GCE MARKING SCHEME

SUMMER 2023

ECONOMICS - UNIT 3
1520U30-1

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INTRODUCTION

This marking scheme was used by WJEC for the 2023 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.

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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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GCE A LEVEL ECONOMICS – UNIT 3

SUMMER 2023 MARK SCHEME

Question 1

The diagram below represents the costs and revenues of a price-making firm.

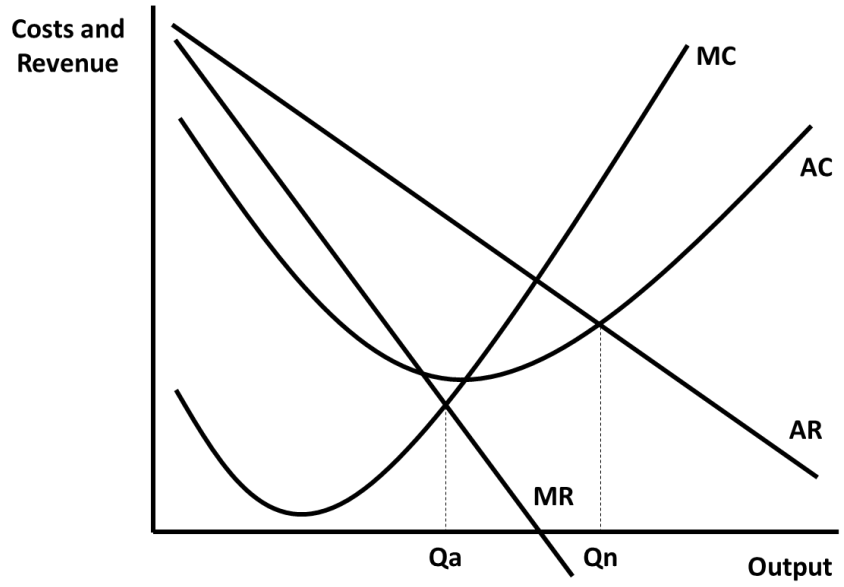
(a) Using the diagram, outline the difference between normal profit and abnormal profit. [4]

(2 x AO1, 2 x AO2)

AO1

- Definition of normal profit: Where economic profit is zero. Where firms make a sufficient amount of revenue to cover its costs, where AR = AC.
- Definition of abnormal profit: Where economic profit is positive. Where AR > AC.
- Direct comparison of normal and abnormal profit.
- Abnormal profit is where TR>TC and normal profit is where TR = TC.

AO2
Reference to diagram to show abnormal profit (1 mark) and normal profit (1 mark), for example only normal profits are earned at Qn where AR = AC, whereas abnormal profit is earned at all lower levels of output because AR > AC and is maximised at Qa. Also, award (1 mark) for identifying the area of abnormal profit.



Accept normal profit where candidates have shifted any of the curves to show normal profit being made at the profit maximising output.

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(b) Using the diagram, explain the law of diminishing marginal returns. [4]

(1 x AO1, 1 x AO2, 2 x AO3)

AO1

- Definition of diminishing marginal returns i.e. Is where marginal product falls. Is where the additional output from the employment of an extra factor is less than the additional output of the previous factor.

AO2

- Reference to diagram e.g. occurs at the point where MC starts to rise.

AO3

- Explanation of DMR, which may or may not be related to the diagram e.g., MC starts to rise when MP starts to fall. The link to the short-run and capital becoming increasingly scarce as more labour is added.

Markers note: If AC and not MC is considered, a maximum of two marks (AO1 1, AO3 1)

MAXIMUM MARKS FOR QUESTION 1: 8

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Question 2

The table below provides cost and revenue information for a small firm making wedding dresses.

Daily Output	Total Revenue	MR	Total Cost	MC
0	0		400	
1	500	500	800	400
2	950	450	1100	300
3	1350	400	1350	250
4	1700	350	1500	150
5	2000	300	1800	300
6	2250	250	2300	500
7	2450	200	3000	700
8	2600	150	4000	1000

(a) Calculate:

(i) Average fixed cost at the 4th unit of output **[2]**

2 x AO2
AFC = TFC / output = 400/4 = £100
Award one mark if there is no £ sign.

(ii) Marginal revenue for the 8th unit of output **[2]**

2 x AO2
Change in TR = 2600 – 2450 = £150
Award one mark if there is no £ sign.

(iii) Total variable cost when output is 2 units **[2]**

2 x AO2
TVC = TC – TFC = 1100 – 400 = £700
Award one mark if there is no £ sign.

For all 3 calculation questions above:

- full marks for the correct answer with £ sign.
- 1 mark for correct numerical answer but without £ sign.
- 1 mark for correct formula but incorrect answer.

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(b) The firm's production manager has set a target of 6 units of output each day. Assuming that the firm has the objective of profit maximisation, explain whether or not the production manager has made the correct decision. [4]

(2 x AO2, 2 x AO3)

Data references for AO2:

- At the 6th unit of output MR = £250 and MC = £500.
- At the 6th unit of output, TR – TC = -£50 which is less than at other units of output
- Also award candidates who determine that at the 5th unit of output, MR = MC = £300.

AO3:

- the 6th unit is contributing a marginal loss as MC > MR.
- this level of production is too high.
- Also award candidates who recognise that the 5th unit is where profits are maximised and so this is the better level of production given the business objective of profit maximisation.

MAXIMUM MARKS FOR QUESTION 2: 10

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Question 3

(a) Calculate the real price of a school uniform in 2020. You are advised to show your working. [2]

(2 X AO2)
£337/108 x 100 = £312.04

- 2 marks for correct answer, correctly rounded with units. Allow £312
- 1 mark for correct working but with incorrectly rounded answer / no £ sign.
- 1 mark in total when the candidate deducts 8% from £337. £337 x 0.92 = £310.04 (allow 1 mark with or without the £ sign).

(b) Assess whether the UK government should intervene in the school uniform market. [8]

(2 x AO1, 2 x AO2, 2 x AO3, 2 x AO4)

	AO1	AO2	AO3	AO4
Band 2	**2 marks** Good knowledge and understanding of government intervention	**2 marks** Good application to the UK school uniform market	**2 marks** Good one-sided analysis of whether the government should intervene	**2 marks** Good evaluation of whether the government should intervene
Band 1	**1 mark** Limited knowledge and understanding of government intervention	**1 mark** Limited application to the UK school uniform market	**1 mark** Limited one-sided analysis of whether the government should intervene	**1 mark** Limited evaluation of whether the government should intervene
Band 0	**0 marks** No relevant knowledge and understanding	**0 marks** No relevant application	**0 marks** No relevant analysis	**0 marks** No relevant evaluation

Indicative content

- Understanding: government intervention can occur due to concerns over competition and monopoly power, that can result in market failure. Regulations, information provision, and taxation are some controls used by governments.
- Higher nominal price of school uniform (increase of 6.6% in nominal terms)
  - BUT actually, a fall in real terms.
- Evidence of some rising monopoly power i.e. increasingly specialised uniform that can only be bought in one place – suggests a restriction of supply and a rise in price and inconvenience for shoppers – this could justify intervention.
  - BUT there is already government guidance suggesting that schools make it as easy as possible to buy uniform, and it may be easier for busier parents to have less choice.
- Impact on inequality i.e. data suggests that it is “simply not compatible with…supporting children from less well-off backgrounds” i.e. if uniforms are more expensive then this is effectively a regressive effect, and equality at school is important for greater equality later in life.
  - BUT this needs to be offset against availability and quality.
- Consideration of the type of intervention
  - Already many providers and schools can choose their supplier of uniform.
  - Intervention could cause confusion for parents.

MARKS AVAILABLE FOR QUESTION 3: 10

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Question 4

(a) Define the term "inflationary expectations". [2]

(2 x AO1)

- The rate of increase in prices [1] that are anticipated in the future [1]

(b) "The Phillips curve relationship no longer exists". To what extent does this appear to be true in the US? [10]

(4 x AO2, 3 x AO3, 3 x AO4)

	AO2	AO3	AO4
Band 3	**4 marks** Excellent use of data applied to the Phillips curve. Excellent use is made of at least 2 of the Figures, or good use of all 3 Figures. References are made to the data to form both sides of the argument.		
Band 2	**2–3 marks** Good use of data applied to the Phillips curve Good use is made of at least 2 of the Figures, or some use of all 3. Answers in the top of this band are likely to use data for both sides of the argument.	**2–3 marks** Good one-sided analysis of whether the Phillips curve relationship exists. Analysis is detailed with a developed chain of argument.	**2–3 marks** Good evaluation of whether the Phillips curve relationship exists. A well-developed counter argument(s)
Band 1	**1 mark** Limited use of data applied to the Phillips curve There is good use of just 1 Figure, or weak use of more than 1 Figure.	**1 mark** Limited one-sided analysis of whether the Phillips curve relationship exists. Analysis is superficial.	**1 mark** Limited evaluation of whether the Phillips curve relationship exists. Both sides of the argument are considered but not developed.
Band 0	No relevant application	No relevant analysis	No relevant evaluation

Markers note for AO2: If data is only used to form a one-sided answer, award a maximum of two marks for AO2.

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Indicative content

- Understanding / analysis of the SR Phillips Curve relationship i.e. an inverse relationship between the unemployment rate and the wage inflation rate (candidates may ignore the 'wage' inflation aspect of the original Phillips curve explanation – this is acceptable).
- Understanding / analysis of the LR Phillips Curve relationship i.e. expectations augmented Phillips Curve leading to a series of curves, and ultimately a LRPC at the NAIRU i.e. no-long run relationship between unemployment and wage inflation.
- Data references supporting the view that the SRPC relationship is valid:
  - Between 2013 and 2020, US wage inflation rate rose overall from 2% to around 5% and at the same time the unemployment rate fell from around 7% to around 3.5%, suggesting that there is a trade-off i.e. a SRPC relationship.
  - In 2020, unemployment increased very sharply to around 15% and the wage inflation rate fell rapidly to -7%, before an improvement causing unemployment to fall to around 8.5% and wage inflation to approach 0, again supporting the SRPC relationship.
- Data references suggesting that the SRPC relationship isn't valid:
  - For most of the period shown, the wage inflation rate fluctuated between 3% and 6%, with a tendency towards 6%, despite the downwards trend in unemployment, suggesting that the relationship isn't very close.
  - The data on the wage inflation rate is more volatile than that of unemployment.
- Wage inflation rates in general are more volatile than general CPI inflation rates. Data references considering the LRPC.
  - Inflationary expectations are a little volatile, but mostly between 2.5% and 3% - note that the axes on this data chart may over-emphasise volatility.
  - Wage inflation is generally higher than inflationary expectations, suggesting that wages have been rising more quickly than expectations – this suggests an outwards shift in the SRPC.
- Evaluative points relating to the data:
  - Having the CPI inflation rate would be useful in addition to the wage inflation rate.
  - How are inflationary expectations measured?
  - Difficult to draw conclusions when there are unusual data points e.g. the macro data for 2020.

MAXIMUM MARKS FOR QUESTION 4: 12

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SECTION B

Question 5

With reference to the EU, outline what is meant by economic integration. [4]

(2 x AO1, 2 x AO2)

- Understanding of “economic integration” e.g., unification of (macro) policies between 2 or more countries (note: accept other definitions – explicit or implicit – of economic integration, for example eliminating trade barriers between countries).
- Some candidates may show an understanding of the different types of integration such as a free trade area, customs union, and single market.
- Evidence / application: European Union is a customs union with a single market, and some member states (Euro Area) also have monetary union with a single currency; the data says there is no official fiscal union but countries have worked together for joint borrowing, and there is redistribution of some revenue via grants and loans.
- The integration within the EU will become deeper if/when countries with ‘candidate status’ such as Turkey and Albania join.

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Question 6

With reference to the data, describe what is meant by an optimal currency area. [6]

(3 x AO1, 3 x AO2)

	AO1	AO2
Band 2	**2–3 marks** Good knowledge and understanding of optimal currency areas. Two or more features / characteristics are described.	**2–3 marks** Good use of data applied to optimal currency areas. There are two or more appropriate references to the data.
Band 1	**1 mark** Limited knowledge and understanding of optimal currency areas. At least one feature / characteristic is identified.	**1 mark** Limited use of data applied to optimal currency areas. There Is one appropriate reference to the data.
Band 0	No relevant knowledge and understanding	No relevant application

Indicative content:

- Optimal currency areas:
  - A geographical area in which it is most efficient to have one currency for the whole area to optimise economic performance.
  - Features / characteristics include:
    - Good labour (factor) mobility so that there are no pockets of high unemployment.
    - Price and wage flexibility, so that imbalances between areas are easily corrected.
    - Similar economic cycles i.e. peaks and recession at the same time.
    - Ability to make fiscal transfers across the area to help tackle imbalances.

- Data references
  - Euro Area has a common currency.
  - There are fiscal rules to help keep economic cycles quite similar.
  - European Regional Development Funds (fiscal redistribution) can help to deal with imbalances between richer and poorer areas.
  - Central EU budget allows fiscal redistribution.
  - Own knowledge of European Union allowing factor mobility.

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Question 7

Discuss the extent to which Croatia will benefit from being a member of the Euro Area (lines 8-9) [10]

(3 x AO2, 3 x AO3, 4 x AO4)

	AO2	AO3	AO4
Band 3			**4 marks** Excellent evaluation of Croatia's decision to join the Euro Area. Answers within this band are likely to have a judgement that weighs up both sides of the arguments.
Band 2	**2-3 marks** Good application to the context of Croatia and the Euro Area. To achieve top band 2 (3 marks), data is used to support both sides of the argument.	**2-3 marks** Good analysis of the benefits (or drawbacks) to Croatia from joining the Euro Area Analysis is detailed with a developed chain of argument(s).	**2-3 marks** Good evaluation of Croatia's decision to join the Euro Area. A well-developed counter argument(s)
Band 1	**1 mark** Limited application to the context of Croatia and the Euro Area	**1 mark** Limited analysis of the benefits (or drawbacks) to Croatia from joining the Euro Area. Superficial analysis.	**1 mark** Limited evaluation of Croatia's decision to join the Euro Area. Candidates may recognise benefits and drawbacks of EU membership without development.
Band 0	No relevant application	No relevant analysis	No relevant evaluation

Markers note for AO2: If data is only used to form a one-sided answer, award a maximum of two marks for AO2.

Indicative content

Data references:

- Shared monetary policy, set by the ECB.
- The Croatian Prime Minister said, "The introduction of the euro will make our economy more resilient and raise the standard of living of the population in the long term."
- The response of the media in Croatia has also been largely positive, as commentators believe that interest rates will be low and credit ratings will be high.
- There are fiscal rules, such as keeping budget deficits and government debt below certain thresholds.
- Many Euro Area economies have failed to keep to the fiscal rules - there is no mechanism for removing them from EMU for this failure.
    - this increases economic instability in the Euro Area.
    - this also makes it more difficult for the ECB to set an interest rate that meets the needs of all Euro Area countries.

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Possible analysis points:

- ECB is a credible central bank that has a good track record on keeping inflation low within the Euro Area, therefore reduced inflationary pressure.
- Lower interest rates and greater confidence in Croatia can lead to rising investment and therefore short-run and long-run growth.
- Less exchange rate volatility can increase price transparency for households and businesses, improving efficiency and further improving confidence.
- Lower transaction costs when trading with other Euro Area countries.
- Greater employment in export industries.

Possible evaluation points:

- ECB monetary policy has been effective in the past few decades when there have been relatively few external inflation shocks – Croatia has joined the Euro Area at a time of increasing global inflationary pressure which the ECB may be unable to act effectively against.
- One size fits all monetary policy is not always useful – Croatia's economy may be affected differently to other Euro Area economies.
- Other factors will affect confidence in the Euro area, not just membership of the Euro.
- Croatia's factor costs are likely to be lower than countries such as Germany, improving their price competitiveness.
- It depends on the productivity levels in Croatia to the rest of the EMU when determining price competitiveness and unit labour costs.
- No devaluation option/independent exchange rate policy.

Nb this is a reversible answer

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Question 8

Assess the likely impact of the European Regional Development Fund (ERDF) on the development of poor areas within the European Union (lines 29-30) [8]

(2 x AO2, 2 x AO3, 4 x AO4)

	AO2	AO3	AO4
Band 3			**4 marks** Excellent evaluation of the impact of the ERDF on EU development Answers within this band are likely to have a judgement that weighs up both sides of the arguments. There is clear reference to the development of poor areas within the EU.
Band 2	**2 marks** Good application to the ERDF and EU development.	**2 marks** Good analysis of the positive or negative impact of the ERDF on EU development Analysis is detailed with a developed chain of argument. The focus is on the impact on development.	**2-3 marks** Good evaluation of the impact of the ERDF on EU development A well-developed counter argument(s) The evaluation focuses on the impact on development.
Band 1	**1 mark** Limited application to the ERDF and/or EU development.	**1 mark** Limited analysis of the positive or negative impact of the ERDF on EU development Analysis is superficial. Analysis may not always consider the impact on development.	**1 mark** Limited evaluation of the impact of the ERDF on EU development. Candidates may consider positive and negative impacts of the ERDF without development of answers. Evaluation lack focus to the impact on development.
Band 0	No relevant application	No relevant analysis	No relevant evaluation

Markers note: The answer is reversable so a two-sided answer, the more developed side can be awarded the AO4 marks.

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Indicative content:

- Understanding of development i.e., improvement in living standards (higher income, more opportunities, better health / education, better access to essential services etc).

- Mix of small and large projects – can be targeted at specific areas in need.
- Reference to specific projects shown in Figure 1 and link to impact on development, for example:
  - Hungarian rail network improvements – improves labour mobility / geographical mobility, making it easier to find work therefore raising income.
  - Bulgarian health care improvements – can improve life expectancy which is a key aspect of the HDI.

- Comments on the data
  - Need for more data on development.
  - The largest value is for broadband spending in Greece but it may be unclear how this supports improved development and whether it is more of a "nice to have."
  - Some of the spending is relatively small and therefore may have minimal impact; also depends on whether the spending is via grants / subsidies, or loans.

- Other evaluative comments
  - Depends whether the ERDF funding works in tandem with the NextGenerationEU funding via grants and loans.
  - Impact on development may depend on the strength of multiplier effects.
  - As the EU enters a recession, funding for ERDF projects may get pulled.
  - Negative externalities of production may occur through the development of the projects.

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Question 9

Discuss the view that the "the picture is not good" [line 52] in terms of the European Union's impact on global development. Refer to Figures 2 and 3 in your answer. [12]

(3 x AO2, 3 x AO3, 6 x AO4)

	AO2	AO3	AO4
Band 3			**5-6 marks** Excellent evaluation of the EU's impact on global development Answers within this band are likely to have a judgement that weighs up both sides of the arguments. There is clear reference to the EUs impact on global economic development.
Band 2	**3 marks** Good application to the context of the EU's impact on global development. Good use of Figures 2 and 3 are used to form arguments. Data is used to support both sides of the argument.	**3 marks** Good one-sided analysis of the EU's impact on global development. Analysis is detailed with a developed chain of argument(s). Argument(s) focus on the impact on global development.	**3-4 marks** Good evaluation of the EU's impact on global development A well-developed counter argument(s) The evaluation focuses on the impact on global development.
Band 1	**1-2 marks** Limited application to the context of the EU's impact on global development. Data is used from figure 2, figure 3 or the case study to build arguments.	**1-2 marks** Limited one-sided analysis of the EU's impact on global development. Analysis is superficial. Analysis may not always consider the impact on global development.	**1-2 marks** Limited evaluation of the EU's impact on global development Candidates may consider the positive and negative impact of the EU on global economic development with limited development of answers. Evaluation lack focus to the impact on global development.
Band 0	No relevant application	No relevant analysis	No relevant evaluation

Markers note: The answer is reversable so a two-sided answer, the more developed side can be awarded the AO4 marks.

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Indicative content:

- Extract 3:
  - 6 European countries have met their SDG pledge – this is positive for global development.
  - In 2021, the EU committed to increasing its financial support from €25bn to €29bn to help developing economies deal with the effects of climate change – this can have a significant impact on development if it means that crops may be less affected and housing is not washed away in floods etc.
    - BUT depends on where it is targeted.
    - BUT depends on how this links with the pledges made at COP27.
  - EU is the largest global provider of international aid (45% of the total) – much more than the US at 24%.
    - BUT – is this actually a large value? And, the EU consists of many countries. Could this figure also include spending on development within the EU itself e.g. the EDRF?
  - The original aid plan prior to EU budget discussions during the global health pandemic amounted to €70.8bn of spending on developing economies and the additions of extra spending of €10.5bn on development funding and €5bn on additional humanitarian aid.
    - BUT, the cuts don't amount to a large proportion.

- Figure 2:
  - Turkey is the largest recipient of aid, perhaps because it is a potential member state of the EU and therefore seen as a valuable market to support.
  - Many of the top 10 countries are actually middle-income countries and not the very poorest developing economies.
  - There are many poorer countries that are not receiving very much if anything – this will do little for global development.
    - BUT this depends on whether there may be regional multipliers.

- Figure 3:
  - Health and education are key factors in the HDI – amount to 18% of total EU aid spending, and so HDI in countries receiving this aid should rise.
    - BUT: consider whether 18% is a low value or not.
  - 6% of spending goes just on admin – suggests that distribution is inefficient?
  - 10% goes towards refugees who have already made it to donor countries, rather than those still fleeing persecution and other issues.
    - BUT: some of this may be sent by refugees to family back home.
  - Unclear what is meant by multipurpose / multilateral.
  - Other issues:
    - Consideration of the impact of different types of aid e.g., humanitarian / emergency response etc.

Nb: this is a reversible answer.

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