

Pearson
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Mark Scheme (Results)

Summer 2022

Pearson Edexcel GCE
In Economics A (9EC0)
Paper 03: Microeconomics &
Macroeconomics

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis** Up to 3 marks for: • the meaning of externalities, e.g. effect on third party, outside the transaction, difference between social cost and private cost (1). Points might include: • use of plastic which is hard to recycle/other single use plastic arguments (1) • HFSS food can cause obesity and have third party effects (1) • more congestion/air pollution from food deliveries (1) • (positive) externality due to rise in productivity generated by cash rich, time poor professionals might allow people do impact third parties positively (1) **Application:** 2 marks for data (1+1 or 2): • 1.4 billion containers (1) or other plastic items to allow food to travel safely e.g. heat retention (1) • over-consumption / order more food (1) e.g. impact on other NHS users (1) • HFSS food (1) • falling profit margins (1) or increased competition in food delivery might mean wages fall so fewer wider macro benefits (1) • don't even have to get up/lack of exercise of consumers ordering from their sofa (1) **NB 2 marks may be awarded for a diagram** e.g. a negative externalities in production of food that has to be delivered	**(5)**

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/implicit understanding:** (1+1) marks e.g. • demand is price inelastic means that the percentage change in price causes a smaller percentage change in quantity demanded • demand is income elastic means that percentage change in income causes a greater percentage change in demand **Application:** (1+1 or 2) e.g. • food delivery firms' charge of £5 is a very small percentage of consumer income so they might be seen as essential or basic goods (Ext B line 5) • three dominant firms Just Eat, Uber Eats and Deliveroo (Ext B line2) • The food delivery industry has boomed in recent years (Ext B line 2) • cash rich, time poor (Ext B line 7) • income growth prior to 2020 meant delivery has boomed • HFSS addiction/habit forming • Convenient mobile app, so PED inelastic • 5 times more expensive than cooking at home **Analysis:** (1+1) development of each type of elasticity, e.g. • if demand is price inelastic then **revenue** will rise for the firm when it raises price • habit forming behaviour so PED inelastic • few close substitutes so PED inelastic • small part of overall consumer spending so PED inelastic • food delivery services are a very small percentage of consumer income so they might be seen as essential or basic goods • if food delivery is a luxury the demand likely to be income elastic, e.g. then the firms will benefit in times of economic growth, but lose demand in a recession • if food delivery is a treat in an economic downturn then it is an inferior good **NB up to 2 marks may be awarded for diagram(s) (1+1)** **Evaluation:** (2 marks for any relevant point, or two points 1 +1) • the 30% of prices paid by restaurants is not seen by the consumer • depends on geographical areas e.g. rural vs urban areas. • the worldwide health crisis might have caused distortions in the data • third-party food delivery firms are inferior goods if demand rises when incomes fall • other factors affect demand apart from income, e.g., availability of substitutes (eating in restaurants is impossible in global health crisis)	

	• discussion of normal vs inferior question e.g. compared to eating in a restaurant or cooking at home • income elastic vs. inelastic e.g. demand for third-party food delivery is price elastic for some income groups when incomes fall as it takes up a larger percentage of income	**(8)**

Question Number	Indicative content	Mark
1(c)	**Knowledge 2, Application 2, Analysis 4** Points might include: • integration includes horizontal/vertical/ conglomerate joining of firms • leads to economies of scale • increased market share • removal of competition • increased monopoly power • international rivals can avoid taxes • prices higher for consumers • reduced choice for restaurants and consumers • monopsony power over restaurants • technical advantages of vertical integration • vertical power over firms can leave other firms with high barriers to entry • Just Eat has bought out rivals e.g. merger between Just Eat and Takeaway.com • Amazon has partially bought Deliveroo (16% so far) which may have saved it, and/or improved it on the tech side **NB effects might include more than one types of economies of scale, or other combined analysis. Award diagrammatic analysis e.g. economies of scale LRAC**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.

Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
1(c) continued	**Evaluation 4** • mergers might be necessary to ensure the survival of firms (e.g. Deliveroo case) • further mergers might be limited by the CMA • supernormal profits might lead to lower prices, better technology and/or a more consumer-led market • prices may fall due to fall in average costs due to e.g. economies of scale • diseconomies of scale	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
1(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of depreciation may include: • higher cost of imports of food and therefore higher cost of production for hospitality sector • lower profits for firms in hospitality • higher prices of food for consumers • consumers have lower standards of living if they are on fixed incomes/ • falling real incomes so demand for restaurant meals and food delivery services might shift left • workers have higher incomes if working in exporting firms in other industries, so might use more delivery services • restaurants might begin to use more locally produced food Macroeconomic effects of depreciation may include: • capital in-flows, e.g. benefits to multinational firms such as Just Eat for investment in the US using other currencies/ AD and/or LRAS shift out • cost push inflation/SRAS shifts in • more injections and fewer withdrawals leading to rise in AD and multiplier effect • increased employment • incentive to use transfer pricing • UK tourism might be boosted by depreciation which would improve local restaurants **NB for a Level 4 response there must be micro and macro effects and use of data with reference to restaurants or other food delivery services. Higher costs, changes in competitiveness, environmental changes could be seen as micro or macro, for example, can be used as either micro or macroeconomics.** **NB Effects in KAA could be used as evaluation and vice-versa.**	**(25)**

	9 marks for evaluation – points might include: • depends on the nature of the restaurant. Some try to use locally sourced ingredients • the pound has recovered significantly since 2016 • food costs are a small cost relative to other costs, e.g. rent and delivery • some restaurants are specialised in UK food so cost effect very low • other factors are more important, e.g. the heavy fiscal spending in response to the global health crisis • other factors determining capital inflows • relative depreciation or trade weighting of other currencies • offsetting costs with altering portion sizes or changing menu options • impact on tourism small relative to the increase in the production of food • regional differences with the UK e.g. whether there is a local food supply option • Marshall Lerner • J-curve	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
1(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effects of increased minimum wage Microeconomic effects may include: • rise in wages will benefit very low paid workers. Might be shown on increasing NMW diagram • effect on cost to firms e.g. reduced profit margins. Might be shown on a cost and revenue diagram. • excess supply of hospitality workers • effect on prices consumer surplus falls, output falls, price increases • impact on quantity of labour demanded/contraction of labour demand • impact on productivity • inefficient resource allocation due to distortion of price mechanism Macroeconomic effects may include: • income equality improvements – may use Gini/Lorenz • prices rise – inflationary effects • reduction in relative poverty • AD: increase in consumption as incomes increase/fall in investment as profits fall • SRAS: cost-push • LRAS: if investment falls, then LRAS shifts in • reduced employment • higher income tax revenue • lower unemployment related benefits **NB for a Level 4 response there must be micro and macro effect (s) and use of data with reference to restaurants or other food delivery services. Employment or welfare issues could be seen as micro or macro, for example, can be used as either micro or macroeconomics.** **NB Effects in KAA could be used as evaluation and vice-versa.**	**(25)**

	9 marks for evaluation – points might include: • effect on firms depends on how much wage costs are as a proportion of overall costs • impact on real output depends on level of spare capacity/elasticity of LRAS/magnitude of multiplier • effect on workforce of employment regulation depends on elasticity for demand for labour, and degree with which it can be replaced with capital • depends on PED of food delivery firm market as a whole • consumers might also have increases in wages so profits might not fall • some firms will face decreased demand and go out of business. Loss of jobs and other economic activity • depends on the PED and PES in factor market and product market as a whole • LRAS might rise as economically inactive workers enter labour force to look for jobs • higher tax revenue may not occur if unemployment increases or investment decreases • higher unemployment related benefits if unemployment increase • productivity/motivation arguments	

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.

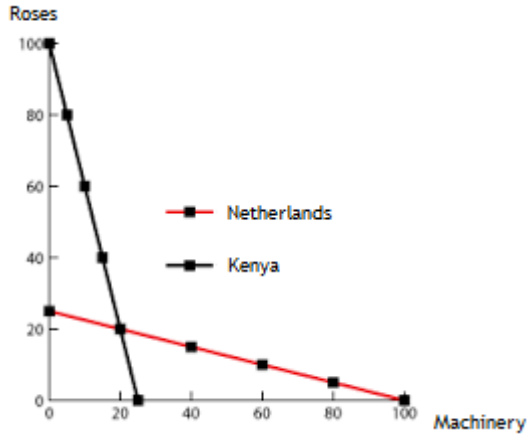
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

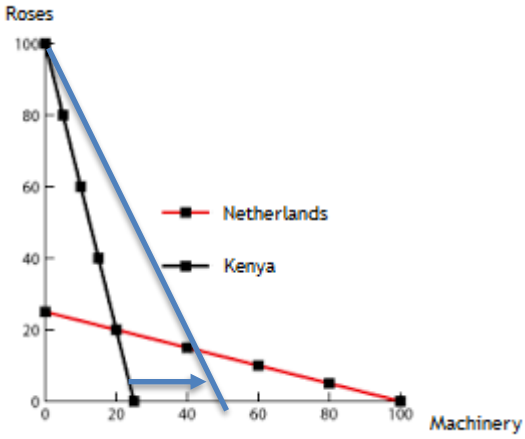
Evaluation		
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Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis: up to 3 marks.** **Points might include:** • Lewis model suggests that countries dependent on agriculture would see productivity gains and growth if they moved to industrialisation • unproductive agriculture moves to more productive and profitable manufacturing • reference to law of diminishing returns, e.g. farming has a very low marginal productivity • surplus labour moving to industrial production has very low opportunity cost • productivity gains in industrialisation means that the sector can grow (linear growth model) • dual economy of rural agriculture and urban manufacturing/reference to migration/mobility of labour • model of structural change e.g. increasing the industrial sector rather than agriculture • growth in industry and manufacturing can be achieved without reducing agricultural • everyone becomes better off than they were • movement away from subsistence sector (non-market transactions/informal sector/hidden economy) **Application (2 marks for 1 point, or 1 + 1)** e.g. • flower farming is more productive than traditional farming, and involves higher skills and technology than other agriculture • industrialisation can still involve agriculture • 'do more manufacturing or stay poor' • 'industries without smoking chimneys' • Kenya and processing of flowers • well paid jobs with greater opportunities	**(5)**

Question Number	Indicative content	Mark
2(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge/implicit understanding of two factors, which could either improve or worsen development** (1 + 1) e.g. • health care issues e.g. child mortality rates/changes in number of children • falling birth rate • fertility changes/other reproductive issues • increased life expectancy • higher school enrolment/literacy rates/other education • urbanisation • falling dependency ratio • larger population • larger workforce • declining family size **Application:** (1 +1 or 2): e.g. • Figure 2 shows 53.7 million population in 2020 • Kenya's population has doubled over the last 25 years, to about 40 million people (Fig 2) • due to high fertility in previous decades, there are many more families in Kenya today (Ext E) • life expectancy is projected to increase from 54 years today to 68 years by 2050 (Ext E) • only 6% over age 60 (Ext E) **Analysis** (1+1) Development of points made, **must make reference to development not just growth (might be implicit)** e.g. • higher literacy rates/life expectancy may mean higher productivity, greater employment opportunities • there are more people of working age relative to people who depend on them, so living standards will improve • smaller families will make it easier to borrow so there will be more investment to increase opportunity for firms to set up • falling birth rates mean savings are higher so there will be more opportunities to improve living standards	**(8)**

	Evaluation (2 marks for any relevant point, or two points 1 +1): e.g. • the population is rising very rapidly • changes will be seen over time • higher working population now is a benefit, but there might be a demographic time bomb when this generation is over 60 • comments about the relative significance of the factors/combination of factors	

Question Number	Indicative content	Mark
2(c)	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** • more flowers with a lower average cost than another country **Application** • heating costs make Dutch flowers more expensive to produce despite lower transport costs to the UK • high altitude with cool nights • proximity to equator and sunlight hours • cheaper labour • end to seasonal production • 365-day a year absolute advantage • application marks may be awarded on the diagram/table • Creates additional employment (100,000 directly and two million indirectly) **Analysis** Example of analysis:  Diagram showing outward shift in Kenya's PPF e.g.	**(8)**



Numerical analysis e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	25
Netherlands	25	100

Output, after specialisation:	Flowers	Machinery
Kenya	200	0
Netherlands	0	200

Leads to growth: this might be shown by an outward shift of the PPF, or use of output table, e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	100
Netherlands	100	100

NB for a Level 3 response there must be at least one valid diagram or numerical example clearly linked to costs absolute or comparative advantage (i.e. relative costs/opportunity costs)

Other analysis:

- countries can focus all of their production in one product and swap/trade it for a greater quantity of the other good.
- Kenya may benefit from economies of scale as they produce more
- enables larger exports and GDP
- example of before and after output and then gains from trade e.g. pre-trade 125F and 125M, after trade (full specialisation) 200F and 200M, so gains from trade = 75F and 75M

	• terms of trade lie between opportunity cost ratios • calculation of a suitable terms of trade e.g. F=2M, meaning Kenya can swap 200F for 400M **NB allow reference to comparative advantage also countries could have both absolute and comparative advantage. Allow diagrams/tables showing both concepts.**	

Knowledge, application and analysis		
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Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
2(c) continued	**Evaluation 4** • limitations of the model e.g. immobility of factors/trade barriers, transport costs, more products/trade conflicts or dependence between countries in the world/can average costs be easily compared/are there constant returns to scale? • if energy costs change then the absolute advantage might be eroded • monopsony buyers e.g. supermarkets make a huge advantage and erode any benefits for Kenya • global health crisis has reduced international flights so costs have risen/no spare capacity on flights • other factors that could have a more significant impact on growth e.g. interest rates • only 1% of GDP so may not be that significant • short run/long run considerations e.g. in changing from one type of production to another	**(4)**

Evaluation		
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Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
2(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects of decreasing interest rates • lower costs to businesses, so fixed costs fall and increase competitiveness. May be shown using a cost/revenue diagram • greater credit for businesses to expand/invest in R&D and gain dynamic efficiency • higher consumer demand as consumption increases; greater consumer surplus • impact on Kenya's housing market • Mr Matsiko in Ext G pays 22% not 7%, and there is a large information gap for lenders (asymmetry of information in credit markets) • labour market effects (derived demand) • lower prices for consumers • less available credit (so less investment, dynamic efficiency etc) Macroeconomic effects may include: • lower saving (unlikely in the context) but easier to borrow, so consumption and investment increases; hence AD rises with multiplier effects. May be shown using AD/AS analysis or diagram • lower exchange rates – improvement in current account position of BOP, with effects on competitiveness and trade • lower cost of financing public deficit/debt may mean greater government spending elsewhere • redistribution of income, e.g. from savers/lenders to borrowers • impact on LRAS/PPF over time if investment continues to grow **NB for a Level 4 response, there must be micro and macro effect(s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.** **NB if there is no reference to a developing country then award a maximum of Level 3 KAA.** **NB Effects in KAA could be used as evaluation and vice-versa. Counter-effects may be used as evaluation.**	**(25)**

	9 marks for evaluation – points might include: • interest rate is not the only cost for firms e.g. depends on how much the interest rate costs are as a percentage of costs overall • impact on real output depends on level of spare capacity/elasticity of LRAS/other components of AD • the central bank rate is not the rate that individuals can access • degree to which the factors might be a success • depends on other countries' interest rates are (relative competitiveness issue) • fixed interest rates and other short term/long term issues • interest rates are low in Kenya compared to other sub-Saharan countries • impact on borrowers will depend on whether people have assets or collateral • magnitude/pattern of the interest rate change	

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Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic strategies may include: • state provision or tax relief to encourage increased job opportunities • other attempts to encourage private production e.g. flower firms benefit from airport improvements • methods to improve value of workers' output e.g. vocational training at school, or improving student attendance • disease prevention and cures e.g. polio vaccine • infrastructure • skills • technology • government intervention e.g. minimum wage or subsidies Macroeconomic strategies may include: • trade liberalisation e.g. promote international trade, e.g. absolute advantage means there are gains from international trade but currently 90% flowers are from the Netherlands • privatisation – the flower industry is private • information and health assistance to lower birth rate • development of human capital, e.g. better healthcare in other areas, spending on education and skills • increased FDI by shoring up capital markets • aid • debt relief • microfinance **Accept standard government/international institution/NGO policies to promote macroeconomic stability or growth if linked to development e.g. fiscal policy aimed at reducing inequality** **NB for a Level 4 answer there must be reference to Kenyan data or another developing country** **NB many strategies such as vaccines, tourism, education/skills, privatisation, microfinance, supply side policies or infrastructure could be counted as macro or micro** **NB Counter-effects can be counted as strategies or evaluation**	**(25)**

	9 marks for evaluation – points might include: • There is a limit to what strategies can influence, e.g. health and education, if for example children are needed as a social insurance policy • Global health crisis has affected poor countries more profoundly • Comparison or contrast with another developing country or a more economically developed country e.g. as an example of how population growth can be limited	

Knowledge, application and analysis		
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