



GCSE

Economics

Unit **A591/02**: How the Market Works

General Certificate of Secondary Education

Mark Scheme for June 2018

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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

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

'BP' to be inserted on every blank page. 'Seen' is to be inserted where there are 2 or more questions on a page and one question space is left blank so 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.

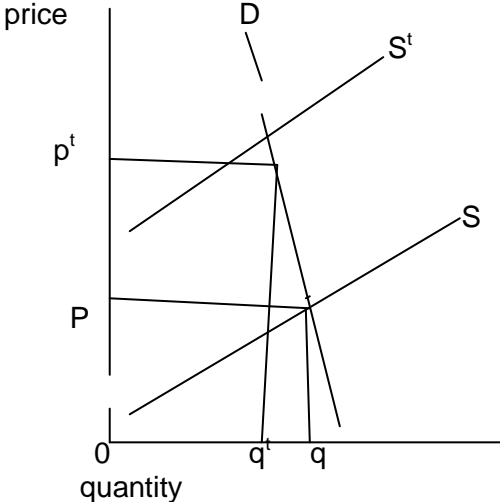
Level 2:

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

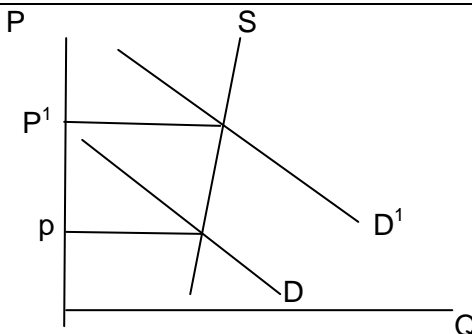
Level 1:

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:</p> <ul style="list-style-type: none"> • Medium [means] of exchange • Store of value • Unit of account 	2	<p>Give one mark for each correct identification up to a maximum of two.</p> <p>Vague statements approximating to one of the functions cannot be credited.</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"> • Profit maximisation • Break even • Increase market share [growth] • Increase sales/sales revenue maximisation • Increase returns to shareholders • Maximise [increase] revenue • Improve quality <p>Exemplar responses: 1 Break even [1] – to ensure that revenue equals costs [1] 2 Increase market share [1] – so as to become larger than competitors.</p>	4	<p>Allow any valid idea.</p> <p>One mark for each correct identification up to a maximum of two identifications, plus up to 1 further mark for development up to a maximum of four.</p> <p>Allow less precise answers for the knowledge mark e.g. 'make a profit', but not for the explanation e.g. 'improve your business'.</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>

Question	Answer	Marks	Guidance	
			Content	Levels of response
(c)	<p>Exemplar response:</p> <p>In a mixed economy resources are allocated in two ways. Firstly by the market through supply and demand.</p>  <p>As can be seen in the diagram where supply equals demand [q] is the quantity that will be supplied at the price [p].</p> <p>Governments will also allocate resources in a mixed economy by directly supplying services such as education and health or by influencing the market through taxes and subsidies e.g. on the diagram if a tax is imposed supply shifts to S^t leading to fewer resources at q^t and a higher price, and less demand, at p^t.</p>	6	<p>Indicative content:</p> <ul style="list-style-type: none"> • Price mechanism – supply and demand • Customers decide what they want • Firms decide how to produce • Purchasing power • Government direct allocation • Government redistribution of income through taxes and benefits • Use of subsidies and taxes • Maximum and minimum price controls <p>Allow any other valid idea.</p> <p>NB answers must be referring to a mixed economy.</p> <p>A diagram is not asked for so analysis can be by good use of economic terms/concepts, but if a diagram is correctly drawn and explained then this is analysis.</p> <p>Where L3 is gained this must be shown.</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 relevant points. At the top there must be good analysis of at least two points.</p> <p>Level 2 [3-4 marks] Candidates are able to apply a number of points. At the top several points will be considered. Answers and/or development of points are likely to be brief. Responses which look at only private or public sector will be at the bottom.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of mixed economies or of scarcity, opportunity cost, etc, or define competitive market/productivity.</p>

Question			Answer	Marks	Guidance	
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	(d)		<p>Exemplar response:</p> <p>In a competitive market being able to increase productivity is very important in order to remain price competitive. Increased productivity will allow a firm to lower its average costs [L1] and thus to either reduce prices or to keep prices the same [L2], but increase profits and use these to improve quality or to innovate.[L3]. In addition, lower prices may give you a higher market share and thus increase your competitiveness. It is also important to attract the best workers which higher profits will allow you to do. These workers are likely to be very productive, see above, and also more likely to cope with new technology which again will increase productivity. In some businesses, however, price is not necessarily the only factor and things like good customer service or a quality product may be more important. While, therefore, increased productivity is important for nearly all firms the degree of importance depends on whether price is the most important selling point. If it is then it is vital. If not it is still important, but to a lesser extent compared with quality, better service, etc. [L4]</p>	8	<p>Indicative content:</p> <ul style="list-style-type: none"> • Lower average costs • Lower,/more competitive prices • Higher profits • Increase survival chances • Adopt new technology • Afford higher wages/attract good staff • Costs involved might outweigh gains • Other factors could be more important e.g. inventions or quality <p>Allow any other valid idea.</p> <p>Candidates may focus on Neagle Carpets Ltd or on businesses in general or even another named business.</p> <p>Where L3 is gained this must be shown.</p> <p>Beware: analysis requires connexions so e.g. saying lower AC gives more profit is not analysis – HOW?</p> <p>NB the question asks ‘extent to which’</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 give a fully supported answer which clearly considers a range of points and comes to a supported conclusion/ offers comment in terms of ‘the extent to which’. Answers at the bottom will consider a number of points</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of relevant points. At the top this analysis must be of at least two points.</p> <p>Level 2 [3-4 marks] Candidates are able to apply a number of points. 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 and/or productivity.</p>

Question		Answer	Marks	Guidance
2	(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> The price which equates demand [for houses] with the supply [of houses] [2 marks] The point where demand and supply meet [2 marks] Market clearing price [1 mark] [Which ensures] no surplus or shortage [1 mark] Where price will not change [1 mark] unless market conditions change [1 mark] 	2	<p>Up to 2 marks.</p> <p>There are 2 marks for a clear idea of supply = demand. Marks may be awarded for other answers as shown. Allow any valid points and reward along the lines shown.</p> <p>Each mark awarded must be shown by a tick.</p>
	(b)	<p>(i) House prices rose the most in: June [1] House prices rose the least in: March [1]</p>	2	<p>One mark for each correct month up to a maximum of two.</p>
		<p>(ii) Indicative content:</p> <ul style="list-style-type: none"> Higher demand in June than in March Less supply of houses in June than in March More people looking to move in the summer months Weather better in June or weather worse in March <p>Exemplar response: There is higher demand in June than in March [1] as more people are seeking to move in the summer [1]</p>	2	<p>Up to 2 marks.</p> <p>Give 1 mark for a basic statement. Give 1 mark for some development of this point. Allow any valid point and reward along the lines shown</p> <p>NB 'at different times of the year' so do not allow increased population, rise in income, buy holiday homes, different interest rates, etc.</p> <p>Each mark awarded must be shown by a tick.</p>
	(c)	 <p>Give 1 mark for correctly drawing and labelling the original supply line</p>	6	<p>Up to four marks for the diagram.</p> <p>NB – original and new quantity are not required.</p> <p>Up to two marks for the explanation</p> <p>Candidates may choose to shift either the demand, as in the diagram, or the supply curve. If they shift both reward whichever one is referred to in the explanation NB it does say 'one way'.</p> <p>NB 'Using' so must refer to the diagram in some way, e.g. as in the example, to get both the explanation marks. One mark can be given if there is clear implied reference to the diagram</p>

Question			Answer	Marks	Guidance
			<p>Give 1 mark for correctly drawing and labelling the original demand line</p> <p>Give 1 mark for correctly drawing and labelling either a new demand or supply line</p> <p>Give 1 mark for correctly indicating the original and the new price e.g. p and p^1</p> <p>Give 2 marks for the explanation.</p> <p>Exemplar responses:</p> <p>1 Increase in price is caused by a rise in demand [1] from D to D^1 [1].</p> <p>2 Increase in price is caused by a fall in supply [1] from S to S^1 [1]</p>		<p>e.g. 'rise in population leading to an increase in demand and price [where this is shown on the diagram]</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>

Question			Answer	Marks	Guidance	
					Content	Levels of response
	(d)		<p>Exemplar response:</p> <p>Subsidies will lead to a fall in price [L1] which will then mean that more people can afford to buy houses [L2], and more houses to be built, resulting in a fall in homelessness. It would also enable people to move areas in search of jobs thus leading to a fall in unemployment [L3].</p> <p>However, if the government spends money on housing subsidies then it cannot spend this money on education leading to an opportunity cost [L2]. In addition there is no guarantee that cheaper housing will mean higher demand because people may not be able to get a mortgage or to afford repayments [L3]. Builders, also, may become reliant on subsidies.</p> <p>Subsidies are difficult to remove once in place as this would probably lead to a sharp and sudden rise in price. It also interferes with the free operation of market forces which can have unexpected consequences such as a fall in all house prices so that owners are less willing to sell resulting in shortages of larger houses. It is clear that although subsidies might have some positive effects that overall these are outweighed by the problems of intervening in the</p>	8	<p>Indicative content:</p> <p>Positives may include:</p> <ul style="list-style-type: none"> • Increase in supply • Reduce prices • Increase the number of people who could afford houses • Reduce poverty/homelessness • Persuade builders to build • Increase employment, in the building and associated industries • Increase mobility of labour leading to rise in employment <p>Negatives may include:</p> <ul style="list-style-type: none"> • Lead to over-supply/insufficient demand • Builders become reliant on subsidies • Leads to inefficiency • Money could be spent on e.g. education or health [opportunity cost] <p>Allow any valid ideas. Candidates may make reference to ideas from other units of the specification.</p> <p>A diagram is not required, but should be awarded for L3 if correctly drawn/explained</p> <p>Where L3 is gained this must be shown.</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 positive and negative aspects of house building subsidies. Answers at the bottom may have a conclusion which is not clearly supported or an argument which is very largely one-sided possibly ignoring the negatives or a good discussion re subsidies, but very little reference to housing.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of points in relation to subsidies. At the top this will consist of both positives and negatives and make clear reference to housing. Answers at the bottom may be limited or only cover positives or ignores the house market.</p> <p>Level 2 [3-4 marks] Candidates are able to apply a number of factors in relation to subsidies. Answers at the top will clearly make reference to housing. Answers and/or development of</p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			market. [L4]		Quality of written communication applies to the marking of this question.	points are likely to be brief. Level 1 [1-2 marks] Candidates offer knowledge of subsidies
3	(a)		A product market is where goods and services produced by businesses are bought and sold	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)		<p>Indicative content:</p> <p>Labour:</p> <p>Reference is likely to be made to</p> <ul style="list-style-type: none"> • Skilled labour • Quality of the workmanship • Labour intensive <p>Enterprise</p> <p>Reference is likely to be made to</p> <ul style="list-style-type: none"> • Need to take risks • Innovation • Profits • Bringing the other factors together <p>Exemplar responses:</p> <p>Labour, if skilled,[1] is able to produce quality products [1]</p> <p>Enterprise bring the other factors together [1] in order to make profit [1]</p>	4	<p>Up to two marks for each correct explanation – 2x2.</p> <p>Candidates may focus on Haruki's business or on businesses in general or even another named business or business person.</p> <p>Answers must address the question re 'most important'. Do not allow general statements about 'you need labour to make things' as this could apply to any of the factories.</p> <p>Allow any valid idea.</p> <p>In each case there is 1 mark for a basic point [knowledge][and then 1 more mark for some development of this.</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>	

Question			Answer	Marks	Guidance																									
	(c)	(i)	<table><thead><tr><th>Number of pots</th><th>Fixed costs [£]</th><th>Variable costs [£]</th><th>Total Cost</th><th>Average cost</th></tr></thead><tbody><tr><td>40</td><td>200</td><td>400</td><td>600</td><td>15</td></tr><tr><td>50</td><td>200</td><td>500</td><td>700</td><td>14</td></tr><tr><td>60</td><td>200</td><td>520</td><td>720</td><td>12</td></tr><tr><td>70</td><td>200</td><td>710</td><td>910</td><td>13</td></tr></tbody></table> <p>Give 2 marks for a correct total cost column. Give 2 marks for a correct average cost column Give 1 mark for each correct row.</p>	Number of pots	Fixed costs [£]	Variable costs [£]	Total Cost	Average cost	40	200	400	600	15	50	200	500	700	14	60	200	520	720	12	70	200	710	910	13	4	<p>Up to four marks.</p> <p>A correct row is worth 1 mark e.g. TC 600, AC 15 =1 mark.</p> <p>A completely correct Total Cost column is worth 2 marks. If 3/4 of the figures are correct this is worth 1 mark. If 2 or less are correct give 0 marks.</p> <p>The same for Average Cost, but OFR applies, e.g. if for 40 pots the TC is given as 400 [X] the AC would be 10 so if all the TC column was incorrect it would still be possible to gain marks for the AC column.</p> <p>NB there are different ways of gaining marks as shown above.</p> <p>The correct figures are shown in bold.</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>
Number of pots	Fixed costs [£]	Variable costs [£]	Total Cost	Average cost																										
40	200	400	600	15																										
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		(ii)	<p>Indicative content:</p> <ul style="list-style-type: none">Average costs fell from £15 to £12, or when pots rose from 40 to 60, [1] and then rose to £13, or when pots increased to 70. [1]Average costs fell and then rose [1]Average costs went from 15 to 14 to 12 to 13 [1]Average costs generally decreases as coists spread across more output [1]	2	<p>Up to two marks.</p> <p>OFR applies - this must be indicated as OFR. In this case apply the mark scheme as shown in terms of fall and rise. No marks if the candidate says 'fell' or 'rose' on their own.</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>																									

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	(d)		<p>Exemplar response:</p> <p>The first benefit of growth for a firm is that it will lead to a larger market share [L1]. If the firm continues to grow they may be able to eliminate all of the competition and thus become a monopoly and be able to set the price for the market [L3]. While this is a big advantage it may result in government intervention and growth could be prevented. [L4]</p> <p>Another benefit is that growth will result in more sales [L1] and thus revenue and profit [L2]. This may come about as a growing firm can gain larger economies of scale resulting in falling average costs [L3]. Growth, however, may lead to diseconomies of scale so that profits will fall as costs rise [L4].</p> <p>Lastly by growing a business may be able to expand in to producing in overseas markets and become a multi-national [L2]. This will give it international market power as well as spreading its risks [L3]. Going into new markets, however, may leave it open to fiercer competition and the actions of other governments while it may not have sufficient knowledge to be successful [L4].</p> <p>Overall the greatest benefits are increased market share and profits which usually go together. Firms must be</p>	8	<p>Indicative content:</p> <ul style="list-style-type: none"> • Increased revenue • Increased profits • Increased market share • Increased market power • Remove competition • Economies of scale • Diseconomies of scale • Ability to expand internationally/become a multi-national company • Gain new ideas from other businesses <p>Allow any valid suggestion.</p> <p>Several economies of scale is an indication of L2. Candidates need to offer analysis which could include the idea of falling AC leading to lower prices, more sales, greater profits, etc.</p> <p>NB the question says '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 give a fully supported answer which clearly assesses at least three benefits of growth. Answers at the bottom will refer to a limited number of benefits and may offer a conclusion or comment rather than an assessment.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of benefits. To reach the top candidates must analyse at least two of the benefits they consider.</p> <p>Level 2 [3-4 marks] Candidates are able to apply knowledge of the benefits of growth. At the top there must be at least three benefits. Answers and/or development of points are likely to be brief.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of growth or may just list benefits or economies of scale.</p>

Question			Answer	Marks	Guidance	
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			careful not to over-expand when they may be subject to the actions of governments and other competitors. [L4]			

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