



GCSE

Economics

Unit **A591**: How the Market Works
General Certificate of Secondary Education

Mark Scheme for June 2016

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
✓	Tick
✗	Cross
?	Unclear
BOD	Benefit of the doubt
IR	Irrelevant
L1	Level one
L2	Level two
L3	Level three
L4	Level four
NAQ	Not answered question
OFR	Own figure rule
SEEN	Noted but no credit given.
TV	Too vague
^	Omission mark
BP	Blank page

Highlighting is also available to highlight any particular points on the script.

'BP' to be inserted on every blank page and 'seen' in every question space where NR is the mark.

Subject-specific Marking Instructions

Annotation must be used for **ALL** questions to show how the marks have been awarded.

Level 4:

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the subject matter. There may be few, if any, errors of spelling, punctuation and grammar

Level 3:

Relatively straight forward ideas have been expressed with some clarity and fluency. There may be some errors of spelling. Punctuation and grammar, but these are to be obtrusive or obscure marking.

Level 2:

Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, which may be noticeable and obtrusive

Level 1:

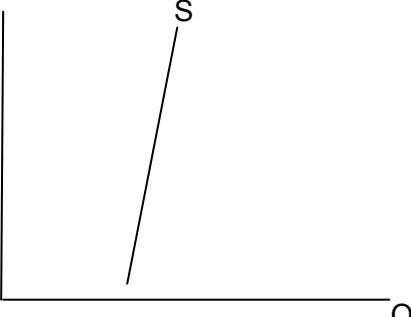
May be in the form of a list. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar, of which some may be noticeable and obtrusive.

Question		Answer	Marks	Guidance
1	(a)	<p>Indicative content: The only acceptable answers are the first: 'A main objective for private enterprise is profit, while public enterprises are concerned with public welfare.' and the third: 'Private enterprises look to individuals, banks, etc for finance, while the government is a major source for public enterprises.'</p>	2	<p>One mark for each correct identification up to a maximum of two identifications.</p> <p>Accept the first two ticks only i.e. if all four answers are ticked only one mark would be awarded.</p> <p>Each mark awarded must be shown by a tick, ie the sum of the ticks must be same as the total mark awarded.</p>
	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> • scarcity of resources • basic economic problem • skills/knowledge available • availability of capital e.g. to buy suitable vehicles • personal preference • training costs • hire the correct workers • improve quality • increase competitiveness • improve productivity • opportunity cost <p>Exemplar responses: They can only do what they have the skills to do [1] as it would take too long to learn new ones [1]. They are a small business with limited resources [1] so if they choose to do letters then they cannot also do parcels [1].</p>	4	<p>One mark for each point of explanation up to a maximum of four such points, but allow development marks e.g. opportunity cost [1] and then explanation of opportunity cost [1].</p> <p>A good logical chain of argument will do well probably 3 or 4. 4 separate points = 4 marks.</p> <p>No reference anywhere to parcels/letters/Letterfast/Karl & Emma i.e. no application - max 3.</p> <p>Allow any valid idea.</p>

Question		Answer	Marks	Guidance
(c)		<p>Indicative content::</p> <ul style="list-style-type: none"> • lower quality [of service or goods] • lack of interest by those providing the service • higher prices • less choice/variety of services/ shops/etc • could suffer from monopoly power • lack of complementary goods [allow] • may need to use other firms for services not provided <p>Exemplar responses:</p> <p>Effect 1: Lower quality [1]: because the worker is doing the same job all the time they become bored so their performance suffers[1] producing a lower quality service [1]</p> <p>Effect 2: Higher prices [1]: to specialise a worker requires training which may be costly [1] so the consumer will have to pay more for the service [1]</p>	6	<p>One mark for each correct identification up to a maximum of two identifications, plus up to a further two marks (one for application and one for analysis) for an explanation.</p> <p>Allow any valid reason.</p> <p>NB The focus is the consumer.</p> <p>For each: Give one mark for the reason Give one mark for some development – application Give one mark for analysis.</p> <p>If there is a coherent argument then candidates are likely to achieve the 3 marks for each effect.</p> <p>NB this is marked out of six marks. Each mark must be shown by a tick.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Exemplar response:</p> <p>Consumers will have a greater choice of products and firms in a competitive market [L1]. This enables them to find the one with the lowest price and the best service, although they could become confused [L2].</p> <p>Some consumers are more interested in price while others look for good quality. The competitive market provides a choice. If, however, firms are too small they may not have many economies of scale and thus higher costs than a monopoly. [L3]</p> <p>Overall, consumers are more likely to gain from a competition as businesses will strive to provide a price/quality mix which suits their customers. Competition will lead to low prices as not only can consumers make choices, even if the range does offer some confusion, but also because failure to do so will lose them customers forcing them out of business. [L4]</p>	8	<p>Indicative content:</p> <p>Gains may include:</p> <ul style="list-style-type: none"> • greater variety and choice • more chance of innovations • better service • able to 'shop around' • lower prices <p>Disadvantages may include:</p> <ul style="list-style-type: none"> • small firms will only have limited economies of scale • higher costs • confused by choice <p>Allow any other valid idea.</p> <p>Candidates may focus on Letterfast or on businesses in general or even another named business.</p> <p>Analysis is likely to be shown by valid use of economic concepts and terminology. The presence of both sides will take the answer to L3</p> <p>NB the question asks 'assess'.</p> <p>Quality of written communication applies to the marking of this question.</p>	<p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 4 [7-8 marks] Candidates at the top give a fully supported answer which clearly considers both gains and at least one disadvantage. Candidates at the bottom may only consider gains or the conclusion is not fully supported.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of relevant points. At the top this analysis must clearly cover both gains and disadvantages though expect more gains.</p> <p>Level 2 [3-4 marks] Candidates are able to apply a number of points, most probably gains. At the top several points will be considered. Answers and/or development of points are likely to be brief.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of competitive markets or list some gains or answers from a firm's perspective.</p>

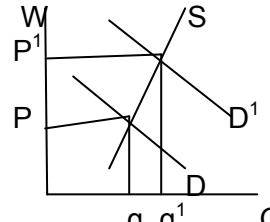
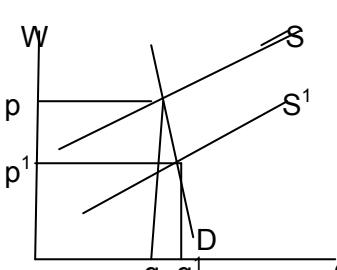
Question			Answer	Marks	Guidance									
2	(a)	(i)	The only acceptable answer is Primary.	1	<p>For one mark.</p> <p>Accept the first tick only i.e. if all three answers are ticked no marks would be awarded.</p> <p>If a mark is awarded this must be shown by a tick,</p>									
		(ii)	<p>Exemplar response:</p> <p>The quantity buyers are willing and able to buy at a given price [in a given period of time].</p>	1	<p>For one mark.</p> <p>There is only one mark available so do not expect too much. As indicated 'in a given period of time' is not required. Award the mark if there is sufficient idea e.g. as it does not say 'effective' demand then '....willing to buy at a given price' is acceptable. Idea of wanted is acceptable.</p>									
	(b)	(i)	<table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">Total Revenue</td> <td style="text-align: right;">£</td> <td style="text-align: right;">8500</td> </tr> <tr> <td style="text-align: right;">Total Costs</td> <td style="text-align: right;">5100</td> <td style="text-align: right;">[1]</td> </tr> <tr> <td style="text-align: right;">Profit</td> <td style="text-align: right;">£3400</td> <td style="text-align: right;">[2]</td> </tr> </table>	Total Revenue	£	8500	Total Costs	5100	[1]	Profit	£3400	[2]	2	<p>Up to two marks</p> <p>Give two marks for £3400 even if no working shown. £ sign is required for the profit for full marks. NB this might not be at the end. Give one mark for correct TR and TC, but incorrect calculation.</p> <p>OFR applies throughout so do not double penalise for one error.</p> <p>Each mark awarded must be shown by a tick, i.e. the sum of the ticks must be same as the total mark awarded.</p>
Total Revenue	£	8500												
Total Costs	5100	[1]												
Profit	£3400	[2]												
		(ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> • rise in quantity or sales or demand • rise in quantity greater than fall in price <p>Exemplar response:</p> <p>A lower price would lead to more sales [1]. If the rise in sales is more than the fall in price then more revenue [1]</p>	2	<p>Up to two marks</p> <p>There is one mark for the basic fact ie quantity increases and a second development mark which links this to elasticity and more revenue e.g. quantity increases by more than fall in price, etc.</p> <p>Allow any valid response.</p>									

Question		Answer	Marks	Guidance
(c)	(i)	<p>Exemplar response: Price elasticity of supply measures the responsiveness of quantity supplied to a change in the price of the good. [2].</p>	2	<p>Up to two marks. The wording must closely approximate to that given for two marks. Answers which have a general idea e.g. 'measures how quantity changes with a price change' are worth 1 mark. Accept the formula: $PES = \frac{\% \text{ change in quantity supplied}}{\% \text{ change in the price}} \text{ [2 marks]}$</p>
	(ii)	 <p>Give 1 mark for correctly drawing the price inelastic supply curve Give 1 mark for correctly labelling it 'supply/S'</p>	2	<p>Up to two marks. The supply curve does not have to be vertical, but it must clearly have a steep slope. A curve which does not, but does slope upwards can gain one mark if correctly labelled. It can vary between vertical and 45° Each mark awarded must be shown by a tick, ie the sum of the ticks must be same as the total mark awarded. NB downward sloping supply curves are worth zero.</p>
	(iii)	<p>Exemplar response: The rise in price is greater than the rise in quantity [2]. Price rises and the quantity also rises [2]. If there is an increase in demand the price goes up [1] Candidates describe the line they have drawn.</p>	2	<p>Up to 2 marks. OFR applies re the diagram so if the supply was more elastic the reverse would be true. If the line is vertical then to gain two marks the answer would need to state: 'The price rises [1] while quantity remains unchanged [1]'</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
(d)		<p>Exemplar response:</p> <p>Businesses can gain many benefits from internal economies of scale. They can become more efficient through use of better technology, greater use of specialist managers and the use of marketing to cover all their products [L2]. All of this is likely to lead to lower average costs [L3] as, also, will buying in bulk and the ability to borrow money at lower interest rates. Lower average costs will enable the business to cut prices and gain more sales [L3]. By expanding, however, a business may run in to diseconomies of scale such as loss of control and poor communications leading to inefficiency and higher costs [L3].</p> <p>So long as a business does not expand too fast any potential negative effects are likely to be outweighed by the positive ones and in particular by the lower average costs. Lower average costs give a business the opportunity to either lower prices or to invest more both leading to them becoming more competitive [L4].</p>	8	<p>Indicative content:</p> <p>Positives may include:</p> <ul style="list-style-type: none"> • lower average costs /lower unit costs • increase competitiveness • greater efficiency • risk bearing – spread the risks • financial – lower costs • technical – increased productivity • purchasing – bulk buying • managerial – more specialisation <p>Negatives may include:</p> <ul style="list-style-type: none"> • diseconomies • lack of co-operation • lack of co-ordination • loss of control • over spend <p>Allow any valid ideas.</p> <p>NB must be 'effects on a business'.</p> <p>Candidates may focus on Sajid, and his business, or on businesses in general or even another named business.</p> <p>L2 = a brief statement of several economies of scale L3 = attempt at explaining their effects e.g. lower AC/cost per unit, diseconomies linked to rising AC.</p>	<p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly considers both the positives and negatives of internal economies for the business and comes to a supported conclusion. Answers at the bottom may have a conclusion which is not clearly supported. Or a one-sided argument probably ignoring the negatives.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of points in relation to internal economies of scale. At the top this will consist of both positives and negatives. Answers at the bottom may be limited e.g. fails to offer an example of diseconomies or only cover positives.</p> <p>Level 2 [3-4 marks] Candidates are able to apply a number of factors in relation to internal economies of scale. Answers at the bottom will make little or no reference to specific economies of scale. Answers and/or development of points are likely to be brief.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
				Quality of written communication applies to the marking of this question.	Level 1 [1-2 marks] Candidates offer knowledge of relevant internal economies or scale.
Question		Answer	Marks	Guidance	
3	(a)	The basic economic problem occurs when resources are scarce , but wants are unlimited .	2	One mark for each correct identification up to a maximum of two identifications. Give one mark for each correct word in the right place. These are the only acceptable answers.	
	(b)	i Indicative content: Gross income is the amount of money that someone receives before deductions. Net income = Gross income – deductions or a person's take-home pay	2	Up to two marks To gain two marks the difference must be clear. Candidates may state some deductions – likely ones being income tax and national insurance – this is acceptable, but specific deductions not required. Net income = Gross income – direct tax or income tax can be given 1 mark.	
		ii Indicative content: Nominal income is the income paid to someone not adjusted for inflation or is the money value of income Real income is the value of someone's income adjusted for inflation or is the purchasing power of income.	2	Up to two marks To gain two marks the difference must be clear.	

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(c)	<p>Exemplar response:</p> <p>Productivity is the output per worker per period of time. [L1] If a worker specialises it means they concentrate on what they are best at [L1]. Training will equip workers with new skills so they can work better and produce more output [L2]. It will also give them the ability to use new capital equipment. This should increase their productivity and raise the output of the business. [L2].</p> <p>Specialisation allows workers to become focused on one job. This means that they become faster at doing the work while also doing it better thus raising their productivity [L3]</p>	6	<p>Indicative content:</p> <ul style="list-style-type: none"> specialising increases skill and knowledge of the job training increases knowledge, understanding and skill so the person can work better specialisation means people do jobs they are better at workers who specialise and/or undergo more training are often paid more so motivation increases training allows workers to use new capital equipment <p>Allow any valid point.</p> <p>Candidates may focus on the Oranges and Lemons Cafe or on businesses in general or even another named business.</p> <p>Analysis may be shown by valid use of economic terms e.g. efficiency or as on the left 'faster and better'</p>	<p>Level 3 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of points showing clearly how increased specialisation and training would increase productivity. Answers at the bottom may offer only brief analysis or will address only specialisation or training</p> <p>Level 2 [3-4 marks] Candidates are able to apply knowledge of specialisation and/or training to increases in productivity. At the top application will be well developed and refer to both aspects or there is a range of points more briefly applied..</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of productivity and/or specialisation and/or training.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Exemplar response:</p> <p>Henry could be correct as increased competition would mean more demand for chefs [L2]. As it takes time to train chefs the supply is likely to be inelastic so that wages rise – see Fig.1</p>  <p>As can be seen wages rise significantly from p to p^1 [L3].</p> <p>Sarah could also be correct because more firms entering the market means the supply increases and if there is no change in demand the price will fall. Assuming inelastic demand revenue falls and so does profit – see Fig.2 [L3]</p> 		<p>Indicative content:</p> <p>Henry</p> <ul style="list-style-type: none"> increase in demand raises wages supply of skilled workers like chefs is inelastic [in the short run] new cafes may just employ the owner/s as cooks, while hotels could bring in chefs from elsewhere <p>Sarah</p> <ul style="list-style-type: none"> increase in number of firms will increase supply forcing prices down if demand is inelastic then lower prices equals lower total revenue and thus profit lower profits make paying higher wages more difficult more places to eat could increase demand leading to rising total revenue and profits. <p>Allow any valid suggestion.</p> <p>A correctly drawn diagram explained and/or the correct use of price elasticity of supply/demand is analysis. If both sides are considered then L3 has been achieved.</p>	<p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly discusses a number of arguments in favour of the two positions. Answers at the top will have a supported conclusion and make reference to Henry and Sarah, while those at the bottom will have a conclusion/comment, but this lacks clear support.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse points relating to both positions To reach the top candidates must offer clear analysis of both positions and make reference to Henry and Sarah.</p> <p>Level 2 [3-4 marks] Candidates are able to apply knowledge of the effect of competition on wages. At the top there will be a good application of one of the positions. Answers and/or development of points are likely to be brief.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
		<p>Total revenue falls as $pq > p'q'$. If profits fall Sarah could not afford to pay higher wages.</p> <p>Whether Henry or Sarah is correct will depend on the degree of competition. With only two more cafes and one more hotel demand for chefs is limited. If there are lots of chefs around then wages will not rise. These new eating places are more likely to depress prices and/or demand making profits fall. I think, therefore, that Sarah is more likely to be correct than Henry. [L4]</p>		<p>A good discussion will point out that who is correct will depend on the degree of competition and the elasticities of supply and demand in the labour market.</p> <p>Quality of written communication applies to the marking of this question.</p>	<p>Level 1 [1-2 marks] Candidates offer knowledge of competition and/or wage determination which may include a definition.</p>

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