AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.1.1 ECONOMIC METHODOLOGY AND THE ECONOMIC PROBLEM

SCORE	PERCENTAGE
/69	%

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Mark schemes

1. D

[1]

2. B

[1]

3. **Areas for discussion include:**

- definition of the ‘fundamental economic problem’
- definition of PPF/PPD
- explanation of how a PPF shows the trade-offs implicit in an economy’s decision over what to produce and resource allocation
- explanation of opportunity costs
- explanation of why PPFs tend to be convex to the origin
- how all points on a PPF are productively efficient, where all factors of production are being put to good use and production is at its lowest cost
- how moving from one point on the PPF to another point on the PPF means necessarily sacrificing some production of the first good for the second
- how an economy at a point inside a PPF suggests unemployed factors of production, and that expanding production to the PPF can result in short-run economic growth
- the significance of shifts in the PPF outwards or inwards in terms of productive capacity
- explanation of why points on a PPF are productively efficient, but they aren’t all allocatively efficient
- a PPF drawn to show the possible production combinations between consumption and capital goods could be used to explain how dynamic efficiency is possible, if factor inputs are deployed to the capital sector, where the quantity and quality of capital might increase

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

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Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11 – 15 marks**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	**6 – 10 marks**
1	**A weak response provides an answer that:** • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	**1 – 5 marks**

[15]

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4.

Relevant issues include:

- the meaning of equity, eg basic notions of equity (to do with fairness and justice)
- the meaning of equality eg how evenly income and wealth are distributed amongst individuals, regions, ethnic groups etc.
- equality versus equality of opportunity, which is more subjective
- equity as a normative concept whereas equality/inequality can generally be measured and is positive concept
- the Gini coefficient as an indicator of the degree of inequality
- explaining vertical equity: treatment of people in different income and wealth positions based on their 'ability to pay'
- explaining horizontal equity: the same treatment of people with identical income and wealth
- describing how taxes can be progressive, proportional or regressive
- explaining how the switch to taxes on spending is likely to be regressive - as a general rule consumption expenditure represents a decreasing proportion of income
- however expenditure taxes can be made more progressive by applying different tax rates to different types of product, eg most food is zero-rated for VAT, could apply high rates of tax to 'luxuries'
- explaining the nature of taxes on income and why they can be made very progressive
- general conclusion that, other things being equal, such a policy is likely to make the distribution of income less equal
- use of evidence from the UK economy
- wider issues that might be considered either to reinforce of contradict the basic conclusion that such a policy will increase inequality, eg increases incentives and hence reduces the dependency culture, trickle-down effects, inequality in income inhibits equality of opportunity, cumulative causation – inequality generates more inequality.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

[15]

5.

The anticipated diagram would make appropriate use of diagrams, e.g. S & D analysis showing taxation, the effects of 'peak oil' (mentioned in the text) or another relevant example such as rising average costs.

Relevant issues include:

- For a relevant explanation of a finite resource e.g. in terms of a resource that once consumed cannot be replaced /renewed, or is limited in supply and therefore will become scarcer over time.
- Environmental policies might impose extra costs on businesses for example via taxes or through requirements for types of equipment, such as catalytic converters being fitted to cars. If these policies are unilateral, then international competitiveness might be damaged. There may be bureaucratic costs.
- Further elaboration of a relevant aspect, e.g. the effects of environmental taxes.

[9]

6. D

[1]

7. C

[1]

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8.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application which, at best, is very weak • includes attempted analysis which is weak and unsupported • includes attempted evaluation which is weak and unsupported.	**1 – 5 marks**

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Relevant issues and areas for discussion include:

- OPEC, as the dominant supplier, has some degree of monopoly power
- the ability of OPEC to have a significant impact on the overall supply of oil and hence its price
- the implications of the current cuts being achieved with the support of 11 non-OPEC oil producers
- the impact on revenues of raising the price when the demand for oil is relatively price inelastic
- the problem of deciding the quotas for each individual member of OPEC
- the tensions that operate in a cartel, ie collusion leading to joint profit maximisation but the short-run benefits to the individual producer of cheating on the agreement
- the significance of other producers who are not party to the agreement, eg the shale-oil and shale-gas industry in the US
- the long-run effects of a high price on exploration and the development of non-OPEC sources of supply, affecting the power of OPEC
- the effects of a high oil price on the development of other sources of energy, particularly renewables
- the effects of a high oil price on other related markets and hence the long-run demand for oil, eg electric vehicles, insulation and energy-saving measures
- if it can be achieved, the benefits of a high oil price for OPEC members, perhaps referring to some of the issues raised in the previous question
- the problems generated through instability in the price of oil
- should OPEC be aiming to achieve a stable, rather than a high, price for oil
- should OPEC allow the oil price to fall to drive competitors out of the market, eg the relatively high-cost producers of shale oil
- why the price of oil will affect each member of OPEC differently, eg each has a different break-even price and some rely on oil revenues more than others
- the consequences of a high oil price for the world economy and the impact of a slowdown in the world economy on oil producers
- political and social considerations.

Good answers are likely to identify both costs and benefits to the members of OPEC that would result from actions designed to restrict supply and raise the price of oil. They are also likely to consider the short-run and long-run consequences for the oil producers generated through the operation of the price mechanism and the feasibility of OPEC restricting supply in both the short run and the long run. The response should include a supported recommendation which could be in favour of action designed to raise, lower or allow market forces to determine the price of oil.

If a candidate's response includes discussion of the general welfare implications of OPEC restricting output to raise the price of oil, this can be given some credit. Similarly, discussion of the effects on oil consumers and the world economy can be rewarded. However, the context of the question means that discussion ought to focus on the costs and benefits to members of OPEC. If this is not addressed, the analysis is not well focused and the evaluation is likely to be limited.

A response that does not give any consideration to the impact of restricting the supply of oil upon the members of OPEC is unlikely to demonstrate the skills needed to achieve level 4.

The use of relevant diagrams to support analysis should be taken into account when assessing the quality of a candidate's response to the question.

An answer that does not include any evaluation or a supported recommendation must not be awarded more than 13 marks.

[25]

9. D

[1]

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