GCE A LEVEL MARKING SCHEME

SUMMER 2018

A LEVEL (NEW)
ECONOMICS - UNIT 3
1520U30-1

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INTRODUCTION

This marking scheme was used by WJEC for the 2018 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good learner to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

AO1 Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues

AO2 Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues

AO3 Analyse issues within economics, showing an understanding of their impact on economic agents

AO4 Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

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Q	Mark Scheme	Total
1. (a)	**Identify all levels of output at which this firm makes abnormal profit.** **AO2 – 1 mark** Output levels 1, 2 and 3	**1**
1. (b)	**Calculate average fixed cost when output is 5 units.** **AO2 = 1 mark** AFC = 150/5 = £30 (award 1 mark even if no £ sign) Award the mark even if no working is shown.	**1**
1. (c)	**Explain two reasons why the information shown in the table shows a firm operating in a perfectly competitive market in the short run.** **AO2 – 2 marks** Candidates can use the data to illustrate, for example, why this firm appears to have a perfectly elastic demand curve **and** is earning abnormal profits/is operating in the short-run: - AR and MR equal £325 at every level of output, indicating a perfectly elastic demand curve / price taking firm - Similarly, TR is an upwards sloping line - The firm is earning abnormal profit at output level 3 (its profit maximising point where MR = MC) - Diminishing returns 1 mark for data that supports perfect competition and 1 mark for data that supports the short-run **AO3 – 2 marks** A firm in perfect competition in the short run faces a perfectly elastic AR curve (and AR = MR) because they are price-takers. In the short run, a firm in perfect competition is able to earn abnormal profit, whereas in the long run this is competed away. To achieve AO3 marks, candidates must link their numerical observations from the data to the characteristics of perfect competition. 1 mark for analysis that supports perfect competition and 1 mark for analysis that supports the short-run	**4**

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Q	Mark Scheme	Total
2.	**Assess the likely market structure of the Cardiff restaurant market.** **AO1 – 1 mark** Understanding (implicit or explicit) of what is meant by a market structure **AO2 – up to 2 marks (1 mark for each piece of evidence used to a maximum of 2 marks)** Use of evidence, for example: - Differentiated goods – range of types of food from Italian to Ethiopian - Some price making power – fine dining and cheap eats - Relatively low barriers to entry – 30 new restaurants each year since 2012 **AO3 – 1 mark** Explain why the Cardiff restaurant market is monopolistically competitive **AO4 – up to 2 marks** Evaluating the market structure, for example: - Larger national chains such as Las Iguanas and Zizzi suggest a more concentrated market - Highly competitive market for Italian food but monopoly for Ethiopian food - Restaurants designated as “cheap eats” suggest more emphasis on price competition than non-price competition therefore not monopolistic competition - Recognition that the population of Cardiff and the Valleys is multi-national and multi-cultural which will have an impact on the nature of restaurant market structure - Contestable market, due to low barriers to entry Candidates may be rewarded with 2 marks for 1 evaluative point considered in depth, or 2 x 1 mark for evaluation that is more superficial. *This answer could be regarded as reversible i.e. candidates consider the restaurant market to be something other than monopolistically competitive, and then evaluate.*	**6**

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Q	Mark Scheme	Total
3. (a)	**With reference to the data, calculate the rate of economic inactivity in both England and Wales.** **AO2 – 2 marks** England economically inactive rate = 20.3% (calculation: 100 – 74.8 – 4.9) [1 mark] Wales economically inactive rate = 22.7% (calculation: 100 – 73.2 – 4.1) [1 mark] Do not penalise if no % sign given	**2**
3. (b)	**With reference to the data, discuss the view that the UK is an optimal currency area.** **AO2 – 2 marks** Candidates should select and refer to data from the table that are related to their discussion of whether or not the UK is an optimal currency area. For example: - Similar economic cycles: similar growth rates (Scotland, Wales and Northern Ireland all 2.2%) and similar unemployment rates - Fiscal transfers: poorest region Wales (in terms of output per head) pays a lower median amount of income tax than the richest region England 1 mark for a brief reference / quotation of data, up to 2 marks for each developed piece of data. **AO3 – up to 2 marks** Up to 2 marks for an explanation of why the UK is an optimal currency area, with reference to at least one of the main characteristics of an optimal currency area (strong labour and capital mobility, price and wage flexibility, similar economic cycles, and fiscal transfers). For example, each of the regions appear similar enough in terms of growth/inflation/unemployment rates to benefit from having the same currency and same monetary policy, and that there are clearly fiscal transfers from richer to poorer areas to ensure that regions have similar enough economic cycles 1 mark for one brief piece of analysis, up to 2 marks for one point well developed **AO4 – up to 2 marks** Up to 2 marks for an evaluation of whether the UK is an optimal currency area, for example: - There is some disparity between the richest area (England) and the poorest area (Wales) - Scotland receives more government spending per head than Wales despite having a higher output per head - Not enough data available to reach a conclusion i.e. no evidence of labour market flexibility, or price/wage flexibility etc. - Candidates may use their own knowledge e.g. London and SE England specialise in financial services, Scotland specialises in oil 1 mark for one brief piece of analysis, up to 2 marks for one point well developed *n.b. this is a reversible answer*	**6**

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Q	Mark Scheme	Total
4.	**With reference to the data and your own economic knowledge, outline why high GNI per capita may not necessarily result in a high value of the Human Development Index (HDI)** **AO1 – 2 marks** Understanding that GNI per capita is one of the 4 components of the weighted Human Development Index. Understanding that whilst GNI per capita is often correlated with the HDI, the HDI consists of other components including life expectancy at birth, expected years of schooling for children, and average years of schooling for adults – these factors may impact on the HDI (*n.b. some candidates may have been taught that there are just 3 components to the HDI, if they do not 'split' the education component into its two sub-components. This is acceptable).* **AO2 – 2 marks** Use of data, for example: - Chile and Equatorial Guinea have the same GNI per capita but Chile's HDI is higher, suggesting that healthcare and education is better in Chile - Gabon and Indonesia have the same HDI but Gabon's GNI per capita is higher than Indonesia's, suggesting that Indonesia's healthcare and education is better than Gabon's	**4**

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Q	Mark Scheme	Total
5. (a)	**With reference to Figure 1, describe the difference in railway usage when railways were nationalised as compared with being privately run.** **AO2 – 2 marks** 1 mark for identifying that the passenger journeys and passenger kilometres fell when railways were publicly run from about 1950 to 1994 1 mark for identifying that the number of passenger journeys and passenger kilometres increased significantly from 1994 following privatisation	**2**
5. (b)	**With reference to the data, discuss the view that renationalisation of the railways will lead to lower prices for passengers.** **AO2 – 2 marks** Up to 2 marks for identifying and using relevant information from the case study, on either side of the argument, for example: - High prices (24% higher now than in 1994) - Privatisation has led to a doubling in the number of train journeys i.e. an increase in demand, which has led to overcrowding (22% of London commuters and 14% of Manchester commuters having to stand) - Privatisation has led to an increase in investment i.e. possibly an increase in supply **AO3 – 2 marks** Explanation of why renationalisation may result in lower prices: - Nationalised firms are unlikely to have the business objective of profit maximisation therefore may be more allocatively efficient, leading to lower prices - The government will be a monopsony buyer of labour therefore wages for railway workers may be lower, therefore lowering business costs and possibly prices - Benefits of economies of scale leading to lower costs and possibly prices 1 mark for a brief piece of analysis, up to 2 marks for one analytical point relating to lower prices resulting from renationalisation considered in depth. **AO4 – 2 marks** Evaluation of the arguments as to why renationalisation may not lead to lower prices. - No guarantee that the problems that plagued privatisation wouldn't plague renationalisation e.g. strike action by workers will raise costs and could lead to higher prices - The possibility of a lower quality service may encourage current railway users to use alternative forms of transport – the costs of providing the railway service may then be spread over fewer customers which could raise prices - The government is already having to subsidise the railways by £5bn each year and its impact is currently having little effect – there's nothing to suggest that additional government spending would help to reduce prices. - Efficiency argument against nationalised industries that are natural monopolies- if a renationalised railway system is instructed to maximise profit it will become allocatively inefficient; if instructed to be allocatively efficient it will make a loss and may raise price to cover costs 1 mark for a brief piece of evaluation, up to 2 marks for one evaluation point considered in depth. Reward other valid arguments. **Reversible answer.**	**6**

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Q	Mark Scheme	Total
6. (a)	**Define 'GDP per capita at PPP'** **AO1 – 2 marks** Knowledge and understanding of what is meant by GDP per capita (1) • Value of a country's income/output divided by the number of people in the country Knowledge and understanding of what is meant by Purchasing Power Parity (PPP) • Conversion of GDP per capita into "spending power"	**2**
6. (b)	**With reference to the data, evaluate the link between aid (as represented by total aid inflow) and GDP per capita at PPP.** **AO1 – 1 mark** Knowledge and understanding of what is meant by aid (explicit or implicit): - Assistance required by one country from another - A transfer of resources from one country to another, often with no need to 'pay it back' - Types of aid e.g. humanitarian, project aid, technical assistance, bilateral / multilateral **AO2 – 2 marks** Use of data, for example: - Both Botswana and Ethiopia have received aid and over the entire period shown, GDP per capita at PPP has risen - Candidates may calculate aid per capita and relate that to GDP per capita e.g. in Botswana aid per capita was 1995 = \$57, 2000 = \$18, 2005 = \$26, 2010 = \$75 and 2015 = \$44 (i.e. aid per capita has fallen overall) and in Ethiopia aid per capita was 1995 = \$15, 2000 = \$10, 2005 = \$25, 2010 = \$40 and 2015 = \$40 (i.e. aid per capita has risen overall) - GDP per capita at PPP in Botswana has risen by 112% and in Ethiopia by 362% - Roughly negative correlation in Botswana and roughly positive correlation in Ethiopia **AO3 – 1 mark** Explanation of why aid should be linked to GDP per capita at PPP i.e. injection into the economy, can stimulate a multiplier effect / accelerator effect / trickle-down effect, can improve productivity etc. **AO4 – 2 marks** Why there may be no link between aid and GDP per capita at PPP - Candidates may use the data to show that whilst there may be some correlation between aid and GDP per capita it is not necessarily strong correlation, nor is it necessarily causal - Aid can be squandered / inappropriate, or linked with corruption - Depends on the type of aid e.g. humanitarian aid may not lead to growth but could prevent a reduction in productive capacity Up to 2 marks for one developed evaluative point, or 1 mark for each of 2 relevant evaluative points	**6**

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Section B – Data Response

Q	Mark Scheme	Total
7.	**Calculate:**	
	(a) GDP per capita in Tianjin as a proportion of GDP per capita in China as a whole. **AO2 = 1 mark** (30,611 / 14, 175) x 100 = 215.95%	**1**
	(b) GDP per capita in Gansu as a proportion of GDP per capita in China as a whole. **AO2 = 1 mark** (7, 419 / 14, 175) x 100 = 52.34%	**1**
	(c) Total income in Gansu as a proportion of total income in Tianjin. **AO2 = 2 mark** 1 mark in total for correct calculations of the total income in each province and 1 mark for the correct proportion calculation Total income in Gansu = 7419 x 25952 = $192,537,888 Total income in Tianjin = 30611 x 15319 = $468,929,909 Total income in Gansu as a proportion of total income in Tianjin = 41.1% n.b. accept proportions expressed in other ways e.g. ratios, fractions	**2**

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Q	Mark Scheme	Total
8.	**Assess two reasons why GDP per capita is not always a good measure of living standards in an economy.** **AO1 – 2 marks** [1 + 1] Identification of two reasons why GDP per person is not always a good measure of living standards in an economy, for example: - Ignores income distribution - Ignores remittances i.e. the difference between GDP and GNP - Ignores unpaid work around the home - Ignores voluntary work and barter - Ignores externalities associated with consumption and/or production - Ignores factors such as freedom from oppression, access to education etc. - Difficult to place monetary value of public sector services such as education - Possibility of black/grey markets n.b. accept any sensible reason **AO3 – 2 marks** Development of each reason identified, up to 2 marks for each to a maximum of 2. **AO4 – 2 marks** Evaluation (up to 2 marks for each reason evaluated), which could include: - GDP per person is a good enough measure because higher income allows people to be able to purchase goods and services including healthcare and education - Data collected by most countries therefore good tool for comparison - Not as subjective as some measures of development - Consideration of alternative measures	**6**

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Q	Mark Scheme	Total
9.	**With reference to the data, assess the view that globalisation is good for the Chinese economy.** **AO2 – 2 marks** Use of 2 pieces of data, linked to globalisation, from the case study, for example: - International trade has led to rapid growth of ports and coastal areas such as Shanghai and Tianjin, which have high income per head ($29,245 and $30,611 respectively) - Dynamic efficiency in coastal areas due to increased contact with the rest of the world (perhaps through knowledge transfer, inwards FDI etc.) - Rising inequality due to coastal areas benefiting from trade more than inland areas - Redistribution of income from areas benefiting from trade/globalisation to poorer regions (e.g. 10 of China's 33 provinces receive more than half their funding from richer regions) - Impact of 70% fall in coal/steel prices as global demand has fallen **AO3 – 2 marks** Explanation of how globalisation has led to one identified advantage. For example: - Increase in the value of exports relative to imports leads to an increase in AD and therefore an increase in real GDP - Building of infrastructure needed to access the global economy increases long run growth and the productive potential - Demand for labour is derived from the demand for exports therefore positive effects on employment **AO4 – 2 marks** Evaluation of whether globalisation is good for China. Evaluative points could include: - Need for further information, not just data on inequality and trade e.g. data on growth rates, employment, healthcare, education, HDI etc. - Globalisation has clearly been good for some parts of China and less so for others, although we cannot infer what the Chinese economy would have been like without greater openness to trade - Globalisation is about more than trade e.g. better communications (Chinese issues with state control of the media), capital flows (which are restricted into and out of China) etc. - Explanations of reasons why globalisation has been bad for China e.g. rising inequality and accompanying social problems, environmental degradation due to high volumes of manufacturing *n.b. this answer is reversible*	**6**

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Q.10	**With reference to the data discuss the view that government capital spending is a better method of reducing inequality in China than government current spending. [10]**		
Band	AO2	AO3	AO4
	4 marks	**2 marks**	**4 marks**
3	**4 marks** Use of data is excellent and fully integrated throughout the answer, with strong and accurate reference to both capital spending and current spending, and in the overall context of the Chinese economy		**4 marks** There are at least two excellent evaluative points. Answers in this band are likely to reach a clear and supported judgement about whether capital spending is better than current spending in reducing inequality.
2	**3 marks** There is good data use throughout the answer, referring to examples of both capital spending and current spending but with some imbalance between the two	**2 marks** Good analysis of how either government capital spending or current spending can reduce inequality	**3 marks** Good evaluation, making at least two evaluative points of which one will be well developed. There is an attempt to compare the effectiveness of capital and current spending in reducing inequality in China.
1	**1 – 2 marks** Limited reference to data – perhaps just capital spending or current spending	**1 mark** Limited analysis of how either government capital spending or government current spending can reduce inequality	**1 – 2 marks** Limited evaluation, perhaps just briefly focusing on how current spending may reduce inequality
0	**0 marks** No use of data	**0 marks** No analysis	**0 marks** No evaluation

Indicative content

AO2 - Reference to data:

- Examples of capital spending
  - Ports in the Special Economic Zones
  - Go West policy of inland infrastructure projects (roads, railways, oil pipelines)
  - Belt and Road policy in which the Chinese government injected $40bn and built transport hubs
- Examples of current spending
  - Redistributive fiscal policy, collecting tax from rich areas and redistributing to poor areas
  - 10 of 33 provinces receive over half of their funding from taxes raised outside the province
  - Spending on healthcare and education according to the hukou system of household registration
- Reference to unequal distribution of income from Figure 1, Table 1 or the text

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AO3 - Analysis issues (n.b. analysis must be focused on **reducing inequality**)

How capital spending can reduce inequality:

- Government capital spending causes LRAS / inelastic section of the AS curve to shift to the right, therefore leading to long run growth; the initial injection also causes AD to increase – this can reduce inequality if the capital spending occurs in poor areas, because output = income. Jobs are created due to capital infrastructure spending.
- Can be targeted in poor areas to create jobs, multiplier effects etc.
- Income and wealth from richer areas can be more easily distributed to poorer areas if infrastructure is improved e.g. migrant workers may find it easier to travel back home / send remittances, businesses may relocate to inland areas with cheaper labour / resources but still be able to access ports along the coast
- Inland infrastructure can help poor inland provinces connect with other South East Asian countries overland rather than having to send everything to Chinese ports

AO4 - Evaluation issues

Why current spending is also needed, and why capital spending may be ineffective:

- Current spending is also effective in reducing inequality: government current spending in poor areas causes AD to increase i.e. shift right, because G is a component of AD, therefore leading to short run growth – if the government spending is in the form of benefits then household income increases causing consumer spending to increase – poor households tend to have a high MPC so inequality may fall quickly
- Because the current spending is financed by tax from richer areas, inequality may fall more quickly as a result of current spending compared with capital spending, especially because of the multiplier effect
- Capital spending through the Go West policy seems to have only helped existing cities such as Xian and Chongqing, and not all poor areas
- Current spending may need to be differentiated according to which areas are poorest e.g. households in Gansu may need higher benefits than those living in Sichuan
- Capital spending may have a timelag and a larger cost
- Impact of capital spending depends on the state of the global economy i.e. manufacturing centres need customers!
- Evidence of wasteful capital spending e.g. Ordos in Inner Mongolia
- Capital spending alone is not enough – need for effective financial and legal institutions

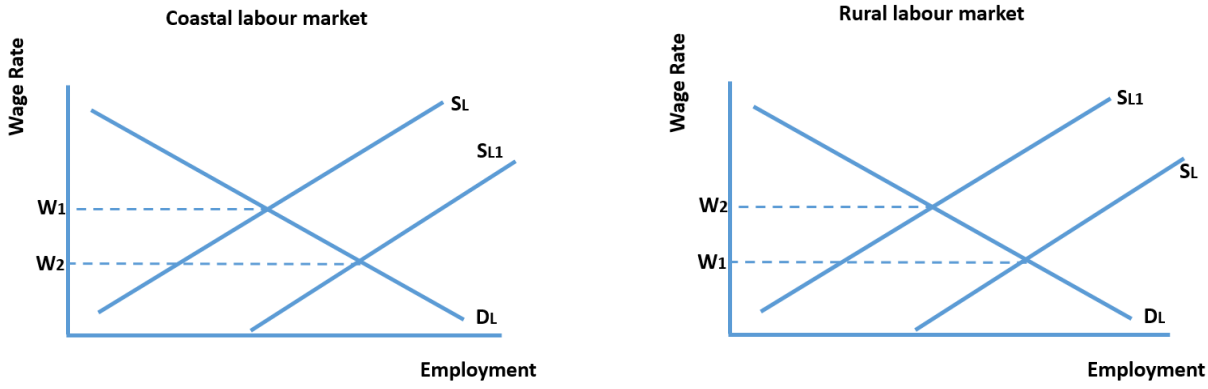
n.b. this answer is reversible.

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Q.11	**Using appropriate diagrams, explain why the migration of workers from inland China to coastal China should help to even out wages across the country. (line 50)** **[4]**	
Band	**AO1** **2 marks**	**AO3** **2 marks**
2	**2 marks** Two accurate diagrams (or one integrated diagram showing two different effects for rural / urban areas) that show both how wages will rise in inland China and how wages will fall in coastal China. Diagrams are accurate and well-labelled.	**2 marks** A good analysis that explains the change in wages in both inland and coastal areas of China.
1	**1 mark** Two diagrams (or one reasonable integrated diagram) that show both how wages will rise in inland China and how wages will fall in coastal China. There are likely to some issues with labelling and/or accuracy. Alternatively, there may just be one good diagram showing either the increase in rural wages or the decrease in coastal areas, but not both.	**1 mark** A limited analysis of the explanation of the change in wages in both coastal and inland China, or, a good analysis of either the change in coastal wages or inland wages.
0	**0 marks** No valid diagram.	**0 marks** No valid analysis.

Indicative Content

AO1 - diagrams



AO3 – analysis

- Movement of workers to the coast will increase the supply of labour in coastal areas, and, assuming that there are no market imperfections such as trade unions or minimum wages, the wage rate will fall – this is because at the existing wage rate of w1, there will be excess supply of labour
- Reduction of workers in inland areas will decrease the supply of labour in inland areas, and, assuming that there are no market imperfections such as monopsony employers, the wage rate will rise – this is because at the existing wage rate of w1, there will be excess demand for labour
- Consideration of the relative bargaining power of workers as supply of labour changes

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Q.12	**Discuss the view that economic development in China is more likely to be achieved through free market forces rather than government intervention.** **[10]**		
Band	AO2	AO3	AO4
	4 marks	**2 marks**	**4 marks**
3	**4 marks** Excellent and well-integrated use of relevant examples of both free market approaches and government intervention approaches in China that lead to economic growth and development		**4 marks** Excellent evaluation, in which it is likely that a clear and justified judgement is reached on whether market forces or government intervention is better for economic growth and development.
2	**3 marks** Good use of relevant examples of both free market approaches and government intervention approaches in China that lead to economic growth development	**2 marks** A good analysis of how free market forces or government intervention can lead to economic growth and development	**3 marks** Good evaluation in which economic theory and evidence is used The argument is mostly balanced, and evaluation points are reasonably well developed.
1	**1 – 2 marks** Limited use of examples about China, perhaps just in relation to government intervention or free market approaches, or not used in relation to economic growth or development	**1 mark** Some analysis of how free market forces or government intervention can lead to economic growth and/or development	**1 - 2 marks** Brief or one-sided evaluation and/or evaluation points are underdeveloped, perhaps just focusing on why government intervention is needed for growth and development with no clear judgement being reached
0	**0 marks** No valid use of examples	**0 marks** No valid analysis	**0 marks** No valid evaluation

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Indicative content

Possible AO2 points:

Free market benefits:

- Coastal areas benefit from strong network effects, dynamic efficiency and innovation
- 2% of GDP is spent by the private sector on R&D, contributing over 50% to Chinese growth
- The free market is working in the sense that many migrant workers are returning home and this is leading to rising costs of production in coastal areas relative to inland areas
- Hukou system is causing stress and breaking up families

Government intervention benefits

- Free market forces have led to the falling price of coal and steel, and are responsible for poverty in inland provinces
- Government spending has led to growth of 13% per year in Xian
- Capital spending on ports / transport links stimulates growth

Reasons for leaving growth and development to free markets

- Lower government spending can reduce national debt, and prevent crowding out
- Government may struggle to "pick winners" whereas spending on R&D by the private sector may be more successful, and lead to greater consumer choice and raise productivity
- Migrant workers may be happier / more productive if their families could accompany them and this could lead to increases in both AD and LRAS, as well as providing better healthcare and education for their children and therefore increasing development
- May encourage FDI as MNCs look for profitable opportunities – can in turn lead to knowledge transfer, capital transfer, job creation etc.
- Government intervention can be wasteful
- Market systems tend to be more allocatively and productively efficient

Reasons for government intervention to promote growth and development

- Free markets can lead to inequality as wealth becomes concentrated in the hands of business owners
- Governments can provide essential infrastructure and public goods that will not be provided by the free market, and also healthcare/education
- Redistributive fiscal policy
- Government intervention does not have to be costly e.g. the "twinning" of rich and poor areas for economic advice to be shared
- Multiplier effect

n.b. this is a reversible answer

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