



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme

June 2003

GCE

Economics

Unit ECN5

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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 47 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 46. 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 47. 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 are 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 little use of specialist vocabulary.

0 to 5 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.

6 to 10 marks (*Mid-Point: 8 marks*)

Level 3

A few issues are 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 the 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.

11 to 17 marks (*Mid-Point: 14 marks*)

Level 4

Several relevant issues are 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.

18 to 24 marks (*Mid-Point: 21 marks*)

Level 5

Several relevant issues are 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.

25 to 30 marks (*Mid-Point: 28 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 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.

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 , describe how market concentration changed between 2000 and 2001 in the world market for mobile phone handsets. <i>(4 marks)</i> |
|---|

For candidates who:

explain the meaning of market concentration: **1 mark**

state that concentration increased between 2000 and 2001: **1 mark**

provide a statistic that indicates changing concentration e.g. the increase in Nokia's relative importance: **1 mark per relevant statistic**

state that the five firm concentration ratio increased from 67% to 71%: **2 marks**

Maximum of 1 mark if the candidate trawls through the data, displaying no overview

Maximum of 2 marks if no use is made of relevant statistics

Maximum of 2 marks if there is no statement that overall concentration has increased

MAXIMUM FOR PART (a) 4 MARKS

- 1 (b) Explain why a company operating a mobile phone network may decide to sell handsets at prices which are below costs of production (**Extract B**, lines 13 - 15). (6 marks)

For candidates who:

explain that handsets and phone calls are complementary goods or are in joint demand: **Up to 2 marks**

explain that once a handset is sold, the customer is captive in the sense that unless a new chip is bought, he or she can only use the network provided by the company selling the handset (lock-in effects), and hence recovering the loss made on the handset: **Up to 3 marks**

apply monopoly power or market power concepts: **Up to 3 marks**

explain the two prices in terms of cross-subsidy: **Up to 3 marks**

relate the pricing policy to the company's business objective(s) (profit, market share, growth maximisation etc.): **Up to 3 marks**

explain the pricing policy in terms of the particular features of customers who buy pre-pay phones (young, poor credit rating etc.): **Up to 3 marks**

make use of any relevant concept e.g. elasticity of demand, network effects, predatory pricing, barriers to entry: **Up to 3 marks per concept**

MAXIMUM FOR PART (b) 6 MARKS

- 1 (c) Using examples from **Extracts B and C**, analyse the types of competitive behaviour typically undertaken by firms in oligopolistic markets. *(10 marks)*

Issues and areas for discussion and explanation include:

- What is meant by competitive behaviour;
- Evidence from the data that mobile phone markets are oligopolies;
- Relevant use of the distinction between the handset manufacturers and the network providers;
- Evidence from the data of interdependence;
- Evidence from the data of uncertainty;
- Evidence from the data of game theory type behaviour;
- Evidence from the data of pricing behaviour typical of competitive oligopoly;
- Relevant analysis in terms of oligopoly theory (probably kinked demand curve theory);
- Relevant discussion/evaluation of promotion, advertising and non-price competition.

Candidates should be rewarded for including relevant diagrams (probably a kinked demand curve) to support their explanation, provided the diagrams are accurate and adequately labeled. The question refers to competitive behaviour whereas cartel agreements are anti-competitive. Use judgement when awarding marks for such behaviour. Maximum of 4 marks if no other types of competitive behaviour are analysed.

LEVEL 1

The candidate who does not attempt any analysis, but whose answer identifies and then describes at least one aspect of competitive behaviour in oligopoly, or an answer that attempts analysis but which is inaccurate and contains more mistakes than accurate points made. **1 to 3 marks**

LEVEL 2

At the top of the range, the candidate who analyses one aspect of competitive behaviour in oligopoly fully, or two aspects rather less fully, with some reference to the data. At the bottom the range, as above, but the answer contains a number of analytical errors, or omissions, or a lack of reference to the data. **4 to 7 marks**

LEVEL 3

At the top of the range, the candidate who analyses two or more aspects of competitive behaviour, quite fully and without mistakes, and who makes good reference to the data. At the bottom the range, as above, but the answer contains at least one mistake or significant omission, or insufficient reference to the data. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

- 1 (d) Lines 12-13 of **Extract C** state that there is a case for free provision of public goods, such as the airwaves used to provide mobile telephone services.

Do you agree that mobile telephone companies should be able to use the airwaves to provide telephone services without being charged £22bn by the government? Justify your answer.

(30 marks)

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.

The question asks the candidate to state whether he or she agrees or disagrees that there is a case for free provision of public goods such as the airwaves used to provide mobile telephone services. Explanation/analysis of arguments is needed to reach Level 3, and some evaluation building on the analysis of the strength of the arguments is required to score 18 marks or higher (Level 4). A good Level 5 answer is likely to identify and explain at least two ‘for’ arguments, and at least one ‘against’ argument (or vice versa), explain or analyse each argument identified, and then evaluate the significance or relative importance of the arguments, with a justified conclusion that the government should or should not charge, or that it all depends on the size of the charge.

Issues and areas for discussion include:

- Explanation of the airwaves as a public good;
- The airwaves as a crowded non-pure public good;
- Congested versus uncongested airwaves;
- Pricing as a means of rationing scarcity;
- The case for charging what the market will bear;
- The incentive and/or rationing function of prices;
- The uses to which the funds raised can be put;
- Public interest arguments and public choice arguments;
- Correction of market failure arguments;
- Monopoly abuse arguments;
- Efficiency arguments;
- Distributional and equity arguments;
- Consumers suffering arguments;
- Government failure arguments.

USE THE LEVELS MARK SCHEME ON PAGES 46 & 47

MAXIMUM FOR PART (c) 30 MARKS

SECTION B**Each question carries 50 marks****2**2 (a) Explain how **and** why firms grow in size.*(20 marks)***For candidates who:**

explain, using microeconomic production theory, how firms grow in terms of increasing the scale of all their factors of production:

Up to 6 marks

explain how firms grow in terms of internal (organic) growth:

Up to 6 marks

explain how firms grow in terms of external(merger/takeover) growth:

Up to 6 marks

explain how firms grow in terms of vertical, horizontal and lateral growth:

**Up to 4 marks each
Up to 6 marks in total**

provide examples of any of the above:

**Up to 3 marks per example
Up to a maximum of
6 marks****Maximum of 12 marks if answer is restricted to an explanation of HOW firms grow.**

explain why firms grow in terms of trying to maximise profits:

Up to 6 marks

explain why firms grow in terms of pursuing other business objective(s) market share, gaining monopoly power, wishing to diversify etc.:

Up to 6 marks per objective

explain why firms grow in terms of trying to reduce costs, achieve economies of scale:

Up to 6 marks

provide any other plausible explanation for growth:

Up to 6 marks

provide examples of any of the above:

**Up to 3 marks per example
Up to a maximum of
6 marks****Maximum of 12 marks if answer is restricted to an explanation of WHY firms grow.****Two good explanations of ‘how’ and two of ‘why’ can earn full marks.****MAXIMUM FOR PART (a) 20 MARKS**

2 (b) Do you agree that the separation of ownership and control that occurs in many large firms adversely affects the conduct and performance of such firms? Justify your answer.

(30 marks)

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.

Answers which merely describe ownership and control of firms and which fail to display analytical or evaluatory skills, will not reach Level 3, even if they explain well the separation of ownership and control. Analytical skills will be displayed if and when a candidate applies theory e.g. argues that managers may pursue managerial interests which conflict with the interests of shareholders, for example incurring unnecessary costs of production. Evaluatory skills will be displayed if and when the candidate discusses the significance of any adverse effect identified, and/or discusses whether the adverse effect(s) exceeds (exceed) any possible benefits. Some evaluation building on analysis is required to score 18 marks or higher (Level 4).

Issues and areas for discussion include:

- Meaning and understanding of different forms of ownership of firms;
- Meaning and understanding of different forms of control of firms;
- Relevant discussion of entrepreneurship and/or the entrepreneurial function;
- Explanation and understanding of why separation of ownership and control occurs in large firms;
- Discussion of firms' conduct and performance;
- Discussion of how market structure affects conduct and performance;
- Explanation, analysis and explanation of how a firm's size affects conduct and performance;
- Explanation, analysis and explanation of how separation affects conduct;
- Explanation, analysis and explanation of how separation affects performance;
- Discussion of adverse effects;
- Discussion of possible beneficial effects;
- Corporate governance issues;
- Overall evaluation/assessment of net effects and their significance.

USE THE LEVELS MARK SCHEME ON PAGES 46 & 47

MAXIMUM FOR PART (b) 30 MARKS

3

3 (a) Explain how trade unions are able to influence wages.

(20 marks)

For candidates who:

explain the meaning of a trade union:

2 marks

adopt a descriptive approach and describe ways such as threatening strikes or taking part in collective bargaining through which unions can influence wages:

For identifying a method: 1 mark

develop a descriptive point:

Up to further 4 marks per point

Maximum of 10 marks for such an answer i.e. a descriptive answer without any use of expected economic theory

explain how a union may be able to influence wages in an otherwise perfectly competitive labour market:

Up to 12 marks

explain how a union may be able to influence wages in a monopsonistic or imperfectly competitive labour market:

Up to 12 marks

explain any other relevant feature of one or both of these markets e.g. the effect on employment or unemployment:

Up to 4 marks per feature

explain relevant examples:

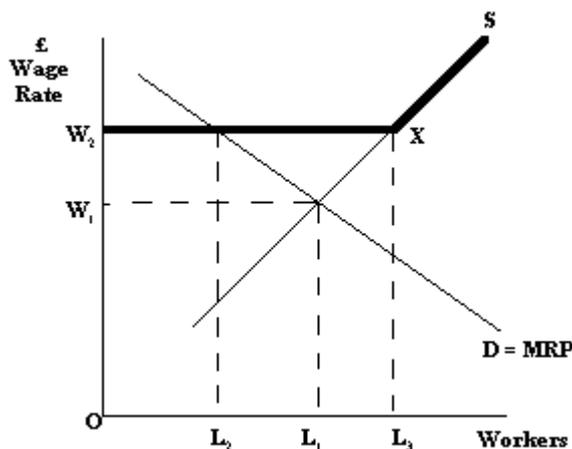
Up to 3 marks per example

for explaining how unions may improve non-monetary aspects of the wage:

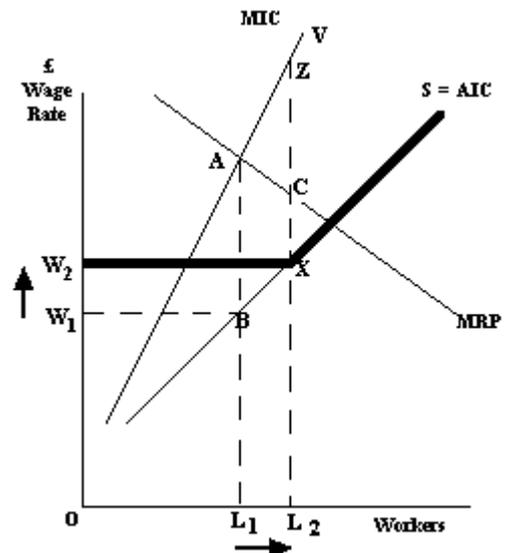
Up to 2 marks

Full marks can be earned without use of diagrams, but up to 6 marks (up to 4 marks per diagram) can be awarded in addition to those awarded for the written explanation for relevant diagrams of labour markets.

The diagram might show the union setting a wage (W_2 in the diagrams below) which is above the market-determined wage (W_1) in a competitive market or a monopsonist market:

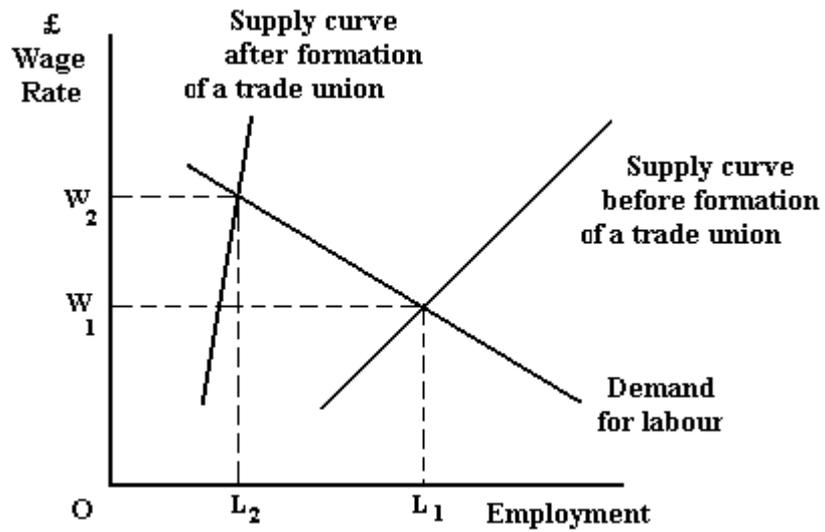


Competitive labour market



Monopsony labour market

or it might show the union shifting the supply curve of labour leftward, and possibly making supply less elastic.



Full marks can also be earned by a mix of a relevant descriptive approach and analysis of ONE theoretical labour market.

MAXIMUM FOR PART (a) 20 MARKS

- 3 (b) Evaluate the view that, by protecting workers from exploitation by employers, trade unions improve the functioning of labour markets. *(30 marks)*

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.

Good answers might explain one or more functions of a trade union, perhaps drawing on the points already made in (a), and then analysing how these functions may affect the efficiency and/or equity of the labour market. Good answers might also discuss what labour market exploitation can mean. Evaluation can be shown by debating the extent to which trade unions improve or adversely affect the functioning of the labour market, and/or by arguing that it depends on circumstances e.g. the nature of the union and the industry or labour market. While the expected answer will argue that unions may sometimes but not always improve the functioning of a labour market, reward also a reasoned argument that labour markets perform more efficiently and competitively without unions, though convincing justification must be offered for such an answer to reach Level 5. Full marks can be earned without analysing economic rent, transfer earnings and producer surplus, but reward relevant analysis based on these concepts. Some evaluation building on analysis is required to score 18 marks or higher (Level 4).

Issues and areas for discussion include:

- Different types of trade union;
- The functions and role(s) of trade unions;
- Forms labour market exploitation might take in the absence of unions;
- How, arguably, labour market exploitation is a form of market failure;
- How unions may counter exploitation;
- Whether union activity is effective in countering exploitation;
- Whether the functions of unions can be performed better by government, staff associations etc.;
- Unions as monopoly suppliers of labour and possible resulting adverse effects of monopoly;
- Supply-side arguments against union activity in labour markets;
- Analysis of competitive and/or monopsony labour markets;
- Trade unions and productivity;
- Macroeconomic arguments such as the effect of labour-induced cost-push inflation and/or unemployment on the functioning of labour markets;
- Use of evidence.

USE THE LEVELS MARK SCHEME ON PAGES 46 & 47

MAXIMUM FOR PART (b) 30 MARKS

4**Total for this question: 50 marks****4 (a) Explain the causes of relative poverty in the United Kingdom.****(20 marks)****For candidates who:**

- explain in general terms the meaning of relative poverty: **Up to 4 marks**
- distinguish relative poverty from absolute poverty: **Up to 4 marks**
- provide evidence of relative poverty in the UK: **Up to 4 marks**
- explain how relative poverty is or might be measured: **Up to 4 marks**

Maximum of 7 marks for the above

- state briefly a cause of relative poverty: **1 mark per cause**
- explain more fully an identified cause: **Up to a further 5 marks per cause**
(possible causes include: unemployment, especially long-term unemployment, old age and longevity, single parenthood, decline of employment opportunities in traditional industries and skill fields, lack of education and training; fall in the value of welfare and unemployment benefits relative to wages and salaries, higher incomes for the better-off, income tax cuts for the better-off etc.)
- give some overall assessment of the relative importance of identified causes: **Up to 4 marks**

Maximum of 12 marks if answer explains absolute poverty but not relative poverty**MAXIMUM FOR PART (a) 20 MARKS**

- 4 (b) Evaluate the view that the most effective way to tackle the problem of relative poverty is to increase the level of welfare benefits paid to the poor. *(30 marks)*

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.

To reach Level 5, the answer must analyse and evaluate increasing welfare benefits and at least one other method of reducing relative poverty (e.g. more jobs and raising the pay of the low-paid). The answer must address the words “most effective way”. Very good analysis and evaluation of increased welfare benefits without discussion of an alternative can reach Level 4. Good analysis but little or no evaluation can reach Level 4 (if an alternative is analysed) and Level 3 (if an alternative is not analysed). Do not constrain maximum mark awarded for (b) if the candidate discusses absolute rather than relative poverty (to avoid double penalty as candidate will already have been penalised in (a)). However reward an argument that, because the incomes of the better-off increase faster than the incomes of the poor, absolute poverty may decrease while relative poverty increases. Some evaluation building on analysis is required to score 18 marks or higher (Level 4).

Issues and areas for discussion include:

- Understanding of the meaning of welfare benefits;
- Making a relevant distinction between means-tested and universal benefits, and/or between other categories of benefit such as contributory and non-contributory benefit;
- Identification of alternative policies to reduce relative poverty;
- Explanation and analysis of how increased welfare benefits may reduce poverty;
- Discussion and analysis of advantages of increased welfare benefits;
- Discussion and analysis of disadvantages of increased welfare benefits;
- Assessment of overall effectiveness of higher welfare benefits;
- Discussion and analysis of advantages of an alternative or alternatives;
- Discussion and analysis of disadvantages of an alternative or alternatives;
- Assessment of overall effectiveness of higher welfare benefits of an alternative or alternatives;
- Discussing whether policies have adverse or unintended consequences;
- Supply-side arguments;
- The distinction between income and wealth;
- Conflicts with other policy objectives;

USE THE LEVELS MARK SCHEME ON PAGES 46 & 47

MAXIMUM FOR PART (b) 30 MARKS