

WJEC A-LEVEL ECONOMICS

ECONOMICS



EXAM QUESTION PACK

UNIT EC2 OLD SPECIFICATION PAPERS

STEMUP

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GCE AS/A level

1132/01



S15-1132-01

ECONOMICS – EC2

P.M. TUESDAY, 19 May 2015

2 hours

1132
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a WJEC 20-page answer booklet (pink), which has been specifically designed for this examination paper. No other style of answer booklet should be used. Should you run out of space, use a standard 4 page continuation booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.
Do not use pencil or gel pen.
Do not use correction fluid.

Answer **all** the questions in Section A.
Answer **one** question from Section B.
Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Use both sides of the paper. Write only within the white areas of the book. Write the question number in the two boxes in the left hand margin at the start of each answer. Leave at least two line spaces between each answer.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in the second part of the questions in Sections B and C.

SECTION A

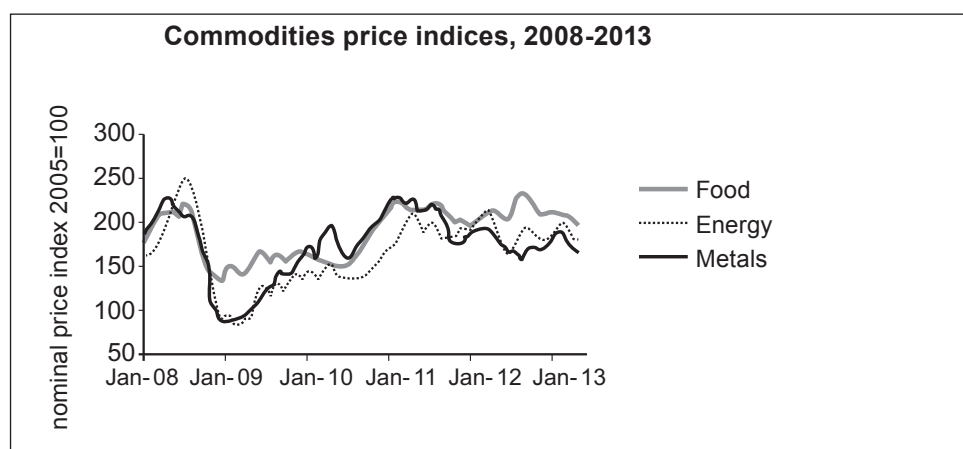
Answer all the questions in this section.

1. Study the information and then answer the questions that follow.

Brazil's economy needs rebalancing

Brazil's economic performance over the past decade has been strong, but its success has relied heavily on consumer spending and commodity exports, mostly destined for China.

Figure 1



A commodity boom ...

- 5 Mineral and agricultural products make up more than half of Brazil's exports. Over the past seven years, the value of commodity exports has quadrupled, increasing Brazil's GDP growth. This growth has helped to reduce the government's budget deficit.

- 10 However, commodity prices are not expected to remain strong. Prices were high before 2009, because of strong demand due to rapid economic growth in China, but growth in China is slowing, and the supply of energy and metals is expected to increase as a result of technological advances. As a result, commodity prices have started to fall slightly in recent months (Figure 1) and are expected to fall further in the future.

... but now growth is slowing ...

- 15 The other main source of Brazil's growth was consumer spending. Brazil's government encouraged consumption with wage increases and easy credit, but this consumer boom has led to a combination of high inflation and a loss of competitiveness on world markets, which are now both contributing to falling GDP growth rates.

... and the central bank increases interest rates to control inflation.

- 20 In spite of falling growth, Brazil's central bank has recently increased base interest rates from 8% to 8.5% to control inflation. Whilst this might help to reduce inflation in the short term, the government really needs to improve the supply side of the economy. Many industries face capacity constraints and labour shortages are a significant problem. With investment rates amongst the lowest in South America, held back by complex tax rules and regulations, creating sustainable potential growth looks like a major challenge.

- | | |
|---|---|
| 1 | 1 |
|---|---|
- Explain how the Brazilian government's policies contributed to increased consumption. [4]

- | | |
|---|---|
| 1 | 2 |
|---|---|
- Using a supply and demand diagram, explain why commodity prices are expected to fall further in the future (lines 11-12). [6]

- | | |
|---|---|
| 1 | 3 |
|---|---|
- Explain how rising growth might "reduce the government's budget deficit" (line 7). [6]

- | | |
|---|---|
| 1 | 4 |
|---|---|
- Using an AS/AD diagram, explain how rising consumption might have led to "... high inflation and a loss of competitiveness on world markets" (line 16). [6]

- | | |
|---|---|
| 1 | 5 |
|---|---|
- To what extent will the increase in interest rates be likely to help the Brazilian economy? [8]

- | | |
|---|---|
| 1 | 6 |
|---|---|
- With reference to the data, evaluate policies that the Brazilian government could use if it wishes to improve the supply side of the Brazilian economy. [10]

SECTION B

Answer one question from this section.

2. PRICE ELASTICITY OF DEMAND FOR PRIMARY SCHOOL MEALS ESTIMATED TO BE -0.9

2	1
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Explain the factors that might cause the price elasticity of demand for primary school meals to be at this level. [8]

2	2
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Discuss whether the price of school meals should be increased. [12]

3. AVERAGE HOURLY WAGE IN THE UK FALLS TO £11.21 IN 2013, LOWER THAN THE LEVEL IN 2003

3	1
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Using supply and demand diagrams, explain why average wages may have fallen in the UK in recent years. [8]

3	2
---	---

Discuss whether a reduction in the national minimum wage would reduce unemployment in the UK. [12]

4. UK DRIVERS SPEND 29 HOURS PER YEAR STUCK IN TRAFFIC. UK HAS 5th WORST CONGESTION IN EUROPE

4	1
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Explain why road congestion causes economic problems. [8]

4	2
---	---

Discuss whether road pricing is a better policy for reducing congestion than subsidies for public transport. [12]

SECTION C

Answer one question from this section.

5. BUDGET 2013: FISCAL POLICY TO BE RESPONSIBLE. MONETARY POLICY STIMULUS TO SUPPORT DEMAND

5	1
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 Explain how monetary policy **and** fiscal policy can be used to increase aggregate demand. [8]

5	2
---	---

 Is it more important for a government to achieve low inflation or low unemployment? [12]

6. CORPORATION TAX FALLS TO 20%. MAY FALL FURTHER AS THE CHANCELLOR STICKS TO HIS 'OPEN FOR BUSINESS MODEL'

6	1
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 Explain why increasing investment by businesses is considered to be important for the UK economy. [8]

6	2
---	---

 Should the government increase VAT to 25% to allow for a significant reduction in income tax and corporation tax? [12]

7. WTO WARNS THAT CONTINUED SLOW GROWTH AND HIGH UNEMPLOYMENT MAY LEAD TO RISING PROTECTIONISM AND CURRENCY WARS

7	1
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 Explain how a government could use its exchange rate to increase growth and reduce unemployment. [8]

7	2
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 Discuss whether a country faced with slow growth and high unemployment should introduce higher tariffs on imports. [12]

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GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

SUMMER 2015

INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2015 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were 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' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

	Page
EC1	1
EC2	12
EC3	43
EC4	55

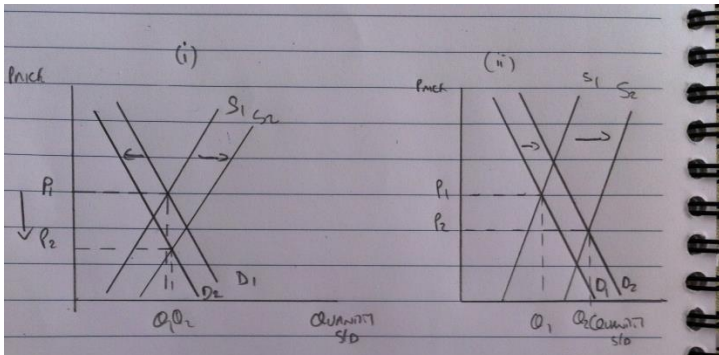
GENERAL MARKING GUIDANCE

Positive Marking

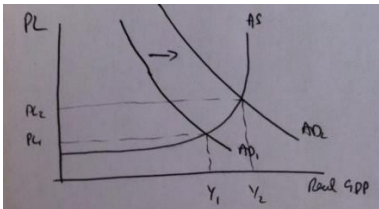
It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one 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.

GCE Economics EC2

	Section A		
Question	Answer	Mark	Assessment objective
1 1	Explain how the Brazilian government's policies contributed to increased consumption. Wage increases allow consumers to spend more (1) because more discretionary income/more available for non-necessities/mpc/greater confidence etc. (1) Point plus development. Easy credit makes it easier (and possibly cheaper) for consumers to borrow (1) Therefore they are not constrained by their incomes/easier to buy big ticket items/easier to use credit cards/opportunity cost is lower etc. (1) Allow wealth effects. Savings might fall if easy credit leads to lower interest rates. Point plus development.	4	AO1 2 AO2 2

Question	Answer	Mark	Assessment objective
1 2	Using a supply and demand diagram, explain why commodity prices are expected to fall further in the future (Lines 11-12) Diagram (2) (i) S shifting right and demand shifting left (2) or (ii) D shifts right more slowly (growth is slowing not negative) and supply shifts right by more (2). One shift = (1)  Explanation (4) Of supply and demand (up to 2) Candidate explains clearly why supply will increase, using the data (1) Candidate explains clearly why demand will be affected, using the data (1) Of the change in price (up to 2) Candidate explains why prices will fall • Excess supply (or falling production costs), explains in words why prices fall (1-2) • Clear reference back to the diagram (P1 to P2 etc) (1) Max 2 from this sub-section	6	AO1 3 AO2 3

Question	Answer			Mark	Assessment objective
1 3	Explain how rising growth might “reduce the government’s budget deficit.” (Line 7)			6	AO1 2 AO2 2 AO3 2
	Level 1	1-2 Marks	Candidate understands what a budget deficit means and explains very briefly that T rises and/or G falls.		
	Level 2	3-4 Marks	3: Candidate understands that because the economy is growing, T will rise and G should fall. One is explained and the other is asserted. 4: Candidate clearly explains one reason that either tax will rise or government spending will rise (with a specific example): Tax: Rising growth will mean greater consumer spending (VAT), Jobs (Income tax) and profit (corporation tax) - only one of these needed Government spending: rising growth will probably mean lower unemployment and fewer people needed to claim from benefits system. Or There is a reasonable explanation of both (EG: Rising AD means that more people are employed so the government gets more tax and pays out less).		
	Level 3	5-6 Marks	5: Answers in this level will have clearly applied their answer to the context of rising in growth Candidate clearly explains with specifics one reason that either tax will rise or government spending will fall and asserts the other one briefly. 6: Good explanation using specifics (direct or indirect tax, benefits payments etc.) why T rises and G falls.		
	Summary: Up to 4 for one of G or T done well. Up to 5 for one done well, one done to some extent. 6 for both done well.				

Question	Answer	Mark	Assessment objective
1 4	Using an AS/AD diagram, explain how rising consumption might have led to “...high inflation and a loss of competitiveness on world markets” Diagram (Up to 2) Accurate diagram (no more than one labelling error) with some commentary about rising C and AD (2) Accurate diagram only (1)  Explanation (up to 4) comprising: Inflation (up to 2) Either: Use of diagram (AD rising from AD1 to AD2 causes PL to rise from PL1 to PL2) (1) Plus some reference to the factors mentioned below (reduced competition, factor shortages etc) (1) Or: A full explanation of why inflation rises without reference to the diagram (Rising consumption causes shortages of key raw materials as firms expand forcing firms to increase the prices of final products. Or rising consumption reduces competition between firms, making it easier to increase prices and increase profitability) (Up to 2 for either). Competitiveness (also up to 2) Understanding of competitiveness (1) (e.g. rising prices will damage the ability of Brazilian firms to compete on world markets. Therefore damaging export performance (or some similar development) (1)	6	AO1 2 AO2 2 AO3 2

Question	Answer		Mark	Assessment objective									
15	To what extent will the increase in interest rates be likely to help the Brazilian economy?		8	AO1 1 AO2 1 AO3 2 AO4 4									
<table><tr><th colspan="3">AO1,2 and 3</th></tr><tr><td>Level 1</td><td>1-2 Marks</td><td>Limited analysis Candidate explains briefly that an increase in interest rates will reduce AD and therefore also reduce inflation. They may draw a diagram to illustrate this but the understanding of the transmission mechanism is limited.</td></tr><tr><td>Level 2</td><td>3-4 Marks</td><td>Reasonable analysis of interest rate transmission mechanism (Diagram not necessarily required) Candidate explains how an increase in interest rates actually has an effect – i.e. they understand the theoretical processes: C falls because of increased opportunity cost of saving and increased cost of borrowing (allow mortgage rate/asset price effects effects) I falls because of increased cost of borrowing and reduced growth prospects. Ex rate may rise (Increased capital inflows/reduced capital outflows) Hence AD falls Good one sided answer relating to an economic objective. A 4 mark answer in this band will cover at least 2 of these. Bands are reversible</td></tr></table>					AO1,2 and 3			Level 1	1-2 Marks	Limited analysis Candidate explains briefly that an increase in interest rates will reduce AD and therefore also reduce inflation. They may draw a diagram to illustrate this but the understanding of the transmission mechanism is limited.	Level 2	3-4 Marks	Reasonable analysis of interest rate transmission mechanism (Diagram not necessarily required) Candidate explains how an increase in interest rates actually has an effect – i.e. they understand the theoretical processes: C falls because of increased opportunity cost of saving and increased cost of borrowing (allow mortgage rate/asset price effects effects) I falls because of increased cost of borrowing and reduced growth prospects. Ex rate may rise (Increased capital inflows/reduced capital outflows) Hence AD falls Good one sided answer relating to an economic objective. A 4 mark answer in this band will cover at least 2 of these. Bands are reversible
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Question	Answer			Mark	Assessment objective
	AO4				
	Level 1	1-2 Marks	Limited evaluation – Candidate explains that there are some good and bad factors and that therefore the effect is mixed (allow a simple two sided answer here – if they just analyse the good and bad effects of the rise in interest rates, this could be level 1 evaluation. Their total mark could then be 6: 4 analysis + 2 evaluation) EG: Inflation may be controlled, but there will be negative impacts on growth and jobs, explained. Candidate makes ‘it depends’ points without really explaining them (max 1 if no context). EG, only a 0.5% increase, depends on the state of the global economy and so on. If the points are out of context, it doesn’t matter how many there are, it’s still at most 1 mark)		
	Level 2	3-4 Marks	Reasonable evaluation: This will already have done what is required in level 1 but will now add context. Therefore a theoretical discussion of interest rates can get up to 6, but for 7 or 8 it needs to make good use of the data. This requires some sort of in context judgment about what the data has told them about Brazil: • Inflation is a major threat, so bringing it down is the key in the short run, regardless of what happens to growth. • Brazil already has low levels of investment, so pushing up interest rates will be a disaster. • If the <i>Real</i> appreciates (it didn’t, but that’s not the point) then this will further exacerbate Brazil’s competitiveness issues. • Damaging investment/increasing exchange rate will make it harder to move away from commodities Etc. – only one well explained point needed as long as it balances the candidate’s answer.		

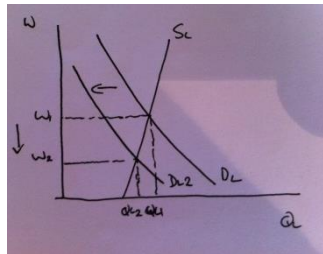
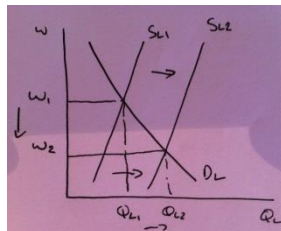
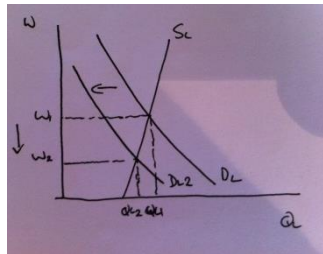
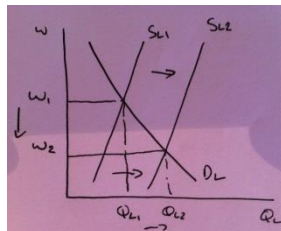
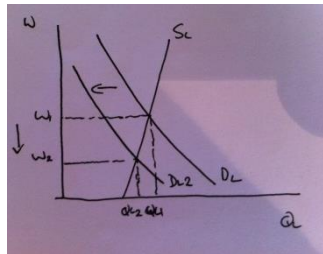
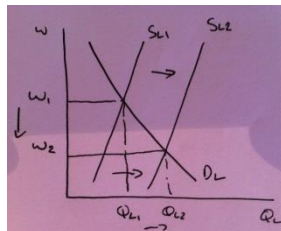
Question	Answer			Mark	Assessment objective
1 6	With reference to the data, evaluate policies that the Brazilian government could use if it wishes to improve the supply side of the Brazilian economy.			10	AO1 2 AO2 2 AO3 2 AO4 4
AO1,2 and 3					
Level 1	1-2 Marks	Limited analysis: Candidate shows an understanding of what SSPs are. Might mean: • Definition • Diagram • Examples Or all of the above if undeveloped.			
Level 2	3-4 Marks	Reasonable analysis (Diagram not necessarily required) Candidate identifies and explains policies that might be used to improve the supply side of an economy: Labour market policies: Deregulating labour market, reducing worker power, creating incentives to work, creating training opportunities (examples of how these would work needed) etc. Capital market policies: Policies to boost investment such as cuts in corporation tax, tax breaks, government infrastructure spending etc. Product market policies: Policies to increase competition between firms and hence improve efficiency: Deregulation of product markets, privatisation, tougher competition laws, reduced protectionism.			
Level 3	5-6 marks	Good analysis (= analysis in context) Candidate links to the actual weaknesses identified in the Brazilian economy: Capacity constraints Labour shortages Complex tax rules/regulations Investment rate the lowest in Latin America Level 3 is for policies that look to address some of these weaknesses (or other plausible weaknesses for an economy like Brazil that the candidate suggests). If the answer contains only 1 policy, 4 max			

Question	Answer			Mark	Assessment objective
	AO4				
	Level 1	1-2 Marks	Limited evaluation – candidate makes the usual general criticisms of the supply side policies that they raise (but to get 2 marks at least one needs to be developed – point plus development): • Costly • Take a long time • Might not be effective • Might be counter-productive • Might increase inequality • Etc.		
	Level 2	3-4 Marks	Reasonable evaluation: This will be in context Might be positive evaluation: Candidate attempts to identify which policies are likely to be best for Brazil given the problems – these may well be answers that are getting good analysis by linking to the identified weaknesses of the Brazilian economy: “These policies will be particularly appropriate because of the low levels of investment/labour market issues etc.” Or Candidate might explain the criticisms from level 1 and apply them to Brazil: • Costly: Problematic given expenditure on world cup/Olympics/growth already slowing • Long time: Inflation high now • Increased inequality: Brazil is a relatively poor country • Might be counter-productive – might cause job losses – bad in the context of higher interest rates • Etc.		

Question	Answer	Mark	Assessment objective						
	Section B								
2 1	Price Elasticity of Demand for primary school meals estimated to be -0.9 Explain the factors that might cause the price elasticity of demand for primary school meals to be at this level. <table><tr><td>Level 1 1 - 3</td><td> Limited knowledge of relevant economic theory. One or two basic points made. Answer may contain a definition, a description of PED and perhaps a list of factors without development. Relevant factors include: • School dinners a necessity • No close substitutes (packed lunch, but not hot food) • Small percentage of income for many families Definition only = 1 Credit any other relevant points </td></tr><tr><td>Level 2 4 - 6</td><td> Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are well developed in the context of inelasticity. 4 marks for one well explained point relevant to the Q showing an understanding of elasticity. 6 marks for two good relevant points that explain why demand will tend to be inelastic Once an answer is in level 2, additional unexplained factors do not add to the mark. </td></tr><tr><td>Level 3 7 - 8</td><td> The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. The answer makes a couple of good points about inelasticity, but refers to the idea that PED is -0.9 – hence not very inelastic and explains why this might be: Some substitutes – packed dinner, going home for lunch Costly for low income families – high percentage of their income Or An exceptionally well applied answer to the context i.e. the candidate bases the whole nature of his/her answer around the product of school meals and that the factors are developed in such a way that that you get a sense that they really understand the issues around school meals Credit any other relevant points </td></tr></table>	Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. Answer may contain a definition, a description of PED and perhaps a list of factors without development. Relevant factors include: • School dinners a necessity • No close substitutes (packed lunch, but not hot food) • Small percentage of income for many families Definition only = 1 Credit any other relevant points	Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are well developed in the context of inelasticity. 4 marks for one well explained point relevant to the Q showing an understanding of elasticity. 6 marks for two good relevant points that explain why demand will tend to be inelastic Once an answer is in level 2, additional unexplained factors do not add to the mark.	Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. The answer makes a couple of good points about inelasticity, but refers to the idea that PED is -0.9 – hence not very inelastic and explains why this might be: Some substitutes – packed dinner, going home for lunch Costly for low income families – high percentage of their income Or An exceptionally well applied answer to the context i.e. the candidate bases the whole nature of his/her answer around the product of school meals and that the factors are developed in such a way that that you get a sense that they really understand the issues around school meals Credit any other relevant points	8	AO1 3 AO2 3 AO3 2
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Question	Answer	Mark	Assessment objective				
2 2	Discuss whether the price of school meals should be increased. <table><tr><td>Level 1 1 - 4</td><td> Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Yes: Might raise revenue, <i>No: Increases prices for poor people, might mean children go hungry.</i> </td></tr><tr><td>Level 2 5 - 8</td><td> Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops points, using economic theory in context. Yes: Demand is inelastic, therefore increase in price causes revenue to rise, because demand falls less than proportionally ▪ Diagram illustrating this ▪ If school meals are contracted out, private operators will make more profits ▪ Schools/councils need to cover costs/reduce subsidies ▪ Schools/councils need funds for new equipment etc. No: ▪ <i>Could be inflationary</i> ▪ <i>Social impact</i> ▪ <i>Impact may be regressive</i> ▪ <i>May be damaging to health – external benefits of school meals?</i> Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3. </td></tr></table>	Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Yes: Might raise revenue, <i>No: Increases prices for poor people, might mean children go hungry.</i>	Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops points, using economic theory in context. Yes: Demand is inelastic, therefore increase in price causes revenue to rise, because demand falls less than proportionally ▪ Diagram illustrating this ▪ If school meals are contracted out, private operators will make more profits ▪ Schools/councils need to cover costs/reduce subsidies ▪ Schools/councils need funds for new equipment etc. No: ▪ <i>Could be inflationary</i> ▪ <i>Social impact</i> ▪ <i>Impact may be regressive</i> ▪ <i>May be damaging to health – external benefits of school meals?</i> Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.	12	AO1 3 AO2 3 AO3 2 AO4 4
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Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops points, using economic theory in context. Yes: Demand is inelastic, therefore increase in price causes revenue to rise, because demand falls less than proportionally ▪ Diagram illustrating this ▪ If school meals are contracted out, private operators will make more profits ▪ Schools/councils need to cover costs/reduce subsidies ▪ Schools/councils need funds for new equipment etc. No: ▪ <i>Could be inflationary</i> ▪ <i>Social impact</i> ▪ <i>Impact may be regressive</i> ▪ <i>May be damaging to health – external benefits of school meals?</i> Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.						

Question	Answer	Mark	Assessment objective
	Level 3 9 - 12 Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Strong two-sided answer with developed arguments on each side. 9-10 Answer contains developed evaluation but is not fully convincing. Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument. 11-12 In context answer Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment about whether or not it would be sensible to increase the price of school meals. Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Large price increase might mean that D becomes elastic. (ii) Low income groups receive free school meals anyway, so regressive effects will be limited. (iii) Food prices rising rapidly therefore essential to increase. (iv) School meals not always particularly healthy anyway, so external benefits would be limited (v) School meals are contracted out in some areas, so the extra money will simply go to private firms. But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation. Credit any other relevant points		

Question	Answer	Mark	Assessment objective						
3 1	Average hourly wage in the UK falls to £11.21 in 2013, lower than the level in 2003. Using supply and demand diagrams, explain why average wages may have fallen in the UK in recent years <table><tr><td>Level 1 1 - 3</td><td> Limited knowledge of relevant economic theory. One or two basic points made. Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Relevant factors include: Demand (shifts to the left): • Impact of recession • Improved technology • Global competition/outsourcing  Supply (shifts to the right) • Immigration from EU and outside • Increased retirement age • University fees leading to more part-time workers  Credit any other relevant points </td><td></td></tr><tr><td>Level 2 4 - 6</td><td> Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Level 1 points are explained and related back to falling wages. Points may lack some depth of explanation. Some candidates might think about the idea that wages have risen by less than inflation. Top of level 2 for two moderately developed points and an integrated diagram, covering both demand and supply. If only D or S covered, points will need to be well developed. No diagrams: Max top L2 D or S only: Max top L2 Abstract theory: Max top L2 </td><td></td></tr></table>	Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Relevant factors include: Demand (shifts to the left): • Impact of recession • Improved technology • Global competition/outsourcing  Supply (shifts to the right) • Immigration from EU and outside • Increased retirement age • University fees leading to more part-time workers  Credit any other relevant points		Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Level 1 points are explained and related back to falling wages. Points may lack some depth of explanation. Some candidates might think about the idea that wages have risen by less than inflation. Top of level 2 for two moderately developed points and an integrated diagram, covering both demand and supply. If only D or S covered, points will need to be well developed. No diagrams: Max top L2 D or S only: Max top L2 Abstract theory: Max top L2		8	AO1 3 AO2 3 AO3 2
Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Relevant factors include: Demand (shifts to the left): • Impact of recession • Improved technology • Global competition/outsourcing  Supply (shifts to the right) • Immigration from EU and outside • Increased retirement age • University fees leading to more part-time workers  Credit any other relevant points								
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Question	Answer	Mark	Assessment objective		
	<table><tr><td>Level 3 7 - 8</td><td> The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. Good diagram with at least 2 well explained factors covering both S and D which are relevant to the context – wages falling in the UK in recent years. Candidate is clear about why wages have fallen – good relation back to the question. </td></tr></table>	Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. Good diagram with at least 2 well explained factors covering both S and D which are relevant to the context – wages falling in the UK in recent years. Candidate is clear about why wages have fallen – good relation back to the question.		
Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. Good diagram with at least 2 well explained factors covering both S and D which are relevant to the context – wages falling in the UK in recent years. Candidate is clear about why wages have fallen – good relation back to the question.				

Question	Answer	Mark	Assessment objective				
3 2	Discuss whether a reduction in the national minimum wage would reduce unemployment in the UK. <table><tr><td>Level 1 1 - 4</td><td> Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Will: Simple diagram, not explained. Costs fall – cheaper to employ Won't: <i>AD is still very low. Not if minimum wage is below equilibrium</i> </td></tr><tr><td>Level 2 5 - 8</td><td> Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points: Will: - Well used diagram, labelled with new and old unemployment marked. - Demand for labour may increase because costs of employment fall. - D for labour may increase because firms can cut the prices of final products, UK firms more competitive on world markets - D for labour may not fall because firms have less incentive to invest in labour replacing technology. Won't: <i>Labour costs only one factor affecting demand – state of economy – derived D.</i> <i>Some candidates might reference voluntary unemployment</i> <i>Most workers earn more than the minimum wage, therefore many firms will be unaffected. Might use diagram here.</i> <i>Wage stickiness</i> <i>Falling wages may cut AD</i> Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3. </td></tr></table>	Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Will: Simple diagram, not explained. Costs fall – cheaper to employ Won't: <i>AD is still very low. Not if minimum wage is below equilibrium</i>	Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points: Will: - Well used diagram, labelled with new and old unemployment marked. - Demand for labour may increase because costs of employment fall. - D for labour may increase because firms can cut the prices of final products, UK firms more competitive on world markets - D for labour may not fall because firms have less incentive to invest in labour replacing technology. Won't: <i>Labour costs only one factor affecting demand – state of economy – derived D.</i> <i>Some candidates might reference voluntary unemployment</i> <i>Most workers earn more than the minimum wage, therefore many firms will be unaffected. Might use diagram here.</i> <i>Wage stickiness</i> <i>Falling wages may cut AD</i> Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.	12	AO1 3 AO2 3 AO3 2 AO4 4
Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Will: Simple diagram, not explained. Costs fall – cheaper to employ Won't: <i>AD is still very low. Not if minimum wage is below equilibrium</i>						
Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points: Will: - Well used diagram, labelled with new and old unemployment marked. - Demand for labour may increase because costs of employment fall. - D for labour may increase because firms can cut the prices of final products, UK firms more competitive on world markets - D for labour may not fall because firms have less incentive to invest in labour replacing technology. Won't: <i>Labour costs only one factor affecting demand – state of economy – derived D.</i> <i>Some candidates might reference voluntary unemployment</i> <i>Most workers earn more than the minimum wage, therefore many firms will be unaffected. Might use diagram here.</i> <i>Wage stickiness</i> <i>Falling wages may cut AD</i> Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, also answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.						

Question	Answer	Mark	Assessment objective
	Level 3 9 - 12 Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Strong two-sided approach with developed arguments on each side 9-10 Answer contains developed evaluation but is not fully convincing Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument. 11-12 In context answer Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment about whether or not unemployment will rise. Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Labour might not be a big part of firms' costs (ii) UK costs will still be above those of firms in other countries (iii) Voluntary u/e might not increase if benefits system reformed (iv) Depends on elasticity of D/S for labour. But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation. Credit any other relevant points		

Question	Answer	Mark	Assessment objective				
4 1	UK drivers spend 29 hours per year stuck in traffic. UK has 5th worst congestion in Europe. Explain why road congestion causes economic problems. <table><tr><td>Level 1 1 - 3</td><td> Limited knowledge of relevant economic theory. One or two basic points made. Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Level 1 answers for this answer will be characterised by a lack of economic concepts and terminology. Relevant factors include: • Congestion wastes firms' time • Congestion wastes people's time • Congestion causes pollution Credit any other relevant points </td></tr><tr><td>Level 2 4 - 6</td><td> Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are developed and relate to the idea of <i>economic</i> problems. Points may lack some depth of explanation. Possible points: • Congestion creates external costs in the sense that it slows down other road users. Therefore it causes market failure because resources will be misallocated and there will be a welfare loss. Up to 4 if done well • Congestion similarly contributes to pollution – cars spend more time in standing traffic, therefore meaning that more fuel is burned. This leads to (i) localised pollution which damages health and reduces life expectancy and (ii) Increased CO₂ emissions. Up to 4 if done well • Congestion drives up firms' costs therefore making UK firms less competitive on world markets. Up to 4 if done well • May make UK less attractive for FDI as a consequence. Up to 2 • Congestion drives up firms' costs and therefore feeds into higher prices for consumers. Up to 2 Credit any other relevant points </td></tr></table>	Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Level 1 answers for this answer will be characterised by a lack of economic concepts and terminology. Relevant factors include: • Congestion wastes firms' time • Congestion wastes people's time • Congestion causes pollution Credit any other relevant points	Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are developed and relate to the idea of <i>economic</i> problems. Points may lack some depth of explanation. Possible points: • Congestion creates external costs in the sense that it slows down other road users. Therefore it causes market failure because resources will be misallocated and there will be a welfare loss. Up to 4 if done well • Congestion similarly contributes to pollution – cars spend more time in standing traffic, therefore meaning that more fuel is burned. This leads to (i) localised pollution which damages health and reduces life expectancy and (ii) Increased CO₂ emissions. Up to 4 if done well • Congestion drives up firms' costs therefore making UK firms less competitive on world markets. Up to 4 if done well • May make UK less attractive for FDI as a consequence. Up to 2 • Congestion drives up firms' costs and therefore feeds into higher prices for consumers. Up to 2 Credit any other relevant points	8	AO1 3 AO2 3 AO3 2
Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. Answer may contain a list of relevant points or diagrams which are not explained and badly labelled. Level 1 answers for this answer will be characterised by a lack of economic concepts and terminology. Relevant factors include: • Congestion wastes firms' time • Congestion wastes people's time • Congestion causes pollution Credit any other relevant points						
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Question	Answer	Mark	Assessment objective
	Level 3 7 - 8 The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. Some reference to external costs/market failure/resource misallocation etc. is needed for level 3. Candidate applies well to the context of congestion rather than just the idea of lots of cars driving about. Level 3 answers will be likely to have covered both market failure and business implications in reasonable detail. A strong market failure answer covering both the first two level points is also likely to be a level 3 answer.		

Question	Answer	Mark	Assessment objective				
4 2	Discuss whether road pricing is a better policy for reducing congestion than subsidies for public transport. <table><tr><td>Level 1 1 - 4</td><td> Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Road pricing: Simple diagram, not explained. More expensive, D falls. Subsidies: Simple diagram, not explained. Less expensive, D rises. </td></tr><tr><td>Level 2 5 - 8</td><td> Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points (Up to 3 for a well-developed point): Road pricing: • Can be targeted at particular times of day, focusing directly on the problem • Polluter pays – some candidates may discuss internalising the externality, correcting market failure • May raise revenue for the government in some way, shape or form. Subsidies: • Encourage car drivers to switch (XED) • Don't increase costs for businesses • Beneficial to low income groups • If targeted in right way, might encourage green transport Max 8 for one policy fully evaluated Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3. </td></tr></table>	Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Road pricing: Simple diagram, not explained. More expensive, D falls. Subsidies: Simple diagram, not explained. Less expensive, D rises.	Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points (Up to 3 for a well-developed point): Road pricing: • Can be targeted at particular times of day, focusing directly on the problem • Polluter pays – some candidates may discuss internalising the externality, correcting market failure • May raise revenue for the government in some way, shape or form. Subsidies: • Encourage car drivers to switch (XED) • Don't increase costs for businesses • Beneficial to low income groups • If targeted in right way, might encourage green transport Max 8 for one policy fully evaluated Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.	12	AO1 3 AO2 3 AO3 2 AO4 4
Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Road pricing: Simple diagram, not explained. More expensive, D falls. Subsidies: Simple diagram, not explained. Less expensive, D rises.						
Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points (Up to 3 for a well-developed point): Road pricing: • Can be targeted at particular times of day, focusing directly on the problem • Polluter pays – some candidates may discuss internalising the externality, correcting market failure • May raise revenue for the government in some way, shape or form. Subsidies: • Encourage car drivers to switch (XED) • Don't increase costs for businesses • Beneficial to low income groups • If targeted in right way, might encourage green transport Max 8 for one policy fully evaluated Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3.						

Question	Answer	Mark	Assessment objective
	Level 3 9 - 12 Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Strong two-sided approach with developed arguments on each side. 9-10 Answer contains developed evaluation but is not fully convincing. Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument, but at least one of the policies will need to be qualified – answers just explaining the advantages of each will be level 2 only. 11-12 In context answer. Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment which is best. Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include Road pricing: : (i) Regressive (ii) Inflationary/costs/competitiveness (iii) Elasticity (iv) Hard to get tax right. Subsidies: (i) Expensive (ii) Depends on quality/reliability But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation. Credit any other relevant points		

Section C

Question	Answer	Mark	Assessment objective				
5 1	Budget 2013: Fiscal policy to be responsible. Monetary policy stimulus to support demand Explain how monetary policy and fiscal policy can be used to increase Aggregate Demand. <table><tr><td>Level 1 1 - 3</td><td> Limited knowledge of relevant economic theory. One or two basic points made. Candidate shows some understanding of fiscal and monetary policy, but lacks depth. A level 1 response will tend to make points like: • Monetary policy is to do with the control of interest rates • Fiscal Policy is to do with taxes and government spending Credit any other relevant points </td></tr><tr><td>Level 2 4 - 6</td><td> Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are developed and show how monetary and fiscal policy work in terms of their impact on AD Monetary Policy (up to 4): Changes in interest rates affect (up to 3 through any channel): - C through mortgage payments, incentives to save and borrow, asset prices and impact on income of retired. - I through cost of borrowing and impact on confidence/expectations - X,M through impact on ex rate. QE expands the money supply (Allow any limited understanding here) Fiscal Policy (up to 4): Affects AD through: - Direct and Indirect tax (tax up to 2, don't have to do both DT and IT) - Current and Capital spending (G up to do, don't need to name specific categories such as capital/current). 4 Max if only FP or MP covered. Credit any other relevant points </td></tr></table>	Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. Candidate shows some understanding of fiscal and monetary policy, but lacks depth. A level 1 response will tend to make points like: • Monetary policy is to do with the control of interest rates • Fiscal Policy is to do with taxes and government spending Credit any other relevant points	Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are developed and show how monetary and fiscal policy work in terms of their impact on AD Monetary Policy (up to 4): Changes in interest rates affect (up to 3 through any channel): - C through mortgage payments, incentives to save and borrow, asset prices and impact on income of retired. - I through cost of borrowing and impact on confidence/expectations - X,M through impact on ex rate. QE expands the money supply (Allow any limited understanding here) Fiscal Policy (up to 4): Affects AD through: - Direct and Indirect tax (tax up to 2, don't have to do both DT and IT) - Current and Capital spending (G up to do, don't need to name specific categories such as capital/current). 4 Max if only FP or MP covered. Credit any other relevant points	8	AO1 3 AO2 3 AO3 2
Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. Candidate shows some understanding of fiscal and monetary policy, but lacks depth. A level 1 response will tend to make points like: • Monetary policy is to do with the control of interest rates • Fiscal Policy is to do with taxes and government spending Credit any other relevant points						
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Question	Answer	Mark	Assessment objective
	Level 3 7 - 8 The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. All relevant aspects of monetary and fiscal policy are covered: • Monetary: Interest rates cover at least two of the three channels of the transmission mechanism. • Fiscal: both taxation and government spending are covered with examples.		

Question	Answer		Mark	Assessment objective
5 2	Is it more important for a government to achieve low inflation or low unemployment?		12	AO1 3 AO2 3 AO3 2 AO4 4
	Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Candidate may bullet point some of the reasons for or against achieving one or the other, but there is little or no development – essentially a bullet-point list.		
	Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops some of the reasons for and against achieving some of the objectives. Points likely to be drawn from: • Unemployment: Pareto inefficient, impact on budget, risk of deskilling, social consequences, inequality, reduced living standards, reduced profits for firms cutting investment. Etc. • Inflation: Competitiveness issues, impact on fixed income groups, fiscal drag, menu costs, policy response, disguised inefficiency, damage to business confidence. Etc. Top level 2 answers will show a good understanding of why each might matter (two to three points on each, with a small amount of development – remember that this is an AS exam, not A2). Credit any other relevant points Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3. Max 8 for answers that purely explain why low u/e and inflation are desirable. Max 8 for one objective fully evaluated.		

Question	Answer	Mark	Assessment objective
	Level 3 9 - 12 Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Strong two-sided answer with developed arguments on each side 9-10 Answer contains developed evaluation but is not fully convincing Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument. 11-12 In context answer Answers scoring 11-12 will have answered the question in a convincing fashion. Candidate probably evaluates both sides of the argument and probably makes a judgment about whether or not it would be sensible to increase the price of school meals. Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Large price increase might mean that D becomes elastic. (ii) Low income groups receive free school meals anyway, so regressive effects will be limited. (iii) Food prices rising rapidly therefore essential to increase. (iv) School meals not always particularly healthy anyway, so external benefits would be limited (v) School meals are contracted out in some areas, so the extra money will simply go to private firms. But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation. Credit any other relevant points		

6 1	Corporation tax falls to 20%. May fall further as the Chancellor sticks to his ‘open for business model’ Explain why increasing investment by businesses is considered to be important for the UK economy. <table><tr><td>Level 1 1 - 3</td><td> Limited knowledge of relevant economic theory. One or two basic points made. Candidate shows some understanding of Investment, perhaps using a definition. Points are not developed. • I will increase AD because $AD=C+I+G+X-M$ or J/W approach or Keynesian cross diagrams • I will increase AS/PPFs Credit any other relevant points </td></tr><tr><td>Level 2 4 - 6</td><td> Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are developed and show how Investment can benefit an economy (up to 4 for each) (1) I increases AD because it often involves construction of fixed capital/factories etc. Therefore there will be multiplier effects as jobs are created in construction and engineering. GDP will rise. (2) I can increase AS because it contributes to potential growth by increasing the quantity and quality of factors of production – better capital allows workers to be more effective and higher capital stock adds directly to capacity. Hence contributes directly to non-inflationary growth. (3) I can help to boost the competitiveness of UK firms by increasing productivity and consequently reducing unit costs. Top level 2 answers will probably cover 2 of these three areas in detail. Credit any other relevant points </td></tr></table>	Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. Candidate shows some understanding of Investment, perhaps using a definition. Points are not developed. • I will increase AD because $AD=C+I+G+X-M$ or J/W approach or Keynesian cross diagrams • I will increase AS/PPFs Credit any other relevant points	Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are developed and show how Investment can benefit an economy (up to 4 for each) (1) I increases AD because it often involves construction of fixed capital/factories etc. Therefore there will be multiplier effects as jobs are created in construction and engineering. GDP will rise. (2) I can increase AS because it contributes to potential growth by increasing the quantity and quality of factors of production – better capital allows workers to be more effective and higher capital stock adds directly to capacity. Hence contributes directly to non-inflationary growth. (3) I can help to boost the competitiveness of UK firms by increasing productivity and consequently reducing unit costs. Top level 2 answers will probably cover 2 of these three areas in detail. Credit any other relevant points	8	AO1 3 AO2 3 AO3 2
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	Level 3 7 - 8 The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. Candidate: either: Covers all three areas with at least one done in a good level of detail (hence a theoretically strong answer) or Talks about the UK economy – jobs important right now because of slow recovery from Great Recession, UK relatively poor productivity performance, poor record on investment. UK's trend growth rate relatively slow etc. (Hence a well applied answer) Credit any other relevant points		
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Question	Answer	Mark	Assessment objective	
6 2	Should the government increase VAT to 25% to allow for a significant reduction in income tax and corporation tax?	12	AO1 3 AO2 3 AO3 2 AO4 4	
	<table><tr><td>Level 1 1 - 4</td><td>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Candidate understands what the different taxes are. Makes an undeveloped list of possible consequences: Higher VAT might be inflationary Lower Corporation tax might increase investment Lower Income tax might increase AD</td></tr><tr><td>Level 2 5 - 8</td><td>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops some of the reasons for and against the policy changes suggested (Up to 3 per well developed idea). Higher VAT good: Hard to avoid, big tax, doesn't affect incentives. VAT increases can be targeted. But: Regressive, directly increases inflation (risk of wage-price spiral, worsening industrial disputes) Lower Corp tax good: Encourages I and FDI, might reduce off-shoring, doesn't generate that much revenue anyway. But: Many MNCs avoid it anyway, so no effect. Other factors more important in investment/location decisions. Lower Y tax good: Creates incentives to work (reduced chance of poverty/unemployment traps), offsets the fall in AD from higher VAT. But increases inequality (only those with jobs benefit), no guarantee of increase in AD (confidence). May or may not reduce tax revenue (Laffer curve) Top level 2 answer will deal with all three taxes mentioned in the question. Credit any other relevant points</td></tr></table>			Level 1 1 - 4
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Question	Answer	Mark	Assessment objective
	Level 3 9 - 12 Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which do evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3. Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Strong two-sided approach with developed arguments on each side 9-10 Answer contains developed evaluation but is not fully convincing. Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument. Or evaluation is present but lacks explanation. Evaluation is present but may simply outline the advantages and disadvantages of going ahead or not going ahead – likely to treat the taxes separately, not coming to a conclusion about the policy as a whole. 11-12 In context answer, comes to a conclusion about whether or not the policy taken as a whole is desirable. Answers here will have produced a convincing response to the question. Attempts to judge whether increases in VAT combined with direct taxes will work. Or candidate is effective at qualifying the arguments made on each side. Points might include: AD overall may well remain unchanged (cancelling effects) Likely to create strong incentives to enter the workforce (higher price level, higher reward from work) Likely to sharply increase income inequality Or simply comes to a reasoned conclusion based on their earlier analysis Credit any other relevant points		

Question	Answer	Mark	Assessment objective						
7 1	WTO warns that continued slow growth and high unemployment may lead to rising protectionism and currency wars Explain how a government could use its exchange rate to increase growth and reduce unemployment. <table><tr><td>Level 1 1 - 3</td><td> Limited knowledge of relevant economic theory. One or two basic points made. Candidates understand that a decrease in the exchange rate should help to raise actual growth and create jobs. Points not developed and not really explained, probably limited to a fall in the £ causes P_x to fall and P_m to rise meaning more jobs. Credit any other relevant points </td></tr><tr><td>Level 2 4 - 6</td><td> Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are developed and show how a fall in the ex rate will bring about both desired outcomes. Weaker £ causes a fall in P_x because UK goods appear cheaper in forex terms. Therefore the demand for exports should rise. Weaker £ causes imported products to cost more in sterling terms, reducing the demand for imports and raising the demand for domestic substitutes. Together these should raise AD which should create higher GDP and more jobs. May draw an AD/AS diagram that isn't really used. Credit any other relevant points </td></tr><tr><td>Level 3 7 - 8</td><td> The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. Candidate Develops the impact of AD using relevant descriptive theory such as the multiplier, and explains clearly why GDP rises and why jobs are created. Or Use a well-integrated AD/AS diagram to illustrate explaining why GDP rises, and using the diagram to explain why jobs will be created (e.g. reduction in negative output gap, or higher GDP requires more workers to make it etc.) Or Has explained <i>how</i> the government can bring about a reduction in the exchange rate in the first place as part of their answer (max 4 for just explaining <i>how</i>) Credit any other relevant points </td></tr></table>	Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made. Candidates understand that a decrease in the exchange rate should help to raise actual growth and create jobs. Points not developed and not really explained, probably limited to a fall in the £ causes P_x to fall and P_m to rise meaning more jobs. Credit any other relevant points	Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory. Points are developed and show how a fall in the ex rate will bring about both desired outcomes. Weaker £ causes a fall in P_x because UK goods appear cheaper in forex terms. Therefore the demand for exports should rise. Weaker £ causes imported products to cost more in sterling terms, reducing the demand for imports and raising the demand for domestic substitutes. Together these should raise AD which should create higher GDP and more jobs. May draw an AD/AS diagram that isn't really used. Credit any other relevant points	Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer. Candidate Develops the impact of AD using relevant descriptive theory such as the multiplier, and explains clearly why GDP rises and why jobs are created. Or Use a well-integrated AD/AS diagram to illustrate explaining why GDP rises, and using the diagram to explain why jobs will be created (e.g. reduction in negative output gap, or higher GDP requires more workers to make it etc.) Or Has explained <i>how</i> the government can bring about a reduction in the exchange rate in the first place as part of their answer (max 4 for just explaining <i>how</i>) Credit any other relevant points	8	AO1 3 AO2 3 AO3 2
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7 2	Discuss whether a country faced with slow growth and high unemployment should introduce higher tariffs on imports. <table><tr><td>Level 1 1-4</td><td>Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Candidate asserts that tariffs will reduce imports and therefore create jobs. Candidate draws the tariff diagram explaining it – new M, old M or ‘ABCD’ approach, but not linked to the Q.</td></tr><tr><td>Level 2 5 - 8</td><td>Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points: Good idea: • Diagram likely to be used more fully – candidate will show and explain the increase in domestic output, explaining that this may contribute to growth. Candidate may show and explain the fall in imports and explain that as a consequence jobs may be created. Up to 6 for a very well integrated diagram that addresses both jobs and growth. • Candidates may make points about infant and strategic industries needing protection, both protecting jobs and perhaps contributing to growth. • Tariffs may be needed to protect industries from dumping, which may destroy industries (slowing growth and costing jobs) • Tariffs raise revenue for the government which can be invested in SSPs Bad idea • Tariffs cause job losses in industries depending on imports (car industry, steel etc.) • Tariffs invite retaliation, again causing job losses • If all countries increase tariffs, growth will be slower (loss of comparative advantage, economic research) • Tariffs encourage inefficiency (might show the inefficiency area on the diagram), which may damage potential growth. • Other policies might be more effective – limited credit for this. Credit any other relevant points</td></tr></table>	Level 1 1-4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. May focus on just one side of the issue. Points will not be developed. Candidate asserts that tariffs will reduce imports and therefore create jobs. Candidate draws the tariff diagram explaining it – new M, old M or ‘ABCD’ approach, but not linked to the Q.	Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Candidate explains and develops Level 1 points, using economic theory in context. Likely to introduce more sophisticated points: Good idea: • Diagram likely to be used more fully – candidate will show and explain the increase in domestic output, explaining that this may contribute to growth. Candidate may show and explain the fall in imports and explain that as a consequence jobs may be created. Up to 6 for a very well integrated diagram that addresses both jobs and growth. • Candidates may make points about infant and strategic industries needing protection, both protecting jobs and perhaps contributing to growth. • Tariffs may be needed to protect industries from dumping, which may destroy industries (slowing growth and costing jobs) • Tariffs raise revenue for the government which can be invested in SSPs Bad idea • Tariffs cause job losses in industries depending on imports (car industry, steel etc.) • Tariffs invite retaliation, again causing job losses • If all countries increase tariffs, growth will be slower (loss of comparative advantage, economic research) • Tariffs encourage inefficiency (might show the inefficiency area on the diagram), which may damage potential growth. • Other policies might be more effective – limited credit for this. Credit any other relevant points	12	AO1 3 AO2 3 AO3 2 AO4 4
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	Level 3 9 - 12 Answers using throw-away evaluation (e.g. it depends on the size of the increase, without then developing that idea) only will be in this level, as will answers which evaluate but have weak underlying analysis (i.e. Relevant economic theory and principles are not fully understood, applied and analysed). Answers with no evaluation cannot reach level 3, nor can answers which do not refer to “slow growth and high unemployment”. Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Strong two-sided approach with developed arguments on each side 9-10 Answer contains developed evaluation but is not fully convincing Evaluation is present but may take the form of a strong two sided answer, where both sides contain at least one well-developed argument. Or evaluation is present but lacks explanation. Evaluation is present but may be simply of the “tariffs good but” or “tariffs bad but”. I.e. it lacks <i>qualifiers</i>. 11-12 In context answer, evaluates both policies. Candidate evaluates both sides of the argument (i.e. <i>qualifies</i> the reasons it will and won’t create growth) and probably makes a judgment about whether or not tariffs will create growth and jobs. Answers here will have produced a convincing response to the question. Additional evaluation points (beyond using the ideas in section 2 to oppose one another) might include: (i) Might create growth and jobs in the SR, but unlikely to do so in the LR. (ii) Might depend on <i>which</i> imports are protected against – PEDm may be relevant here. (iii) Might be a good strategy for a few years, but will need to be reversed eventually. (iv) Retaliation might not be inevitable, depends on how powerful you are. But – if only throw-away points, the answer may still only be level 2. Level 3 answers will have <u>developed</u> evaluation. Credit any other relevant points		



GCE AS/A level

1132/01

ECONOMICS – EC2

P.M. WEDNESDAY, 21 May 2014

2 hours

1132
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a WJEC 20-page answer booklet (pink), which has been specifically designed for this examination paper. No other style of answer booklet should be used. Should you run out of space, use a standard 4 page continuation booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Use both sides of the paper. Write only within the white areas of the book. Write the question number in the two boxes in the left hand margin at the start of each answer. Leave at least two line spaces between each answer.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

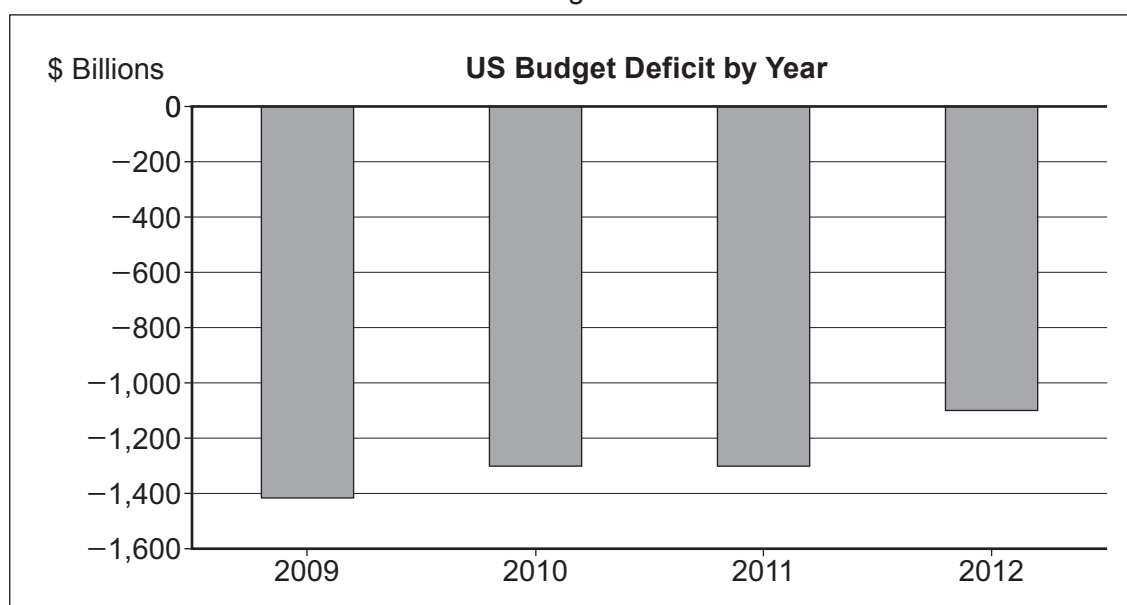
You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in the second part of the questions in Sections B and C.

SECTION A

Answer all the questions in this section.

1. THE US FISCAL CLIFF

Figure 1



The first major challenge of President Obama's second term in office as US President was to prevent the American economy falling over the so called 'fiscal cliff'. On December 31st 2012 a number of temporary tax cuts were due to end and at the same time a number of government spending cuts were due to be introduced. These totalled over \$600bn and could have pushed both the US and maybe the global economy into another recession.

A new budget deal urgently needed to be agreed between President Obama and Congress. The problem was that President Obama was from one political party (the Democrats) whereas Congress was dominated by another political party (the Republicans). Without agreement between the two political parties, the tax increases and cuts in government spending would happen automatically.

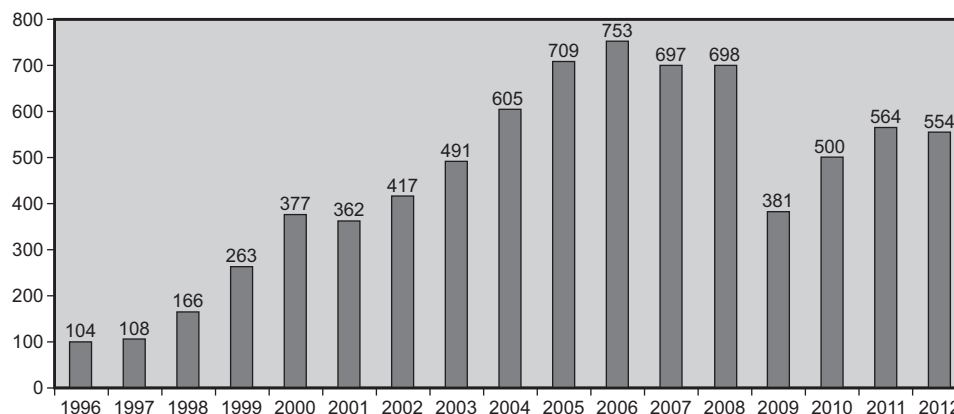
At the last minute, a deal was struck. Income tax rates were to rise by 4.6% for those earning over \$400,000 per year. Defence spending cuts of \$110bn due to begin on January 1st 2013 were postponed for two months, although many politicians argued that the US government should be spending less on defence and more on both improving America's crumbling infrastructure and boosting spending on education and training.

Despite economic growth of 2.2% in 2012, unemployment is still 7.7% of the labour force, up from only 4.4% back in May 2007. This is nevertheless down from a recent high of 9.9% at the end of 2009. Consequently, the Federal Reserve (the US central bank) has announced that interest rates will remain at 0.25% until unemployment falls to 6.5% or lower. Another problem facing the US is a massive trade deficit, standing at over \$550bn in 2012.

Figure 2

US Trade deficit by Year

\$ Billions



- | | | | |
|---|---|---|------|
| 1 | 1 | Using examples from the data explain the meaning of the term fiscal policy. | [4] |
| 1 | 2 | With reference to lines 14-16, explain the concept of opportunity cost. | [4] |
| 1 | 3 | Using an aggregate demand and supply diagram, explain the Federal Reserve's decision not to raise US interest rates until unemployment falls below 6.5%. | [6] |
| 1 | 4 | Using a diagram, discuss the view that raising income tax rates for those individuals earning over \$400,000 will increase tax revenue for the US government. | [8] |
| 1 | 5 | Explain using a diagram why falling over the 'fiscal cliff' "could have pushed both the US and maybe the global economy into another recession" (lines 5-6). | [8] |
| 1 | 6 | Discuss whether "spending less on defence and more on both improving America's crumbling infrastructure and boosting spending on education and training" (lines 15-16) will be enough to reduce the US trade deficit. | [10] |

SECTION B

Answer one question from this section.

2. 'LIVING WAGE' £7.65 PER HOUR OUTSIDE LONDON

2	1
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 Explain why the equilibrium wage rate for some jobs is below the national minimum wage. [8]

2	2
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 Discuss the view that the UK national minimum wage of £6.31 per hour is too low. [12]

3. 'WE ARE ONLY INCHES AWAY FROM CEASING TO BE A FREE MARKET ECONOMY' MITT ROMNEY US, PRESIDENTIAL CANDIDATE

3	1
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 Explain the role of profit and price in a market economy. [8]

3	2
---	---

 Discuss the view that education and health are best provided by the free market. [12]

4. EURO MPS SUPPORT LARGE-SCALE FISHING REFORM TO SAVE FISH STOCKS IN THE NORTH SEA

4	1
---	---

 Explain why governments may need to intervene in the market for fish to prevent market failure. [8]

4	2
---	---

 With reference to relevant economic theory, evaluate the policies that could be used to preserve fish stocks in the North Sea. [12]

SECTION C

Answer one question from this section.

5. TAX RISES INEVITABLE IF BUDGET DEFICIT IS TO BE REDUCED

5	1
---	---

 Explain why it might be difficult for a government to achieve all its macroeconomic objectives at the same time. [8]

5	2
---	---

 Evaluate the policies a government could introduce to reduce its budget deficit. [12]

6. CONSUMERS CONTINUE TO PAY OFF DEBTS

6	1
---	---

 What factors determine the level of consumption in the economy? [8]

6	2
---	---

 With the use of a diagram discuss the extent to which a rise in consumption is good for an economy. [12]

7. POUND SET TO FALL AS TRADE DEFICIT WIDENS

7	1
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 Using a diagram show how a fall in the value of the pound might be caused by a widening trade deficit and explain how the weaker pound might improve the price competitiveness of UK firms. [8]

7	2
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 Discuss whether a sharp fall in the value of the pound will be beneficial for the UK economy. [12]

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GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

SUMMER 2014

INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2014 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were 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' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

	Page
EC1	1
EC2	7
EC3	27
EC4	35

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate 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.

GCE ECONOMICS - EC2
MARK SCHEME - SUMMER 2014

Section A

Question	Answer	Mark allocation	Assessment objective
1 1	Using examples from the above data explain the meaning of the term fiscal policy. Good understanding showing an awareness that fiscal policy involves the use of both government spending and tax. (2) Some understanding: Either identifies only G or T or mixes in other extraneous factors such as interest rates. (1) No understanding shown. (0) Data: No data use. (0) Fair data use: the answer makes reference to the US government's decisions in this case but either only tax or government spending has examples or no specific numerical data is used, but the answer is set in context.(1) Good data use: clear use of both a tax (increase in income tax rates of 4.6%) and government spending (\$110bn cuts in defence spending) or "temporary tax cuts ended and government spending cuts introduced for a total of \$600bn". Use of bar chart.(2)	4	AO1 2 AO2 2
1 2	With reference to 14-16 explain the concept of opportunity cost. Definition/understanding of opportunity cost: Strong definition: Value of best alternative foregone or Equivalent. (2) Weak definition: If you do one thing you can't do something else. (1) Use of data: Good: Explains that defence spending means that the government has less money available to spend on infrastructure - there isn't enough money to spend on both. Or candidate shows an understanding that opportunity cost means that the benefits from one option are lost because the other has been chosen. Or shows a clear sense that there is a constraint present – it is impossible to have both. Simply states that infrastructure is the opportunity cost of defence spending without explaining why. (1)	4	AO1 2 AO2 2

Question	Answer	Mark allocation	Assessment objective
1 3	Using an aggregate demand and supply diagram explain the Federal Reserve's decision not to raise US interest rates until unemployment falls below 6.5%. Up to 3 for Reduce/slow down the rate of growth of AD: Good explanation of why AD will be affected, clearly explaining at least two of C, I and the exchange rate. (3) Fair explanation of why AD will be affected weak explanation of at least two of C, I and the exchange rate, or good explanation of one factor. (2) Weak explanation of why AD will be affected: answer really asserts that C will fall due to increased saving and no more.(1) Up to 2 for impact on the US economy Fall/reduced rate of growth of AD will stop unemployment falling, reduce GDP growth, push the US economy back into recession, worsen the budget deficit: 2 for good, relation to the impact on key economic variables in the US. Up to 2 for good diagram use: Correct diagram showing fall in AD or reduced rate of increase if AD. (1) Diagram referenced clearly in the answer. (1) Candidates may explain that low interest rates will increase AD and thus should be kept low to reduce unemployment. Max 6 if the effects on AD are fully explained.	6	AO1 2 AO2 2 AO3 2

Question	Answer	Mark allocation	Assessment objective
1 4	Using a diagram discuss the view that raising income tax rates for those individuals earning over \$400,000 will increase tax revenue for the US government. Raising tax rates will increase revenue: Higher tax rates means that those earning over \$400,000 will pay more tax, hence total tax revenue will rise.(2) Higher tax rates may lead to high income earners demanding higher bonuses, working harder and so on to recoup the lost income. (2) Supported by use of upward sloping segment of the Laffer curve. (2) Raising tax rates will not increase revenue: Higher income tax rates may reduce entrepreneurialism, make the US less attractive for new businesses to be founded, hence tax revenue might fall. (2) High tax rates might lead to increased tax avoidance/evasion. (explained = 2) Business people relocate abroad meaning that the tax base falls. (explained = 2) Higher tax rates may reduce AD, reducing spending and therefore tax. (1) Only a small number of people earn over \$400,000, so limited impact. (2) Illustrated by downward sloping segment of the Laffer curve. (2) Max 5 without evaluation. Max 6 without diagram. Max 3 for integrated diagram, Max 1 for unused but accurate diagram. Mechanistic explanation of Laffer curve only = up to 3.	8	AO1 1 AO2 1 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
1 5	Explain using a diagram why falling over the ‘fiscal cliff’ “could have pushed both the US economy and maybe the global economy into recession”. (lines 5-6) Cause a US Recession (up to 4 marks, 6 with a diagram) AD will fall because of cuts in government spending which will cause job losses and impacts along the supply chain. (2) AD will fall because tax increases will cause consumption and possibly investment to fall, again causing job losses and impacts along the supply chain. (2) Linked back to US recession using diagram - AD shifts leftwards reducing the equilibrium level of real GDP. (2) Max 4 if don’t treat G and T separately. Cause a global recession (up to 4 marks, 6 with a diagram). Exports from other countries to the US will fall reducing AD in those countries for which the US is a major market, reducing GDP in those countries. (2) US is the world’s largest single economy, meaning that it can have significant effects. (2) Reduced US profits/confidence may reduce outward US FDI. (2) US recession may damage confidence around the world, therefore having ‘contagion effects’, reducing consumption and investment there. (2) US recession may cause the dollar to slump again making it harder to sell to the US. (2) Diagram. (2) Well integrated diagram. (2) Correct diagram but not integrated. (1) Max 6 without reference to effects on both the US and global economy. Max 6 without diagram. If diagram is not explained/integrated, max 1.	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
1 6	Discuss whether “spending less on defence and more on both improving America’s crumbling infrastructure and boosting spending on education and training” (lines 15-16) will be enough to reduce the US trade deficit. Yes it will reduce the deficit (up to 6): Improving US infrastructure (Max 5) can improve the US trade deficit by: Encouraging inward FDI/higher domestic investment so that more products are made domestically instead of imported/more can be exported. (1-2) Better infrastructure will allow businesses to be more productive/transport goods more easily/reduce costs therefore making US firms more competitive, higher quality and increasing X/reducing M.(1-3) Spending on education and training (Max 5) can reduce the trade deficit by: May raise productivity/quality, reducing unit costs/improving value added and therefore making US firms more competitive, increasing exports and reducing imports. (1-3) May allow the US to produce goods and services domestically that might otherwise have been imported, reducing imports. (1-2) Reducing defence spending can reduce the trade deficit by (Max 4): May reduce demand for imported components such as steel, electronics and so on. (1-2) May lead to redundancies in the military-industrial complex, increasing unemployment and reducing imports. (1-2) No it will not be enough to reduce the trade deficit (up to 6): Improvements in productivity may not be enough given low-cost competition from abroad. (1-2) The US recovery, once it begins may suck in imports faster than exports can compensate. (1-2) Risk of government failure in infrastructure spending/training and education, meaning that the policies are ineffective. (1-2) The US economy isn’t the only one making supply side reforms - the changes may only be sufficient to stop the deficit from rising further.(1-2) The global economy, especially the euro zone, is performing poorly meaning that even if the policies have an impact, exports may still not rise. (1-2) Rising employment might raise spending and lead to a rise in imports. (2) Max 2 in total for any of the following: Supply side policies take time to take effect (explained (1) so therefore the trade deficit may only begin to fall in the long run/not fall in the short run. (1) Other factors affect the trade deficit such as the exchange rate and if these are moving in an adverse direction, the deficit may still not fall. (1-2) Depends on how much the changes are. (Max 1) Appropriate well integrated diagram use up to 2 marks. Max 6 without evaluation. (Reversible answer)	10	AO1 2 AO2 2 AO3 2 AO4 4

Section B

Question	Answer	Mark allocation	Assessment objective
2 1	Explain why the equilibrium wage rate for some jobs is below the national minimum wage. Supply is relatively high (max 6 including diagram): Low levels of skill/training are needed. (1) Therefore supply will be high at any given wage rate (or equivalent) because anybody can do it.(1) Low levels of formal qualifications are needed. (1) Therefore supply will be high at any given wage rate (or equivalent) because anybody can do it. (1) Clampdown on benefits etc. (1) may have led to an increased supply of workers into low skilled jobs. (1) Inward migration from the EU (1) has increased supply more in some sectors than in others, some of these are in low wage jobs. (1) Use of diagram or otherwise to explain why these will push down the equilibrium wage. (up to 2) Demand is relatively low (max 6 including diagram): Demand for some jobs is falling (1) because workers are being replaced by technology (supermarket checkout operators etc.). (1) UK recession has caused falling demand for goods and services (1) reducing the derived demand for labour. (1) Demand for some jobs is highly elastic. (1) Because markets are highly competitive/workers are easily substitutable,(1) which prevents the equilibrium wage from being high.(1) Use of diagram or otherwise to explain why these will push down the equilibrium wage. (up to 2) Minimum wage factors (max 2) Minimum wage has been rising in recent years (1) much faster than inflation since it was first introduced in 1999 from £3.60/hour. (1) Black market factors (max 3) Illegal immigrants are unable to work within the normal employment market (1) they are unprotected by the law (1) therefore they can be exploited by employers. (1) Weak trade unions (max 2)	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
2 2	Discuss the view that the UK national minimum wage of £6.31 per hour is too low. NMW is too low (up to 8) Low minimum wage provides little incentive to look for work (1) therefore restricting the supply of workers to firms. (1) Minimum wage has not kept up with the cost of living in recent years (1) therefore reducing living standards for the most vulnerable members of society. (1) Minimum wage is too low relative to benefits levels (1) therefore unemployment/poverty trap, high benefits payments etc. (1) Higher minimum wage increases firms costs meaning they have to become more productive (1) therefore firms may be more likely to train/invest.(1) Higher minimum wage might lead to an increase in incomes for low paid workers (1) therefore leading to an increase in AD. (1) Too low in some areas such as the southeast (1) where the cost of living is very high (1) - might be too high in more depressed areas such as the northeast. (1) Only affects a relatively small number of workers (1) hence it is not really doing the job that it was designed to do. (1) NMW is not too low (up to 8) Minimum wage at this level reduces the demand for labour because firms' costs are too high (1) therefore causing job losses (1) integrated diagram to illustrate increase in unemployment. (1-2) Minimum wage drives up firms costs forcing firms to increase prices (1) hence leading to an increase in inflation (1) and damaging international competitiveness. (1) Rising costs may erode profits (1) therefore leading to a reduction in investment by firms. (1) May have knock on effects on other jobs as workers try to maintain differentials. (1) UK wage levels have attracted migrant workers from abroad (1) hence the wage is clearly attractive within the European labour market, so it's high enough. (1) However this depends (up to 4) Maybe too high in some areas and too low in others (1) meaning that a regional minimum wage might be more sensible. (1) On elasticity of demand and supply for labour. If demand is highly wage elastic then the impact on unemployment will be much greater (1) this is quite likely when the economy is in recession/growing slowly because firms are unable to afford the increase. (1) On minimum wages in other countries (1) UK minimum wage is already quite high by the standards of some other EU countries. (1) Maximum 8 with no evaluation.	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
3 1	Explain the role of profit and price in a market economy. 8 marks for a clear explanation of how prices and profits work to allocate resources in a free market economy: Possible example: Suppose demand rises for a particular good. This will create a shortage in the market. (1) At the original price there will now be excess demand (1) Consequently prices will begin to rise. (1) As a result of this, new producers will be encouraged into the market because the higher prices will encourage supply/cover higher marginal costs. (1) Therefore allowing firms to make more profits. (1) The higher price will allow resources to be taken away from less profitable activities. (1) Therefore ensuring that resources are optimally allocated. (1) At the same time, rising prices will cause demand to contract. (1) Allocating resources to those consumers who (in principle) most want the good or service. (1) Supply and demand diagram to support this (1-2 if used). Other approaches (profit and prices treated separately) Profits (up to 4) Profits are important because they are the reward for risk (1) hence they encourage entrepreneurial activity/investment. (1) Profits are a source of low-cost investment (1) therefore allowing reinvestment into product and process (1) helping to create potential growth.(1) Profits are a source of revenue for the government via corporation tax. (1) Profits allow dividends to be paid (1) supporting pensions/pension funds. (1) Profits help to draw resources towards sectors making high profits where demand is high (1) helping to make resource allocation more efficient. (1) Prices (up to 4) Prices are important for bringing supply and demand into equilibrium (1) if there is excess demand prices will rise (1) causing a contraction in demand and extension in supply (1) diagram. (1-2) Prices have an allocative, signalling, rationing role in a market economy. (1) Explained. (3)	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
3 2	Discuss the view that education and health are best provided by the free market. Yes: Up to 8 marks: Free markets allocate resources efficiently (1) the market for education and health will be in equilibrium at a price which ensures demand equals supply. (1) If education and health are supplied free they will be undervalued and overused (1) hence creating excess demand, waiting lists in hospitals etc. (1) Free health and education is expensive for countries via the taxpayer (1) leading to high government spending, high taxes and borrowing.(1) Competition between providers will be good for consumers (1) as quality will be increased as providers compete for custom (1) but risk of race to the bottom as costs are cut and quality is sacrificed.(1) Free markets provide consumers of education and health with more choice. (1) Charging for education may encourage students to think more carefully about their course choices and reduce drop-out rates (1) making the whole system more effective (1). Free at point of consumption health creates the problem of moral hazard (1) explained.(1) No: Up to 8 marks: Education and health provide significant external benefits from consumption (1) therefore they will be under consumed in the free market (1) i.e. productivity via skills (1) and health with a positive impact on GDP; A country has a more efficient and healthier workforce. (1) Therefore provision through the free market will lead to a misallocation of resources because health/education will be under-consumed (1) resulting in a welfare loss (1) welfare loss diagram. (1-2) Free health and education help to promote social mobility (1) therefore reducing income inequalities. (1) Free health and education and compulsory consumption overcome information gaps (1) and retrospective regret. (1) Market provision of health care allows providers to exploit asymmetry of information when treating patients.(1) Health care is a basic need/right (1) therefore it is unfair to make people pay for it (1) and inequalities will be driven up/regressive. (1) Max 8 with no evaluation.	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
4 1	Explain why governments may need to intervene in the market for fish to prevent market failure. Understanding of market failure (2 max): Good understanding of market failure: Forces of supply and demand misallocate resources so that the equilibrium output is too high in some markets but too low in others/misallocation of resources results in a welfare loss/fails to maximise community surplus. (2) Resources are misallocated (1) market causes a welfare loss (1) Resources are over-used (1) Relation to the context of fish (6 max) Understanding of private property rights (1) there is an absence of clearly defined property rights in this case (1) because fish are effectively non-excludable in the open sea/anyone can go and fish in a free market (1) but they are diminishable - there are finite stocks. (1) Therefore fish will be over-exploited/there will be a tragedy of the commons (1) because firms are only interested in private profit. (1) Improvements in technology (sonar etc.) make over-exploitation even easier. (1) Therefore governments have to intervene to restrict supply/access (1) otherwise fish will become extinct meaning that the resource has been over-exploited. (1)	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
4 2	With reference to relevant economic theory, evaluate the policies that could be used to preserve fish stocks in the North Sea. Up to 5 for: Fishing quotas can be imposed to protect fish stocks (1) limits on catches by weight otherwise fines are imposed (1), but surplus fish are discarded to avoid fines (1) which might be seen as an example of government failure (1) because there has been a worse misallocation of resources (1) difficult and expensive to police so a waste of resources (1) because of the numbers of boats and nationalities involved. (1) Up to 4 for: Tax endangered fish to reduce quantity demanded (1) price rises and quantity demanded falls (1) creating an incentive to eat/catch less endangered species (1) but demand may be price inelastic because of custom/tastes (cod?). (1) There is a need for international agreement to have any major impact. (1) Up to 4 for: Limit access to fishing grounds: limit time on sea/close fishing areas(1) this will allow fish to breed/stocks to recover (1) but cost of policing may be very high because of the large areas involved (1), may have to compensate fishing communities/pay fishing boats not to fish. (1) Up to 4 for: Fish farms: subsidies can be given to set up fish farms (1) hence increasing the supply of fish (1) but costly (1) disease spreads quickly (1) escapes from farms can affect the gene pool. (1) Up to 4 for: Regulate fishing techniques (1) outlawing certain techniques (explosives, bottom trawling)/imposing regulations such as wider mesh nets (1) reduces size and amount of fish caught (1) but cost of policing due to the number of boats/wide areas involved. (1) Up to 2 for: Advertising campaigns to promote non-endangered varieties (1) therefore reducing demand for endangered species. (1) General evaluation. North Sea is accessible to fishing boats from many different EU nations (1) therefore will need EU agreement to be effective. (1) Candidates should be rewarded for appropriate reference to the EU Common Fisheries Policy. Max 3 for undeveloped policies Award marks to best 4 policies Max 8 for explanation of policies with no limitations/evaluation. Avoid double-crediting evaluation (cost of policing etc.). Relevant diagram to support any piece of analysis above is worth up to (2).	12	AO1 3 AO2 3 AO3 2 AO4 4

Section C

Question	Answer	Mark allocation	Assessment objective
5 1	Explain why it may be difficult for a government to achieve all its macroeconomic objectives at the same time. Understanding of key macroeconomic objectives: high/full employment, low stable inflation, economic growth, current account balance, accept also deficit reduction or sustainability reducing depletion/degradation or reducing inequality etc. (2 max) Rising growth/falling unemployment may push the economy closer to full employment (1) as a result resources begin to run short/competition is lower in product markets. (1) Therefore costs of production begin to rise/it is easier to increase prices. (1) Therefore inflation may occur. (1) Illustrated with diagram. (1) (4 max) Rising growth/falling unemployment will increase the disposable incomes of households. (1) As a result of which consumption will rise, some of which will be likely to be spent on imports. (1) Rising consumption may increase inflation, damaging UK firms' competitiveness. (1) Hence the trade balance/current account deficit will be liable to deteriorate. (1) (4 max) Cost-push inflation will drive up UK firms' costs pushing up prices. (1) Therefore AD is likely to contract, damaging growth. (1) Falling growth may also increase unemployment. (1) Rising prices may damage competitiveness, damaging the trade balance/current account balance (1) illustrated with diagram. (1) (4 max) Rising growth will require more and more resources to be able to sustain (1) therefore resources may be depleted and the environment damaged. (1) (2 max) Rising growth is likely to benefit those in jobs/business owners (1) therefore inequalities in income and wealth are likely to rise. (1) (2 max) It may be difficult to achieve policy objectives, but not impossible because SSPs might work, but these take a long time to implement etc. (2) Increased economic growth might cost jobs if it is driven by technological change. (up to 2)	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
5 2	Evaluate the policies a government could introduce to reduce its budget deficit. Rising taxes (Max 8 from rising taxes) Higher income taxes May mean that the existing population will now have to pay more of their income. (1) As a result the government's tax revenue should rise, reducing the deficit. (1) Illustrated by Laffer curve. (1) But May create disincentives to work (1) tax avoidance/emigration (1) illustrated by Laffer curve (1) may reduce AD further, reducing VAT receipts (1) and increasing unemployment therefore increasing benefit payments. (1) Higher corporation tax In principle corporations will have to pay a higher proportion of their profits to the government (1) therefore raising tax revenue and reducing the deficit. (1) But Corporation tax is easy to avoid for some corporations (Amazon/Starbucks etc). (1) May deter FDI, resulting in lower tax receipts in the longer term. (1) Corporation tax is a relatively small proportion of the overall tax base. (1) Higher indirect taxes Increased VAT and excise duties will mean that goods and services have more tax on them (1) therefore the government's tax revenue should rise, reducing the deficit (1) this may work well on demerit goods where demand may all be relatively price inelastic (1) also has the advantage that it may tackle market failure. (1) But Risk that too large a rise may push the economy back into recession (1) meaning that benefits spending may increase. (1) Indirect taxes tend to be regressive (1) because low income groups spend a higher proportion of their income. (1) Rising indirect taxes may have a direct impact on inflation (1) damaging growth and jobs illustrated with diagram. (1)	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
	Cutting government spending (Max 8 from cutting G) Cutting capital spending Cuts on major infrastructure projects will reduce government's outgoings (1) meaning that the gap between G and T is smaller. (1) May also mean lower maintenance costs in the future. (1) But May damage potential growth. (1) May not be easy to cut for practical (already half-built) reasons. (1) May reduce AD, causing losses and therefore increasing benefit payments (1) and reducing income tax/VAT payments. (1) Cutting current spending Cuts in regular payments for public sector salaries and other running costs cut the government's outgoings (1) reducing the gap between G and T (1). Current spending forms the majority of the government's outgoings. (1) But Difficult to reduce because of the need to maintain essential services. (1) May damage merit goods (1) and therefore increase inequalities. (1) May reduce AD, causing losses and therefore increasing benefit payments (1) and reducing income tax/VAT payments (1) cuts in education/training may damage future productivity. (1) Cutting transfer payments (benefits/pensions) Social protection is a big area of government spending, so cutting it will save money (1) therefore reducing the gap between G and T (1) may also create incentives to work (1) helping to increase the government's tax base. (1) But May be very unfair on low income groups (1) reducing welfare/increasing inequality. (1) Keynesian stimulus (Max 6) QE/cutting interest rates may increase AD (1) explained. (1) As a result tax base may rise via income tax and VAT (1) and government spending may fall as a result of reduced benefit payments.(1) But Monetary stimulus may not be very effective because of liquidity trap (1) and low confidence levels. (1) Allow other valid points which are plausible answers to the question. Max 8 without evaluation.		

Question	Answer	Mark allocation	Assessment objective
6 1	What factors determine the level of consumption in the economy? Real income levels/economic growth (1): Rising GDP levels will reduce unemployment and increase incomes (1) therefore consumers have higher disposable incomes and will spend more, increasing consumption (1) consumption is a function of current income/marginal propensity to consume. (1) Interest rates(1): Falling interest rates create a disincentive to save/incentive to borrow (1) also reduce mortgage repayments, increasing discretionary income (1) falling interest rates may cut incomes of savers, reducing consumption. House/Asset prices (1): Rising house/asset prices can increase confidence/wealth effect (1) also this may allow equity withdrawal. (1) Tax cuts (1): Cuts in income tax increase disposable income (1) cuts in VAT reduce price levels, increasing consumption. (1) Changes to benefits/NMW (1) increase disposable income (1) and thus increase consumption. Availability of credit (1): If banks don't have funds available then consumers will be unable to borrow (1) developed with reference to current events in the UK. (1) Confidence (1): If confidence is low, consumers may not wish to borrow/spend. (1) Max 3 for each explained point. Max 2 in total for identifying factors. Level 3 responses require at least one fully developed (3 mark) point.	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
6 2	With the use of a diagram discuss the extent to which a rise in consumption is good for an economy? Good for the economy: Rising consumption will increase AD (because it is a major component) therefore real GDP will rise, creating economic growth. (2) Rising consumption will create increased demand for UK firms meaning that jobs will be created, reducing unemployment. (2) Rising consumption will increase GDP increasing the government's tax base and reducing benefits spending, improving the budget deficit. (2) Rising consumption will increase firms' profits, increasing investment and boosting productivity. (2) Effective diagram (1) used to support the points made. (1) Not so good for the economy: If economy is close to capacity then inflation may rise (1) because resources start to run short, easier to increase prices etc. (1) Rising consumer spending may worsen the trade balance (1) because many consumer goods/components etc. come from abroad, increasing imports. (1) It may depend on how the rising consumption is financed (1) falling savings/rising debt may create problems in the longer term. (1) Depends how much consumption rises by (1) if AD rises by no more than potential growth/AS then problems are less likely/if AD rises by more than potential growth, inflation is more likely.(1) Max 8 without evaluation (Reversible). Max 10 without a diagram.	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
7 1	Using a diagram show how a fall in the value of the pound might be caused by a widening trade deficit and explain how the weaker pound might improve the price competitiveness of UK firms. Causing a fall in the value of the pound (4): Widening trade deficit implies that: Imports are rising which will increase the supply of £s on the forex market (1) As a result there is excess supply of sterling on the forex market at the original exchange rate. (1) Illustrated using an accurate diagram. (2) Exports are falling which will reduce the demand for £s on the forex market.(1) As a result there is excess supply of sterling on the forex market at the original exchange rate. (1) Illustrated using an accurate diagram. (2) Max 2 without a diagram Improved price competitiveness (4): UK exports look more competitive on world markets. (1) Because UK goods and services are cheaper in terms of foreign currency (or words to that effect). (1) Rising import prices cause UK domestic goods to look more competitive relative to imports. (1) Because the weaker pound means that it costs more to buy a given quantity of imports (or words to that effect)/import prices are higher in sterling terms etc. (1)	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
7 2	Discuss whether a sharp fall in the value of the pound will be beneficial for the UK economy. Beneficial (up to 8): Cheaper exports and more expensive imports should lead to a rise in the value of exports and a fall in the value of imports. As a result the trade balance should improve. (2) Lower export prices make UK goods/tourist destinations more price competitive thus raising demand/employment and GDP. (2) Higher import prices reduce imports benefiting home producers in terms of employment/profits/output etc. (2) Buying assets in the UK is cheaper (1) and thus FDI may increase raising AD (1). Profits made overseas by UK firms increase in terms of pounds (1) explained. (1) Well integrated AD/AS diagram on either side. (2) Not beneficial (up to 8): If the demand for imports is price inelastic, then the value of imports might actually rise, which is quite likely for commodity imports such as oil etc. (2). Likewise, exports might not rise if export markets are in recession etc. (2) Export/Import sales might not respond to lower price in the short term because of pre-existing contracts, loyalty and non-price factors. (2) Max 4 for: Rising import prices may drive up the costs of UK manufacturers and final goods (1) hence causing cost push inflation within the economy (1) and offsetting some of the benefits of the weaker pound (1) causing job losses in import-dependent sectors. (1) Possible risk of demand pull inflation as a result of rising exports (1) but max 2 in total for understanding that inflation will rise through C push or D pull. Up to 2 further marks for understanding why inflation might be undesirable. OR UK firms dealing with overseas travel by UK citizens suffer (1) due to expensive foreign holidays driven by the weaker £ (1). Reversible answer. Maximum 8 without evaluation.	12	AO1 3 AO2 3 AO3 2 AO4 4

SECTIONS B and C

The following levels should be applied to each question.

Part (a) questions

Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made.
Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

Part (b) questions

Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. Likely to focus on just one side of the issue. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
Level 3 9 - 12	Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.



GCE AS/A level

1132/01

ECONOMICS – EC2

A.M. THURSDAY, 23 January 2014

2 hours

1132
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part (b) and Section C part (b).

SECTION A

Answer all the questions in this section.

1. Study the information below and then answer the questions that follow.

Olive oil prices plunge to ten year low in further blow to Spain and Greece.

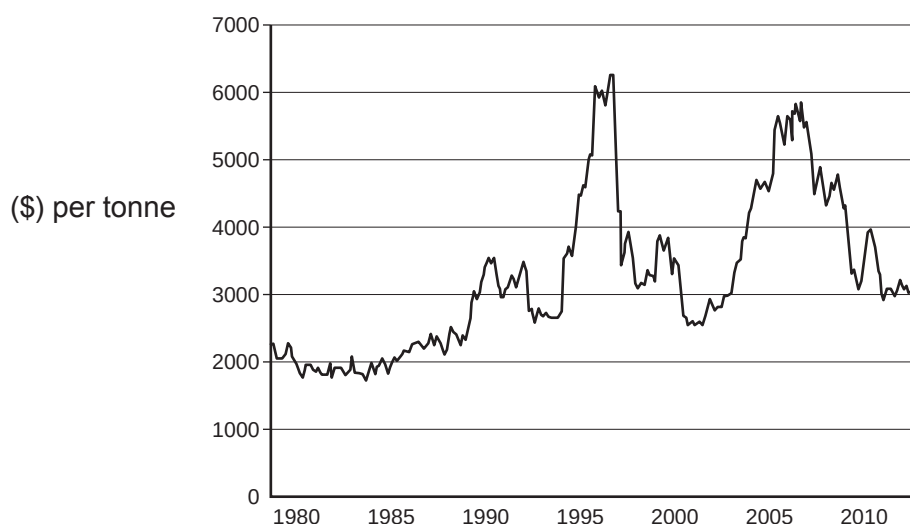


When analysts talk about an oil crisis, it's usually to complain about pain at the petrol pump. But Europe is facing a different kind of oil panic. The price of olive oil, used in cooking, has been crashing, as Spaniards, Italians and Greeks switch to cheaper soya and sunflower oils.

Olive oil prices have fallen to below \$3,000 a tonne during the past year, half its 2005 price, and its lowest level in a decade, according to the International Monetary Fund.

The price of olive oil has fallen as consumers in high unemployment southern European countries cut down on consumption while a huge crop in Spain has boosted supply.

Price of olive oil per tonne (\$)



The glut of olive oil is dragging down prices – good news for British consumers but potentially devastating for growers across Spain, Italy and Greece, who are already struggling as a result of the eurozone crisis. Spain, Italy and Greece are the largest olive oil producers in the world, accounting for 70 per cent of the world's output, according to the Financial Times.

As consumers across southern Europe face falling incomes, many are looking to drive down the cost of their shopping baskets with cheaper alternatives – creating strong competition for traditional olive oil. The popular Spanish supermarket chain Eroski is currently selling sunflower oil at 1.25 euros a litre, considerably less than 1.99 euros per litre it charges for olive oil.

For the third time in eight months the EU has been forced to intervene to reduce the olive oil surplus by paying companies to stockpile oil, thus temporarily removing it from the market. It is hoped that this move, costing up to 20m euros, will help to increase prices.

On the positive side, although olive oil accounts for only about 2% of the world consumption of vegetable oils, its popularity is rising. As the middle classes expand in numerous emerging countries and become increasingly diet and health conscious, demand for olive oil is expected to grow in the coming years. In China demand is up 25% in recent years – sadly not enough to outweigh the slump in demand in Southern Europe.

Adapted from: Rachel Rickard Straus, thisismoney.co.uk. 28 May 2012

- (a) (i) With the aid of a demand and supply diagram explain why the price of olive oil has been falling in recent years. [6]
- (ii) With the aid of a demand and supply diagram explain why the price of agricultural goods such as olive oil fluctuates more than the price of manufactured goods such as cars. [6]
- (b) (i) To what extent might the fall in the market price in olive oil to under \$3000 a tonne lead to a fall in the price of olive oil in UK supermarkets? [4]
- (ii) Define consumer surplus and explain how it will change for UK consumers of olive oil if prices fall in supermarkets. [4]
- (c) Comment on the income elasticity of demand of olive oil. [4]
- (d) To what extent is the price elasticity of supply of olive oil likely to be inelastic? [6]
- (e) Using the data, evaluate the view that organisations such as the European Union should try to stabilise the price of olive oil. [10]

SECTION B

Answer one question from this section.

2. HOUSING SHORTAGE CONTINUES

- (a) Suggest and explain possible policies that the government could introduce to increase the supply of housing in the UK. [8]
- (b) With the aid of a diagram discuss the view that a maximum rent should be set for all privately rented housing in the UK. [12]

3. SCHOOL PUPILS SHOULD BE GIVEN FREE FLU VACCINATIONS

- (a) Explain why the government might subsidise vaccinations but heavily tax cigarettes. [8]
- (b) With the aid of a diagram evaluate the view that there are better ways to reduce cigarette consumption than to keep increasing taxes on tobacco. [12]

4. EMPLOYERS WANT TO LIMIT RISES IN THE MINIMUM WAGE

- (a) Using a diagram, explain why the equilibrium wage might rise or fall in a free market. [8]
- (b) Discuss whether the government should stop increasing the minimum wage each year. [12]

SECTION C

Answer one question from this section.

5. CORPORATION TAX CUT TO 21% IN 2014

- (a) Explain with examples what is meant by the term supply side policies. [8]
- (b) To what extent will supply side policies help an economy to recover from a recession? Use a diagram in your answer. [12]

6. POUND RISES AGAINST THE EURO

- (a) Using appropriate diagrams explain how a rise in (i) interest rates and (ii) imports might affect the exchange rate. [8]
- (b) Discuss the view that a significant rise in the exchange rate of the pound against the Euro is bad for the UK economy. [12]

7. UK TRADE DEFICIT AT FIFTEEN YEAR HIGH

- (a) Explain why governments have attempted to achieve high economic growth and low inflation. [8]
- (b) Discuss policies that could be introduced to help reduce the UK's trade deficit. [12]

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GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

JANUARY 2014

INTRODUCTION

The marking schemes which follow were those used by WJEC for the January 2014 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were interpreted and applied in the same way by all examiners.

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EC2	9

GCE ECONOMICS – EC2

Mark Scheme – January 2014

Question	Answer	Mark	AO1	AO2	AO3	AO4
1 (a) (i)	With the aid of a demand and supply diagram explain why the price of olive oil has been falling in recent years. <i>Diagram showing leftward shift in demand and rightward shift in supply (2). Explanation of shifts. Falling demand due to recession or cheaper substitutes (2) and increasing supply due to a bumper crop in Spain (2).</i>	6	2	2	2	
1 (a) (ii)	With the aid of a demand and supply diagram explain why the price of agricultural goods such as olive oil fluctuates more than the price of manufactured goods such as cars. <i>Supply tends to be very volatile meaning that prices will also be volatile (explained) (2) this is made worse by price inelastic demand (2). Supply is also price inelastic meaning that any change in demand cannot be absorbed, therefore also making prices volatile (2). Speculation (2). Diagram showing this (Cobweb diagram accepted) (2). Max 5 if there is no comparison with manufactured goods.</i>	6	2	2	2	
1 (b) (i)	To what extent might the fall in the market price in olive oil to under \$3000 a tonne lead to a fall in the price of olive oil in UK supermarkets? <i>A fall in price of olive oil on the commodity markets should be passed on to consumers in lower supermarket prices because it requires no major processing by manufacturers. It represents a major fall in price since 2005 from \$5500 a tonne. (2)</i> BUT <i>Other costs may be rising eg bottling, wages, distribution etc. Supermarkets may maintain prices in order to make bigger profits. Monopoly power of supermarkets to keep prices high. Exchange rate changes may prevent a price fall (2).</i>	4			2	2

Question			Answer	Mark	AO1	AO2	AO3	AO4
1	(b)	(ii)	Define consumer surplus and explain how it will change for UK consumers of olive oil if prices fall in supermarkets <i>Definition of consumer surplus (2). Fall in price will increase the consumer surplus because the gap between what consumers will pay and the market price has risen (2). Diagram (1).</i>	4	2	2		
1	(c)		Comment on the income elasticity of demand of olive oil <i>Definition of Yed/equation (1). Income elasticity of demand is positive/normal good (1) as incomes rise demand rise/as incomes fall demand falls (1). Use of the data (2).</i>	4	2	2		
1	(d)		To what extent is the price elasticity of supply of olive oil likely to be inelastic? <i>Definition of price elasticity of supply (1). Olive oil takes time to produce- growing time, etc and seen as a perishable product (1). Likely to be price inelastic in the short term (1).</i> BUT <i>Mention of stockpile in the data indicates that olive oil can be stored so supply may be elastic even in the short run (2). In the long term supply can be increased and becomes more elastic (2).</i> <i>Maximum 4 without evaluation.</i>	6	2	2		2

Question			Answer	Mark	AO1	AO2	AO3	AO4
1	(e)		Using the data evaluate the view that bodies such as the European Union should try to stabilise the price of olive oil. <i>Olive oil is an agricultural good and prices and incomes are volatile due to fluctuations in/inelasticity of demand and supply.</i> <i>Many countries are very dependent on the production and export of olive oil.</i> <i>Olive oil is an important part of diet in many countries/health benefits.</i> <i>Need to support/preserve rural communities.</i> <i>Major EU olive oil producers already have very high unemployment.</i> <i>Max 6.</i> <i>Price support leads to overproduction/misallocation of resources.</i> <i>Costly to EU taxpayers.</i> <i>Reduces consumer surplus/higher prices for consumers.</i> <i>Damage to the environment of over-production.</i> <i>Diagram (2)</i> <i>Max 6.</i> <i>Reversible answer.</i>	10	2	2	2	4
			Total for Question 1	40	12	12	8	8

Question			Answer	Mark	AO1	AO2	AO3	AO4
2	(a)		Suggest and explain possible policies that the government could introduce to increase the supply of housing in the UK. <i>Government builds/renovates more houses/social housing projects.</i> <i>Private builders given tax incentives to build new houses.</i> <i>Simplify the planning process.</i> <i>Regulation-low interest rates for mortgages/smaller deposits.</i> <i>Tax relief on mortgage interest payments.</i> <i>Loans to construction companies backed by government.</i> <i>End affordable housing requirement for new build estates.</i> <i>Up to 3 marks for each point (1 identification + 2 explanation).</i>	8	3	3	2	
2	(b)		With the aid of a diagram discuss the view that a maximum rent should be set for all privately rented housing in the UK. <i>Maximum rent makes rented property more affordable for tenants.</i> <i>Reduces inequality/poverty/housing is a merit good.</i> <i>Prevents exploitation by profiteering landlords.</i> <i>Diagram (2)</i> <i>Creates excess demand for rented property.</i> <i>Fewer private landlords see renting as profitable and rented housing stock falls.</i> <i>Depends how high/low the maximum rent is set.</i> <i>Illegal markets develop in the rented property market.</i> <i>Max 8 without evaluation.</i> <i>Reversible answer.</i>	12	3	3	2	4
			Total for Question 2	20	6	6	4	4

Question			Answer	Mark	AO1	AO2	AO3	AO4
3	(a)		Explain why the government might subsidise vaccinations but heavily tax cigarettes. <i>Vaccinations produce external as well as private benefits. Reduced costs on the NHS and wider economy. In a free market vaccinations would be over-priced and under-provided in relation to the social optimum. Thus they should be subsidised to reduce market failure.</i> <i>Vaccinations are a merit good. Max 4.</i> <i>Cigarettes impose costs on society via health spending and loss of productivity in the economy. Also there are problems with passive smoking, litter and fires etc. At a free market price cigarettes would be under-priced in relation to their social cost. Smoking is a demerit good. Max 4.</i>	8	3	3	2	
3	(b)		With the aid of a diagram evaluate the view that there are better ways to reduce cigarette consumption than to keep raising taxes on tobacco. <i>Cigarette taxes raise price by shifting the supply curve to the left.</i> <i>Demand falls.</i> <i>Taxation can work if it is high enough so that demand becomes price elastic.</i> <i>Diagram (2)</i> <i>BUT</i> <i>Putting taxes on tobacco does not reduce consumption significantly as demand is price inelastic and smoking is addictive.</i> <i>Indirect taxes are regressive.</i> <i>People find ways round higher prices through smuggling/duty free purchases</i> <i>Better to use regulation/smoking bans/raise the age limit for purchase/negative advertising/bans on promotion.</i> <i>BUT</i> <i>Regulations require costly enforcement/some regulations damage the economy ie closure of pubs.</i> <i>Taxes internalise the consumption externality.</i> <i>Max 8 without evaluation/10 without a diagram.</i> <i>Reversible answer.</i>	12	3	3	2	4
			Total for Question 3	20	6	6	4	4

Question			Answer	Mark	AO1	AO2	AO3	AO4
4	(a)		Using a diagram, explain why the equilibrium wage might rise or fall in a free market. <i>Diagram/s showing the demand and supply of labour and how the equilibrium wage changes when there is a shift in demand and supply (2). Factors which may shift demand: derived demand effects, changes in labour productivity, changes in costs of other factors of production, state of the economy. Factors which may shift supply: changes in wage rates in other occupations, entry qualifications changing, migration/changes in the size of the labour force, power of trade unions.</i> <i>Max 3 marks for each explained factor. Max 6 without a diagram. Max 5 marks for only one explained shift.</i>	8	3	3	2	
4	(b)		Discuss whether the government should stop increasing the minimum wage each year. <i>Freezing the NMW: may help to raise the demand for labour, prevent rises in unemployment, help younger workers.</i> <i>BUT: Could lead to poverty, increases inequality, reduce the number of adults seeking work.</i> <i>Rises in NMW: raises costs and prices thus fall in demand and profits/less competitive, can cause workers to lose their job/fewer hours if Ped for labour is elastic thus unemployment rises.</i> <i>BUT: Depends on how much the NMW rises by, proportion of costs which are labour costs, may encourage firms to raise the productivity of workers, some firms don't have any NMW staff. Raising the NMW increases spending power in the economy. A rise in the NMW will reduce government spending on in work benefits.</i> <i>Max 8 without evaluation. Diagram 2 marks.</i>	12	3	3	2	4
			Total for Question 4	20	6	6	4	4

Question			Answer	Mark	AO1	AO2	AO3	AO4
5	(a)		Explain with examples what is meant by the term supply side policies. <i>Definition of supply side policies (2).</i> <i>Examples of different types of supply side policies:</i> <i>Education and training.</i> <i>Infrastructure (roads/rail/high speed broadband)</i> <i>Labour market reforms. (Benefit/trade union reform).</i> <i>Privatisation and deregulation.</i> <i>Tax reform (cuts in direct taxes)</i> <i>Max 3 marks for each example (1 mark identification and 2 explanation).</i>	8	3	3	2	
5	(b)		To what extent will supply side policies help an economy to recover from a recession? Use a diagram in your answer. <i>Supply side policies increase potential output shifting AS to the right.</i> <i>AD/AS equilibrium at a higher level of GDP thus unemployment falls (2).</i> <i>Supply side reforms increase competitiveness of the economy and raise the demand for labour (2).</i> <i>Supply side policies increase the efficiency of product and factor markets causing unemployment to fall (2).</i> <i>Some supply side policies will also increase AD as well as AS eg infrastructure projects.</i> <i>BUT</i> <i>The economy may lack AD and thus there is a need for a reflationary policy.</i> <i>Supply side reforms take a long time to work.</i> <i>Policies may be ineffective (government policy ill directed).</i> <i>Supply side policies cannot be afforded when an economy is in recession.</i> <i>Max 8 without evaluation.</i> <i>Diagram. (2)</i> <i>Max 10 without a diagram.</i> <i>Reversible</i>	12	3	3	2	4
			Total for Question 5	20	6	6	4	4

Question			Answer	Mark	AO1	AO2	AO3	AO4
6	(a)		Using appropriate diagrams explain how a rise in (i) interest rates and (ii) imports might affect the exchange rate. <i>Rise in interest rates will increase speculative inflows of 'hot money' and increase the demand for domestic currency shifting the demand curve to the right increasing the exchange rate (2). Appropriate diagram (2).</i> <i>Rise in imports increases the supply of domestic currency and demand for foreign currency shifting the supply curve to the right decreasing the exchange rate (2). Appropriate diagram (2).</i>	8	3	3	2	
6	(b)		Discuss the view that a significant rise in the exchange rate of the pound against the Euro is bad for the UK economy. <i>Rise in the exchange rate makes exports more expensive and imports cheaper thus demand for exports falls and demand for imports rises (2) worsens trade deficit (2) loss of jobs/rise in unemployment (2). GDP/output falls (2).</i> BUT <i>Cheaper imports can help to keep inflation down (2). Export demand may be price inelastic (2). Other factors affect the demand for exports/imports (2). High exchange rate encourages firms to reduce costs/raise productivity (2). Pound may be falling against other currencies such as the dollar.</i> <i>Max 8 without evaluation. Reversible answer.</i>	12	3	3	2	4
			Total for Question 6	20	6	6	4	4

Question		Answer	Mark	AO1	AO2	AO3	AO4
7	(a)	Explain why governments have attempted to achieve high economic growth and low inflation. <i>Low inflation: international competitiveness (trade balance), better for forward planning in business (investment decisions), saving on menu/shoe leather costs, inflationary expectations low (wage bargaining), lower interest rates, Protection of those on fixed incomes. Max 4.</i> <i>High economic growth: higher living standards, increased tax revenues, higher levels of employment etc. Max 4.</i>	8	3	3	2	
7	(b)	Discuss policies that could be introduced to help reduce the UK's trade deficit. <i>Devalue the exchange rate to make exports cheaper but could cause inflation and provoke competitive devaluations.</i> <i>Use protectionist measures to reduce imports but could cause retaliation/misallocation of resources/not possible as an EU member.</i> <i>Supply side policies to improve competitiveness but can take years to be effective/costly/potential for government failure.</i> <i>Reduce domestic demand using higher income tax but could cause unemployment.</i> <i>Tax breaks/R&D subsidies to exporters but costly and may take year to be effective.</i> <i>Max 3 for each explained policy. Max 8 without evaluation.</i>	12	3	3	2	4
Total for Question 7			20	6	6	4	4

SECTIONS B and C

The following levels should be applied to each question.

Part (a) questions

Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made.
Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

Part (b) questions

Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. Likely to focus on just one side of the issue. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
Level 3 9 - 12	Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.



GCE AS/A level

1132/01

ECONOMICS – EC2

P.M. FRIDAY, 17 May 2013

2 hours

1132
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part *(b)* and Section C part *(b)*.

SECTION A

Answer **all** the questions in this section.

1. Study the information and then answer the questions that follow.

Minimum wage harming job opportunities for young

New National Minimum Wage rates took effect in October 2011, but may be pricing younger workers out of jobs, because their lack of skills and experience makes it too expensive to give them a first job.

	Old hourly rate	Hourly rate from Oct 2011
Adult rate	£5.93	£6.08
18-20 year olds	£4.92	£4.98
16-17 year olds	£3.64	£3.68

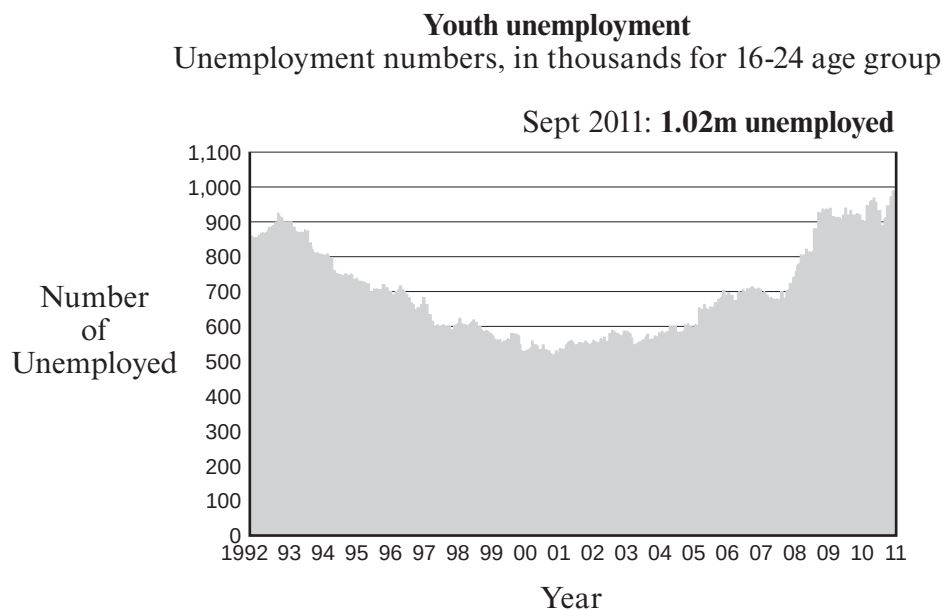
Minimum wage rates 2010-2011

- 5 Official figures show that around 1 million of the 2.5 million people unemployed in Britain are aged 16 to 24, with numbers up by a third since 2008. Analysts think that there are two main factors contributing to this rise. One factor was the economic slowdown (a so-called 'recession effect'), while another was specifically due to a "minimum wage effect" increasing firms' costs.

- 10 The Prime Minister, David Cameron, has argued that creating economic growth is the key to job creation, but that there is more to this than simply boosting aggregate demand. According to Cameron: "This Government is not just sitting back; we want to make it easier for businesses to start up, for businesses to grow, for business to employ people, to expand and to invest."

- 15 Meanwhile, The British Chambers of Commerce (a group representing businesses) said that freezing and then gradually reducing the minimum wage was important; "The concern is that the current minimum wage rate is discouraging some employers from taking on young people and giving them a chance to get into the workplace." Increases in the National Minimum Wage increase costs for firms who then pass this on to customers in the form of higher prices.

Figure 1



Source: ONS

Others have argued that cuts in the National Minimum Wage might be counter-productive and that the ‘recession effect’ is still the biggest problem. Some economists argue that the government should be looking for ways to increase aggregate demand with cuts in taxes or increases in government spending, but with soaring government debt, this may be easier said than done. Even if economic growth was to rise rapidly it might not help because in 2010-11 87% of the newly created jobs in the UK went to immigrants.

- (a) Using figure 1 explain possible reasons for the changes in youth unemployment over the period shown. [6]
- (b) Explain **two** reasons why the government
- (i) might have introduced a National Minimum Wage; [4]
 - (ii) has set a lower minimum wage rate for younger workers than for adults. [4]
- (c) With the aid of diagrams explain what is meant by the;
- (i) ‘minimum wage effect’ (line 7); [4]
 - (ii) ‘recession effect’ (lines 6-7 and 18). [4]
- (d) Using an appropriate diagram, evaluate the extent to which increases in the minimum wage will “increase costs for firms who then pass this on to customers in the form of higher prices” (line 16). [8]
- (e) Discuss whether supply side policies are likely to be the best way to reduce the level of unemployment in the UK. [10]

SECTION B

*Answer **one** question from this section.*

2. COCOA PRICES DOUBLE OVER THE LAST FIVE YEARS

- (a) With the aid of diagrams explain why the prices of agricultural goods fluctuate more than the prices of manufactured goods. [8]
- (b) Evaluate the view that governments should try to stabilise prices in agricultural markets. [12]

3. HIGH PRICES FOR HARRY POTTER EXHIBITION FAILS TO PUT OFF FANS

- (a) What factors determine the price elasticity of demand of a product? [8]
- (b) With the aid of diagrams and examples, discuss the view that a rise in demand for a product will always raise both the price and quantity sold. [12]

4. FLOOD DEFENCES NEEDED AS SEA LEVELS RISE DUE TO GLOBAL WARMING

- (a) With the aid of examples distinguish public goods from private goods. [8]
- (b) Evaluate the policies that a government could introduce to reduce greenhouse gas emissions which contribute to global warming. [12]

SECTION C

*Answer **one** question from this section.*

5. BASE INTEREST RATES REMAIN AT A HISTORIC LOW OF 0.5%

- (a) Explain the main factors taken into account when setting the base interest rate in the UK. [8]
- (b) To what extent can monetary policy be relied upon to get an economy out of recession? [12]

6. GOVERNMENT SEEKS TO ENCOURAGE INVESTMENT

- (a) Explain the factors that determine the level of investment in an economy. [8]
- (b) To what extent is investment always good for an economy? [12]

7. EXCHANGE RATE REMAINS WEAK AGAINST OTHER CURRENCIES

- (a) Explain why a country's foreign exchange rate might fall against other currencies. [8]
- (b) Evaluate the view that a fall in the value of the pound will enable the UK government to achieve its macroeconomic objectives. [12]

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GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

SUMMER 2013

INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2013 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were interpreted and applied in the same way by all examiners.

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GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate 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.

GCE ECONOMICS - EC2

Summer 2013

SECTION A

[illegible]

Question	Answer	Mark allocation	Assessment objective
Q.1 (c)	With the aid of diagrams explain what is meant by: (i) the ‘minimum wage effect’ (line 7) Minimum wage effect: higher wages reduce the demand for labour and cause unemployment (2) Diagram (2) (ii) the ‘recession effect’ (lines 6-7 & 18) When explaining the rise of youth unemployment. Recession effect: Falling AD leads to a falling demand for labour (derived demand) and rising unemployment (2) AD/AS diagram with AD shifting left. (2) OR labour market diagram showing the demand for labour shifting left (2) explained (2)	4 4	AO1 2 AO2 1 AO3 1 AO1 2 AO2 1 AO3 1
Q.1 (d)	Using an appropriate diagram, evaluate the extent to which increases in the minimum wage will “increase costs for firms who then pass this on to customers in the form of higher prices”. (line 16) Increases in the NMW will increase firms’ costs (2). Shifts the supply curve to the left raising the price of products (2) Diagram (2). OR Diagram showing AS shifting left (2). BUT: Depends on the Ped of the firms’ products, wage costs as a proportion of total costs, state of the economy (firms reduce profit margins or reduce staffing). Some firms pay everyone above the NMW, a higher NMW motivates workers to higher productivity and reduces costs, depends on the magnitude of the NMW. Max 4 without evaluation Reversible answer.	8	AO1 2 AO2 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
Q.1 (e)	Discuss whether supply side policies are likely to be the best way to reduce the level of unemployment in the UK. Definition of supply side policies (1). Identification of relevant of supply side policies: training/education, welfare/tax reform and labour market reform. Explanation of how these help to reduce unemployment. Relevant diagram (2). BUT: Policies may be wrongly focussed, lack of AD in the economy may prevent unemployment falling/policies are expensive/take a long time to work etc. Relevant alternative demand side policies discussed (Max 2) Max 2 per policy. Max 6 without evaluation. Reversible answer	10	AO1 2 AO2 2 AO3 2 AO4 4

SECTION B

Question	Answer	Mark allocation	Assessment objective
Q.2 (a)	With the aid of diagrams explain why the prices of agricultural goods fluctuate more than the prices of manufactured goods? Candidate refers to the different P_{ed} and P_{es} in agriculture and manufacture and gives the reasons for this (4). Candidate explains how shifts in supply due to weather etc in agricultural markets have a big impact on price as does speculation on the demand side. Thus there is price volatility compared to manufactured goods (4). Candidate draws well explained diagrams (4). Candidates may refer to the Cobweb diagram.	8	AO1 3 AO2 3 AO3 2
Q.2 (b)	Evaluate the view that governments should try to stabilise prices in agricultural markets. Prices and incomes are volatile in agriculture and thus produces find it harder to plan ahead/invest. May exit farming but food supply is vital to the global economy. Fairer to consumers (max price). Preserve rural employment. There is a need for price stability (minimum price). Reduce rural poverty/inequality. BUT: Stabilising prices/incomes via guaranteed minimum prices/buffer stock schemes is costly/causes over production/leads to a misallocation of resources. Taxpayers and consumers lose/loss of consumer surplus. Many schemes have failed in the past. Many schemes fail because of poor administration/corruption. Diagram (2). Max 8 without evaluation (reversible answer).	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
Q.3 (a)	What factors determine the price elasticity of demand of a product? Definition of price elasticity of demand/ equation. (1) Price elasticity determinants: Luxury or necessity: petrol v restaurant meals Number of substitutes: electricity v soft drinks. Price in relation to total income: box of matches v new kitchen. Addictive: link to tobacco. Brand loyalty: link to advertising. Durable or non-durable: washing machine v washing powder. Max 3 for any factor explained.	8	AO1 3 AO2 3 AO3 2
Q.3 (b)	With the aid of diagrams and examples, discuss the view that a rise in demand for a product will always raise both the price and quantity sold. Diagram and explanation showing how a rise in demand leads to a rise in price and quantity sold. Explanation to include the working of the price mechanism. Diagram (2) Examples (2) Explanation (4) Rise in demand may lead to a rise in just price when supply is perfectly inelastic (2). Plus diagram (2). Rise in demand may lead to just a rise in quantity sold when supply is perfectly elastic (2). Plus diagram (2). Examples (2). Rise in demand is offset by a similar rise in supply (2). Diagram (2). Maximum price prevents a rise in demand increasing price (2). Diagram (2). Reversible answer. Max 8 without evaluation.	12	AO1 3 AO2 3 AO3 2 AO4 4
Q.4 (a)	With the aid of examples distinguish public goods from private goods. Public goods defined via explanations on non-rivalry and non-excludability (free rider problem) (2). Illustrated example (2). Private goods defined via reverse of public goods/able to assert private property rights (2). Illustrated example (2).	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
Q.4 (b)	Evaluate the policies that a government could introduce to reduce greenhouse gas emissions which contribute to global warming. Policies: Taxes on external costs i.e. APD/Climate Change Levy Tradable pollution permits i.e. ETS Regulations on emissions for cars/planes/factories i.e. catalytic converters, London Low Emissions Zone. Subsidies to reduce emissions i.e. renewable energy (wind farms) Any plausible policy requires evaluation. Max 8 without evaluation. Max 6 for one point fully evaluated.	12	AO1 3 AO2 3 AO3 2 AO4 4

SECTION C

Question	Answer	Mark allocation	Assessment objective
Q.5 (a)	Explain the main factors taken into account when setting the base interest rate in the UK? Economic data considered each month by the MPC includes the GDP growth and spare capacity: The rate of growth of real national output and the estimated size of the output gap. Bank lending and consumer credit figures. Equity markets (share prices) and house prices. Consumer confidence and business confidence indicators. The growth of wages, average earnings and unit labour costs in the labour market Unemployment figures Trends in global foreign exchange markets –. Forward looking indices such as the Purchasing Managers' Index International economic data including recent macroeconomic developments in the Euro Zone and the United States. Forecasts for inflation relative to the target. Reward a maximum 2 marks for an appropriate AD/AS diagram. Max 3 for each point made.	8	AO1 3 AO2 3 AO3 2
Q.5 (b)	To what extent can monetary policy be relied upon to get an economy out of a recession? Definition of monetary policy (1) Explanation of how low interest rates can affect the components of AD. Consumption, Investment, Exports (via a lower exchange rate). Possible benefits of QE. Use of an AD/AS diagram. Max 8 without evaluation. BUT: Problems with low expectations among consumers and firms/interest inelasticity. Recovery difficult if major export markets are flat. Banks refusal to lend to firms. Low UK interest rates in recent years/QE have not had a significant effect – although it would have been worse without these policies perhaps. Max 8 without evaluation. Answer is reversible.	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
Q.6 (a)	Explain the factors that determine the level of investment in an economy. Definition of investment (1) Factors: Expectations, interest rates, company tax rates, level of profits of firms, technological change, availability of funds, government capital spending. Any plausible factor explained maximum 3 marks.	8	AO1 3 AO2 3 AO3 2
Q.6 (b)	To what extent is investment always good for an economy? Good for an economy: Increase in productive potential/shifts LRAS to the right. Firms take advantage of technological change. Increase in productivity/national competitiveness. Improves the quality of goods/services. Diagram (2) Max 8 without evaluation. BUT: Investment can be badly directed. Causes loss of employment. New skills for workers needed which requires re-training. Short term problems with new investment (installation/training) Long term availability of spare parts. High investment can increase inflation (rise in AD).	12	AO1 3 AO2 3 AO3 2 AO4 4
Q.7 (a)	Explain why a country's foreign exchange rate might fall against other currencies. Definition of exchange rates (1) Lower interest rates than other countries. Trade deficit. Lack of confidence in the economy/government policies. Quantitative easing. FDI overseas. Speculation. Government intervention policy (selling currency) Max 3 for each point made.	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
7 (b)	Evaluate the view that a fall in the value of the pound will enable the UK government to achieve its macroeconomic objectives. Macroeconomic objectives stated (2). Fall in the pound will help the trade balance (1) Explained (2). Fall in the pound will help unemployment (1) Explained (2). Fall in the pound will help economic growth (1) Explained (2). BUT: Fall in the pound could cause inflation (1) Explained (2). Depends on the Ped of exports and imports (2). Depends on the extent of the fall in the pound (2). Depends on the state of the global economy (2). Max 8 without evaluation. Reversible answer.	12	AO1 3 AO2 3 AO3 2 AO4 4

SECTIONS B and C

The following levels should be applied to each question.

Part (a) questions

Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made.
Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

Part (b) questions

Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. Likely to focus on just one side of the issue. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
Level 3 9 - 12	Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.



GCE AS/A level

1132/01

ECONOMICS – EC2

P.M. MONDAY, 28 January 2013

2 hours

1132
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part (b) and Section C part (b).

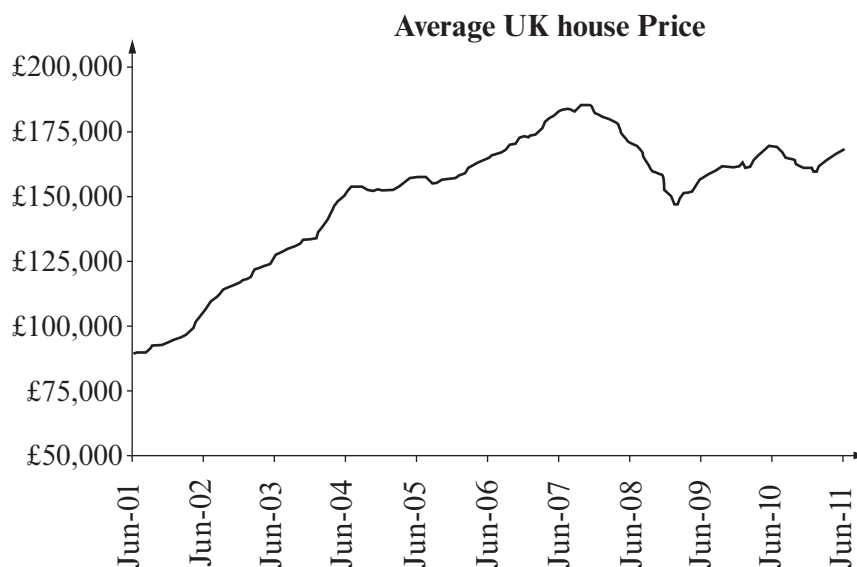
SECTION A

*Answer **all** the questions in this section.*

1. Study the information below and then answer the questions that follow.

HOUSE SALES HAVE FALLEN SO WHY ARE HOUSE PRICES STILL HIGH?

- Why are house prices apparently so resistant to the normal laws of supply and demand? It is one of life's great mysteries. Houses are still expensive, by anyone's reckoning. However, the number of potential house buyers has been restricted by banks and building societies, who continue to limit their mortgage lending to borrowers. If lenders do make loans to potential house buyers, they base the amount they are prepared to lend on the borrowers' average earnings. Put simply, whether you can afford to buy a house (as well as how big it is) largely depends on your income. In addition borrowers may be asked to put down a deposit of over 25% of the value of the house they intend to buy – it used to be less than 10%. The level of house sales is roughly half what it was before the credit crunch in 2008/09. According to the laws of supply and demand house prices should have collapsed.



- High unemployment and falling real incomes have also added to difficulties facing potential house buyers, particularly those trying to buy their first home. A new study by the National Housing Federation suggests that by 2021 home ownership (owner occupation) will be down to 63.8% from a peak of 72.5% of households. A whole generation could be locked out of the property market resulting in them having to rent property from private landlords. Rents could increase dramatically.

- 20 The Home Builders Federation says fewer homes are being built in England than at any time since the 1920s. The government has responded to the housing crisis with a steady stream of initiatives including a proposed simplification of the planning system to make the building of new houses easier. Currently the planning system restricts where new houses can be built. However, environmental organisations say that the proposed changes to planning regulations will damage the countryside. Jack Neill-Hall, of the Campaign to protect Rural England, said: 'The proposals are overwhelmingly geared to delivering the needs of business and short-term economic growth rather than the long term needs of communities and the environment'.
- 25

Source: BBC Business News (adapted)/The Times 1/9/11 (adapted)

- (a) Using demand and supply diagrams explain why
- (i) 'house prices should have collapsed'. (line 11) [4]
 - (ii) 'rents could increase dramatically'. (line 17) [4]
- (b) How far do you agree with the view that the relaxation of the planning laws will produce only external costs but no external benefits? [6]
- (c) Define income elasticity demand and, using the data, explain why house ownership is a normal good. [4]
- (d) Define price elasticity of supply and, with the aid of a diagram, explain why the proposed changes to planning laws might increase the price elasticity of supply of house building in the long run. [6]
- (e) To what extent is the level of consumption in the economy likely to be determined by the level of house prices? [6]
- (f) Using a diagram discuss whether the government should set a maximum rent on housing rented from private landlords. [10]

SECTION B

Answer one question from this section.

2.

SCOTTISH PARLIAMENT TO VOTE ON MINIMUM PRICE FOR ALCOHOL

- (a) Define consumer surplus and producer surplus and with the aid of a diagram explain how each is affected by a rise in demand for a product. [8]
- (b) Evaluate the effects of a government fixing a minimum price per unit for alcoholic drinks. [12]

3.

CASTRO'S COMMUNIST CUBA TO EMBRACE FREE MARKETS

- (a) Explain how resources are allocated in a free market economy. [8]
- (b) Discuss the view that the government rather than free markets should provide merit goods such as health and education. [12]

4.

AIR PASSENGER DUTY MAY RISE AGAIN

- (a) Air Passenger Duty (APD) is a specific tax which is charged on airlines for carrying passengers flying from a United Kingdom airport. Explain what is meant by a specific tax and using a diagram describe how APD may increase the price of air fares and reduce the number of flights. [8]
- (b) To what extent is APD likely to be the most effective policy for correcting the market failure resulting from air travel? [12]

SECTION C

Answer one question from this section.

5. UK NEEDS TO IMPROVE INTERNATIONAL COMPETITIVENESS

- (a) Define productivity and explain why productivity varies between economies. [8]
- (b) Evaluate the policies available to governments wishing to raise the level of productivity in their economy. [12]

6. UK ECONOMY STAGNATES WITH UNEMPLOYMENT RISING

- (a) Explain the role of the Monetary Policy Committee of the Bank of England. [8]
- (b) Evaluate the effectiveness of monetary policy as a means of increasing employment and output in the UK economy. [12]

7. JAPANESE GOVERNMENT INTERVENES TO DEPRECIATE ITS CURRENCY

- (a) Using a diagram explain how exchange rates are determined. [8]
- (b) Comment on the view that a country is never justified in introducing protectionist measures against imports. [12]

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GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

JANUARY 2013

INTRODUCTION

The marking schemes which follow were those used by WJEC for the January 2013 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were 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' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

	Page
EC1	1
EC2	5

EC2

Question	Answer	Mark allocation	Assessment objective
1. (a)	Using demand and supply diagrams explain why (i) ‘house prices should have collapsed’. Falling demand for housing- difficulty in getting mortgages, rising unemployment. (2). Increased supply from repossessions. (2) Diagram (2). (ii) ‘rents could increase dramatically’. Diagram (2). Lack of opportunity to buy a house increases the demand for rented property. (2) Diagram (2).	4 4	AO1 2 AO2 4 AO3 2
(b)	How far do you agree with the view that the relaxation of the planning laws will produce only external costs but no external benefits? External costs; pollution, noise and congestion from construction of houses and new home owners. Destruction of the environment/natural beauty etc Max 4 External benefits; increased geographical labour mobility, economic regeneration, local employment Max 4 Definition of either external costs/benefits max 2. Max 4 without evaluation.	6	AO1 2 AO2 2 AO4 2
(c)	Define income elasticity demand and using the data explain why house ownership is a normal good. Formula/Definition of income elasticity of demand. (2) Use of data to justify house ownership as a normal good. (2)	4	AO1 2 AO2 2
(d)	Define price elasticity of supply and, with the aid of a diagram, explain why the proposed changes to planning laws might increase the price elasticity of supply of house building in the long run. Defines PES (2) Diagram (2) Planning simplification should make it more elastic – explains why and applies to the diagram. (2)	6	AO1 2 AO3 4

Question	Answer	Mark allocation	Assessment objective
(e)	To what extent is the level of consumption in the economy likely to be determined by the level of house prices? Increased house values increase the wealth of home owners and thus people feel better off and spend more (wealth effect). Also equity withdrawal becomes more popular. House prices increase therefore more spent on mortgages therefore consumption down(4) BUT Other factors affect consumption spending (interest rates/employment/availability of credit/income/many don't own a home(2) Max 4 without evaluation.	6	AO1 2 AO2 2 AO4 2
(f)	Using a diagram discuss whether the government should set a maximum rent on housing rented from private landlords. Beneficial to the housing market: 'rents could increase dramatically' (data) some protection for lower income tenants, important if mortgages are difficult to get or there is a high unemployment. Aids labour mobility. Use of the diagram Max 6. BUT Rent controls lead to excess demand and shortages of rented accommodation. Landlords sell rented property if rental returns are low. Use of the diagram. It also depends on the level of the maximum rent and PED/PES of rented housing. Max 6. Diagram 2 marks. Max 6 without evaluation.	10	AO1 2 AO2 2 AO3 2 AO4 4

SECTIONS B and C

The following levels should be applied to each question.

Part (a) questions

Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made.
Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

Part (b) questions

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Level 3 9 - 12	Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.

SECTION B

Question	Answer	Mark allocation	Assessment objective
2.	SCOTTISH PARLIAMENT TO VOTE ON MINIMUM PRICE FOR ALCOHOL.		
(a)	Define consumer surplus and producer surplus and explain with the aid of a diagram explain how each are affected by a rise in demand for a product. Definition of consumer surplus (2) and producer surplus (2). Diagram showing a rise in demand (2) Explanation of how consumer and producer surplus are affected.	8	AO1 6 AO2 6 AO3 4 AO4 4
(b)	Evaluate the effects of a government fixing a minimum price per unit for alcoholic drinks. Minimum price raises price and consumer demand falls reducing external costs. (examples) Ped may be inelastic thus there is no major fall in demand. Depends where minimum price is set. Some prices of alcohol will not be affected. Avoidance – duty free purchases. Poor hit hardest. Employment/GDP effects. Diagram(2) Max 8 without evaluation (reversible).	12	

Question	Answer	Mark allocation	Assessment objective
3.	CASTRO'S COMMUNIST CUBA TO EMBRACE FREE MARKETS. (a) Explain how resources are allocated in a free market economy. Explanation of the role of demand/supply in product and factor markets. Role of profit and the price mechanism (signalling, allocative and rationing function). (b) Discuss the view that the government rather than free markets should provide merit goods such as health and education Merit goods such as health and education are examples of market failure. They are under consumed and underprovided by the free market. External as well as private benefits – explained. State provision leads to excess demand (health), potential government failure, higher taxes, resources misallocated-explained. Role for markets in the health and education sectors. Private schools/hospitals working with state sector. Opportunity cost of government spending Max 8 without evaluation (reversible).	8 12	AO1 6 AO2 6 AO3 4 AO4 4

Question	Answer	Mark allocation	Assessment objective
4.	AIR PASSENGER DUTY MAY RISE AGAIN.		
(a)	Air Passenger Duty (APD) is a specific tax which is charged on airlines for carrying passengers flying from a United Kingdom airport. Explain what is meant by a specific tax and using a diagram describe how APD may increase the price of air fares and reduce the number of flights. Description of a specific tax. (2) Diagram showing how the effects of the tax. (2) Explanation. (4) (% tax 1 mark)	8	AO1 6 AO2 6 AO3 4 AO4 4
(b)	To what extent is APD likely to be the most effective policy for correcting the market failure resulting from air travel. Definition of market failure and explanation of how air travel results in pollution (external costs). APD will in theory reduce the number of flights and reduce air pollution. Reference to tax- meant to internalise the externality (tax=MEC). Use of diagram/reference to diagram in (a). Damages airlines profitability/UK economy competitiveness Airlines may not pass on the tax to passengers in higher fares. Demand may be price inelastic. APD takes no account of load factor of plane/emissions of different types of plane. Only paid on passenger flights, not cargo. APD may not be equal to the external costs created. Other policies: tax per plane/emissions regulations/tradable permits. Max 4 Max 8.	12	

Question	Answer	Mark allocation	Assessment objective
5.	UK NEEDS TO IMPROVE INTERNATIONAL COMPETITIVENESS.		
(a)	Define productivity and explain why productivity varies between economies. Productivity defined- output per worker. (2)Difference in productivity: skills of labour force/application of technology/investment/working practices/infrastructure. 3 x 2 marks.	8	AO1 6 AO2 6 AO3 4 AO4 4
(b)	Evaluate the policies available to governments wishing to raise the level of productivity in their economy. Raising levels of productivity: supply side policies to raise skills/education levels. Tax breaks for investment in new technology and R&D. Reform of trade unions/employment law. Many reforms are costly (higher taxes needed or lower spending elsewhere). Unpopular with workforce/less job security. Time before they have any effect. Possibility of government failure. Max 8 without evaluation.	12	

Question	Answer	Mark allocation	Assessment objective
6.	UK ECONOMY STAGNATES WITH UNEMPLOYMENT RISING.		
(a)	Explain the role of the Monetary Policy Committee of the Bank of England. MPC is expected to keep inflation at 2% (1) using the CPI measure (1) +/- 1% of the target allowed (1) use of interest rates/money supply/monetary policy to achieve the target. (2) monthly meetings (1) letter to the Chancellor if the target is not met (2).	8	AO1 6 AO2 6 AO3 4 AO4 4
(b)	Evaluate the effectiveness of monetary policy as a means of increasing employment and output in the UK economy. Definition of monetary policy. (Max 2) Monetary policy (lower interest rate/increased money supply will increase C, I and X –candidate explains why (possible use of a diagram). Consequent increase in GDP/employment. Max 8 Time lags before any positive effects of the policy. Policies may not work when expectations are low (low UK interest rates for three years). Danger of inflation. Effective policy relies on good timing and accurate economic data. Effectiveness depends on the global economic situation. Diagram (2) Max 8 without evaluation.	12	

Question	Answer	Mark allocation	Assessment objective
7.	JAPANESE GOVERNMENT INTERVENES TO PREVENT RISE IN THE YEN.		
(a)	Using a diagram explain how exchange rates are determined. Definition of an exchange rate (1) Explain the determinants of the demand for pounds and the supply of pounds. (6) Diagram (2).	8	AO1 6 AO2 6 AO3 4 AO4 4
(b)	Max 3 for each factor. Comment on the view that a country is never justified in introducing protectionist measures against imports. Danger of retaliation, misallocation of resources, higher prices and less choice for consumers. But Protectionism: protect infant industries, keep out undesirable goods, and preserve employment, revenue for the government, increased profits for domestic firms. Improve the current a/c Diagram 2 marks Max 8 without evaluation. Reversible answer Max 10 if not explicit reference to the question.	12	



GCE AS/A level

1132/01

ECONOMICS – EC2

A.M. FRIDAY, 25 May 2012

2 hours

1132
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part (*b*) and Section C part (*b*).

SECTION A

Answer all the questions in this section.

1. TRADE WAR LOOMS AS CHINA DIGS IN OVER THE YUAN

In 1950 international trade accounted for only 8% of global GDP. That share has since more than tripled partly because of the free trade practices promoted by the World Trade Organisation (WTO). However, the economic crisis over 2008-10 led to a rise in protectionism. The USA – the global free trade champion - imposed 46 separate protectionist measures on goods and services, including a 35% tariff on tyres from China in 2010. China retaliated by introducing 51 new anti-trade measures. The US claimed that cheap Chinese tyres had led to 14% of workers in their industry losing their jobs. The Chinese countered by saying that the US tariffs would cost its tyre industry \$1bn and cause 100,000 redundancies. The WTO became involved in trying to settle this mini trade war.

Some 53% of Americans now say that they don't much like free trade, compared with 32% a decade ago. This is in part down to the jobs situation in the USA, with unemployment at over 9% and 15 million Americans actively seeking work. However, American voters are less concerned about a trade war over such things as **tariffs** and **quotas** and rather angrier with China for holding down its currency (the yuan) so that it is undervalued against the US dollar. This, many believe, contributes to a flood of Chinese imports and rising unemployment in the USA, a country with a huge **trade deficit** to go with its ballooning **budget deficit**. America's crumbling infrastructure (roads, bridges, rail network, and energy) as well as relatively slow broadband access create a depressing image of the only global superpower.

Since its trading partners cannot get China to increase the value of its currency some have decided to reduce the value of their own currencies in a currency war that may create problems for the global economy. Japan has intervened to drive down the yen, Brazil has taken steps to lower its currency and France's President Sarkozy wants to put in place a new currency system that will prevent the euro from appreciating. The future looks set to bring **trade wars** or **currency wars** - maybe even both; and a real headache for the WTO.

Adapted from: The Sunday Telegraph and The Sunday Times, 14 November 2010

World Trade Volume January 2001 to June 2010
January 2001 = 100



- (a) Distinguish:
- (i) a tariff from a quota; [2]
 - (ii) a trade war from a currency war. [2]
- (b) Explain the effects of (i) a budget deficit and (ii) a trade deficit on aggregate demand. [4]
- (c) Why does an artificially low yuan contribute to a 'flood of Chinese imports and rising unemployment in the USA'? (Lines 16-17.) [6]
- (d) Governments, such as those in Japan and Brazil, have intervened to reduce the value of their currencies. Using a diagram, explain how governments can intervene in this way. [6]
- (e) With the aid of a diagram **and** the data, discuss the possible effects on the US economy of the imposition of import tariffs on Chinese goods. [10]
- (f) Evaluate the case for the use of supply-side policies as a means of reducing the US trade deficit. [10]

SECTION B

Answer one question from this section.

2. WORLD PRODUCTION OF RARE EARTH METALS FAILS TO KEEP UP WITH SOARING DEMAND

- (a) Define price elasticity of supply and explain the factors that determine it. [8]
- (b) Many everyday products, such as iPhones, use rare earth metals. Discuss the measures which governments could introduce to increase the supply and reduce the demand for these metals. [12]

3. EMPLOYERS CRITICISE RISE IN MINIMUM WAGE TO £6.08 PER HOUR

- (a) With the aid of a diagram, explain the factors which might cause a change in the equilibrium wage in a free market. [8]
- (b) To what extent would an increase in the minimum wage be beneficial for firms, workers and consumers? [12]

4. EUROPEAN EMISSIONS TRADING SCHEME TEMPORARILY SUSPENDED

- (a) Explain with the use of examples what is meant by market failure. [8]
- (b) Consider the view that the use of tradable pollution permits is the best way of reducing greenhouse gas emissions. [12]

SECTION C

Answer one question from this section.

5. UK ECONOMY NEEDS TO BE REBALANCED

- (a) Using a diagram, explain the shape of the aggregate demand and aggregate supply curves. [8]
- (b) Evaluate the view that the UK economy would benefit from a greater proportion of aggregate demand coming from investment and exports rather than consumption and government spending. [12]

6. GOVERNMENT TACKLES HUGE BUDGET DEFICIT

- (a) Explain, using examples, the main categories of government spending and taxation. [8]
- (b) Discuss the view that in order to reduce its budget deficit the government should increase taxes rather than cut government spending. [12]

7. INFLATION AND TRADE DEFICIT WORSEN WHILST ECONOMIC GROWTH AND UNEMPLOYMENT DISAPPOINT

- (a) Explain why governments have attempted to achieve low inflation and a low level of unemployment. [8]
- (b) Discuss whether it is possible for a government to achieve all its macroeconomic policy objectives at the same time. [12]

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GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

SUMMER 2012

INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2012 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were interpreted and applied in the same way by all examiners.

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EC2	5
EC3	15
EC4	21

EC2 GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate 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.

Quality of Written Communication

QWC is assessed in Section B part (b) and Section C part (b).

GCE ECONOMICS - EC2

Summer 2012

SECTION A

- Q.1 (a) Distinguish a :**
- | | | |
|-------------|--------------------------------|------------|
| (i) | tariff from a quota; | [2] |
| (ii) | trade war from a currency war. | [2] |
- (i) Tariff - a tax on imported goods. (1)
Quota - limit on the quantity of goods imported or by market share. (1)
- (ii) Trade war-countries retaliating against each others protectionist policies. (1)
Currency war-countries devaluing their currencies to try to gain price advantage. (1)
- (b) Explain the effects of (i) a budget deficit and (ii) a trade deficit on aggregate demand.** **[4]**
- (i) Budget deficit - will increase AD (1) because $G > T$ (1)
(ii) Trade deficit - will decrease AD (1) because $M > X$ (1)
- (c) Why does an artificially low yuan contribute to a 'flood of Chinese imports and rising unemployment in the USA?** **[6]**
- Low yuan makes Chinese exports to the US Cheap (1) thus there is an increasing demand for them (1) causing them to displace US made goods (1) resulting in US firms cutting their output and employment. (1) Makes it harder for the US to sell exports to China. Resulting in US job losses (2).
- (d) Governments, such as those in Japan and Brazil, have intervened to reduce the value of their currencies. Using a diagram, explain how governments can intervene in this way.** **[6]**
- Appropriate diagram showing shifts in the D/S of currency resulting in a lower exchange rate. (2)
- Identification (1) and explanation (3) of policies:
Interest rates.
Buying and selling currency.
Use of foreign exchange reserves.
- (e) With the aid of a diagram and the data, discuss the possible effects on the US economy of the imposition by the USA of import tariffs on Chinese goods.** **[10]**
- Tariff diagram or AD/AS diagram explained max 4.
- Beneficial effects - domestic employment/output/profits/tax revenue/trade balance. (max 4)
- Negative effects - retaliation/welfare loss/WTO.
rising costs/inflation, size/extent of tariffs, Ped of imports, alternative import sources used. (max 4)
- Evaluation 4 marks. (max 6 without evaluation)
Max 6 with no diagram.
Max 8 no data reference.

- (f) Evaluate the case for the use of supply-side policies as a means of reducing the US trade deficit. [10]**

Definition of supply-side policies.

Explanation of how supply-side policies will reduce trade deficit through increased competitiveness (price/quality).

Tax/benefit reform, training, education, grants for R&D, infrastructure tax breaks for entrepreneurs, etc

Evaluation:

Time lags.

Government failure.

Cost of policies - large US budget deficit.

Other factors important i.e. exchange rate.

Max 6 without evaluation.

Reversible answer.

SECTIONS B and C

The following levels should be applied to each question.

Part (a) questions

Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made.
Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

Part (b) questions

Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. Likely to focus on just one side of the issue. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
Level 3 9 - 12	Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.

Q.2 World production of rare earth metals fails to keep up with soaring demand.

- (a) Define price elasticity of supply and explain the factors that determine it. [8]**

Indicative content

Definition of Pes or equation. (2)

- Factors affecting Pes:
- Time.
- Complexity of the production process.
- Nature of the product
- Availability of the product.
- Perishability of the product.

Max 3 for each factor.

- (b) Many everyday products such as iphones use rare earth metals; discuss the measures which governments could introduce to increase the supply and reduce the demand for these metals. [12]**

Indicative content

Subsidies to mining companies to search for these metals - but subsidies are costly/not a government problem.

Use substitutes - other metals - but this may not be possible in the short term.

Recycling of laptops/mobiles etc - but costly to be set up and takes time.

Reduce demand - taxation of products using these metals - but not popular with customers.

Use of some form of buffer stock scheme - but these have problems. (Like the International Tin Council)/Minimum price scheme.

Up to 4 marks for each fully evaluated point.

Max 8 with no evaluation.

Q.3 Employers criticise rise in minimum wage to £6.08 per hour.

- (a) With the aid of a diagram, explain the factors which might cause a change in the equilibrium wage in a free market. [8]**

Indicative content.

Diagram/s showing the demand and supply of labour and how the equilibrium wage changes when there is a shift in demand/supply. Max 2

Factors which may shift demand: derived demand effects, changes in labour productivity, changes in the costs of other factors of production, state of the economy.

Factors which may shift supply: changes in wage rates in other occupations, entry qualifications changing, migration/changes in the size of the labour force, power of trade unions.

2 marks for each explained factor.

- (b) To what extent would an increase in the minimum wage be beneficial for firms, workers and consumers? [12]**

Indicative content

Rise in NMW on firms: raises costs and prices thus fall in demand and profits/less competitive BUT depends how much the NMW rises by, proportion of costs which are labour costs, may encourage firms to raise productivity of workers, some firms don't have any NMW staff. Max 4

Rise in NMW on workers: rise in wage/living standards, more incentive to look for work/work harder BUT can cause them to lose their job/fewer hours if Ped for labour is elastic, some workers unaffected. Max 4

Rise in NMW on consumers: rise in costs thus prices of goods/services rise (reduced consumer surplus) BUT depends how big the rise in the NMW is, many prices of goods/services not affected by the NMW. Max 4

2 marks for a diagram.

Max 8 without evaluation.

All economic agents to be covered to gain full marks.

Q.4 European emissions trading scheme temporarily suspended.

- (a) Explain with the use of examples what is meant by market failure. [8]**

Indicative content

Define market failure. (2)

Examples showing why they illustrate market failure:

Public goods, merit goods, demerit goods, absence of property rights, asymmetry of information, external costs/benefits/monopoly..

Max 4 for each example explained. Two examples minimum.

- (b) Consider the view that the use of tradable pollution permits is the best way of reducing greenhouse gas emissions. [12]**

Indicative content

Explanation of the how tradable permit schemes reduce emissions and correct market failure. Focus on the advantages of these schemes not merely how they work.

Market based system designed to reduce emissions over time. All firms are incentivised to clean up pollution using the price mechanism. Pollution is reduced in the most efficient way.

A good basic understanding of a pollution permits scheme. (4)

BUT.

Scheme is open to abuse/corruption: number of permits issued by governments/computer hacking. Permits raise costs for firms, effects on competitiveness. Firms shift production to parts of the world where there are no controls on pollution. Candidates can refer to problems with the ETS.

Max 4 for referring to other policies that could be used to reduce emissions i.e. carbon taxes, regulations etc

Max 8 without evaluation (reversible answer).

SECTION C

Q.5 UK economy needs to be rebalanced.

- (a) **Using a diagram, explain the shape of the aggregate demand and aggregate supply curves.** [8]

Indicative content

Diagram/s showing the shape of the AD and AS curves. (2)

Candidate explains shape of AD curve. (Max 4)

Candidate explains shape of AS curve. (Max 4)

- (b) **Evaluate the view that the UK economy would benefit from a greater proportion of aggregate demand coming from investment and exports rather than consumption and government spending.** [12]

Indicative content

Yes: Investment increases productivity/competitiveness/economic growth/employment/trade balance.

Exports help pay for imports/reduce trade deficit/employment effects/economic growth etc

BUT: Consumption contributes to AD benefits from employment/GDP.

Government spending corrects market failure and reduces inequality/needed to support the private sector (training/education/infrastructure).

Candidates may take a different approach by explained the problems of high consumption (inflation) and government spending (budget deficits).

Max 8 without evaluation.

Q.6 Government tackles huge budget deficit.

- (a) Explain using examples the main categories of government spending and taxation. [8]**

Indicative content

Government spending: Current spending and capital spending (examples) (4)

Taxation: Direct and Indirect taxes (examples) (4)

- (b) Discuss the view that in order to reduce the budget deficit the government should increase taxes rather than cut government spending. [12]**

Higher VAT: No real effect on incentives, avoidable to an extent, hard to evade/easy to collect, will raise more revenue than raising top tax rates **but** is regressive/raises prices/unpopular with retailers.

Raising income tax: effect on incentives (Laffer Curve) impact on AD/more evasion/exit of top managers/entrepreneurs **but** higher income tax can reduce inequality/progressive

Tax maximum 8.

Cutting government spending: Can have direct effect on employment, hits lower income groups hardest, **but** less effect on incentives, scope to reduce waste, need to rebalance the economy.

Government spending maximum 8.

Neither policy will reduce the deficit as economic growth will fall. Austerity will worsen the deficit. Max 4 if explained fully.

Max 8 without evaluation.

Q.7 Inflation and trade deficit worsen whilst economic growth and unemployment disappoint.

- (a) Explain why governments have attempted to achieve low inflation and a low level of unemployment. [8]**

Indicative content

Low inflation: international competitiveness (trade balance).
better for forward planning in business (investment decisions).
saving on menu/shoe leather costs.
inflationary expectations low (wage bargaining).
means low interest rates.
protects those on fixed incomes.

(max 4 2x2 points)

Low unemployment: higher living standards.
reduced benefit payments.
higher economic growth.
Fewer social problems.

(max 4 2x2 points)

- (b) Discuss whether it is possible for a government to achieve all its macroeconomic policies at the same time. [12]**

Indicative content

Identification of macroeconomic objectives (2)

Not possible to achieve all at the same time:

Inflation unemployment trade-off explained max 4
Economic growth and environmental depletion and degradation max 4
Economic growth and trade deficit max 4.

Max 8 without evaluation.

BUT:

Possible to achieve all objectives with the successful implementation of supply-side policies - explained with the use of AD/AS analysis.
Use of evidence from the NICE decade.

Max 4.

Reversible.



GCE AS/A level

1132/01

ECONOMICS – EC2

A.M. WEDNESDAY, 18 January 2012

2 hours

1132
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

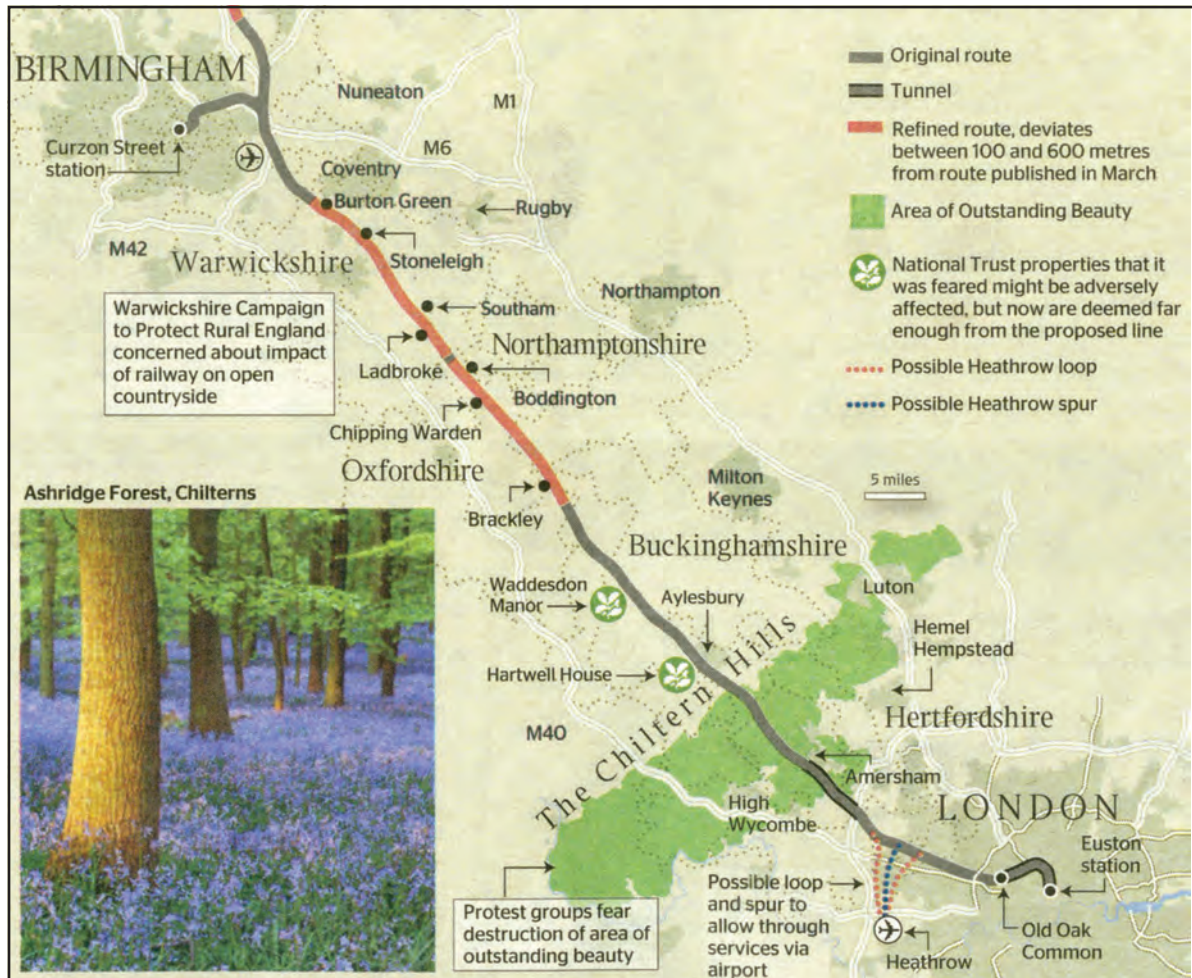
You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part (b) and Section C part (b).

SECTION A

Answer **all** the questions in this section.

1. Study the information below and then answer the questions that follow.

PROTESTERS HOPE TO SIDELINE HIGH-SPEED RAIL ROUTE



© The Times 09/2010

- The UK's coalition government is committed to improving the country's infrastructure, especially the rail network, through the proposals to build high speed rail links. One of these is the route between London and Birmingham, which cuts straight through the Chiltern Hills, an area of outstanding natural beauty (see map above). Along with similar rail construction projects linking Leeds and Manchester the total cost would be £20bn, with £16bn of this coming from the Government and the rest from the private sector. The Government believes that the economy will benefit enormously from these and other projects such as the development of high speed internet broadband networks. The rail improvements would start in 2015 and be completed by 2027. These projects would be indirectly financed by large cuts in government spending on welfare payments and also by higher VAT.

15 There is already strong opposition to the London to Birmingham development from both the Chiltern Society and the Campaign to Protect Rural England. Both these pressure groups believe that building the high speed rail link will impact negatively on the countryside and lead to falling house prices. The Chiltern Society has said: ‘the Chilterns is a unique area of special ancient countryside, the like of which there is not anywhere else in the country’. Others believe that more people and goods on the rail network rather than on the UK’s congested motorways will be more beneficial to the environment.

20 However, rail fares will have to get much cheaper if people are going to abandon their cars more often, despite the worsening road congestion problems. The cheapest peak time ticket from London to Birmingham on the train is about £55 per person, but driving would only cost £15-£20 in petrol. Part of the reason for this is that most roads in the UK are free at the point of use with no tolls. The question is, can the Government afford big subsidies to reduce rail fares to a level where they are competitive with the cost of using a car?

- (a) With reference to the first paragraph of the data, identify the injections into and withdrawals from the circular flow of income resulting from the Government’s policy announcements. [4]
- (b) (i) Explain the private costs and private benefits to the train operating companies which will run services on the new high speed rail network. [4]
- (ii) Define external costs and discuss whether the building of the London to Birmingham rail link will increase or reduce external costs. [6]
- (c) How could projects, such as building improved rail and telecommunications infrastructure, help the UK achieve its macroeconomic objectives? [10]
- (d) With the aid of a diagram, use the concept of price elasticity of demand to evaluate the effects of a government subsidy designed to reduce rail fares. [6]
- (e) Discuss whether rail subsidies or the introduction of road tolls are the best way to reduce road congestion. [10]

SECTION B

Answer one question from this section.

2. NEW CAR SALES DROP 22% IN OCTOBER 2010 AS PETROL PRICES HIT RECORD LEVELS

- (a) Define cross price elasticity of demand and explain why a firm needs to be aware of the cross elasticity relationships between different products. [8]
- (b) Using demand and supply diagrams, discuss whether the increase in petrol prices is likely to be the main factor causing a fall in the sales of new cars. [12]

3. INTERNET ACCESS GIVES THE PATIENT AN EDGE OVER DOCTORS

- (a) With the use of examples, explain why asymmetry of information might lead to market failure. [8]
- (b) Evaluate the view that health care should be free at the point of consumption. [12]

4. VENEZUELA IMPOSES MAXIMUM PRICES AS FOOD PRICES RISE RAPIDLY

- (a) Explain why food prices might have increased rapidly in recent years. [8]
- (b) Discuss, with the aid of a diagram, whether government imposed maximum price schemes, such as those in Venezuela, are likely to be beneficial to consumers and producers. [12]

SECTION C

*Answer **one** question from this section.*

5. CONSUMER SPENDING RISES AHEAD OF INCREASE IN VAT

- (a) Explain the main factors that affect the level of consumption in an economy. [8]
- (b) Discuss the view that investment is more important to an economy than consumption. [12]

6. TAXES RISE AND GOVERNMENT SPENDING IS CUT TO REDUCE BUDGET DEFICIT

- (a) Define fiscal policy and explain, with examples, the main categories of government spending. [8]
- (b) Should the government raise a greater proportion of its revenue from indirect taxes such as VAT and less from direct taxes such as income tax? [12]

7. WORLD TRADE ORGANISATION WARNS AGAINST PROTECTIONISM

- (a) Explain, with aid of a diagram, how tariffs reduce imports. [8]
- (b) Discuss whether the imposition of tariffs is the best way to protect domestic markets. [12]

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GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

JANUARY 2012

INTRODUCTION

The marking schemes which follow were those used by WJEC for the January 2012 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were 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' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

Unit	Page
EC1	1
EC2	3

EC2

- Q.1 (a) With reference to the first paragraph of the data, identify the injections and withdrawals into and from the circular flow of income resulting from the government's policy announcements. [4]**

Injections - government spending (G) on Investment (I) Withdrawals - higher taxes (T) and less welfare spending (G) and private sector investment(I)

2 x 2 marks. (4)

Max 2 Marks for good understanding of circular flow

- (b) (i) Explain the private costs and private benefits to the train operating companies which will run services on the new high speed rail network. [4]**

Private costs: wages, maintenance, network access charges, purchasing/leasing rolling stock.

Private benefits: revenues, profits resulting from ticket sales

2 x 2 marks.

Max 1 mark for definition of private costs and benefits

- (ii) Define external costs and discuss whether the building of the London to Birmingham rail link will increase or reduce external costs. [6]**

Definition of external costs (2)

External costs: damage to countryside/areas of outstanding natural beauty/falling house prices. (2)

BUT:

more passengers and freight on rail means less road congestion/pollution. (2)

Max 4 without evaluation

- (c) How could projects, such as, building improved rail and telecommunications infrastructure help the UK achieve its macroeconomic objectives? [10]**

Identification of the macroeconomic objectives. (2)

Increased employment (1) explained i.e. construction/rail workers (1).

Increased output (1) explained i.e. construction of new lines (1)

Lower inflation (1) explained i.e. productivity/lower costs. (1)

Improved B of P (1) explained i.e. more competitive economy (1)

Reduction in inequality (reduced north/south divide) (2)

Reduced emissions/external costs (2).

Deficit reduction(2)

- (d) With the aid of a diagram, use the concept of price elasticity of demand to evaluate the effects of a government subsidy designed to reduce rail fares. [6]**

Definition of Ped (2)

Diagram showing the effect of a producer subsidy. (2)

Explanation of diagram (2)

Evaluation: fares will drop most if demand is price inelastic. Changes in passenger numbers depends on Ped (2)

Max 4 without evaluation

- (e) Discuss whether rail subsidies or the introduction of road tolls are the best way to reduce road congestion. [10]**

Tolls internalise the negative externalities (2)

Tolls raise the price of road travel thus demand falls. (1)

Tolls may persuade people to use other forms of transport i.e. rail (2)

Tolls raise revenue for the government.

Rail subsidies reduce rail fares and increase rail passenger numbers(1)

BUT: Effects depend on the price elasticity of demand for road travel.

Tolls are regressive.

Set up and administrative costs are high.

Motorway tolls will increase congestion on other roads.

Tolls are inflationary/raise costs etc.

Burden on the taxpayer of rail subsidies

Rail network is already congested itself. 2 x 2 marks.

Rail subsidies – transfer to higher incomes

Max 6 without evaluation.

SECTIONS B and C

The following levels should be applied to each question.

Part (a) questions

Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made.
Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
Level 3 7 - 8	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

Part (b) questions

Level 1 1 - 4	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. Likely to focus on just one side of the issue. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
Level 2 5 - 8	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
Level 3 9 - 12	Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams. Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.

SECTION B

Q.2 New Car Sales Drop 22% in October 2010 as petrol prices hit record levels.

- (a) **Define cross price elasticity of demand and explain why a firm needs to be aware of the cross elasticity relationships between different products.** [8]

Indicative content

Candidate defines Xed/shows the equation. (2)

Substitute relationships - awareness of effects price changes depending upon how close the substitutes are. Max 3.

Complementary relationships - awareness of effects price and demand changes of complementary product Max 3.

Reference required to positive and negative Xed to gain 8

- (b) **Using demand and supply diagrams, discuss whether the increase in petrol prices is likely to be the main factor causing a fall in the sales of new cars.** [12]

Petrol and cars are complements thus a rise in petrol prices will affect demand for cars. Negative Xed.

Use of diagrams showing rise in petrol prices (supply shifting left) and another diagram for cars (showing demand shifting left).

BUT.

New car sales depend upon other factors: availability and cost of credit/state of the economy/consumer expectations. Incomes.

Demand for high mpg cars may rise.

Max 8 without evaluation.

Max 10 without appropriate diagram

Max for diagrams 4 marks

Q.3 Internet access give the patient an edge over doctors.

- (a) **With the use of examples, explain why asymmetry of information might lead to market failure.** [8]

Indicative content.

Definition/understanding of asymmetry of information (2).

Candidate explains how asymmetry of information exists between doctor and patient. Max 4.

Candidate explains how internet access has increased in knowledge of patients and reduced the asymmetry. Max 4.

Other plausible examples are acceptable.

- (b) Evaluate the view that health care should be free at the point of consumption.** [12]

In favour:
Private benefits
External benefits/merit good.
Reduces inequality.

Against:
Costly - higher taxes/opportunity cost of expenditure.
Excess demand/queuing.
Need for rationing.

Max 8 without evaluation.

Q.4 Venezuela imposes maximum prices as food prices rise rapidly.

- (a) Explain why food prices might have increased rapidly in recent years.** [8]

Indicative content:
Demand increases: rising population/rising incomes/tastes changing. Max 5.
Supply decreases: weather/natural disasters/pests/civil conflict. Max 5
Appropriate diagram (2)

- (b) Discuss, with the aid of a diagram, whether government imposed maximum price schemes, such as those in Venezuela, are likely to be beneficial to consumers and producers.** [12]

Low price benefit poorer groups in society/keep inflation down/prevent civil unrest/increases the consumer surplus.

BUT
Causes excess demand (shortages)/less incentive to supply/profits of producers fall/reduced producer surplus/reduced investment.
Depends how high the maximum price is set.
Government may subsidise producers.
Rationing/black markets
Appropriate diagram. (2)

Max 8 without evaluation.
Max 10 without appropriate diagram.

SECTION C

Q.5 Consumer spending rises ahead of increase in VAT.

- (a) **Explain the main factors that affect the level of consumption in an economy.**

[8]

Indicative content.

Definition of consumption (1)

Factors which could be considered:

Income growth.

Interest rates.

Wealth/house prices.

Taxation.

Expectations/of changes in the price level, job security.

Exchange rate.

Personal debt levels.

Cost and availability of credit.

2 marks for each point explained.

Max 2 for diagram

- (b) **Discuss the view that investment is more important to an economy than consumption.**

[12]

Definition of investment/consumption.

Investment increases productive capacity/LRAS. (Diagram).

Investment improves productivity/competitiveness.

Investment can increase employment/can lead to higher wages.

Investment needed to replace depreciated assets/Investment improves quality of goods and services.

Consumption can cause inflation via high AD.

2 marks for each point explained.

2 marks for a relevant diagram or definition. Max 8

Investment can be badly directed/have unintended consequences.

Investment can lead to unemployment.

Increased consumption boosts AD and can thus create output and employment. (Diagram)

High consumption can direct goods away from the export market.

2 marks for each point explained.

2 marks for a relevant diagram.

Max 8.

Reversible answer

Q.6 Taxes rise and government spending is cut to reduce budget deficit.

- (a) Define fiscal policy and explain, with examples, the main categories of government spending. [8]**

Indicative content.

Definition of fiscal policy (2)

Categories of government spending: current v capital spending (examples)
OR public goods v merit goods (examples) OR social security, defence, health, education etc Max 6.

- (b) Should the government raise a greater proportion of its revenue from indirect taxes such as VAT and less from direct taxes such as income tax? [12]**

More from indirect taxes: little effect on incentives/easier to collect/harder to avoid and evade/consumers don't notice it as much as income tax/can be used to reduce consumption of demerit goods/internalise external costs.

Less from direct taxes: increased incentives/Laffer Curve/increased choice for consumers how to spend their income/more saving if tax is reduced.

Max 8

BUT:

Increased indirect taxes are regressive and push up costs/prices.

Higher indirect taxes distort the signalling function of price.

Cutting direct taxes can make the system less progressive.

Higher indirect taxes can lead to lower consumption.

Max 8

Reversible answer

Q.7 World trade organisation warns against protectionism.

- (a) Explain, with the aid of a diagram, how tariffs reduce imports. [8]**

Indicative content.

Tariffs defined max 2 (more than "tax on imports")

Tariff diagram max 4

Diagram explained how tariffs reduce imports. max 4

- (b) Discuss whether the imposition of tariffs is the best way to protect domestic markets. [12]**

Increased domestic employment.

Tariff revenue.

Increased domestic producer surplus/profits.

Reduced imports.

Increased incomes/GDP.

BUT:

Higher prices/reduced consumer surplus.

Welfare loss/resource misallocation.

Retaliation by trading partners.

Discussion of the relative advantages of other forms of protection. Max 6 for discussing and evaluating other forms of protection.

Max 8 without evaluation.



GCE AS/A level

1132/01

ECONOMICS – EC2

A.M. FRIDAY, 27 May 2011

2 hours

1132
01/0001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part (*b*) and Section C part (*b*).

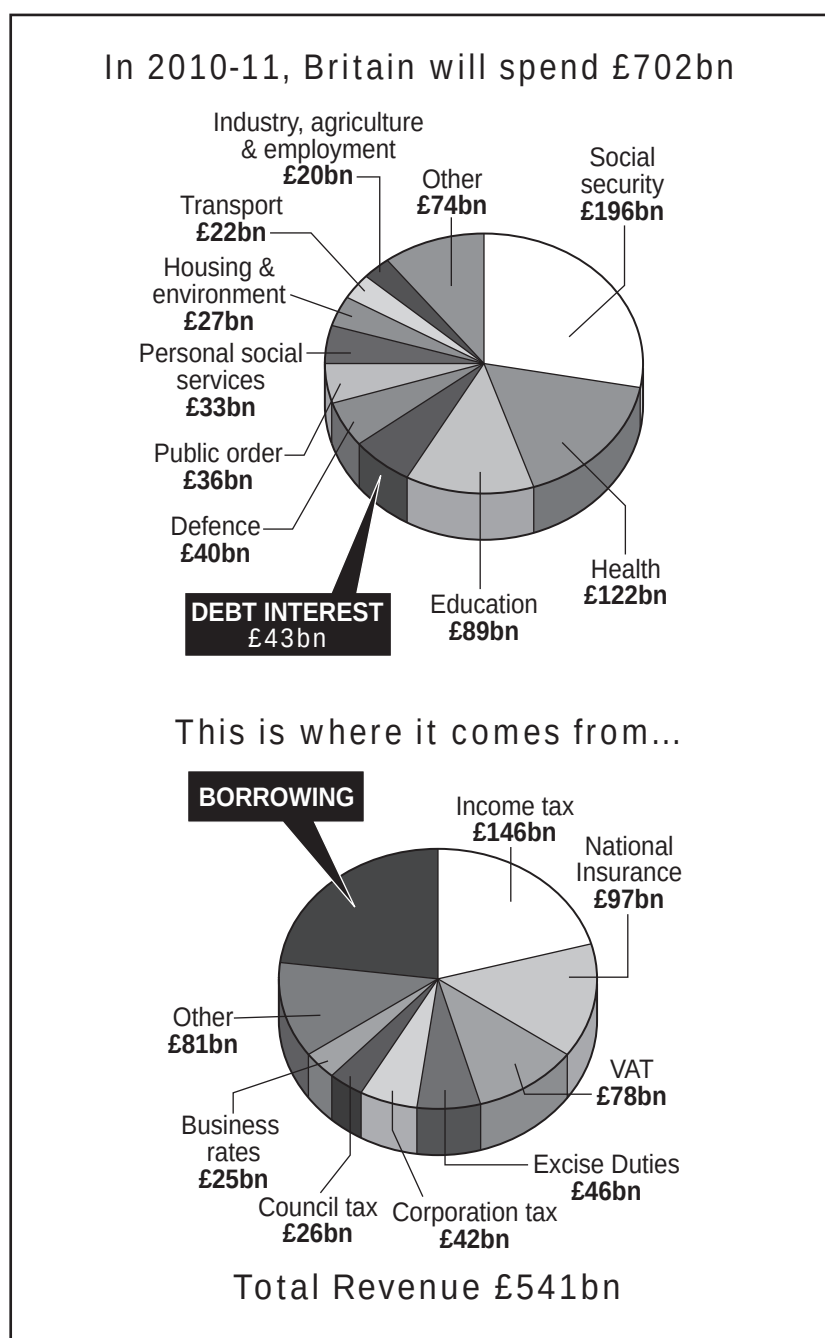
SECTION A

Answer **all** the questions in this section.

1. Study the information and then answer the questions that follow.

DARLING'S LAST STAND?

BUDGET AT A GLANCE



Source: HM Treasury.

On 24 March 2010 Alistair Darling announced his last Budget before the General Election. The economy had spent the previous year in recession despite the **fiscal stimulus** given to it by the Government: a temporary cut in VAT to 15%; subsidies for scrapping old cars for new cars and bringing forward some capital expenditure projects. Without such measures the recession could quite possibly have been even deeper.

By Spring 2010 the recovery was by no means certain and a further stimulus might have seemed a good idea. However, with a massive budget deficit, interest rates at 0.5% and a **very low exchange rate for the pound** (a pound buying 1.11 euros, compared with 1.45 euros a few years ago) the cupboard looked bare as far as policy options went. The eurozone buys 55% of UK exports but there was little sign of economic recovery among euro member states – a blow to British exporters.

Consequently there was little room for manoeuvre in the Chancellor's Budget, but a £2.5bn package to help boost labour market skills and innovation in small businesses was some recognition of the supply-side problems facing the economy. However, the labour market remains a problem and it is not just recession-related unemployment either. There are 8.16 million adults of working age who are **economically inactive** (i.e. have chosen not to work or given up looking for work), and yet the UK continues to be a country with **net inward migration of labour**. Immigrants, mainly from the European Union, increase the supply of labour and perform jobs which British workers cannot do or choose not to do. Whoever occupies Number 11 Downing Street as Chancellor after the election faces an uphill struggle.

- (a) Calculate the budget deficit for 2010-11. [1]
- (b) With the aid of a diagram, explain how the **net inward migration of labour** might affect wage rates. [4]
- (c) (i) Using examples, distinguish between the Government's current expenditure and capital expenditure. [4]
- (ii) Explain how the Government uses its expenditure to correct market failure. [7]
- (d) With the aid of an aggregate demand and aggregate supply diagram, explain how a **fiscal stimulus** might help an economy in a recession. [6]
- (e) Evaluate the supply side reforms that could be introduced to reduce the number of **economically inactive** adults in the UK. [8]
- (f) Discuss the view that the **very low exchange rate of the pound** will help the UK out of recession. [10]

SECTION B

*Answer **one** question from this section.*

2. OIL PRICES RISE AS GLOBAL ECONOMY GROWS

- (a) Explain what is meant by the term equilibrium price and explain with examples how in a free market the equilibrium price might rise or fall. [8]
- (b) Discuss how useful the concept of price elasticity of demand is to decision makers such as firms and governments. [12]

3. MOTORISTS FACE TOLLS TO PAY FOR NEW ROADS

- (a) Using motoring as an example, distinguish between private costs, external costs, and social costs. [8]
- (b) Evaluate the view that road congestion in the UK can be best solved by allowing private firms to build new motorways for profit. [12]

4. GOVERNMENT COMMITTED TO REDUCING POVERTY

- (a) Explain the ways in which governments can attempt to reduce income inequality. [8]
- (b) Using a diagram evaluate the effects of an increase in the UK's national minimum wage. [12]

SECTION C

*Answer **one** question from this section.*

5. UK INTEREST RATES STAY AT HISTORICALLY LOW LEVEL

- (a) Using a diagram, outline the basic circular flow of income and explain the effects of injections into and withdrawals from the circular flow. [8]
- (b) Discuss the view that the Bank of England must set a low interest rate if it wants to increase consumption and investment in the UK economy. [12]

6. NEW 50% INCOME TAX RATE INTRODUCED AND GOVERNMENT EXPENDITURE CUT

- (a) Using a diagram and appropriate examples, explain how a significant reduction in government spending could affect aggregate demand and aggregate supply in the economy. [8]
- (b) Evaluate the effects on the economy of a rise in income tax rates. [12]

7. UNEMPLOYMENT RISES BUT TRADE DEFICIT IMPROVES

- (a) Explain the Government's main macroeconomic objectives and why there may be policy conflicts when attempting to achieve them. [8]
- (b) Discuss the view that free trade between countries is the best way for a government to achieve its macro economic objectives. [12]

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GCE AS/A level

1132/01

ECONOMICS – EC2

A.M. WEDNESDAY, 19 January 2011

2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part (*b*) and Section C part (*b*).

SECTION A

Answer all the questions in Section A.

1. Study the information below and then answer the questions that follow.

Struggles of Ivory Coast's cocoa farmers are set to force up the price of chocolate

A cocoa farmer lays out beans to dry



Cocoa prices hit a 30-year high yesterday as poor weather threatens to drive the price of chocolate up again for Western consumers. Cocoa hit \$3,412 a tonne in New York yesterday as concerns deepened about demand exceeding supply for the first time since 1968. This was the highest price for cocoa since June 1979.

Production in the Ivory Coast, which provides about a third of the world's cocoa beans, has fallen as a result of poor weather and under-investment after the 2002-03 civil war. This year's harvest has been damaged by dry weather, pests such as the Pod Borer moth and swollen-shoot disease. Western consumers have already seen the price of chocolate rise at the start of this year, and the cost of a standard 49g bar could climb even higher in 2010 if the high cocoa prices continue.

Laurent Pipitone, senior statistician at the International Cocoa Organisation, said: "We have now had three consecutive years of supply declining. Production in the Ivory Coast has peaked. Farmers don't use many chemicals and pesticides there and they need to use more. They need to invest more in chemicals and other farming techniques to increase their yields."

Demand for cocoa is growing, in Europe by 16.5 per cent year-on-year to 406,080 tonnes in the third quarter of 2009, according to the European Cocoa Association. The fashion for more upmarket chocolate has helped to boost demand as it typically has a higher cocoa content. Companies such as Cadbury and Nestlé buy their cocoa about three months in advance, so the recent high prices will not have had an effect on their costs yet, but will be felt early in 2010. Nestlé, the maker of Kit Kat, plans to spend £67 million providing millions of disease-resistant plantlets to cocoa producers and retraining farmers, in an attempt to increase the output and reduce the price of cocoa.

The Government of the Ivory Coast is trying to address the problem by starting to assist cocoa bean farmers. A previous system, under which the Government sold most of the nation's cocoa production on to the world market and set guaranteed prices for farmers, was abandoned in 1999. The Fair Trade Association recommends setting a minimum price for cocoa so that farmers are less vulnerable to market volatility. A spokesman for the Association said: "In our experience, whatever the current upturn in prices, little may go back to the farmers. And, even if they are benefiting somewhat at the moment, they could soon be once again at the mercy of low prices. The wild fluctuations in the price of cocoa make life extremely unstable for farmers."

The Times, 24 October 2009

- (a) (i) With the aid of a diagram, explain why the price of cocoa rose in 2009. [6]
- (ii) Using the data and with the aid of a diagram, explain what could be done 'to increase the output and reduce the price of cocoa'. (Lines 22-23) [4]
- (b) Explain why the price of cocoa is subject to 'wild fluctuations'. (Line 31) [6]
- (c) Cocoa is priced in dollars on world markets. To what extent would a rise in the value of the pound against the dollar help to reduce the price of bars of chocolate such as Kit Kat in the UK? [6]
- (d) Using the data evaluate the case for specialisation and free trade between countries. [8]
- (e) With the aid of a diagram, discuss the Fair Trade Association's policy suggestion of setting a minimum price for cocoa. [10]

SECTION B

*Answer **one** question from this section.*

2. **FIRMS RELUCTANT TO RAISE PRICES DURING RECESSION**

- (a) Define price elasticity of demand and explain the factors which determine it. [8]
- (b) Using diagrams, discuss the view that a firm can only raise its revenue by increasing its prices. [12]

3. **ALL 13 YEAR-OLD GIRLS TO BE OFFERED INJECTION AGAINST CERVICAL CANCER**

- (a) Distinguish with examples, between private goods, public goods and merit goods. [8]
- (b) Discuss the view that merit goods should be provided free at the point of consumption by the Government. [12]

4. **WATER COMPANIES PUMP SEWAGE INTO THE OCEAN**

- (a) Define market failure and using economic analysis explain why UK water companies pump sewage into the sea. [8]
- (b) Evaluate the policies that could be introduced to reduce sea pollution of this kind. [12]

TURN TO PAGE 4 FOR QUESTIONS IN SECTION C

SECTION C

*Answer **one** question from this section.*

5. UK INVESTMENT DROPS SHARPLY DURING THE RECESSION

- (a) Explain the factors influencing investment in an economy. [8]
- (b) To what extent are high levels of investment always good for an economy? [12]

6. TAX INCREASES ON THE WAY IN THE UK AS BUDGET DEFICIT WORSENS

- (a) Explain why governments impose taxes. [8]
- (b) Should the Government raise a greater proportion of its revenue from indirect taxes rather than direct taxes? [12]

7. POUND FALLS TO ALMOST £1 = 1 EURO

- (a) With the aid of a diagram, explain the factors that could have led to the fall in the value of the pound. [8]
- (b) To what extent is a fall in the value of the pound against the euro likely to benefit the UK economy? [12]