



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
January 2012**

Economics

Assessment Unit AS 1

assessing

Markets and Prices

[AE111]

THURSDAY 12 JANUARY, MORNING

MARK SCHEME

General Marking Instructions

This mark scheme is intended to ensure that the AS examinations are marked consistently and fairly. The mark schemes provide examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

Quality of candidates' responses

In marking the examination paper, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 17-year-olds, which is the age at which the majority of candidates sit their AS examinations.

Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 17-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners:

Threshold performance: Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Making calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

Level 3 (High Standard): The candidate successfully reflects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

- 1 (a) Initially the price of sugar increased, from around 11 cents per pound in January 2008 to 27.5 cents per pound in February 2010. This represents an increase of approximately 150%. After February 2010 the price of sugar fell to 16 cents per pound in June 2010 – a fall of approximately 42%.

[1] for identification of trend

[2] for selection of appropriate data

[2] for manipulation of data to show relative change [5]

- (b) (i) The increase in the price of sugar between January 2008 and February 2010 was caused by two separate factors. Firstly, poor weather conditions in Brazil and India which led to a reduction in supply, and secondly, an increase in demand for sugar to be converted into ethanol.

[3] for accurately drawn diagram showing both supply falling and demand increasing

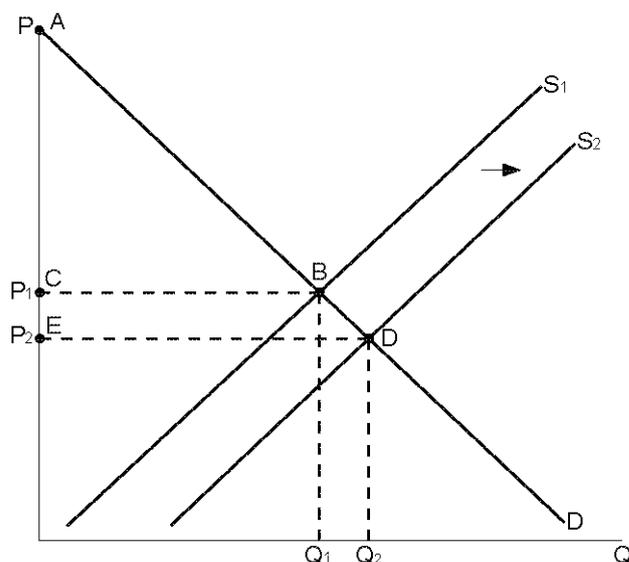
[2] for explanation [5]

- (ii) The fall in the price of sugar since February 2010 has been caused by an increase in supply brought about by favourable weather conditions.

[2] for accurately drawn diagram showing supply increasing

[2] for explanation [4]

- (c) The fall in the price of sugar since February 2010 has been caused by an increase in supply. Therefore, since demand did not change, we can say with confidence that consumer surplus would increase as a result. This is shown in the diagram below. Consumer surplus before the price change is equal to area ABC. After the price change consumer surplus is equal to area ADE.



If candidates show a fall in demand, max Level 2.

Level 1 ([1]–[2])

Candidate shows little understanding of how a fall in sugar prices would impact on consumer surplus. There is no attempt at a diagram and quality of written communication is limited.

Level 2 ([3]–[4])

Candidate shows some understanding of how a fall in sugar prices would impact on consumer surplus. There is an attempt at a diagram but this will contain minor flaws and quality of written communication is satisfactory.

Level 3 ([5]–[6])

Candidate shows clear and comprehensive understanding of how a fall in sugar prices would impact on consumer surplus. There is an accurately drawn diagram and quality of written communication is of a high standard. [6]

- (d) A change in the price of sugar may have an impact on a range of other markets.

The markets most likely to be affected are:

- the market for substitute goods such as artificial sweeteners
- the market for factors of production used in the production of sugar, e.g. fertiliser
- the market for other goods for which sugar is an input, e.g. ethanol, soft drinks and confectionery.

Level 1 ([1]–[2])

Candidate shows little understanding of how a change in the price of sugar may have an impact on a range of other markets. Quality of written communication is limited.

Level 2 ([3]–[5])

Candidate shows some understanding of how a change in the price of sugar may have an impact on a range of other markets. Quality of written communication is satisfactory.

Level 3 ([6]–[8])

Candidate shows clear and comprehensive understanding of how a change in the price of sugar may have an impact on a range of other markets. Quality of written communication is of a high standard. [8]

- (e) Those who oppose the subsidies given to EU farmers argue that it distorts the market and leads to poverty in LEDCs since they cannot gain access to EU markets. They also argue that these subsidies represent an inefficient use of scarce government resources.

However, those in favour of agricultural subsidies argue that they are needed to protect EU farmers and the countryside. They also argue that the subsidies ensure adequate supplies of agricultural produce at stable prices.

Issues for analysis and evaluation include:

- impact of subsidies on LEDCs
- opportunity cost of subsidy
- inefficiency of CAP
- administration costs of CAP
- need to protect EU farmers
- impact of subsidies on environment
- reference to the fact that a large proportion of subsidies are paid to large wealthy farmers
- appropriate diagrams.

Level 1 ([1]–[4])

Candidate shows very limited understanding of the arguments for and against the view that all subsidies to EU farmers should be removed. There is no significant evaluation of the issues, and quality of written communication is limited.

Level 2 ([5]–[8])

Candidate provides some understanding of the arguments for and against the view that all subsidies to EU farmers should be removed. There is a degree of evaluation, and quality of written communication is satisfactory.

Level 3 ([9]–[12])

Candidate provides a clear and comprehensive understanding of the arguments for and against the view that all subsidies to EU farmers should be removed. There is significant evaluation and judgement, and quality of written communication is of a high standard. [12]

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2 Employers criticise restrictions on migrant workers

(a) Economic resources are the assets that a country has available to produce goods and services to meet the needs of society. These resources are often referred to as the factors of production and include:

- land – includes all the natural physical resources, e.g. oil and gas deposits
- labour – refers to the stock of labour in an economy
- capital – refers to fixed and working capital and infrastructure
- enterprise – the skills of the entrepreneurs who use factors to produce goods and services.

The term scarcity refers to the fact that there are not enough resources to satisfy the wants of the population and therefore choices must be made.

Appropriate development:

- factors of production
- scarcity
- basic economic problem
- opportunity cost
- appropriate examples.

Level 1 ([1]–[3])

Candidate shows little knowledge or understanding of the term scarce economic resources. There is at best a seriously flawed definition and little development through relevant examples, or technical language. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some knowledge or understanding of the term scarce economic resources. There is a credible definition though this may contain minor errors and some development through relevant examples or technical language. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows extensive knowledge or understanding of the term scarce economic resources. There is an accurate definition and extensive development through relevant examples, or technical language. Quality of written communication is of a high standard. [10]

- (b) The market theory of wages suggests that a decrease in the supply of migrant workers will cause the supply of labour curve to shift to the left and will therefore lead to an increase in equilibrium wage rates. The exact impact on wage rates will depend upon the price elasticity of demand for labour. This increase in wage rates will lead to higher rates of economic rent for those workers who were willing to work at the previous wage rate. The reduction in migrant labour could lead to significant labour shortages in certain industries and UK firms becoming less competitive. This could have a negative impact on the demand for labour as UK firms outsource production to low wage economies.

Issues, analysis and areas for discussion include the following:

- impact on wage rates
- reference to economic rent
- reference to elasticity of demand for labour
- reference to impact of increased labour costs on the competitiveness of UK firms
- reference to industries particularly dependant on migrant labour – agriculture, food processing, health care, engineering
- appropriate examples
- appropriate diagrams.

Level 1 ([1]–[5])

Candidate provides little analysis of the likely impact on the labour market of a reduction in migrant workers. There are few if any relevant examples and diagrams will be non-existent or seriously flawed. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the likely impact on the labour market of a reduction in migrant workers. There are some relevant examples, perhaps supported by a relevant, if slightly flawed diagram. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides extensive analysis of the likely impact on the labour market of a reduction in migrant workers. There is significant development through examples and/or flawless diagrams. Quality of written communication is of a high standard. [15]

- (c) There are a number of different forms of government intervention in the UK labour market, these include:
- the national minimum wage
 - regulations to protect health and safety
 - regulations with regard to working time and holiday entitlements
 - provision of unemployment/sick benefits.

Supporters of these interventions argue that labour markets do not function in the same way as other markets. They argue that government intervention is needed to correct the failures and inefficiencies of the free market and protect the rights of employees.

However, classical economists argue that, just like other markets, the labour market functions perfectly and that government intervention slows down the efficient allocation of resources through the market mechanism. They argue that government intervention adds to the cost of labour and creates unemployment by making UK labour uncompetitive and providing incentives for workers to remain unemployed.

Issues for discussion and evaluation include:

- reference to different forms of intervention in labour markets
- efficiency of market mechanism
- reference to market failure
- reference to government failure
- impact of government intervention on workers and businesses
- appropriate examples
- appropriate diagrams.

Level 1 ([1]–[4])

Candidate shows very limited understanding of the arguments for and against government intervention in labour markets. There is no significant evaluation of the issues and quality of written communication is limited.

Level 2 ([5]–[8])

Candidate provides some understanding of the arguments for and against government intervention in labour markets. There is a degree of evaluation, and quality of written communication is satisfactory.

Level 3 ([9]–[12])

Candidate provides a clear and comprehensive understanding of the arguments for and against government intervention in labour markets. There is significant evaluation and judgement and quality of written communication is of a high standard. [15]

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3 Cost of hosting the Olympic Games keeps on rising

- (a) A merit good is a good which in a paternalistic sense the government believe we should consume. Alternatively, merit goods are goods where need exceeds demand. Most merit goods confer positive externalities on society and therefore would be under consumed if left to the free market. Examples of merit goods include health and education.

Appropriate development:

- definition
- relevant examples
- appropriate diagrams
- reference to positive externalities
- reference to information failure.

Level 1 ([1]–[3])

Candidate shows little knowledge or understanding of the term merit good. There is, at best, a seriously flawed definition and little development through relevant examples, diagrams or technical language. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some knowledge and understanding of the term merit good. There is a credible definition, though this may contain minor errors, and some development through relevant examples, diagrams or technical language. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows clear and comprehensive knowledge and understanding of the term merit good. There is an accurate definition and extensive development through relevant examples, diagrams or technical language. Quality of written communication is of a high standard. [10]

- (b) Government can encourage the consumption of merit goods through a range of measures including:
- provision of merit goods free at the point of use, e.g. health
 - compulsion, e.g. compulsory schooling or compulsory inoculations
 - production subsidy to reduce price, e.g. public transport
 - consumption subsidy, e.g. subsidised gym membership
 - improving information, e.g. health awareness
 - persuasive advertising.

Issues, analysis and areas for discussion include the following:

- appropriate examples
- appropriate diagrams.

Level 1 ([1]–[5])

Candidate provides little analysis of the policies a government could use to increase the consumption of merit goods. There are few, if any, relevant examples and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the policies a government could use to increase the consumption of merit goods. There are some relevant examples and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides extensive analysis of the policies a government could use to increase the consumption of merit goods. There is significant development and quality of written communication is of a high standard.

[15]

- (c) The London Development Agency says the 2012 Olympics will confer huge benefits on the UK economy since it will leave behind great sporting facilities, more housing, permanent jobs, skills and better transport connections for local people in East London.

However, critics argue that the rising cost of the Games could have a detrimental impact on grassroots sports, as well as arts and culture, and that London could be left with an underused and decaying stadium and a massive debt. They also argue that in the current economic climate the government could have found a much better use for the £10 billion spent hosting the Games.

Issues for discussion and evaluation include:

- the benefits to London and the wider UK economy of hosting the Games
- the improvements in infrastructure and the regeneration of East London
- the external benefits associated with increased participation in sport
- impact on tourism
- opportunity cost of funding the Games
- concerns over rising costs and efficiency
- cost of maintaining facilities after the Games.

Level 1 ([1]–[5])

Candidate shows very limited understanding of the issues surrounding the funding of the 2012 Olympic Games. There is no significant evaluation of the issues, and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some understanding of the issues surrounding the funding of the 2012 Olympic Games. There is a degree of evaluation and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive understanding of the issues surrounding the funding of the 2012 Olympic Games. There is significant evaluation and judgement, and quality of written communication is of a high standard. [15]

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4 Gap between rich and poor rises

- (a) When economists talk about the distribution of income they are normally referring to how a nations total income is distributed amongst its population. However they may also be referring to how income is distributed between the main factors of production. This is known as factor income distribution.

Economists have devised a number of different methods of measuring income distribution including the Lorenz Curve, the Gini Coefficient and the Hoover Index. Many economists consider extreme inequality in the distribution of income to be a source of market failure.

Appropriate development

- explanation of how income is measured
- distinction between income and wealth
- reference to different measures of income distribution – Gini Coefficient, Lorenz Curve
- reference to factor income distribution
- reference to different definitions of poverty – absolute and relative
- reference to market failure
- reference to economic rent and transfer earnings
- appropriate diagrams
- appropriate examples.

Level 1 ([1]–[3])

Candidate shows little understanding of the distribution of income. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some understanding of the distribution of income. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows comprehensive understanding of the distribution of income. Quality of written communication is of a high standard. [10]

(b) There are a range of policies the government could use to income inequality. These include:

1. Change the tax and benefit system

- increase the higher rate of income tax. This will make the tax system more progressive and will reduce the income of the top earners. The money could then be redistributed to the poorest
- cut the lower rate of income tax and increase the level of the tax-free allowance. This should reduce the poverty trap and encourage people to look for work
- reduce the availability of universal state benefits such as child allowance and switch towards more means tested benefits such as the EMA. This would save the government money and the money will go to those who need it most
- link benefits to average earnings instead of average prices.

2. Measures to reduce unemployment

- unemployment is one of the major causes of poverty. Therefore decreasing unemployment will decrease poverty
- the government have used special employment measures such as the new deal and the welfare to work programme to improve the job prospects of the unemployed
- regional policy assistance. The government can focus attention on areas of high unemployment and encourage firms to locate there.

3. Increasing the national minimum wage

- the NMW was introduced in 1999. It helps to increase the incomes of the low paid and also improve the incentive for people to find work.

Level 1 ([1]–[5])

Candidate provides little analysis of the policies a government could use to reduce income inequality. There are few if any relevant examples. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some analysis of the policies a government could use to reduce income inequality. There are some relevant examples. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides extensive analysis of the policies a government could use to reduce income inequality. There is significant development through examples. Quality of written communication is of a high standard.

[15]

- (c) Classical economists are opposed to the government taking action to redistribute household income. They argue that if the government takes no action the money will filter down to the poor naturally, through the working of the market economy. They argue that government action to redistribute income actually reduces the incentive to work for both the rich and the poor and is therefore counterproductive. They point to the very high tax rates imposed by the UK government in the 1960s and 1970s, which created huge disincentives to work, and led to a large number of tax exiles in the UK.

However, most economists would argue that some form of redistribution is necessary. They argue that if society is too unequal it will lead to social problems.

Evidence suggests that there is a strong correlation between relative poverty rates and social problems such as obesity, alcohol abuse and crime levels.

They also suggest that redistribution will increase total utility in an economy since the marginal utility the poor receive from each extra pound is greater than the loss of utility the rich suffer from giving up an extra pound.

They also argue that redistribution actually benefits the whole of society and the economy, since the poor will spend all of their additional income, which will benefit the economy and create further jobs.

Obviously some balance is needed between a tax and benefit system, which is both fair and protects the poorest in society, and one which does not punish those who have worked hard to earn a good income, and rewards those who are reluctant to seek employment.

Issues for analysis and discussion include:

- causes of relative poverty
- reasons for intervention
- link between relative poverty and social problems
- disincentive effects of government intervention
- comparison of the efficiency of market redistribution compared to government redistribution
- impact of redistribution on economic welfare
- impact of redistribution on economic growth
- laffer curve effects
- international comparisons.

Level 1 ([1]–[5])

Candidate shows very limited understanding of the arguments for and against government intervention to reduce income inequality. There is no significant evaluation of the issues, and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some understanding of the arguments for and against government intervention to reduce income inequality. There is a degree of evaluation, and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive understanding of the arguments for and against government intervention to reduce income inequality. There is significant evaluation and judgement, and quality of written communication is of a high standard. [15]

TotalAVAILABLE
MARKS

40

80