and supply: **2 marks**

explain the determinants of the demand for labour in a competitive labour market, e.g. market demand is the sum of the MRP curves facing each employer; the determinants of the MRP curve; derived demand; elasticity of demand for labour:
up to 4 marks per point, up to a maximum of 12 marks for demand

explain the determinants of the supply of labour in a competitive labour market, e.g. market supply is the sum of individual supply curves of labour; the determinants of individual supply curves; skills; training; non-monetary factors; elasticity of supply of labour:
up to 4 marks per point, up to a maximum of 12 marks for supply

explain how the equilibrium wage rate is determined through the elimination of excess demand for labour: **2 marks**

explain how the equilibrium wage rate is determined through the elimination of excess supply of labour: **2 marks**

make any other relevant point in relation to effects on labour markets, e.g. that firms are passive wage takers at the ruling market wage rate: **up to 2 marks per point**

use a relevant diagram or diagrams (e.g. showing elimination of excess demand for labour and determination of the equilibrium market wage rate):

for each diagram, **1 mark** for correct labelling of axes, **1 mark** for correct labelling of information provided, eg demand and supply curves, **1 mark** for correct representation of information, eg excess demand at a wage rate below the equilibrium wage rate, **1 mark** for accurate drawing and labelling of relevant coordinates.

A **diagram that is of limited value** in the context of the question **should be awarded less than 4 marks** even if labelling etc. is correct e.g. a diagram that just includes a supply or demand curve might be awarded 1 mark depending on how it is used

up to 4 marks per relevant diagram, to a maximum of 6 marks

Maximum of 8 marks for a candidate who explains the determination of levels of employment rather than the wage rate.

MAXIMUM FOR PART (a) 20 MARKS

3 (b) 'The movement of workers from eastern Europe into the UK has plugged gaps in labour markets and improved UK economic performance.'

Assess the effects of such a movement of workers upon wage rates, levels of employment **and** the competitiveness of labour markets. *(30 marks)*

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Evaluation could be in terms of: comparison of effects (on wage rates, levels of employment, labour market competitiveness) in the UK and the countries the migrants have left; recognition that employment may have risen as a result of lower wage rates; arguing that the effects may differ for workers of different skills, education and ability to speak English; arguing that the effects may differ for workers of different countries of origin.

If a candidate includes valid reasons why wages and employment (and/or unemployment) may both rise or fall in the UK, they should be given credit for evaluation.

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:

- 'Push' factors causing the movement of labour into the UK, e.g. low wage rates and high unemployment in eastern Europe
- 'Pull' factors causing the movement of labour into the UK, e.g. high wage rates and low unemployment in the UK
- The effect of creating a single labour market in the EU
- International labour mobility affecting resource allocation within the UK, European and world economies
- The depressing of UK wage rates because migration increases the supply of labour and immigrant labour is often prepared to work at lower wage rates
- The creation of unemployment among indigenous workers
- The negation of these effects because of more rapid economic growth in the UK
- Greater competition in UK labour markets
- The impact on employment e.g. overall levels of employment may increase as migrant workers may fill vacancies that were not being filled by people in the UK
- The impact on different labour markets e.g. skilled versus unskilled workers
- The effect of labour mobility (migration) on growth, inflation and the balance of payments

Other equally valid points may be discussed and should be given due credit, e.g. labour immigration may reduce UK inflation and boost employment through export markets and import saving.

Also give credit for:

- an overall judgement of the issues raised
- use of diagrams
- reference to real world examples

Answers should consider all three aspects of the question i.e. wage rates, levels of employment and competitiveness (be flexible when interpreting what is meant by the competitiveness of a labour market). Answers that only consider one aspect should be awarded up to a maximum of 20 marks. Answers that consider two aspects can be awarded up to a maximum of 25 marks.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

Total for this question: 50 marks

4 (a) Explain the costs **and** benefits that might result from new infrastructure projects, such as the building of new reservoirs in areas suffering from water shortages.
(20 marks)

The question does not ask for a distinction between private and social costs and benefits, or between private and external costs and benefits, but better answers are likely to make one or both of these distinctions. The specifications state that social cost = private cost + external cost and that social benefit = private benefit + external benefit.

For candidates who:

define an infrastructure project: **1 mark**

explain the meaning of cost benefit analysis, including problems of valuing external costs and benefits: **Up to 6 marks**

explain the meaning of “costs”, e.g. payments to factors of production, opportunity costs, fixed and variable costs: **up to 4 marks**

distinguish between private and external (or private and social) costs: **2 marks**

provide examples of costs incurred when building an infrastructure project, eg wages, raw materials, visual pollution, noise pollution:
1 mark per example, up to a maximum of 4 marks

explain the meaning of “benefits”: **2 marks**

distinguish between private and external (or private and social) benefits: **2 marks**

provide examples of benefits received or generated when building an infrastructure project, eg external economies provided for businesses, ensuring continuous supply of a useful service; in the case of reservoirs, ensuring water supplies, facilitating population growth in southern England, reducing the need to shift water from and to different parts of the country, creating nature reserves and leisure facilities:
1 mark per example, up to a maximum of 4 marks

use a relevant diagram or diagrams (eg showing the marginal private, external and social costs and benefits of building or using an infrastructure project such as a reservoir):

for each diagram, **1 mark** for correct labelling of axes, **1 mark** for correct labelling of information provided, eg cost and benefit curves, **1 mark** for correct representation of information, eg in the case of water, the distinction between private and social optimal quantity or use of reservoirs), **1 mark** for accurate drawing and labelling of relevant coordinates.

A **diagram that is of limited value** in the context of the question **should be awarded less than 4 marks** even if labelling etc. is correct
up to 4 marks per relevant diagram, to a maximum of 6 marks

Maximum of 14 marks for a candidate who only explains the costs or benefits of a project or projects.

MAXIMUM FOR PART (a) 20 MARKS

- 4 (b) Evaluate the view that shortages in markets, such as those for water and health care, can best be prevented by the operation of market forces rather than by government intervention in markets. (30 marks)

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Evaluation could be in terms of: a discussion of the pros and cons of allowing markets to eliminate shortages; considering the extent to which government intervention in a market subject to market failure can correct or eliminate the market failure, or promote forms of government failure; distinguishing between significant and relatively trivial cases of market failure.

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:

- How market forces may deal with a shortage, e.g. through pricing and metering
- The rationing, incentive and signalling functions of the price mechanism
- The advantages and disadvantages of using prices to eliminate shortages
- How market forces may prevent future shortages, e.g. through encouraging investment in additional capacity and appropriate infrastructure
- How market forces may fail to deal with a shortages, e.g. in the case of water, through failing to deal with leakages
- How market forces may fail to prevent future shortages, e.g. through failure to undertake sufficient investment
- Market failure considerations e.g. health care as a merit good, natural monopoly issues in water supply
- How government may intervene
- The costs and benefits of government intervention, including the possibility of government failure
- Use of cost benefit analysis

Other equally valid points may be discussed and should be given due credit.

Also give credit for:

- an overall judgement of the issues raised
- use of diagrams
- reference to real world examples

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR THIS QUESTION: 30 MARKS