AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.1.7.1 THE DISTRIBUTION OF INCOME AND WEALTH

SCORE	PERCENTAGE
/543	%

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1. **Issues and areas for discussion include**

Introduction	• definition of market forces • distinction between insurance-based and tax-base systems • importance of the NHS 'free at the point of use' principle.
Developing the response to the question (Application)	• use of theory (monopoly, competition, efficiency) • discussion based on information from the data related to eg • practice in France • practice in Germany • practice in Spain • coordination across the EU (The EHIC) • US views of the 'European Model' • charging • internal markets • public-private partnerships.
Developing the response to the question (analysis)	• the nature of health services ◦ degree of monopoly; contestable markets ◦ imperfect/asymmetric information ◦ externalities • arguments for markets, eg ◦ rationing/signalling ◦ choice ◦ de-centralisation ◦ opportunity costs ◦ efficiency. • arguments against, eg ◦ market failure, externalities ◦ merit good ◦ income distribution ◦ imperfect information ◦ needs and wants ◦ economies of scale.
Evaluation	• efficacy of privatisation • critique of idea of increased choice for patients/competition between providers • bureaucracy of health reforms, eg doctors having to spend time commissioning services • comments on alternative arrangements, eg the German split between public, private, not-for-profit • possibility of 'cherry picking' by the private sector • NHS having to underwrite the private sector's errors, eg recent cases of implants • possibility that insurance leads to unnecessary procedures • economies/diseconomies of scale in the NHS • outcomes and results of PPPs • does the 'ownership' of assets and resources matter more than outcomes? • market failure versus government failure

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	• possibility that innovation in health care comes from government funded investment rather than private sector investment. *Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill*.

Also give credit for	• diagrams • an overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

[25]

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2.

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 and / or other issues in the time available.

Issues and areas for discussion include:

Introduction	• types of government action, eg: ◦ fiscal / taxes, welfare, payments in kind ◦ legislative, eg: • NMW, anti age / sex / racial discrimination • supply side policies: qualifications / life chances • ad hoc measures, eg 'supertax' on bank bonuses • general policy options, eg progressive versus regressive taxation • definitions of income, wealth, market forces
Developing the response to the question:	• consequences of market forces, eg: ◦ positive : efficiency, adjustment between emerging and declining industries; incentives, enterprise ◦ negative: inequality, poverty ◦ winners and losers ◦ trickle down • arguments for government action, eg: ◦ imperfect labour markets ◦ efficiency arguments, eg supply-side policy ◦ demand side policy ◦ the government is itself a major employer ◦ equality and aggregate demand. • arguments against government action, eg: ◦ government failure ◦ trade offs between incomes and employment ◦ costs of intervention, eg burden on the taxpayer / government debt ◦ savings, incentives.
Evaluation	• efficiency versus equity • the fairness and justice of reliance on markets (eg costs and benefits might accrue to different people / groups / firms) • relationships between equality and wider economic / social variables (as hinted in the quotation) • do market forces widen or reduce inequality? • market failure and government failure • greater case for targeting income or wealth? Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons.

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	However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the arguments for and against, and / or give economic reasons for justifying a course of action.
Also give credit for:	• reference to the UK and / or other economies • diagrams • an overall judgement on the issues raised

[25]

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3. **Issues and areas for discussion include:**

Introduction	• details of inequalities • the distinction between income and wealth • progressive, proportional and regressive taxation.
Developing the response to the question: **Application / Analysis**	• the relationships between income and wealth • examples of taxes on income and wealth • ways in which income affects wealth and wealth affects income • horizontal and vertical equity in the taxation of income and wealth • the use of taxes for re-distribution purposes • the effects of various taxes on income and wealth distribution • influences other than taxes, e.g. the provision of public services free at the point of use • ways in which taxing income affects income • ways in which taxing income might affect wealth • the concept of 'ability to pay' • the idea that progressive income taxes reduce incentives • demand side effects, supply−side effects.
Evaluation	• market forces versus government intervention • different treatment of income and wealth • income is not just wages: also rent, interest, profit • consideration of the claim for progressive income taxation made in the question • critique of various 'theories' such as 'trickle down' • reference to claims about relative success of more equal societies • strengths and weaknesses of alternative methods of redistribution, e.g. education and training, min wage. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• relevant use of examples • diagrams • an overall judgement on the issues raised

[25]

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4.

Define or explain inequality, eg in terms of unequal absolute / relative distribution of income and wealth and / or distinguish between income as a flow concept / reward to a factor and wealth as a stock concept / an accumulation of past savings out of income.

Explain causes, eg

- (Income) differences in earnings between households can arise due to eg fulltime / part-time work, male / female earnings qualifications and skills required, the economic significance of the industry.
- (Income) marginal revenue product and / or labour supply and demand
- (Wealth) differences in wealth between households, eg due to inheritance
- (Income / wealth) regional differences, eg due to industrial history, locational factors
- (Income / wealth) influences of the state, public services, taxation and benefits
- (Income / wealth) unemployment, old age, disability, single parenthood, home ownership, discrimination etc.
- (Income / wealth) the argument that wealth begets income and vice versa.

Maximum of 10 marks for causes if there is no reference to both income and wealth in this explanation.

[15]

6.

Explanation:

Explain (eg define / describe) wage differentials

- eg in terms of the payment of a different wage rate (or price of labour) to different groups of workers, and / or between individual workers within the same occupational group

Analysis:

Analyse **two** reasons for wage differentials, for example:

- differences in the supply of labour such as inter-occupational skills, training, responsibilities and elasticity of supply
- differences in the demand for labour (derived demand)
- differences in inter-industry marginal revenue productivity
- growth rates/competition between industries (eg the media are a growth industry, the DG of the BBC claims he could earn more elsewhere)
- regional differences/differentials encourage mobility
- non-market factors, eg government intervention, trade unions, professional groups
- discrimination.

[9]

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7. **Issues and areas for discussion include:**

Introduction	• definition of income • examples of minimum entitlements (eg minimum wage, universal benefits) • examples of 'hindrances', e.g. poor education, health, life chances; 'postcode lotteries.'
Developing the response to the question: **Application**	• use of theory • discussion based on information from the data related to fairness, e.g. distribution facts and figures (Extract D, lines 7-12)
Developing the response to the question: **Analysis**	• policies aimed at re-distribution, examples, effects, eg ◦ progressive / proportional / regressive taxes ◦ universal benefits ◦ EU social policies. • role of other policies, examples, effects, eg ◦ minimum wage ◦ anti-discrimination laws. • policies aimed at 'obstacles', examples, effects eg ◦ access to education / training ◦ social housing ◦ health care ◦ EU cohesion policies, e.g. skills training, business advice
Evaluation	• what is fairness? • conflict between policies, eg ◦ income tax: redistributive or disincentive? ◦ supply side / demand side • 'trickle down' arguments • idea of 'multiples' in public sector; appropriateness for private sector? • maximum wage idea • difficulty of defining 'fairness' • is it a question of either / or? Can different types of policies complement each other? *Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

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Also give credit for	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

[25]

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9. **Issues and areas for discussion include:**

Introduction	• meaning of 'differentials' • measurement of inequality • types of intervention (eg min/max wage).
Developing the response to the question Application/ Analysis	**Application** • candidate knowledge of, eg • inequality in the UK • recent issues, eg 'bonus culture' • the argument that inequality is economically dysfunctional. **Analysis** • arguments in favour of differentials, eg ◦ incentive arguments ◦ trickle-down ◦ encouraging enterprise ◦ encouraging work rather than welfare promoting efficient resource allocation • arguments for government action ◦ market failure ◦ counter-arguments to trickle-down ◦ general disadvantages of inequality (micro/macro). • examples of government action affecting equality, eg ◦ income/wealth taxes ◦ encouraging/discouraging a bonus culture ◦ minimum/maximum wages/ratios between top and medium pay • effects of government action, eg on patterns of spending (synoptic macro point: mpc and mps of low/high income groups) • the role of the government as an employer.
Evaluation	• overall assessment of whether inequality is 'good' for the economy • possible economic disfunctions of inequality (eg negative externalities, social costs, inflationary pressures, recession) • costs versus benefits of government action/inaction • equality of opportunity versus equality of outcome • equity, efficiency • market failure versus government failure • long run versus short run. *Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill*.
Also give credit for	• diagrams • an overall judgement on the issues raised. • examples.

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[25]

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10. **Issues and areas for discussion include:**

Introduction	• Meaning of a 'less equal society' • Measurement of inequality • Examples of government action resulting in inequality, eg ◦ regressive taxes ◦ reducing inheritance taxes ◦ encouraging a bonus culture ◦ removal of universal benefits ◦ raising entry barriers (eg. tuition fees) ◦ reducing the 'social wage' (reducing or slowing down increases in spending on public and merit goods) ◦ equality of opportunity/equality of outcome.
Developing the response to the question **Application/ Analysis**	• Benefits of inequality, eg ◦ incentive arguments ◦ trickle-down ◦ encouraging enterprise ◦ encouraging work rather than welfare ◦ impact on saving and investment • Costs of inequality, eg ◦ social cost, unrest, riots ◦ waste of talent ◦ lack of safety nets ◦ wider costs, correlations between inequality and wider economic and social issues ◦ macro effects of inequality and insecurity (synoptic points), eg ▪ downward multiplier ▪ boom and bust ▪ national income and welfare ▪ impact on output of policies to promote equality/inequality.
Evaluation	• questioning of individual alleged benefits, eg do managers receiving annual 'compensation' measured in millions really have an 'incentive' to improve efficiency? • questioning of individual alleged costs, eg is social unrest caused by inequality as such, or by unreal expectations or simple greed? • overall assessment of costs versus benefits • question of whether 'inequality' is an actual 'aim' of policy • for and against 'trickle down' ideas • impacts depend on the extent of inequality, time periods. *Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• diagrams • an overall judgement on the issues raised • examples.

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[25]

11.

A relevant explanation or definition of absolute poverty, eg in terms of a lack of access to a recognised minimum amount of resources. An example of a criterion, eg ‘living on a dollar a day’. For contrasting ‘absolute’ with relative.

Analysis of the links:

For example:

- ownership of water resources gives a source of income and wealth to those with the property rights since the water can be traded or used in production eg in agriculture or industry
- in turn, people with more income and/or wealth are more likely to have access to water than poorer people because they have a greater ability to pay
- richer countries can afford to invest in the necessary infrastructure such as reservoirs, pipelines
- irrigation improves the land and enables countries to lift themselves out of subsistence agriculture
- access to cheap clean water reduces the cost of living and boosts real income.

Making appropriate use of diagrams, eg supply of and demand for water.

[9]

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13. **Issues and areas for discussion include**

Introduction	• Definitions, examples: ◦ Incentives ◦ Disincentives ◦ Labour market
Developing the response to the question: **Application / Analysis**	Application • Ways of assessing 'fairness' • Equity and equality • Equity and efficiency • Ways of intervening in labour markets, eg ◦ Incomes policies ◦ Minimum and maximum wage rates ◦ Progressive, proportional, regressive taxation ◦ Anti-discrimination legislation ◦ Supply side policies ◦ 'Thatcherite' ◦ Third Way' ◦ Measures for occupational and geographical mobility **Analysis** • Fairness in terms of ◦ Income distribution ◦ Wealth distribution • Relationships between income and wealth • Horizontal and vertical equity • Taxes and benefits • Reasons for taxation ◦ Allocation (revenue raising) ◦ Stabilisation (macro objectives) ◦ Distribution (Progressive/proportional/regressive taxation).
Evaluation	• Difficulties of defining fairness • Are economists qualified to assess justice and fairness • Are unequal societies necessarily unfair (is fairness the same thing as equality?) • Is unfairness economically functional or dysfunctional (drip-down versus 'all in this together') • Possibility of labour market failure, and government failure in labour

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	markets • Relative efficiency of different types of intervention. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Diagrams ◦ An overall judgement on the issues raised ◦ Examples.

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[25]

15.

- **Distinguishing between equity and equality**, eg basic definitions of equity (to do with 'fairness), equality (to do with reducing 'differentials'/increasing opportunities/affecting outcomes).
- **Vertical equity**: The treatment of people in different income and wealth positions. Taxes can be progressive proportional or regressive. Switch to VAT is likely to be regressive because, assuming a wide range of goods and services are taxed, and as a general rule consumption expenditure represents a decreasing proportion of income the actual amount of tax paid will increase with expenditure but fall as a percentage of income.
- **Horizontal equity**: The treatment of people in similar earning positions. Policy effects depend on, eg the 'universality' or otherwise of the VAT, and whether, say, 'luxury' items can be identified and taxed at higher rates.
- **Equality**, eg it could be argued that the switch will affect life chances of both the better off and less well off by increasing 'incentives', and hence affect equality through trickle-down; or that the regressive nature of the switch and the resulting inequality is economically dysfunctional and will cause further inequality; or that the effects are neutral, and wealth taxes would have greater effects on equality than tinkering with income and expenditure taxes.
- Use of diagrams to help support explanations.

[15]

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16. **Candidates can approach the question with a focus on the UK government or government in general. Either approach can gain full marks.**

Issues and areas for discussion include:

Introduction	• Definitions/descriptions of, eg ◦ absolute poverty ◦ relative policy ◦ welfare benefits.
Developing the response to the question (application)	• Comments from own economic knowledge or based on the data, eg ◦ further comments on Extract A (international comparisons) ◦ various reasons for poverty **(Extract B)**, eg • child poverty • working poverty ◦ labour market failure: lack of earning power due to skills, etc ◦ trade unions in the labour market ◦ dependence on state benefits to subsidise low wages ◦ poverty and pensions **(Extract C)** • 'social costs' of inadequate pensions **(Extract C)** • policies of other countries **(Extract C)**.
Developing the response to the question (analysis)	• Re-distribution (taxes and benefits) and 'pre-distribution' (education, training, skills, life chances). Note; the phrase 'pre-distribution' need not be expected • Relationships between benefits and poverty • Low wages and poverty • Examples of policies on the supply side of the labour market, eg ◦ education and training ◦ minimum wage/living wage ◦ 'workfare' • Example of pensions as a merit good ◦ pensions are not a public good, but they could be treated as if they were: arguments for/against ◦ externalities imply under supply/under consumption, and an argument for direct government provision or subsidy.
Evaluation	• Different policies for the state sector and private sector • External influences, eg life expectancy, policies to balance government budgets, high income countries and low income countries • Spending on education and training: consumption or investment? • Market failure versus government failure, eg ◦ poor/asymmetric information ◦ markets tend to assess what is happening now, and are not good at looking ahead ◦ governments can look ahead, but can make incorrect assumptions, or come up with inaccurate forecasts. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

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Also give credit for	• Relevant diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

[25]

17.

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 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 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 one or more relevant issues identified • 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 and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	**1-5 marks**

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Relevant issues include:

- likely to increase the pay of the lowest paid employees
- the effect on the distribution of income
- the effect on employment and unemployment
- the effects on different types of workers
- the effects in a competitive labour market
- the effects in a non-competitive labour market
- the effect on firms' costs, profits and competitiveness
- the effect on productivity
- the effect on growth
- the effect on motivation, absenteeism and labour turnover
- the effect on inflation
- the effect on competitiveness and the balance of payments
- diagrammatic representation of the likely effects

[15]

18.

Relevant issues/logical chains of analysis include:

- relevant explanation of market failure, e.g. in terms of markets failing to achieve socially optimum price or output
- there is a lack of consumer information . Consumers do not know when they are likely to need a pension. They might have a high rate of time preference, i.e. prefer current consumption to saving for future consumption, because pensionable age seems a long way off
- assymetric information between consumers and pension providers (mis-selling of inappropriate pension products)
- strong externalities give pensions some characteristics of merit goods; there is an argument that they are more efficiently provided by the state
- inability of insurance-based pension providers to produce results in adverse economic conditions; e.g. falling pension fund returns due to low interest rates
- failure of occupational pension schemes due to weak regulation, the raiding of pension funds by directors during hard times
- appropriate use of diagrams, e.g. marginal private benefit, marginal social benefit

[9]

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Mark schemes

1. A

[1]

2. A

[1]

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3.

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 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**

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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 analysis which is, at best, very weak • includes attempted evaluation which is weak and unsupported.	**1-5 marks**

Relevant issues and areas for discussion include:

- the stability of the Brazilian economy
- political and social stability
- the rule of law and corruption
- whether the investment is likely to be profitable and whether it is secure
- the nature of any capital controls
- the infrastructure in Brazil
- the skills and abilities of the workforce
- financial and other support from the government
- regulations on business
- the tax regime; both corporate and individual taxes
- availability of finance
- the prospects for future growth of the Brazilian economy
- the size of the Brazilian car market and the potential for future growth
- access and proximity to businesses that can support the car industry, eg component suppliers
- potential for exporting cars from Brazil, eg access to other markets in the Americas
- the prospects for the value of the Brazilian currency, the real, and its stability

[25]

4. A

[1]

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5.

Relevant issues include:

- definition of unemployment
- voluntary and involuntary unemployment
- why some unemployment is inevitable
- UK unemployment levels in recent years
- unemployment leads to a loss of output and is a waste of scarce resources
- unemployment and living standards
- benefits of reduced unemployment on the tax and welfare expenditure of government
- unemployment and inequality
- benefits of reduced unemployment on social cohesion
- personal costs of a period of prolonged unemployment
- problem of long-term unemployment, eg hysteresis
- conflict of reducing unemployment with other macroeconomic objectives, eg growth and inflation

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.

[15]

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6.

Areas for discussion include:

- the meaning of income and wealth
- meaning and measurement of inequality
- examples of government action resulting in inequality, eg
    - regressive taxes
    - reducing inheritance taxes
    - encouraging a bonus culture
    - removal of universal benefits
    - raising entry barriers (eg. tuition fees)
    - reducing the 'social wage' (reducing or slowing down increases in spending on public and merit goods)
    - policies that inhibit equality of opportunity
- benefits of inequality, eg
    - incentive arguments
    - impact on labour mobility and resource allocation
    - trickle-down
    - encouraging enterprise
    - encouraging work rather than welfare
    - impact on saving and investment
- costs of inequality, eg
    - waste of talent
    - social cost, unrest, riots
    - lack of safety nets
    - wider costs, correlations between inequality and wider economic and social issues
- normative arguments relating to fairness and justice
- costs and benefits of inequalities income may be different from inequalities in wealth
- macroeconomic effects of inequality (synoptic points), eg multiplier effects, national income and welfare, impact on output and employment of policies to promote equality/inequality.
- questioning of individual alleged benefits, eg do managers receiving annual 'compensation' measured in millions really have an 'incentive' to improve efficiency?
- questioning of individual alleged costs, eg is social unrest caused by inequality as such, or by wider social factors?
- overall assessment of costs versus benefits
- impacts depend on the nature and extent of the inequality, eg due to age differences, social mobility over time

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.

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7.

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]

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8.

Areas for discussion include:

- roads as a scarce resource
- the negative externalities associated with congestion, eg the longer journey times for other road users
- what is meant by road-pricing and how it might be implemented (allow both tolls and congestion charges as forms of road-pricing or as alternative policies)
- other policies that might be employed such as: higher taxes on fuels, increasing the road fund licence, building more roads, subsidising public transport, investing in and improving public transport
- the extent to which roads display the characteristics of a public good and how has this been affected by developments in technology.
- congestion is most prevalent on certain roads and at certain times of the day
- how road-pricing might be implemented, eg charging drivers a price for each mile travelled with different prices for different roads and for different times of the day, perhaps mentioning automatic number plate recognition systems
- setting up tolls on major roads with the toll charge varying between peak and off-peak times
- how higher taxes on fuels would help to reduce congestion and the relevance of price elasticity of demand
- how subsidising, for example, bus and rail transport, will help to reduce congestion and the relevance of cross elasticity of demand
- the budgetary and cost implications of the different options
- possible unintended consequences of the different methods, eg the impact of road pricing on city centres, such as empty shops, higher prices for products as transport costs rise
- equity arguments, eg are indirect taxes regressive, should the road user pay or the taxpayer, the impact of the different policies on the poorest members of society, town versus country dwellers, commuters and businesses
- the likelihood of government failure, eg inadequate information means that the government may set an inappropriate price for using roads, eg a price that doesn't reflect the true cost of congestion, government policy is likely to be affected by public opinion and the reactions of voters.

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.

[25]

9.

B

[1]

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10.

Relevant issues include:

- the nature of economic growth
- short-run versus long-run growth
- UK economic growth and living standards
- UK economic growth, tax revenues, public spending and the budget balance
- UK economic growth, inequality and poverty
- UK economic growth and employment
- UK economic growth and inflation
- UK economic growth and the balance of payments, including export-led growth
- the relationship between the government's wider political and social objectives, eg political and military power, the environment.

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]

11.

D

[1]

12.

Areas for discussion include:

- the nature and examples of price discrimination
- allows the producer to convert consumer surplus into producer surplus
- how price discrimination allows the producer to increase revenue and profit compared to a single price
- relevance of price elasticity of demand
- how price discrimination enables the producer to reduce fixed costs by spreading demand more evenly, eg peak and off-peak rail fares
- better capacity utilisation by firms will lower costs and may lead to lower prices for consumers
- why price discrimination may increase total sales and generate economies of scale
- the use of price discrimination as a barrier to entry, reducing competition
- why price discrimination almost certainly means that some consumers will face a higher price than if there was a single price
- the use of price discrimination to cross-subsidise loss-making services
- some consumers will benefit from lower prices and products that might not otherwise be supplied
- equity considerations related to the redistribution of income that results from price discrimination.

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.

The use of examples to illustrate price discrimination should also be taken into account when assessing the quality of response.

[25]

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13.

Areas for discussion include:

- what is meant by inequality, eg income, wealth, health, social background
- inequality in the UK
- causes of inequality, eg differences in innate or acquired skills, differences in the marginal revenue product of individuals, inheritance, social factors
- inequality and incentives to work and enterprise
- inequality, resource allocation and the operation of the price mechanism
- the trickle-down effect
- inequality as a consequence of market failure
- inequality as a cause of market failure
- inequality and poverty are likely to result in a waste of human talent
- inequality resulting from and leading to the concentration of economic power
- how inequality might contribute to 'asset price bubbles' and macroeconomic instability
- impact of inequality on people's well-being and social factors such as crime, life expectancy and obesity
- why and how the consequences of different types of inequality may vary
- the impact of measures designed to reduce inequality
- the degree of inequality as a determinant of whether inequality is 'good for us all'
- is inequality good for any of us?
- the importance of value judgements, including fairness and justice.

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.

[25]

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14.

Level of response	An answer that:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	**7-9 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	**4-6 marks**
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	**1-3 marks**

A demand and supply diagram is expected, showing a rightward shift of the demand curve leading to an increase in both the price and quantity sold.

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Relevant issues include:

- relationship between income and mortgage finance
- as inequality increases, the better-off members of society can obtain larger mortgages
- more borrowing increases the demand for houses
- the inelastic supply of houses, particularly in the short run
- excess demand for houses, particularly at the top end of the market
- how excess demand at the top end of the market also affects prices at the bottom end
- houses as an asset and house purchase as a speculative activity
- rising house prices leading to higher demand, at least until 'the bubble' bursts.

[9]

16.

Response:	**Max 4 marks**
• includes evidence that shows that taxes and benefits have been successful in reducing inequalities in the distribution of household income in the UK • clearly explains how this data is evidence of reduced inequality	**4 marks**
• includes evidence that shows that taxes and benefits have been successful in reducing inequalities in the distribution of household income in the UK • unclear explanation of how this data is evidence of reduced inequality	**3 marks**
• includes evidence that shows that taxes and benefits have been successful in reducing inequalities in the distribution of household income in the UK • limited explanation of how this data is evidence of reduced inequality	**2 marks**
• includes evidence that does not clearly show that taxes and benefits have been successful in reducing inequalities in the distribution of household income in the UK • no explanation of how this data is evidence of reduced inequality	**1 mark**

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Relevant issues include:

- Evidence that the gap between those on the top quintile group and those on the bottom has narrowed because of the impact of tax and benefits is an indication of reducing inequality.
- Evidence that overall the final distribution of income between quintile groups is more even than original distribution of income is an indication of reducing inequality.
- the distribution of original income is more unequal than the distribution of final income, eg the bottom quintile has an original average household income of £6000 per year, whereas the top quintile has £87 000 (14.5 times as much). In terms of final income, the figures are £18 000 and £64 000 respectively (approx. 3.5 times as much)
- for the first 3 quintile groups, the final income is more than the original income but for the 2 richest quintile groups, final income is less than original income, eg bottom quintile £6000 and £18 000, 2nd £14 000 and £24 000, 3rd £26 000 and £31 000, whereas 4th quintile £44 000 and £38 000 and top quintile £87 000 and £64 000. This indicates that taxes and benefits have helped to make the distribution of household income more equal

[4]

18. D

[1]

20. **Areas for discussion include:**

- discussion of whether relative poverty is a problem, whether it is inevitable and insoluble.
- discussion of market forces
- the argument that some relative poverty has been created or reinforced by the state, through, for example the unemployment trap or a culture of benefits dependency
- discussion of the fact that the individual people defined as being in relative poverty have not always been so, and that the UK has reasonably good levels of social mobility with people moving in/out of relative poverty
- market forces can lead to job creation, providing one of the strongest routes out of poverty
- low labour taxes and low welfare spending provide stronger incentives for workers to escape poverty by their own means
- many problems associated with housing are linked to failures of policy rather than the market (eg lack of new homes resulting from Green Belt planning law, etc.)
- trickle down effects
- the need for government intervention to prevent wealth from being excessively concentrated in the hands of the rich
- why market forces are unlikely to deal adequately with some causes of poverty, e.g. poverty amongst the sick, disabled, the old and infirm
- arguments in favour of progressive direct taxes rather than regressive indirect taxes
- policies that retain an element of incentives, such as working tax credit
- the need for government intervention to establish a minimum level of essential human capital and physical capital investments (eg education and transport infrastructure)
- the tendency of markets to increase rather than decrease poverty
- the distinction between the impact of market forces on absolute, as opposed to relative, poverty.

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.

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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 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 • 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 to the given context 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 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 • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not 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 to the given context **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 to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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21. **Areas for discussion include:**

- a clear diagram of the Lorenz curve correctly labelled
- explanation of how perfect equality and perfect inequality are represented
- explanation of how the shape of the curve relates to the cumulative proportions of income and population
- the connection between the Lorenz curve and the Gini coefficient
- how the Lorenz curve and Gini coefficient could be used to show increasing inequality. This is most likely to be done by using the diagram to show 2 Lorenz curves on the same axes.

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.

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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22. **Areas for discussion include:**

- distinction between absolute and relative poverty
- measures of absolute and relative poverty in the UK
- drawing a distinction between wealth and income poverty
- drawing a distinction between poverty before/and after housing costs
- increasing tendency for those in poverty to be in work as a result of
  - low productivity and thus wages
  - low skills
  - flexible labour markets and lower trade union power
  - issues with the tax and benefit system – the poverty trap
- reasons why out-of-work people may be in relative poverty – the unemployment trap
- connections between the economic cycle and relative poverty
- child poverty.

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.

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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23.

Areas for discussion include:

- explanation of the distinction between wealth and income
- the sources of wealth (inheritance, gifts, accumulated earned income, etc.)
- the sources of income (wages, rent, interest, dividends, etc.)
- the trends in wealth and income inequality in the UK
- how useful it is to consider inequality as a snapshot in time rather than looking at inequality across entire lifetimes (eg students are very likely to have low income, but likely to have high social mobility)
- the consequences of wealth inequality
    - unequal distribution of property, causing some to live in low-quality homes, or having to frequently move house
    - asset bubbles and property speculation
    - the hindrance of social mobility via the wealthy affording better education, health, cultural goods
    - impact on poverty, including child poverty and pensioner poverty
    - impact on income inequality, as wealth creates income via interest, rent and dividends
    - the argument that only the wealthy can afford to take big risks as entrepreneurs, so have access to high risk/ high reward opportunities
    - envy and jealousy leading to social problems
    - intergenerational problems arising from (mainly) property inequality, the changing nature of university funding
- the consequences of income inequality
    - a sense of unfairness, especially if associated with discrimination or gender/race-based pay gaps
    - impact on aggregate demand
    - impact on economic growth and performance
    - impact on social indicators, such as crime, education, physical health, mental health
    - several of the factors listed above under wealth inequality
- analysis of policies currently used by the UK government (eg inheritance tax, income tax, capital gains tax, national insurance) and whether these are progressive, proportional or regressive
- analysis of other possible policies such as restrictions on second homes, ‘mansion tax’, forcing independent schools to charge VAT
- analysis of policies to prevent inequality between the top 1%/0.1% and the rest of the population
- the tendency of markets to increase rather than decrease inequality
- the argument that wealth and income inequality are not serious issues because of the trickle-down effect
- the argument that some degree of income and wealth inequality is inevitable in a market economy and perhaps desirable, to provide incentives and allocate resources effectively
- the argument that neither is worse than the other, that they are equally damaging.

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.

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 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 • 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 to the given context 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 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 • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not 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 to the given context **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 to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

24. D

[1]

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25. B

[1]

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