AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.1.7.2 THE PROBLEM OF POVERTY

SCORE	PERCENTAGE
/433	%

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1. D

[1]

2. **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.

[25]

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6.

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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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]

8.

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]

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9.

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.

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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10.

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]

11.

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]

15.

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.

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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]

16. C

[1]

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17. **Areas for discussion include:**

- definitions of inequality
- knowledge of recent statistics and trends in inequality
- discussion of measures of inequality
- discussion of the broad range of policies to tackle inequality, including
    - taxation
    - welfare state/social security provision
    - tax credits
    - inheritance tax/mansion tax/wealth taxes
    - equal opportunities legislation
    - policies to reduce inequality in market incomes, such as subsidised university tuition fees, minimum wages, state-funded school education/school lunches
- discussion of the benefits to such government policies
    - increases in aggregate demand from lower-income households having higher MPC
    - reduction in external costs of inequality such as lower crime, better mental health, better educational achievement
    - reduced poverty
    - improving incentive effects for those at the bottom of the income scale
    - reduction in speculative bubbles
- discussion of trickle-down economic theory and the idea that low-tax regimes encourage hard work, enterprise and investment
- the impact of government policies on tax revenue (ie the Laffer Curve)
- the idea that excessive tax will threaten job creation, encourage capital flight, brain drain and incentives to avoid tax
- how policies designed to reduce inequality may result in inefficient allocation of resources if some workers withdraw from the labour market
- knowledge of recent policies in the UK and elsewhere which have had an impact on inequality and other economic objectives.

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.

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 judgments 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 attempted 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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18.

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.

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[25]

19. B

[1]

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20.

Areas for discussion include:

- discussion of national minimum wages including why they have been introduced
- discussion of the distinction between the NMW and National Living Wage in the UK
- analysis of how a national minimum wage works in an otherwise competitive market, and the consequent theoretical impact
- analysis of how a national minimum wage works in a monopsonistic labour market, and the consequent theoretical impact
- arguments for a NMW
    - prevents exploitation
    - reduces in-work poverty and inequality
    - incentivises firms to invest in labour productivity-enhancing capital
    - boosts motivation amongst workers leading to enhanced productivity
    - can remove the ability of immigrants to undercut existing workers' wages, which brings costs and benefits
- arguments against a NMW
    - can create unemployment by setting a wage higher than the marginal revenue product of some workers
    - unemployment may be concentrated amongst low-skilled workers from disadvantaged backgrounds thus reinforcing existing inequality
    - certain sectors affected more than others (e.g. careworkers, hospitality, retail). Higher wage costs may lead to falling profits and business failure
    - where firms pass on higher labour costs to consumers via product prices, this may be regressive
    - administrative costs of introducing and uprating the minimum wage, along with policing and prosecuting firms that break the rules
- labour market flexibility and supply-side considerations
- impact on the economy as a whole e.g. cost-push inflation, international competitiveness
- evidence from the UK or elsewhere about the impact on the labour market and wider economy
- consideration of the level or 'bite' of the NMW
- market failure arguments
- government failure arguments.

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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[25]

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1.

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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2.

Issues and areas for discussion include

Introduction	• Definitions of ◦ poverty (relative/ absolute) ◦ taxes and benefits
Developing the response to the question:	• The nature, impact and success of taxes and benefits ◦ consideration of 'progressive' taxes versus regressive (and/or direct versus indirect) ◦ 'means tested' versus 'universal' benefits • Effects of taxes and benefits on ◦ distribution ◦ side effects on other functions of taxation: ◦ allocation ◦ stabilisation • Effects of taxes and benefits on the labour market, e.g. ◦ supply of labour ◦ flexibility • The implications of alternative policies, e.g. ◦ the national minimum wage ◦ provision of universal public services • Specific arguments for and against ◦ The narrowing of wage differentials ◦ A more equal distribution of income • General arguments about the role of government/ consequences of leaving wage determination to market forces

[25]

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5.

Explanation:

Define or describe 'poverty', e.g. by referring to absolute/ relative poverty.

- Discuss the economic effects of poverty, e.g. in terms of life-chances, e.g.
  - percentage of low income earners going to university
  - health / life expectancy
- differential impacts (e.g. gender, race, age groups)
- problems at the micro/macro interface, e.g. lower income groups, compared with high income groups, are less likely to:
  - save
  - spend
  - build up pension rights
  - and more likely to:
    - be on benefits
    - and in debt
    - and at more punitive interest rates
  - also
    - the cost of living for poorer people is arguably greater than that of higher income earners
- Discuss other relevant issues, e.g.
  - Relationships between income and wealth
  - The possibility of poverty becoming dysfunctional, causing, for example,
    - Industrial/ social strife
    - Costs on the government/ taxpayer

In terms of life chances poverty tends to be self-perpetuating. Poor people tend to come from families that were poor. Children from poor families do less well at school, reducing their chances of getting jobs that will lift them out of poverty. They also tend to be less fit and healthy, increasing the chances that they will live on welfare benefits rather than their own earning power.

[15]

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6.

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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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]

8.

For a relevant distinction e.g. absolute: in terms of a lack of access to basics / or in terms of an absolute poverty line (eg dollar a day); relative: lack of life chances or income in terms of a national average, or a percentage based poverty line.

Analysis **Examples of causes include:**
Significant shortages of education and training because of a lack of teachers / schools will reduce life chances and provide a 'vicious circle' of low wages leading to low taxation receipts and low investment in education leading to a less-qualified population.
Other possible causes, e.g. ownership of land and / or other assets, e.g. housing; imperfect factor mobility; social structure / discrimination; ineffective use of taxes / transfer payments; government pricing policies, subsidies, taxes, population growth, age distribution, etc unemployment, number of adults / children in household, low wages.
Make appropriate use of diagrams, e.g. supply of and demand for labour.

[9]

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9.

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 wellsupported 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 is shown • 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 impact on youth unemployment, e.g. does having a minimum wage for young workers encourage firms to substitute older, more experienced workers?
- the significance of elasticity of demand for labour
- productivity of young workers, especially trainees and apprentices
- the cost of training young workers
- impact on skill acquisition and investment in human capital
- the significance of the level at which the minimum wage is set for apprentices and young workers
- young workers who are living at home, may not be 'in poverty'
- equity issues
- short-run versus long-run effects
- regional differences in the cost of living
- differences in regional unemployment rates
- variations in the demand for labour and the supply of labour in different regions
- regional variations in types of employment
- the role of wage differentials in a market economy, e.g. the signalling and incentive functions
- wage differentials and labour mobility
- the significance of labour market imperfections
- the relevance of the level of welfare benefits, the replacement ratio and 'voluntary' unemployment
- costs of implementing and enforcing regional differences in the minimum wage and the risks of government failure

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

[25]

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11. **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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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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12. **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]

14.

- **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]

16.

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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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]

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