

WJEC A-LEVEL ECONOMICS

ECONOMICS



EXAM QUESTION PACK

UNIT EC3 OLD SPECIFICATION PAPERS

STEMUP

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Surname	Centre Number	Candidate Number
Other Names		2



GCE A level

1133/01



S15-1133-01

ECONOMICS – EC3

P.M. THURSDAY, 11 June 2015

1 hour 45 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	2	
2.	5	
3.	3	
4.	6	
5.	6	
6.	6	
7.	6	
8.	6	
9. or 10. or 11.	20	
Total	60	

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in Section A. You may use continuation paper on page 10 if necessary, taking care to number the continuation correctly.

Answer **one** question from Section B.

You are advised to spend no more than one hour on Section A.

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 and Section B has 20 marks.

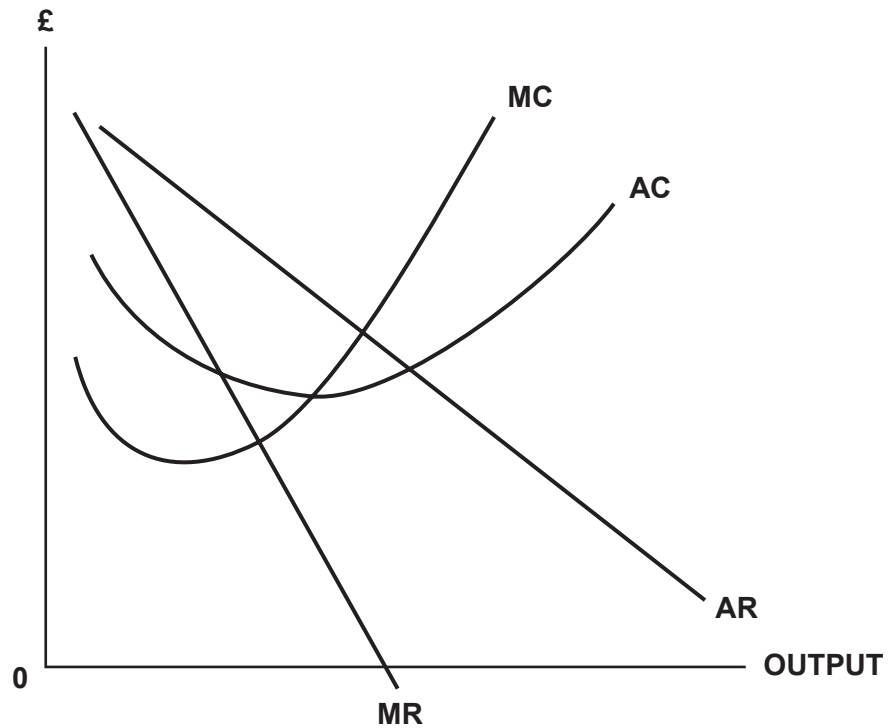
You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing (Section B).

You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

SECTION A

Answer **all** questions in this section.

1. The diagram below shows a firm operating in an imperfect market.



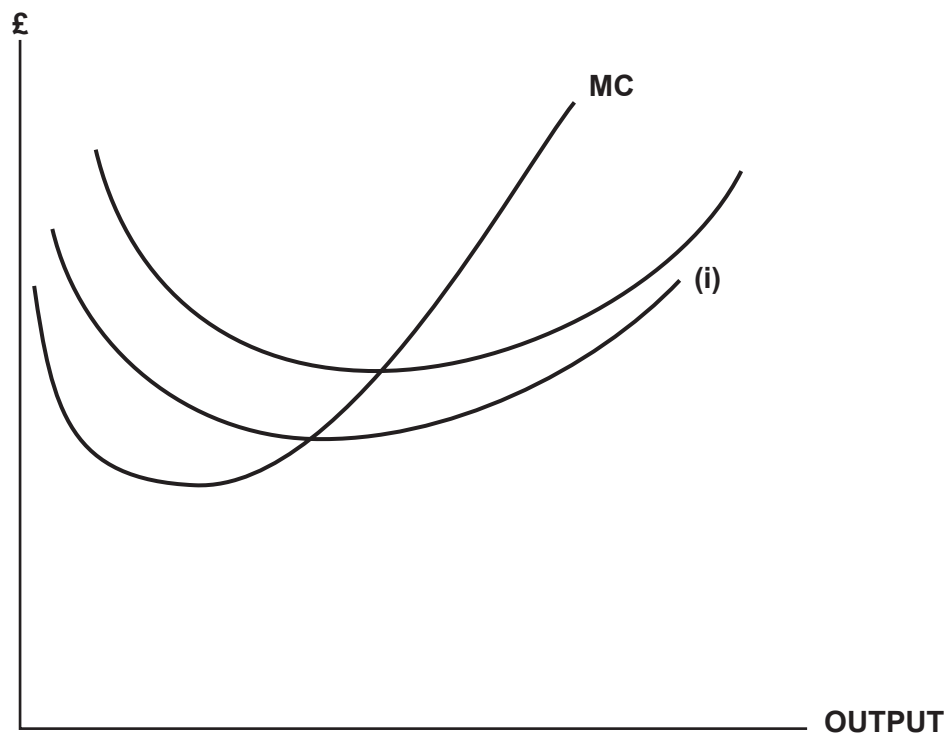
Mark on the diagram the price and output where a firm would make only normal profits in the long run. Explain your answer. [2]

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2. The diagram below shows the short run cost curves of a firm.



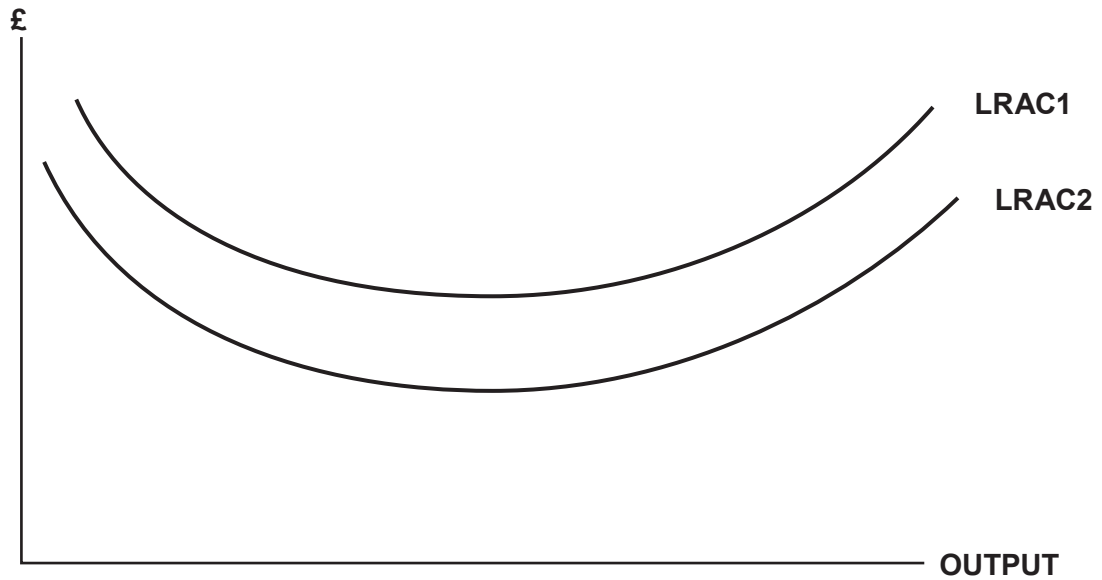
- (a) Identify the curve marked (i) in the diagram.

[1]

- (b) Explain how and why the marginal cost curve changes as more output is produced by the firm.

[4]

3. The diagram below shows a change in the long run average costs for firms in a particular industry. The long run average cost curve has shifted from LRAC1 to LRAC2.



Using the above diagram and an appropriate example, explain what is meant by **external economies of scale**. [3]

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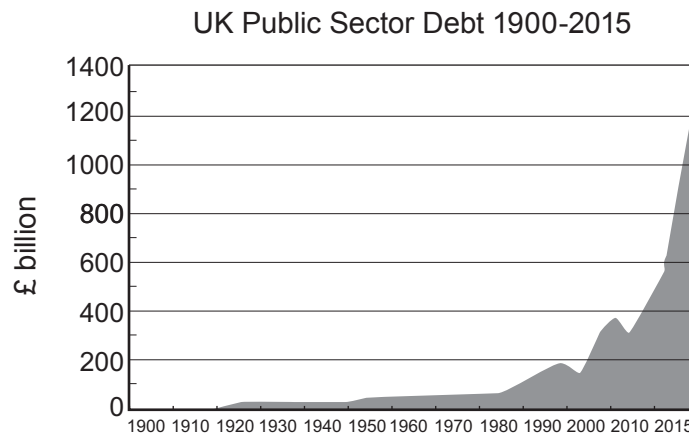
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It appears that across Europe consumers are paying vastly different amounts for the same furniture – even though it is coming from the same source. The table below shows the prices of IKEA furniture in different European countries with UK consumers apparently coming off the worst.

To what extent can IKEA's pricing policy be seen to be an example of price discrimination? [6]

6. The data below shows the level of the UK's public sector debt from 1900 to 2015.



- (a) Distinguish between the public sector debt and the fiscal (budget) deficit. [2]

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- (b) Explain **two** possible reasons for the changes in the size of the public sector debt from 2000 to 2015. [4]

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7. How far do you agree with the view that demand side policies to reduce the level of unemployment below its natural rate/NAIRU only work in the short term? [6]

Use an appropriate diagram in your answer.

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Answer one question from this section.

- Answer the question from Section B using the following pages.**

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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.

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	Page
EC1	1
EC2	12
EC3	43
EC4	55

GENERAL MARKING GUIDANCE

Positive Marking

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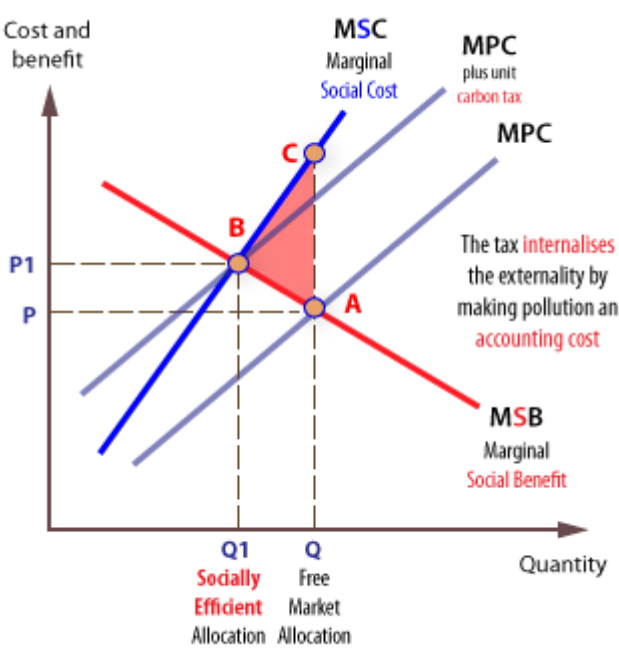
Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

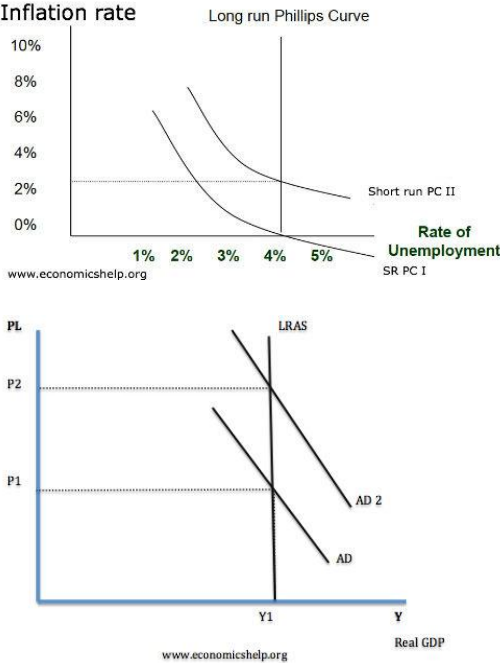
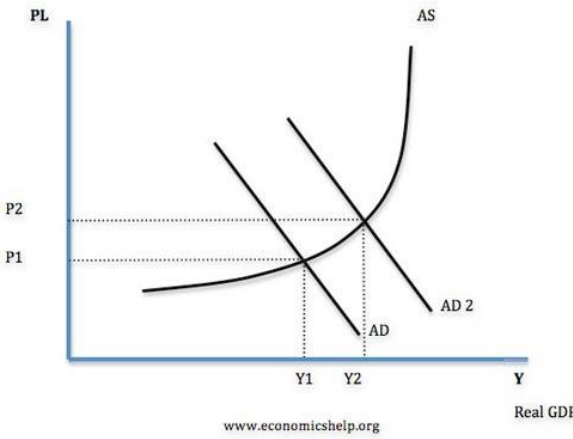
In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS - EC3

Question	Answer	Mark allocation	Assessment objective
1	Mark on the diagram the price and output where a firm will only make only normal profits in the long run. Explain your answer. Price and quantity is marked where AC cuts AR. (1) AR and MR shifted to the left to show normal profit with $AR=AC$ (1) This is the lowest price and highest quantity demanded which the firm can set without making losses/where normal profits are made. (1) TR =TC no abnormal profit (1) TC includes normal profit (1) Understanding of normal profit (1)	2	AO1 1 AO2 1
2(a)	Identify the curve marked (i) in the diagram. Average variable cost curve. (1)	1	AO1 1
2(b)	Explain how and why the marginal cost curve changes as more output is produced by the firm. Explanation of why MC at first falls due to increasing returns to a factor which reduces MC (Max 3)). Explanation of why MC rises at higher levels of output due to diminishing returns to a factor which increases MC (Max 3). Understanding of the meaning of the short run. (1) Understanding of marginal productivity (1) Understanding of marginal cost (1)	4	AO2 2 AO3 2
3	Using the above diagram and an appropriate example explain what is meant by external economies of scale. External economies of scale arise from factors outside the firm (1) and affect all firms in an industry (1) This will shift the LRAC downwards to LRAC2 thus firms at all levels of output will enjoy lower costs. (1) Appropriate example of external economies ie concentration, technological progress etc (1) Max 2 without an example. Max 2 with no reference to the diagram.	3	AO1 2 AO2 1

Question	Answer	Mark allocation	Assessment objective
4	Using an appropriate diagram evaluate the possible effectiveness of this tax in correcting market failure caused by shoppers. Demand and supply diagram showing the imposition of an indirect tax (1). MSB/MSC diagram showing the effect of the tax which will raise price and reduce the quantity demanded. (2) External costs of production or consumption diagrams both accepted  Explanation of the reduction in external costs – less to landfill (not biodegradable), less litter, reduce threat to wildlife, (1) and reduced welfare loss correction of market failure (1) Evaluation: tax may not be high enough (use of diagram) to correct market failure as demand is price inelastic (2) Tax may be absorbed by the retailers (2). Tax may be too high – government failure (2)	6	AO3 4 AO4 2

Question	Answer	Mark allocation	Assessment objective
5	To what extent can IKEA's pricing policy be seen to be an example of price discrimination? IKEA is using price discrimination: different prices for the same product in different countries (1) specific use of data (1) separation of markets (1) different Peds (1) monopoly power (1) Max 4 Evaluation: Price differences between countries can be explained by other factors ie VAT rates (1) exchange rates (1) wage costs (1), energy and transportation costs (1) Use of data: some if the differences in price are not significant (1) Max 4	6	AO1 2 AO4 4
6 (a)	Distinguish between the public sector debt and the fiscal (budget) deficit. The public sector debt is the total accumulated debt of the government from the private sector (1) the fiscal deficit is the annual difference between the government spending and income/taxation. (1)	2	AO1 2
6 (b)	Explain TWO possible reasons for the changes in the size of the national debt from 2000 to 2015. Large rises in public spending 2000-2007 as the government increased discretionary spending on health/education/defence (overseas wars). Recession/economic slowdown 2008-2012 which led to reduced tax revenue and higher government spending. Bail-outs of the banks during the financial crisis 2008-2009. Lower than expected tax revenues due to avoidance and evasion (Google/Starbucks etc.). For full marks each reason should be applied to events or policies in the time period stated in the question. 2 x 2 marks.	4	AO2 2 AO3 2

Question	Answer	Mark allocation	Assessment objective
7	How far do you agree with the view that demand side policies to reduce the level of unemployment below its natural rate/NAIRU only work in the short term? Use an appropriate diagram in your answer. Attempts to reduce unemployment below the natural rate by raising AD will lead to no permanent fall in unemployment only inflation. Explanation (2) and use of diagram showing Phillips Curve or AD/AS analysis (2).  Evaluation: Unemployment will fall below the natural rate temporarily (expectations augmented theory) or not at all (rational expectations theory). (2) Keynesian approach has a different approach to management of the economy and that the LRAS curve is shaped differently and that changes in AD can have a significant effect on GDP/unemployment. (2)  Maximum of 6 marks for candidates who produced a well explained explanation of why demand side policies will not reduce the natural rate of unemployment in the long run.	6	AO2 2 AO3 2 AO4 2

Question	Answer	Mark allocation	Assessment objective
8	Discuss the view that governments should attempt to keep their national currency at an overvalued level against other currencies. An overvalued exchange rate keeps inflation lower through lower import prices. (2) It also pressurises firms to keep costs down and improve the quality of products (2). An overvalued exchange rate improves the terms of trade. (2) Cheaper imported technology (2). Evaluation: An overvalued exchange rate makes exports less competitive on price. (2) Need for higher interest rates to keep the exchange rate above market rates (2) Reduction in foreign exchange reserves to keep the currency above the market rate. (2) May have to borrow from the IMF (2). Reward the relevant use of the Venezuela context. Reversible answer	6	AO3 2 AO4 4

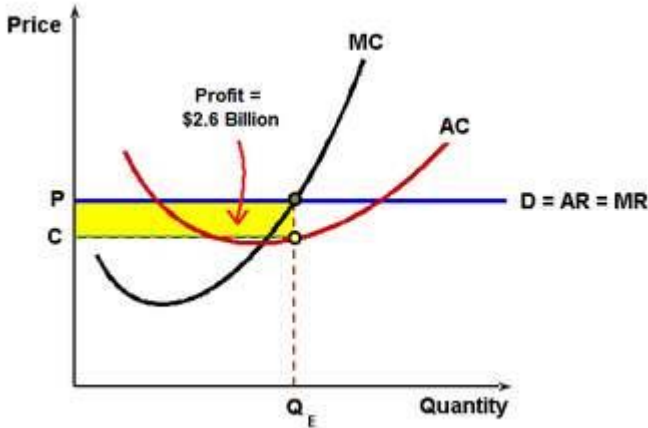
SECTION B

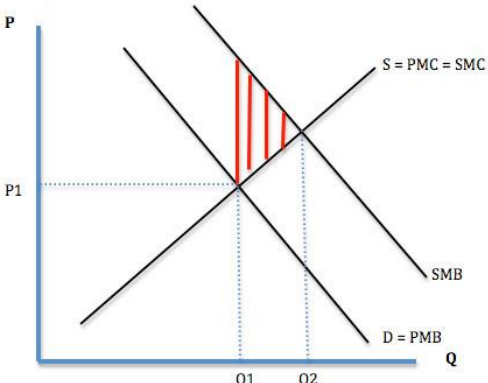
Answer **one** question

The following levels should be applied to each question.

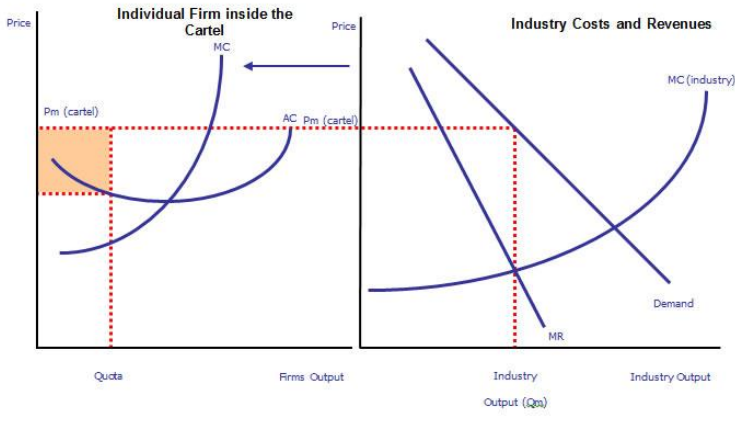
LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.
Level 2	6-10	Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.
Level 3	11-15	Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions. Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.
Level 4	16-20	Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer. Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.

Question	Answer	Mark allocation	Assessment objective
9	To what extent can a perfectly competitive market always said to be efficient? Candidate shows as clear understanding of allocative and productive efficiency. Identification and explanation: Perfect competition is allocatively efficient in the short run and the long run-explanation. Candidates may link the maximisation of the consumer surplus and producer surplus to allocative efficiency. Perfect competition is Pareto efficient. Perfect competition is productively efficient in the long run-explanation. Perfect competition is X- efficient Use of diagrams to support this (short run and long run). Up to the top of level 3 for a very good explanation of why perfectly competitive markets are efficient. Evaluation: Perfect competition is not productively efficient in the short run (supporting diagram) as output is not at minimum average cost.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	 Perfect competition is not dynamically efficient as perfect knowledge gives no firm an incentive to engage in R&D. No consideration of external costs in pricing/output thus not socially efficient. Lack of economies of scale and synoptic link to macroeconomic issues such as impact on competitiveness and balance of payments. Candidates may compare monopoly and perfect competition ie the saving in resource costs of monopoly due to economies of scale being higher than the welfare loss ie gains in productive efficiency offset some or all of the allocative inefficiency.		
10	With the aid of examples discuss the view that the private sector has no role to play in the provision of public goods and merit goods. Characteristics of public goods (non-rivalry, non-excludability and non-reject ability). Examples of public goods (flood defences, lighthouses, street lighting etc) – non-excludability means that private sector cannot provide them. Explanation of how complete market failure makes it impossible for private enterprise to exclude non payers (free rider problem). Public goods are provided by the government free at point of consumption and price = marginal cost thus achieving allocative efficiency. Max 7. Evaluation: Quasi-public goods such as roads can be provided by the market via toll roads.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	Use of contracting out to the private sector eg prisons, probation service, security (G4S) etc. Private sector firms will be more likely to minimise costs/be efficient because of the profit motive. Private firms can provide public goods ie lighthouses funded by shipping companies or commercial radio funded by advertising. Public goods can still be provided free at point of consumption even with private sector involvement. Macroeconomic application size of the fiscal deficit makes taxpayer funded public goods expensive to provide. Merit goods are better provided by the public sector due to positive externalities. Use of examples from education, training and health. Use of externalities diagram – private sector provision would not be at the socially efficient level of output.  www.economicshelp.org Private sector provision would mean underproduction and under consumption. Negative impact on skills/productivity/economic growth. Private sector firms “cherry pick” their provision. Max 7. Evaluation: The private sector reduces excess demand when there is free health care. Importance of contracting out and PFI in improving public sector services.		

Question	Answer	Mark allocation	Assessment objective
	Public and private sector can co-operate for society's benefit in education and health (private schools working with state schools, private hospitals being used by NHS patients). With high fiscal deficits governments can no longer provide merit goods free at the point of consumption and thus private sector involvement is inevitable. This answer is reversible in how it can be answered. To reach level 4 there must be some evaluation of both public goods and merit goods being provided by the private/public sector.		
11	“The behaviour of firms in oligopolistic markets will always be dominated by the use of non-price competition.” Using examples discuss the extent to which you agree with this statement? Definitions of oligopoly and non-price competition with examples. Explanation of dominance by a few large firms and extensive product differentiation with the use of examples/recognition of interdependency. Identification and explanation of reasons for non-price competition in oligopoly/increase market share/reduce contestability/dangers of price competition affecting profits/build brand loyalty/application of the kinked demand curve/game theory/dangers of price wars. There is a possibility of cartels, tacit collusion, price leadership Evaluation: Price competition is likely if the product is homogeneous ie gas/electricity. Predatory pricing and limit pricing. Price discrimination. Collusion can be used as a pricing or non-pricing strategy. Application of relevant examples.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	 Maximum Level 3 without evaluation or the use of examples. Two evaluation points required for maximum marks.		

Surname	Centre Number	Candidate Number
Other Names		2



GCE A level

1133/01

ECONOMICS – EC3

A.M. TUESDAY, 3 June 2014

1 hour 45 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	4	
2.	8	
3.	4	
4.	4	
5.	6	
6.	6	
7.	8	
8. or 9. or 10.	20	
Total	60	

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in Section A. You may use continuation paper on page 10 if necessary, taking care to number the continuation correctly.

Answer **one** question from Section B.

You are advised to spend no more than one hour on Section A.

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 and Section B has 20 marks.

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

You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

SECTION A

Answer all questions in this section.

1.

Sainsbury's
Respect for our environment

At Sainsbury's, respect for our environment is about doing the right thing. We aim to be the UK's greenest grocer, which is great for our business, but even better for the environment.

In October 2011, we launched our sustainability plan featuring 20 ambitions we intend to achieve by 2020.

By 2020, we'll make sure that our own brand packaging has been reduced by half.

By 2020, we'll reduce our carbon emissions by 30 per cent.

Explain **two** reasons why companies such as Sainsbury's may have environmentally friendly policies as a major objective. [4]

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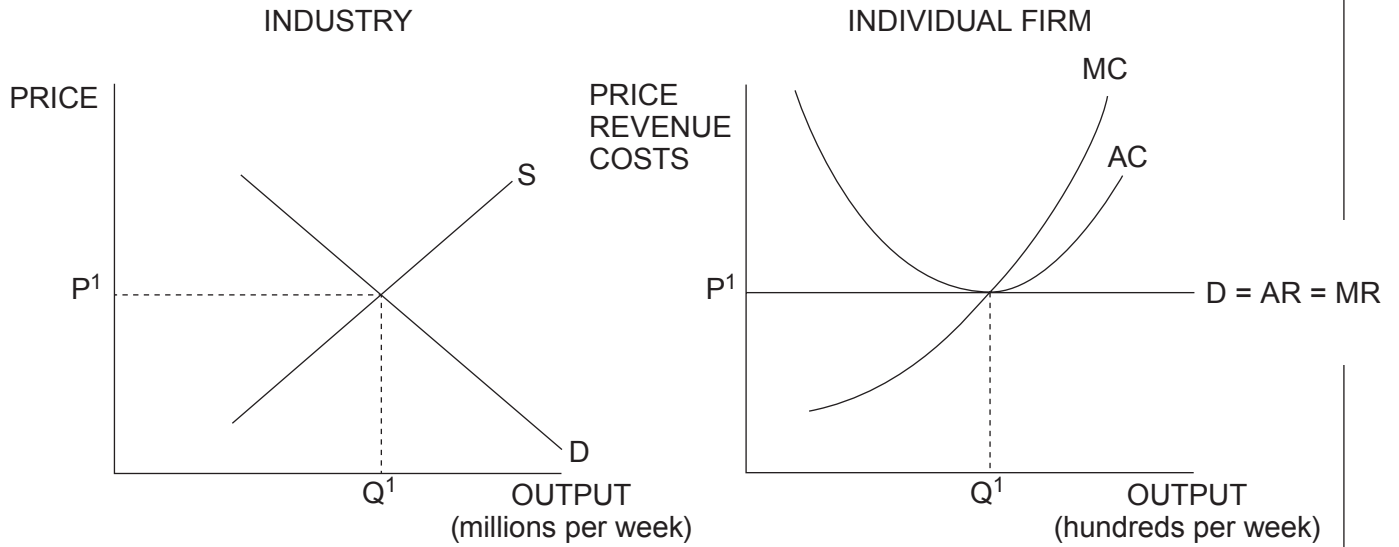
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2.



The diagram above shows a firm operating in a perfectly competitive market in long-term equilibrium.

- (a) Adapt the diagrams to show how the firm's price, output and profits will be affected by an increase in demand in the short-run. [4]
- (b) Explain what will happen to the firm's price, output and profits in the long-run. [4]

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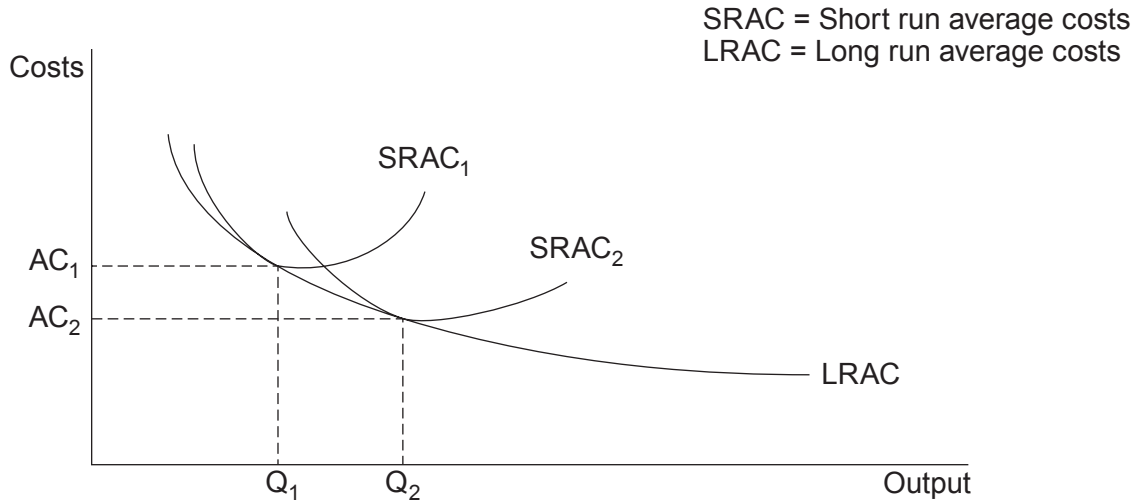
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3. A car manufacturer is faced with a large increase in demand for its product. As a result it needs to increase its production.



Using the diagram explain why its long run costs fall when its output expands from Q_1 to Q_2 . [4]

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4. The European Union Competition Commission has announced that it will be issuing its highest cartel fines ever against four car glass windscreens and sunroof producers. The companies Asahi, Pilkington, Saint-Gobain and Soliver will be collectively fined over €1.3 billion for illegal market sharing. These four companies controlled about 90% of the market for glass used in new cars and in replacement glass.

Source: <http://ec.europa.eu>

- (a) Explain why companies such as Asahi and Pilkington might form a cartel. [2]

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- (b) Explain why the EU might fine companies for taking part in such cartels. [2]

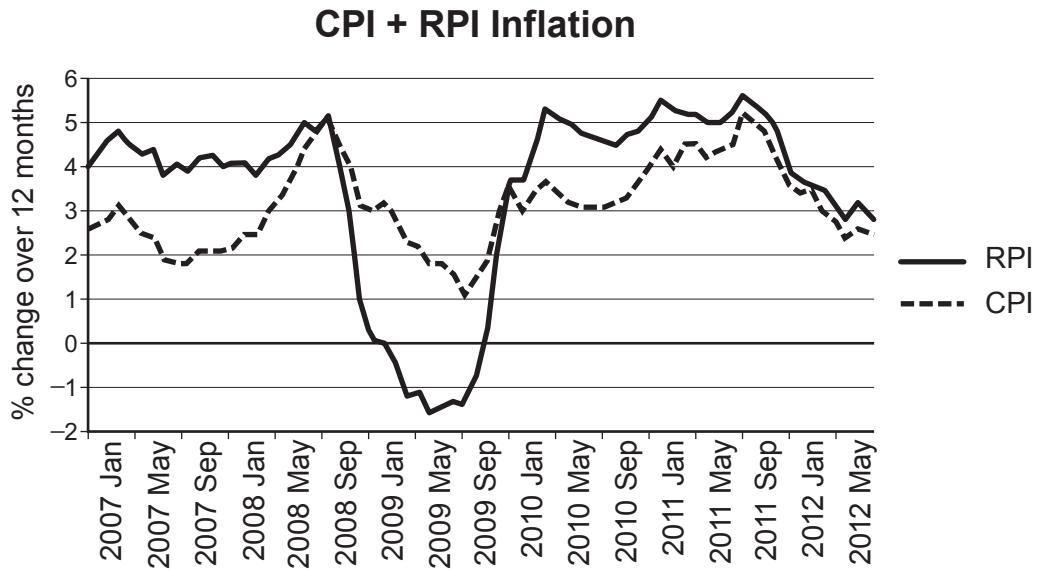
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5.



Source: Office of National Statistics

- (a) Explain **one** reason why there may be significant differences in the rate of inflation as measured by the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). [2]

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- (b) In 2010 the Government announced plans to make pensions rise in line with the CPI rather than the RPI as previously. Discuss the possible effects of this decision. [4]

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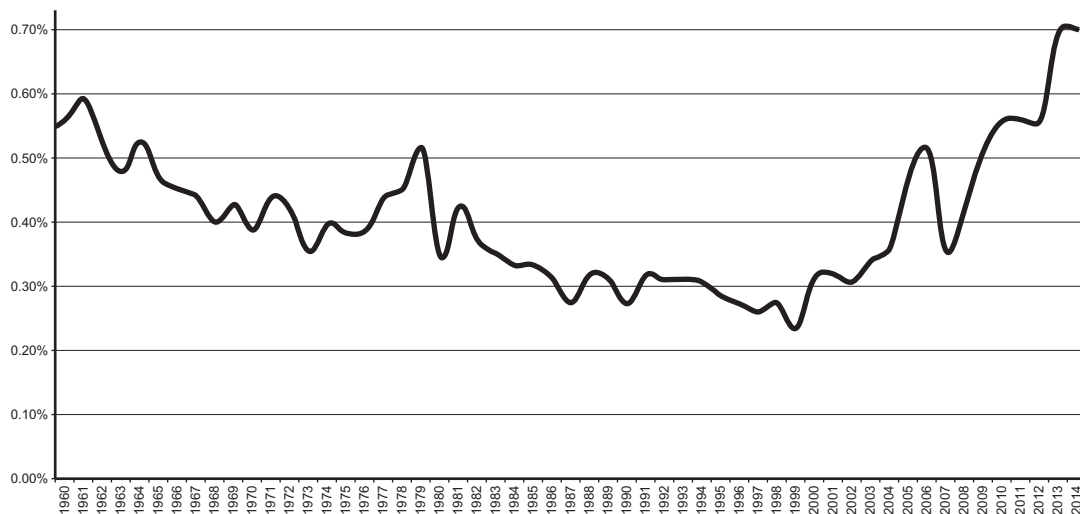
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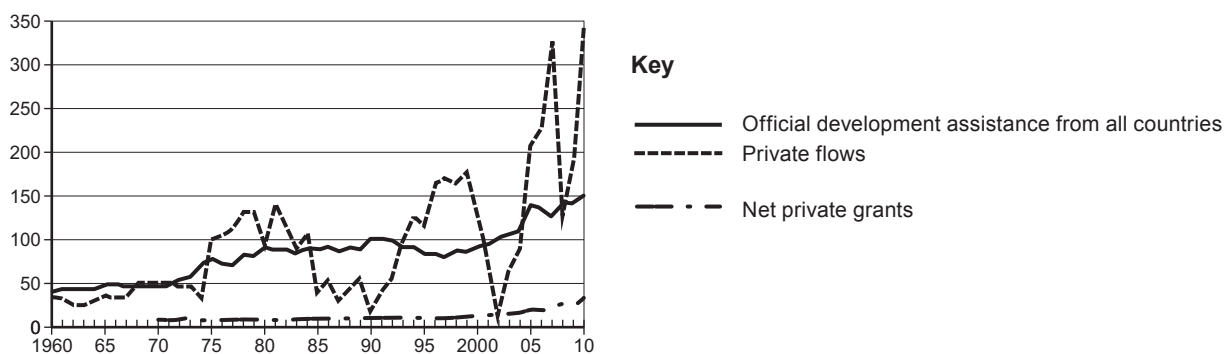
UK Development aid as a percentage of national income



Going up

Total aid, investment, and grants to developing countries has risen over the past 50 years.

(billion dollars)



Source: *Department for International Development, Organisation for Economic Co-operation and Development*

The UK Government yesterday announced its spending plans for 2011-15. This will reduce planned spending by £81 billion a year, and result in the loss of about half a million public sector jobs.

However the Chancellor of the Exchequer, George Osborne, said "this will be the first UK Government to honour the United Nations commitment on international aid, and the only major economy to do so". Overseas development spending will reach 0.7% of national income in 2013.

The UK Department for International Development (DFID) budget will increase by 37% after taking account of inflation. The National Health Service budget will increase by just 1.3% in real terms over the same four years and many Government departments face reductions of 20% to 30%.

Source: <http://www.owen.org/>

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SECTION B

Answer one question from this section.

8. “The Government should use taxes and subsidies to encourage people to use buses and trains rather than private cars.” Discuss. [20]
9. Discuss the view that highly concentrated markets are bad for the UK economy. [20]
10. Discuss the view that Government intervention in the market for merit and demerit goods does more harm than good. [20]

Answer the question from Section B using the following pages.

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GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

SUMMER 2014

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GCE ECONOMICS - EC3

MARK SCHEME - SUMMER 2014

Question	Answer	Mark allocation	Assessment objective
1.	Explain two reasons why companies such as Sainsbury may have environmentally friendly policies as a major objective. Identification of appropriate reasons with explanation e.g. cutting costs, increasing profits, PR advantages, Government policies e.g. carbon tax, non-price competition in oligopoly, Ethical objectives. (2x2 1 for identification + 1 for explanation)	4	AO2 2 AO3 2
2. (a)	Adapt the diagrams to show how the firm's price, output and profits will be affected by an increase in demand in the short-run. Illustration of industry price rise resulting in upward shift of individual firm's demand curve (1) resulting in increase in firm's price (1) firm's output (1) and abnormal profits (1) Marks are only awarded for changes to the diagram for the individual firm (right hand side diagram).	4	AO1 2 AO2 2
(b)	Explain what will happen to the firm's price, output and profits in the long-run. Explanation of new entrants to the industry pushing industry supply curve to the right and reducing price back to OP. (2) Explanation of firm's output returning to OQ and abnormal profits being competed away or return to normal profit. (2)	4	AO1 2 AO2 2
3.	A car manufacturer is faced with a large increase in demand for its product. As a result it needs to increase its production. Using the diagram explain why its long run costs fall when its output expands from Q1 to Q2. Descriptive explanation of economies of scale with appropriate examples/use of diagram. (2) Explanation of no fixed factors/change of scale in long-run enabling reduction in LAC. (4) Use of diagram does not need to be explicit.	4	AO1 2 AO2 2

Question	Answer	Mark allocation	Assessment objective
4. (a)	Explain why companies such as Asahi and Pilkington might form a cartel. Identification (1) and explanation (1) of reasons for forming cartel e.g. reduce advertising/marketing costs, charge higher prices because of limited competition, monopoly profits.	2	AO3 2
(b)	Explain why the EU might fine companies for taking part in such cartels. Reduces competition only/anti competitive only. (1) Explanation/development of how anti competitiveness harms consumers or firms or the economy. (1)	2	AO3 2
5. (a)	Explain ONE reason why there may be significant differences in the rate of inflation as measured by the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). Identification and explanation of one factor e.g. RPI includes changes in mortgage interest and other housing costs, CPI doesn't. CPI includes highest and lowest income groups, RPI doesn't. CPI assumes consumers adjust spending to price rises, RPI doesn't. CPI calculated using geometric mean, RPI arithmetical mean.	2	AO2 2
(b)	In 2010 the Government announced plans to make pensions rise in line with the CPI rather than the RPI as previously. Discuss the possible effects of this decision. Possible advantages, e.g. would save Government money fairer because pensioners less likely to have mortgages CPI is more stable normally than RPI. Appropriate disadvantages e.g. would mean lower incomes for pensioners, will widen gap between pensions and wages if real wages rise.	4	AO3 2 AO4 2

Question	Answer	Mark allocation	Assessment objective
6.	Discuss the view that ‘a UK exit from the European Union would be "devastating" for the UK economy’. Identification and explanation of arguments for statement e.g. • EU major trading partner • might discourage FDI from outside EU • loss of benefits of Single European Market (free movement of goods/labour/capital) • loss of EU regional/other financial support • loss of exports, therefore lower AD, lower GDP, higher unemployment. Identification and explanation of arguments against statement, e.g. • costs of EU regulations • still a major trading partner with fastest-growing economies (e.g. BRIC) • reductions in UK budget contributions. (max 4 for one side only)	6	AO3 2 AO4 4
7.	Discuss whether the UK Government was right to increase its spending on development aid whilst cutting its overall spending. Identification and explanation of arguments for increased spending on aid, e.g. • honouring UN commitment/duty to poorer nations • UK prosperity dependent upon growth in other countries • 0.7% still small percentage of overall Government budget • Aid more stable than FDI as source of income for developing countries. Identification and explanation of arguments against increased spending on aid, e.g. • other Government spending being cut • aid sometimes wasted/ineffective • FDI/trade flows/protectionism far more important • effects upon developing countries • should not be cutting jobs/health spending because of effect on UK economy. (max 5 for one side only) (max 4 for focusing only on the cut in government spending)	8	AO3 2 AO4 6

Section B
Answer **one** question

The following level should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.
Level 2	6-10	Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.
Level 3	11-15	Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with sound logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions. Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.
Level 4	16-20	Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer. Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.

Question	Answer	Mark allocation	Assessment objective
8.	“The Government should use taxes and subsidies to encourage people to use buses and trains rather than private cars”. Discuss. Identification/explanation of potential private and external costs, e.g. • fuel • labour • equipment • pollution • noise/explanation of possible taxes and subsidies. Analysis/evaluation of whether private motorists should pay more, e.g. car manufacturers don't pay for external costs, e.g. • poor air quality, global warming. • private road travel creates congestion, pollution emissions, noise, increased taxes and subsidies may reduce these externalities road users will 'internalise' external costs rail and bus travel provide transport for people on low incomes, creation of employment in public transport sector. Appropriate diagrammatic analysis e.g. $MSC > MSB$ because manufacturers/car owners ignore external costs Definition and explanation of socially optimum output i.e. $MSB = MSC$, takes into account external costs and benefits Evaluation of case for higher taxes and subsidies e.g. • higher taxes would cause job losses/raise prices • taxes may be ineffective if demand for fuel/cars, etc. is inelastic • non-price factors e.g. reliability, convenience may be more important • may increase business costs and therefore prices • unfair to rural residents • cost to Government/taxpayer, opportunity costs of subsidies • other policies e.g. road-pricing, congestion-charging may be more effective. Application to wider economy e.g. possible effects upon employment, inflation, international competitiveness and growth	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
9.	Discuss the view that highly concentrated markets are bad for the UK economy. Definition of highly concentrated markets/oligopoly/monopoly e.g. single/dominant producer/existence of entry barriers/no close substitutes Explanation of possible adverse effects of monopoly power with appropriate diagrammatic analysis, e.g. • X-inefficiency/higher prices • lower output • anti-competitive practices • may be able to exploit consumers/reduced consumer surplus • monopolies may be contrived/complex • deliberate erection of barriers to entry • productive and allocative inefficiency. Evaluation of case against monopoly. e.g. • monopoly power may lead to scale economies and therefore lower-cost production • may be natural monopoly • monopolies may be large employers • UK firms may need to be large to compete • internationally/may be major exporters • firms grow by satisfying consumers • monopoly power reward for high quality/low prices/low costs/R&D/innovation • new firms can enter if efficient enough. Attempt to balance these arguments, e.g. explanation of why efficiency may vary between different situations.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
10.	Discuss the view that Government intervention in the market for merit and demerit goods does more harm than good. Definition and examples of merit and demerit goods referring to external costs and benefits Explanation of argument against Government intervention, e.g. • people made to pay for services they may not want • reduces competition and choice • public services may be less efficient than private producers • merit goods could be provided by private producers (possibly more efficiently) • provision of merit goods implies a value judgment • involves 'rationing' system for merit goods • some taxpayers subsidise others e.g. non-parents pay for education • possible higher taxes • opportunity cost of Government spending. Evaluation of argument against Government intervention. e.g. • provision of merit goods ensures minimum standard of living/fairer to people on low incomes • increases tax burden • increased efficiency if education & health care provided to all • efficient police/defence/governance provides stable economic environment • production can be moved to socially optimum level • MSC=MSB • other forms of Government failure Evaluation referring to wider economic effects/theoretical development, e.g. • effects upon macroeconomic variables • reference to different types of merit & demerit goods	20	AO1 4 AO2 4 AO3 6 AO4 6

Surname	Centre Number	Candidate Number
Other Names		2



GCE A level

1133/01

ECONOMICS – EC3

P.M. TUESDAY, 4 June 2013

1³/₄ hours

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	7	
2.	3	
3.	8	
4.	8	
5.	4	
6.	4	
7.	6	
8 or 9 or 10	20	
Total	60	

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ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in Section A. You may use continuation paper on page 10 if necessary, taking care to number the continuation correctly.

Answer **one** question from Section B.

You are advised to spend no more than one hour on Section A.

INFORMATION FOR CANDIDATES

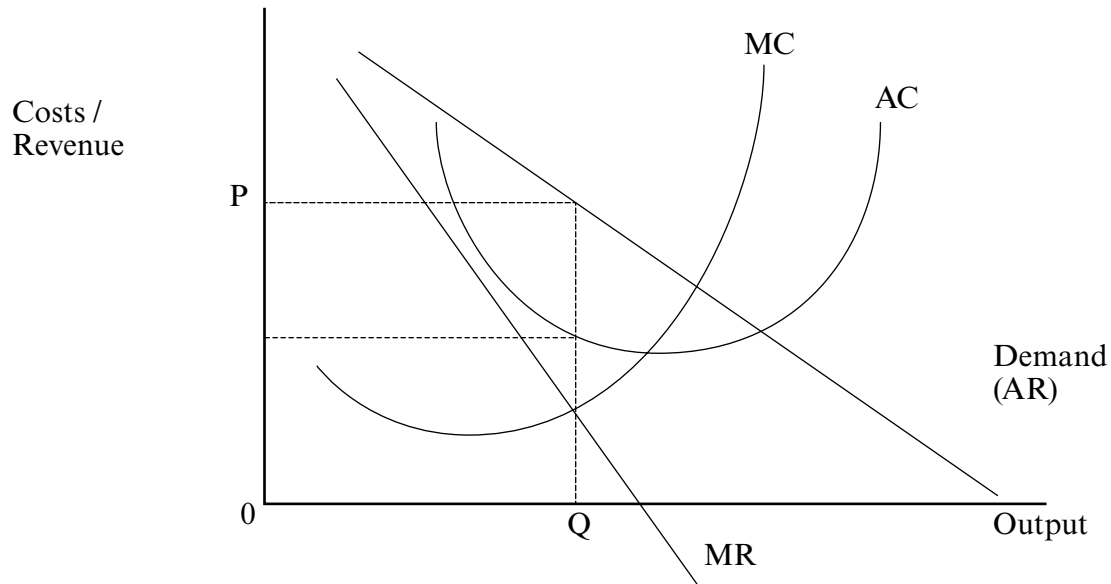
The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks and Section B has 20 marks.

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

You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

SECTION A*Answer all questions in this section.*

1. The diagram below shows the short-run situation for a firm in monopolistic competition.



- (a) Using the diagram, explain what is meant by abnormal profit. [3]

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- (b) Explain why a firm in monopolistic competition might be able to earn abnormal profit in the short-run. [2]

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(c) Explain why the firm will make only normal profits in the long run.

[2]

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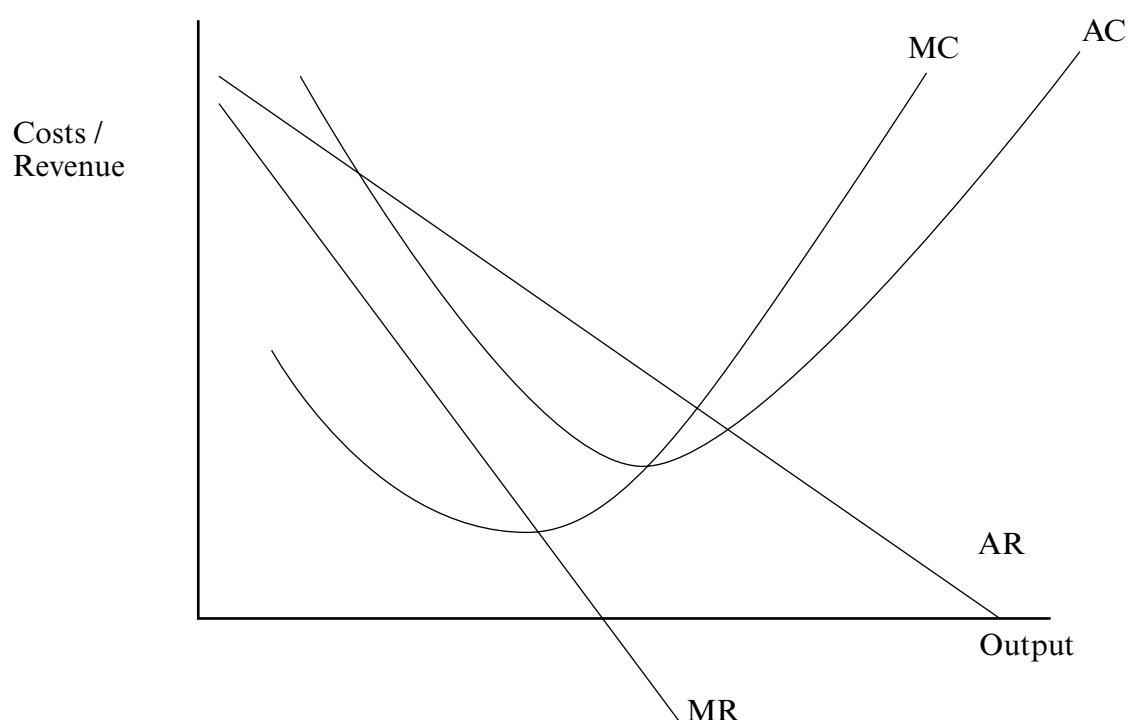
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2. The diagram below shows a firm operating in an imperfect market.



Using the diagram explain what the firm's price and output would be if it decided to maximise sales revenue.

[3]

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3. UK tax share of petrol pump price drops

The Government's share of the petrol pump price fell in the last decade

The Office for National Statistics (ONS) yesterday reported that from April 2001 to March 2010 average petrol prices increased by 52% while duties on petrol increased by half that. The average British car driver travelled 165 miles fewer in the last year because of rising petrol prices.

“Although petrol duty has been rising, it has not kept up with overall price rises,” said ONS statisticians.

The ONS data also showed that the average UK household spends £677 on fuel duties a year, or 2.3% of its disposable income. The poorest 20% of households are paying far more of their income in duties on fuel than the richest 20%.

There has been considerable pressure on the government to freeze fuel duties in 2012 and not to increase them by 4 pence per litre, as is currently planned.

Daily Telegraph 15 Nov 2011



<http://www.petrolprices.com>

Evaluate the case for the government freezing fuel duties at their current rate in 2012.

[8]

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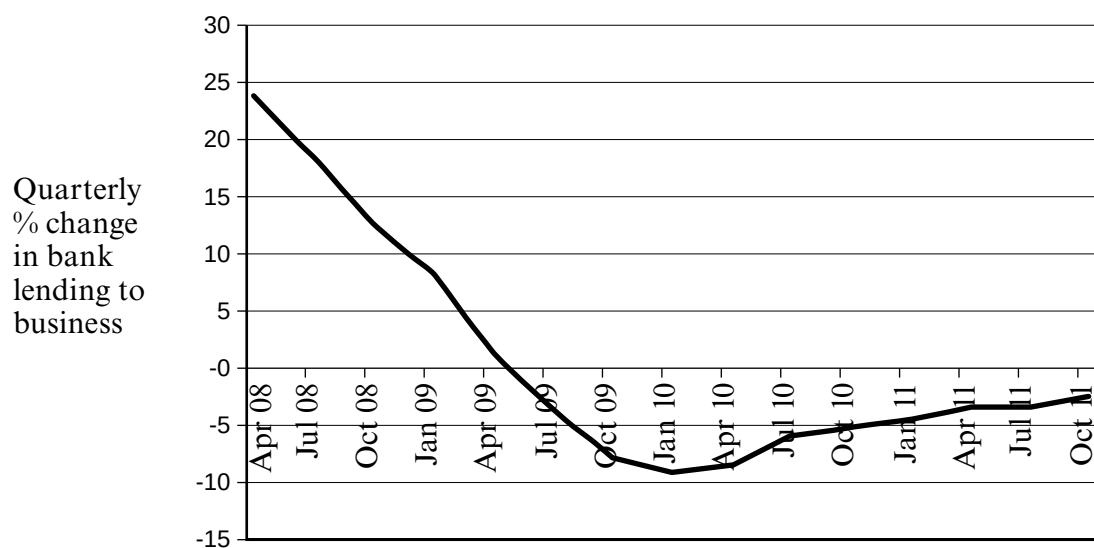
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4. Bank lending to firms still falling

Bank lending to businesses continued to fall during 2011. The interest rates paid by firms, particularly small and medium-sized enterprises, also increased during this period.



Bank of England Quarterly January 2012

- (a) Explain what the chart shows about bank lending to firms between 2008 and 2011. [2]

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- (b) Explain the likely effects of higher interest rates and lower bank lending on the UK economy. [6]

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5. UK Unemployment and average earnings

	UK average earnings (£ per week)	UK unemployment % rate (Labour Force Survey)
June 2010	449	7.8
Dec 2011	465	8.4

Discuss what the data suggests about the relationship between earnings and unemployment between June 2010 and December 2011. [4]

6. UK had record trade deficit in September 2011

The gap between the value of imports and exports of goods and services in September 2011 was £9.8bn, the worst since data began in 1998.

The trade deficit rose from £8.6bn in August, thanks to a record jump in imports (driven by oil, chemicals and silver) and a 1.6% fall in exports particularly into the Eurozone where austerity programmes in countries such as Greece and Portugal have held down growth.

It is particularly disappointing that the UK's trade balance has failed to improve despite an on-going period of weak sterling.

BBC adapted

Explain why the weaker value of sterling might not have helped to reduce the UK's trade deficit. [4]

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[illegible]

[illegible]

Answer one question from this section.

8. Discuss whether university students should pay the full cost of their education rather than being subsidised by the government. [20]
9. To what extent is privatisation likely to benefit the UK economy? [20]
10. Discuss the argument that the efficiency of the economy would be maximised if all markets were perfectly competitive. [20]

Answer the question from Section B using the following pages.

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting practice. There are no margins, text, or other markings on the page.

[illegible]

[illegible]

[illegible]

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting or typing. There are no margins, text, or other markings on the page.

This image shows a single page of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page, leaving small margins at the top and bottom. There is no handwriting or other markings on the page.

Examiner
only

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(1133-01)



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.

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	4
EC3	15
EC4	23

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.

Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS – EC3

Summer 2013

Question	Answer	Mark allocation	Assessment objective
Q.1 (a)	The diagram below shows the short-run situation for a firm in monopolistic competition. Using the diagram, explain what is meant by abnormal profit. Occurs when Price (AR) > AC (1). At output OQ/area PRST (1). Explanation of greater than needed to keep producer in industry. Will attract new firms into industry (1). <i>Must refer to diagram for 3 marks</i>	3	AO1 2 AO2 1
Q.1 (b)	Explain why a firm in monopolistic competition is able to earn abnormal profit in the short-run. Identification (1) and explanation (1) of monopoly power e.g. brand name, customer loyalty, fixed factor, may be high demand for product in short-run	2	AO1 2
Q.1 (c)	Explain why the firm will make only normal profits in the long run. Identification and explanation of lack of/weak barriers to entry (1) New entrants will force down price until normal profit earned because increased industry reduces price towards AC (2).	2	AO1 2
Q.2	Using the diagram explain what the firm's price and output would be if it decided to maximise sales revenue. Mark point where MR crosses horizontal axis (1). Explanation that when MR becomes negative increased sales will reduce revenue (3). Alternative answer is in terms of PED. Sales are maximised where PED = (-) 1. After this revenue falls as sales increase	3	AO1 1 AO2 2

Question	Answer	Mark allocation	Assessment objective
Q.3	Evaluate the case for the Government freezing fuel duties at their current rate in 2102. Identification and explanation of appropriate argument FOR duty freeze e.g. to reduce transport costs for motorists, transport firms; to control cost push inflation; to help poorer families/regressive tax; assisting car industry and jobs; benefits to haulage industry – reduced costs for users of haulage industry; maintaining/increasing consumer confidence; petrol duty has been falling in real terms. Identification and explanation of appropriate argument AGAINST duty freeze e.g. tax rise will encourage energy conservation; loss of tax revenue for Government; higher fuel prices will encourage use of public/more fuel-efficient transport; more R & D into alternatives to petrol; other factors could increase the fuel price; fuel duties only small % of income. Max 4 without evaluation.	8	AO2 2 AO3 2 AO4 4
Q.4 (a)	Explain what the chart shows about bank lending to firms between 2008 and 2011. Identification (1) and explanation (1) of trend e.g. rose until mid-2009, fell afterwards, interest rate rose OR growth rate falls until Jan 09, rises thereafter	2	AO2 1 AO3 1
Q.4 (b)	Explain the likely effects of higher interest rates and lower bank lending on the UK economy. Identification (2) and explanation (4) of possible effects e.g. possible falling investment, higher costs, lower output & employment; effects on house prices/wealth effect; fewer business start-ups; reduced I and reduced C; fall in AD; fall in GDP and employment; £ appreciates/effects on BoP.	6	AO1 1 AO2 2 AO3 3

Question	Answer	Mark allocation	Assessment objective
Q.5	Discuss what the data suggests about the relationship between earnings and unemployment between June 2010 and December 2011. Suggests positive relationship as both rose (1) Use of data (2) Explanation/evaluation of possible link (4) e.g. higher wages make labour more expensive – fall in D for labour/higher unemployment; recession may have had more impact than wage rises; seasonal effects on wages; workers demanded higher wages to keep pace with inflation.	4	AO3 2 AO4 2
Q.6	Explain why the weaker value of sterling might not have helped to reduce the UK's trade deficit. Explanation of falling demand in Eurozone depressing exports, certain UK industries growing therefore attracting imports (2) Development related to price elasticities of demand for exports and imports/ other non price factors influencing demand for imports/exports/falling NI on Eurozone/supply side constraints in the UK economy, depends upon which countries are major trading partners (4)	4	AO3 2 AO4 2
Q.7	In an economy, a world recession reduces Aggregate Demand from AD1 to AD2. Using the diagram, discuss whether the economy will return to the Full Employment Level of output in the long run. Explanation of full employment output as maximum capacity of economy/natural level of unemployment (2) Explanation/evaluation related to diagram Wage levels fall thus costs fall, SRAS will increase because producers more efficient until output increase to Y_{fe}, assuming perfect mobility of factors Assumption of perfect mobility/wages falling etc may be incorrect therefore economy may be stuck in recession Sticky or rigid wages (Maximum 4 for one side only)	6	AO3 2 AO4 4

SECTION B

Answer **one** question

The following levels should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.
Level 2	6-10	Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.
Level 3	11-15	Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions. Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.
Level 4	16-20	Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer. Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.

Question	Answer	Mark allocation	Assessment objective
Q.8	Discuss whether university students should pay the full cost of their education rather than being subsidised by the Government. Explanation of subsidy/full cost e.g. university students only pay part of cost, Government pays rest/ education is a merit good – under consumed in market mechanism Explanation and evaluation e.g. graduate earnings higher than non-graduate students investing in own future; can afford to pay back loans out of higher earnings; reduced cost to Government; alternative uses for Government spending; may encourage applications for ‘vocational’ courses; hasn’t significantly deterred applications; may deter poorer students; students start working life in debt; HE a merit good ∴ creates external benefits; may reduce international competitiveness; high cost of administration. Level 4 answers should refer to wider macroeconomic costs and benefits such as effect on output, competitiveness, human capital etc.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
Q.9	To what extent is privatisation likely to benefit the UK economy? Definition and explanation of privatisation e.g. transfer of production from private to public ownership; includes denationalisation, deregulation and contracting out of public services. Explanation & evaluation of possible benefits and drawbacks of privatisation e.g. increased competition/remove public sector monopolies; increased consumer choice; lower production costs; increased share ownership; higher productivity; lower taxes & government spending; reduced PSBR; higher rates of return on investment. natural monopoly argument; may create private monopoly; loss of revenue to government from profits; may lead to higher prices; may lead to lower service quality; job losses in some industries; some enterprises sold too cheaply/windfall profits for some shareholders. Level 4 answers should make a reasoned judgement as to the overall success of privatisation e.g. illustrating how it appears to have been successful in some cases but not in others, and refer to wider macro-economic effects such as those on employment and productivity/output.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
Q.10	Discuss the argument that the efficiency of the economy would be maximised if all markets were perfectly competitive. Definition and explanation of perfect competition e.g. competition in its purest form and/or definition of efficiency. Explanation and evaluation of how perfect competition creates efficiency e.g. - explanation of assumptions of model; - diagrammatic representation of efficiency (productive and allocative); - comparison with other types of market; - not necessarily ideal e.g. costs may be lower in a monopoly market because of economies of scale; - perfect competition is an idealised model rather than a real-world market; - monopolies are social contributors therefore are major employers and exporters; - monopolies engage in R & D. Application to wider economy e.g. discussion of how or whether Government could try to achieve perfect competition, whether UK firms would be competitive with foreign firms	20	AO1 4 AO2 4 AO3 6 AO4 6

Surname	Centre Number	Candidate Number
Other Names		2



GCE A level

1133/01

ECONOMICS – EC3

P.M. TUESDAY, 12 June 2012

1³/₄ hours

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	5	
2.	4	
3.	4	
4.	6	
5.	3	
6.	6	
7.	6	
8.	6	
9 or 10 or 11	20	
Total	60	

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ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in Section A. You may use continuation paper on page 10 if necessary, taking care to number the continuation correctly.

Answer **one** question from Section B.

You are advised to spend no more than one hour on Section A.

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 and Section B has 20 marks.

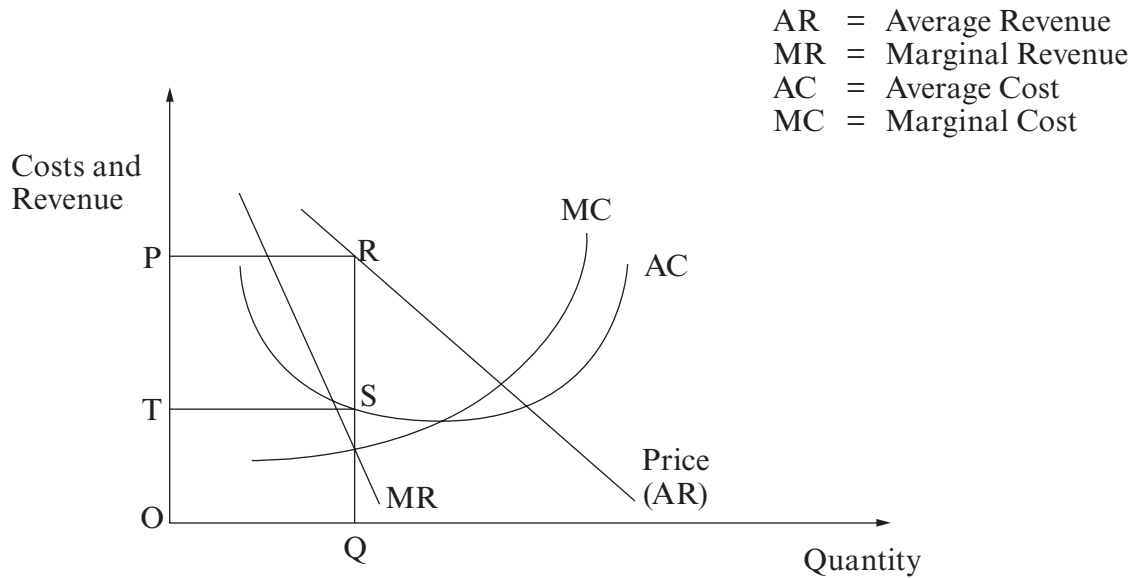
You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing (Section B).

You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

SECTION A

Answer **all** questions in this section.

1. The diagram below shows the cost and revenue curves for a profit-maximising monopolist in the long-run situation.



- (a) Using the letters in the diagram identify:

(i) the monopolist's profit-maximising output;

[1]

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(ii) the monopolist's abnormal profit.

[1]

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- (b) Explain why a monopolist is able to earn abnormal profits in the long-run.

[3]

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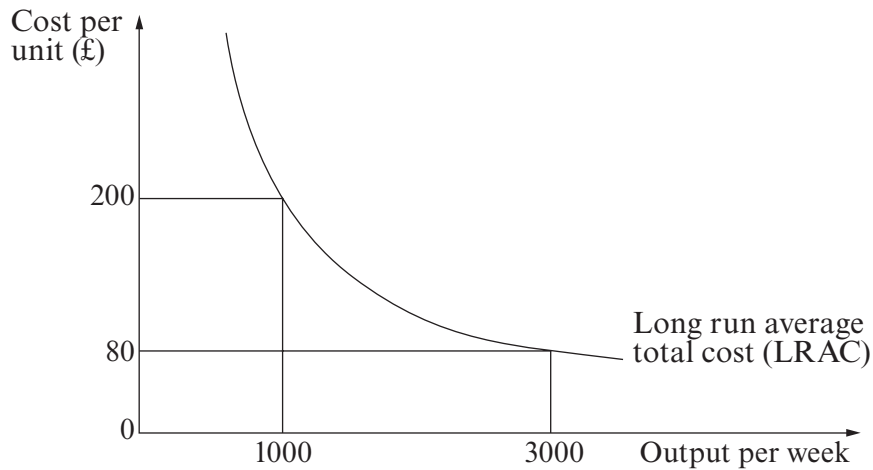
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Total mark

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2. The diagram below shows the long-run average total cost (LRAC) of firms in an industry at different levels of output.



Explain why it may benefit the **consumer** to have one monopoly provider producing 3000 units per week rather than three smaller firms each producing 1000 units per week. [4]

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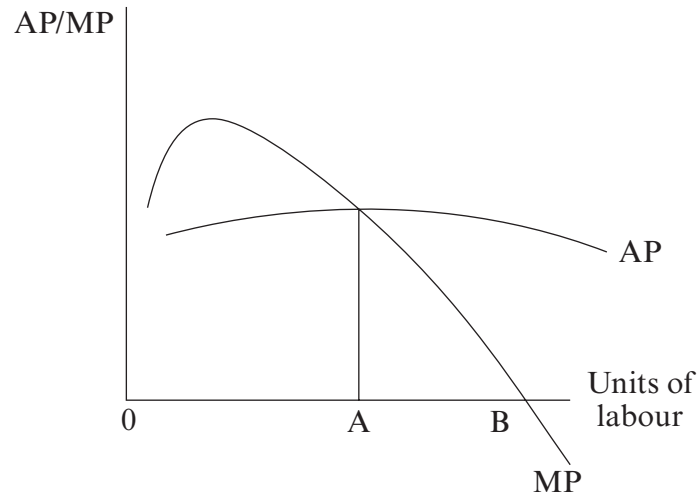
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Total mark

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3. The diagram below shows the marginal product of labour (MP) and average product of labour (AP) for a bakery using increasing amounts of labour in the short-run.



Explain the shape of the marginal product of labour (MP) curve.

[4]

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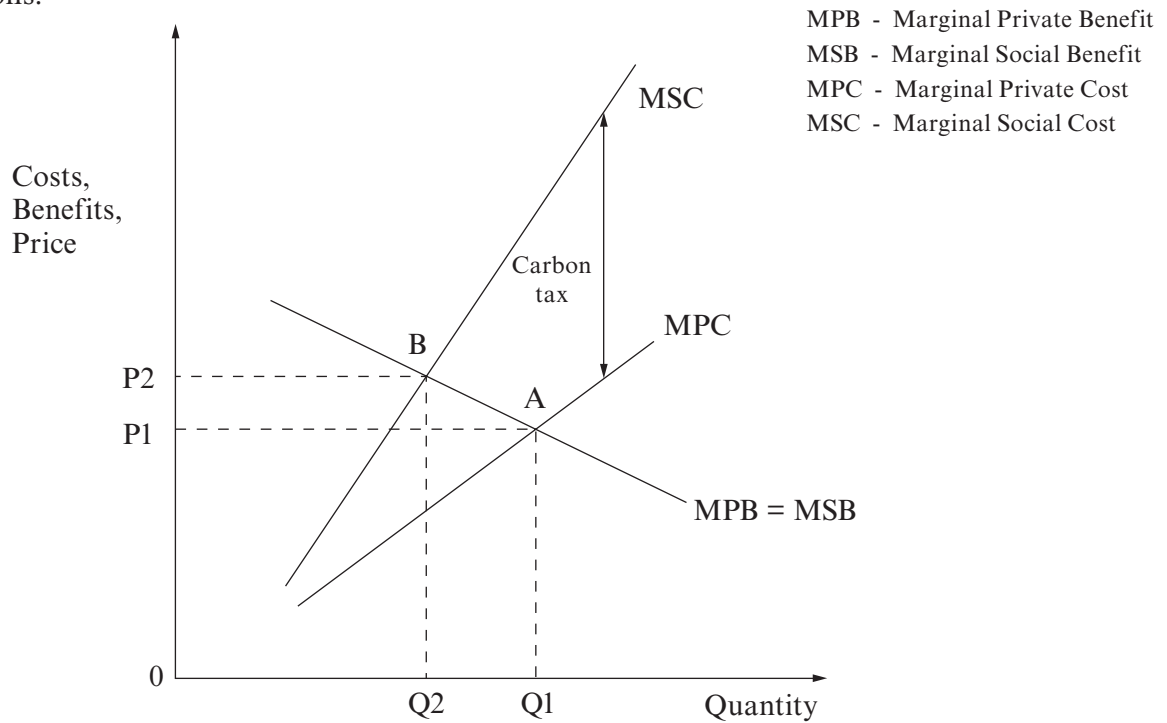
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Total mark

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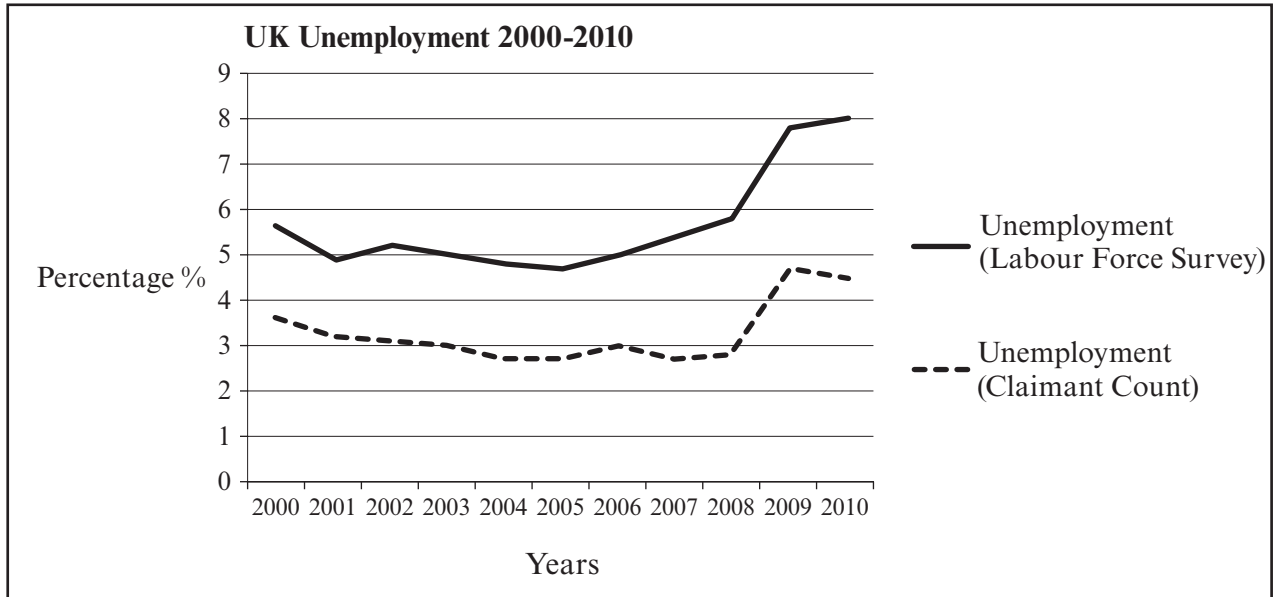
4. The diagram below shows a justification for a carbon tax on coal-fired electricity power stations.



Using the diagram, discuss the case for this carbon tax.

[6]

5.



Source: Office for National Statistics

Explain why the Claimant Count measure of unemployment is usually lower than that produced by the Labour Force Survey. [3]

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Total Mark

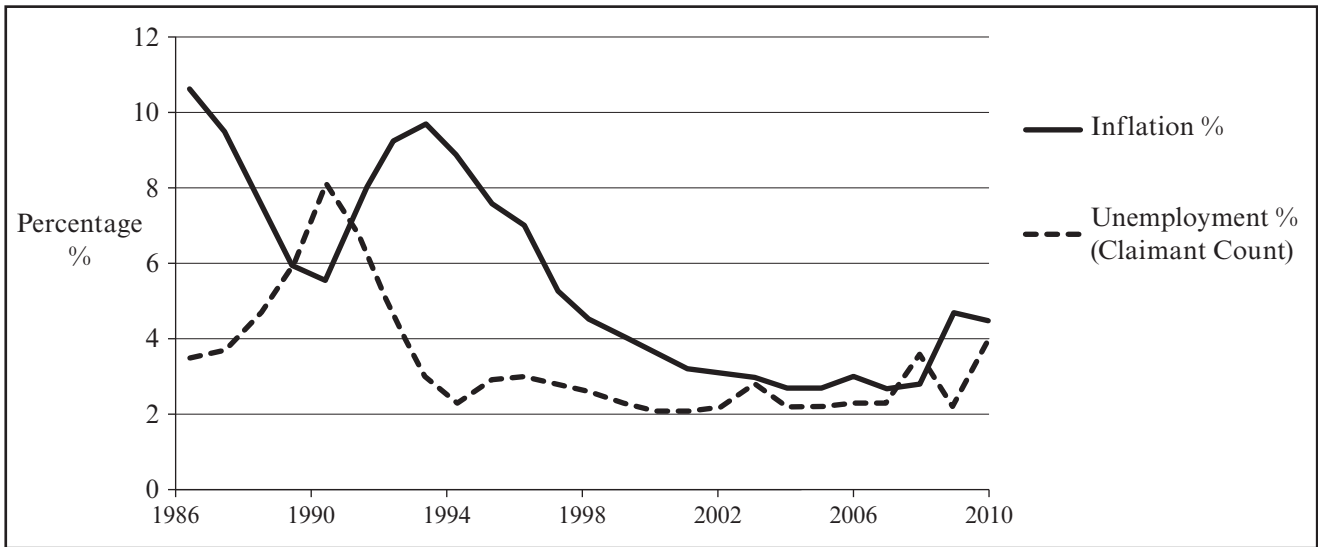
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United Kingdom Terms of Trade 2000-2010			
	Export price index	Import price index	Terms of Trade
2000	92.9	96.9	95.9
2001	91.8	96.0	95.6
2002	91.8	93.6	98.1
2003	93.5	93.0	100.5
2004	93.5	92.5	101.1
2005	97.6	96.7	100.9
2006	100.0	100.0	100.0
2007	100.3	100.9	99.4
2008	114.1	113.7	100.4
2009	117.2	117.7	99.6
2010	123.8	125.0	99.0

(a) Using the data, explain what happened to the UK's terms of trade between 2000 and 2010. [2]

(b) Explain possible reasons for the changes in export and import prices over the period shown. [4]

UK unemployment and inflation 1986-2010



Using appropriate economic theory, discuss the extent to which the data shows a trade-off between unemployment and inflation. [6]

Total Mark	/6
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*Answer **one** question from this section.*

9. To what extent should governments intervene to correct market failure? [20]
10. “Many UK industries are dominated by a few large firms.” How far is this situation bad for the UK economy? [20]
11. Discuss the view that the Government should encourage an increase in the number of mergers between UK firms. [20]

Answer the question from Section B using the following pages.



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.

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
EC3	15
EC4	21

EC3 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.

Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS – EC3

Summer 2012

SECTION A

Q.1 The diagram shows the cost and revenue curves for a profit-maximising monopolist in the long-run situation.

(a) Using the letters in the diagram, identify:

(i) the monopolist's profit-maximising output; [1]

OQ (or Q) (1) *Not R or S*

(ii) the firm's monopolist's abnormal profit. [1]

PRST (1) *or equivalent description of rectangle e.g. TPRS*

(b) Explain why a monopolist is able to earn abnormal profits in the long-run. [3]

Explanation/definition of abnormal profits. (1)

Explanation of barriers to entry preventing abnormal profits being competed away (using appropriate example). (3)

Can get 3 without defining abnormal profit but must describe price falling

Q.2 The diagram shows the long-run average total cost (LRATC) of firms in an industry at different levels of output.

Explain why it may benefit the consumer to have one monopoly provider producing 3000 units per week rather than three smaller firms producing 1000 per week each. [4]

Identification of lower costs for monopolist (referring to diagram)
e.g. £80 v £100/£120 lower (2)

Explanation of benefits, e.g. natural monopoly operating at lowest-costs output/MES/economies of scale/would be able to charge lower prices and still be profitable. (Credit argument consumer may not benefit if monopolist does not pass on cost reductions) (4)

For 4 must explain rather than assume that consumer will benefit from lower ATC

Q.3 The diagram shows the marginal product of labour (MPL) and average product of labour (APL) for a bakery using increasing amounts of labour in the short-run.

Explain the shape of the marginal product of labour (MPL) curve. [4]

Explanation of SR situation/at least one fixed factor/definition of MPP/DMR (2)
(description of curve only = 1)

Explanation of why MPP eventually falls/becomes negative at OB, e.g. limited size of factory, labour has insufficient capital equipment, etc.
(No credit for economies/diseconomies of scale). (2)

- Q.4 The diagram above shows a justification for a carbon tax on coal-fired electricity power stations. Using the diagram, discuss the case for this carbon tax. [6]**

Explanation of case for heavier tax, e.g. demerit goods create negative externalities, will reduce demand, therefore, lower external costs, deadweight/welfare loss, *divert to cleaner technologies, revenue can be used for other purposes*, reference to diagram.

Evaluation, e.g. difficulty of measuring externalities, may be inflationary, tax revenue not necessarily hypothecated to dealing with external effects, effects on employment/output in coal/electricity industries.

Max of 4 marks for one side of argument only.

- Q.5 Explain why the claimant count measure of unemployment is usually lower than that produced by the Labour Force Survey. [3]**

Identification of difference in way unemployed measured, e.g. CC by benefits claims, LFS by survey. (1)

Development, e/g/ explanation (with example) of people included in LFS but not in CC. (2)

- Q.6 (a) Using the data, explain what happened to the UK's terms of trade between 2000 and 2010. [2]**

Rose/improved between 2004, mostly fell/worsened thereafter/rose slightly over period. (1)

Use of figures/ referring to *changes in X and M prices, explanation of TOT index*. (1)

- (b) Explain possible reasons for the changes in export and import prices.[4]**

Identification and explanation of appropriate factors, e.g. changes in UK productivity, relative inflation rates, exchange rates, *cost of raw materials, tariffs. Must refer to prices rather than X and M volumes*. (2x2)

- Q.7 Discuss whether the Monetary Policy Committee (MPC) was right to keep interest rates at 0.5% [6]**

Explanation of arguments for maintaining rate, e.g. higher rates would reduce demand and GDP growth further. exaggerate effects of Government spending cut/deepen recession.

Evaluation, e.g. inflation well above target, will rise further unless MPC raises rates, possibility of wage-price spiral.

Max of 4 marks for one side only

- Q.8 Using appropriate economic theory, discuss the extent to which the data shows a trade-off between unemployment and inflation. [6]**

Descriptive explanation of possible relationship using figures, e.g. appears to be trade-off in some periods (late 80s, late noughties) but positive relationship for other periods. (3)

Development using appropriate theory, e.g. AS/AD, Phillips curve. (3)

SECTION B
Answer **one** question

The following levels should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.
Level 2	6-10	Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.
Level 3	11-15	Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions. Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.
Level 4	16-20	Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer. Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.

Q.9 To what extent should governments intervene to correct market failure? [20]

Definition & explanation of possible sources of market failure, e.g.

- external costs and benefits
- public, merit and demerit goods
- information failure
- uncertainty
- monopoly/power
- factor immobility

Explanation of types of government intervention/reasons for intervention, e.g.

- to reduce pollution
- redistribute income
- correct information failure, e.g. demerit goods

Evaluation of reasons/effects of government intervention (government failure) e.g.

- creation of disincentives to effort and enterprise
- higher taxes/Government spending
- higher costs/prices
- appropriate diagrammatic illustration

NB: Candidates are not expected to discuss **all** types of market failure.

Q.10 'Many UK industries are dominated by a few large firms.' How far is this situation bad for the UK economy? [20]

Explanation referring to 'domination'/'large firms', e.g. referring to market share/% of total sales, identification of oligopoly without explanation.

Explanation and evaluation of possible extent of competition, e.g.

- small number of producers may limit competition
- possible limited price competition
- large producers may be able to dominate market
- inter-dependence between producers
- still have to compete to keep business
- non-price competition
- possible anti-competitive practices
- explanation of oligopolistic model
- may lead to occasional price wars
- economies of scale/generation of investment funds

Level 4 answers should refer to wider macro-economic issues such as international competitiveness and employment.

Q.11 Discuss the view that the Government should encourage an increase in the number of mergers between UK firms. [20]

Definition and explanation of merger.

Explanation of possible advantages of mergers, e.g.

- possible lower prices
- better technology/production methods
- increased international competitiveness
- more secure jobs

Evaluation of benefits of mergers, e.g.

- limited evidence that they have worked in past
- possible diseconomies of scale
- may lead to anti-competitive practices
- may conflict with EU legislation/competition policy

Attempt to balance these arguments/refer to possible macro-economic effects, e.g. on growth, employment, balance of payments, external economies.

Candidate Name	Centre Number	Candidate Number
		2



GCE A level

1133/01

ECONOMICS – EC3

P.M. FRIDAY, 17 June 2011

1 ³/₄ hours

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1	4	
2	6	
3	4	
4	6	
5	6	
6	6	
7	8	
8 or 9 or 10	20	
Total	60	

1133
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in Section A. You may use continuation paper on page 12 if necessary, taking care to number the continuation correctly.

Answer **one** question from Section B.

You are advised to spend no more than one hour on Section A.

INFORMATION FOR CANDIDATES

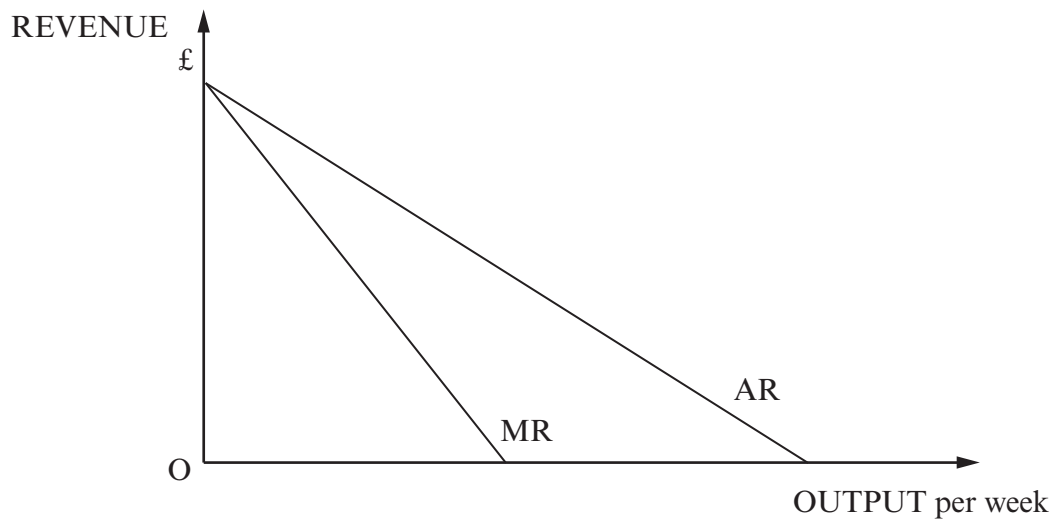
The number of marks is given in brackets at the end of each question or part-question. Section A has 40 marks and Section B has 20 marks.

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

You are reminded that the essay questions in Section B are synoptic and so will test understanding of the connections between the different elements of the subject.

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

1. The diagram below shows the marginal revenue (MR) and average revenue (AR) curves for a firm which is a monopolist.



- (a) Define average revenue (AR). [1]

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- (b) Define marginal revenue (MR). [1]

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- (c) Explain why a monopolist's marginal revenue (MR) curve is always below its average revenue (AR) curve. [2]

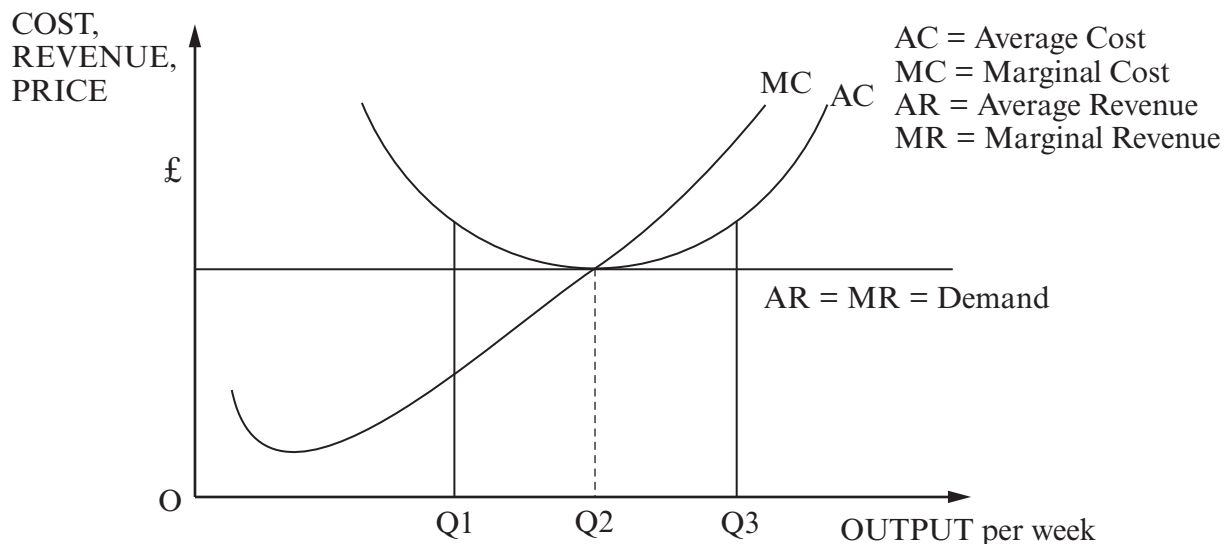
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2. The diagram below shows the long-run equilibrium for a profit-maximising firm in perfect competition. The firm produces an output of OQ2.



- (a) Explain why OQ2 is the profit maximising level of output. [2]

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- (b) At the profit maximising level of output at OQ2 what does the diagram show about the firm's

- (i) productive efficiency; [2]

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- (ii) allocative efficiency? [2]

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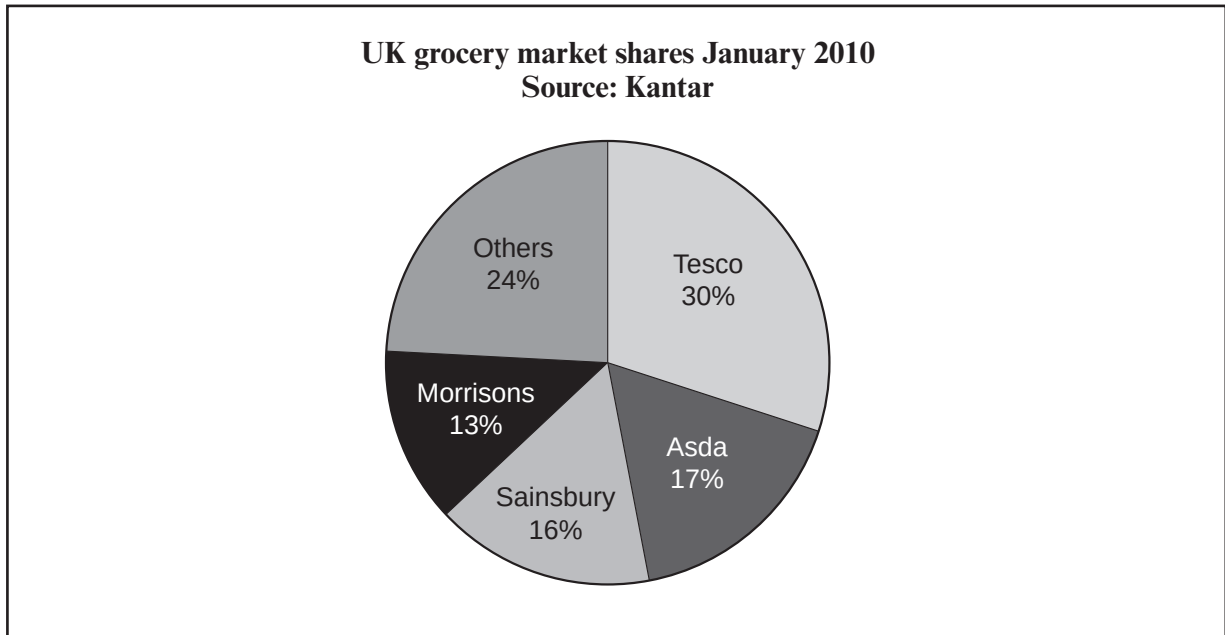
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Total mark

/6

Turn over.

3.



Some economists argue that Tesco is too powerful in the grocery market and should be made to sell some of its shops.

(a) Explain **one** argument **for** making Tesco sell some of its shops. [2]

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(b) Explain **one** argument **against** making Tesco sell some of its shops. [2]

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Total mark

/4

4.

UK Consumer prices index (CPI) 1996-2009		
	Price indices (2005 = 100)	
	1996	2009
CPI	88.1	110.8
Alcohol & Tobacco	73.3	115.3
Manufactured goods	120.1	95.7

- (a) Explain what happened to the **real** price of alcohol & tobacco between 1996 and 2009. [2]

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The table below shows the weights used in calculating the price indices above.

	Weights	
	1996	2009
CPI	1000	1000
Alcohol & Tobacco	70	40
Manufactured goods	330	313

- (b) Using the table explain what factors might have affected the weights given to alcohol & tobacco and manufactured goods in 1996 and 2009. [4]

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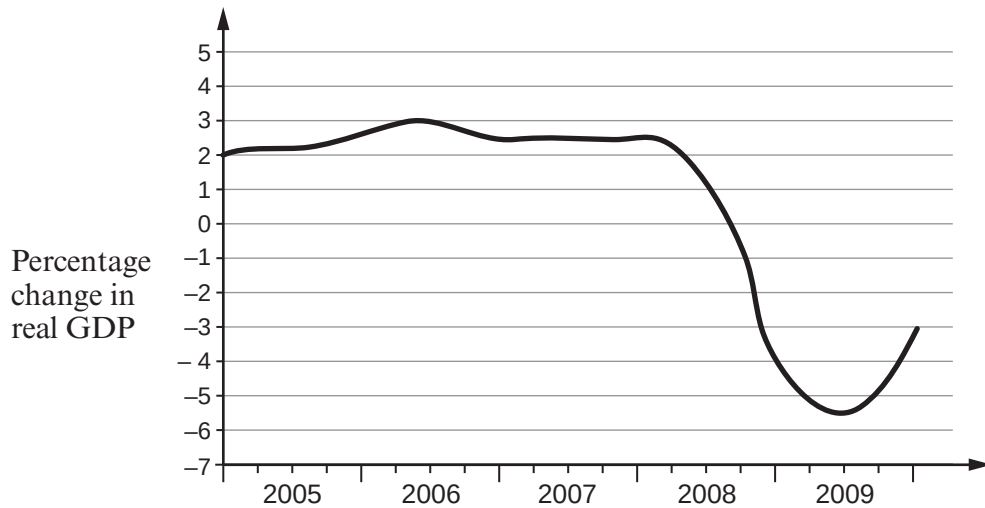
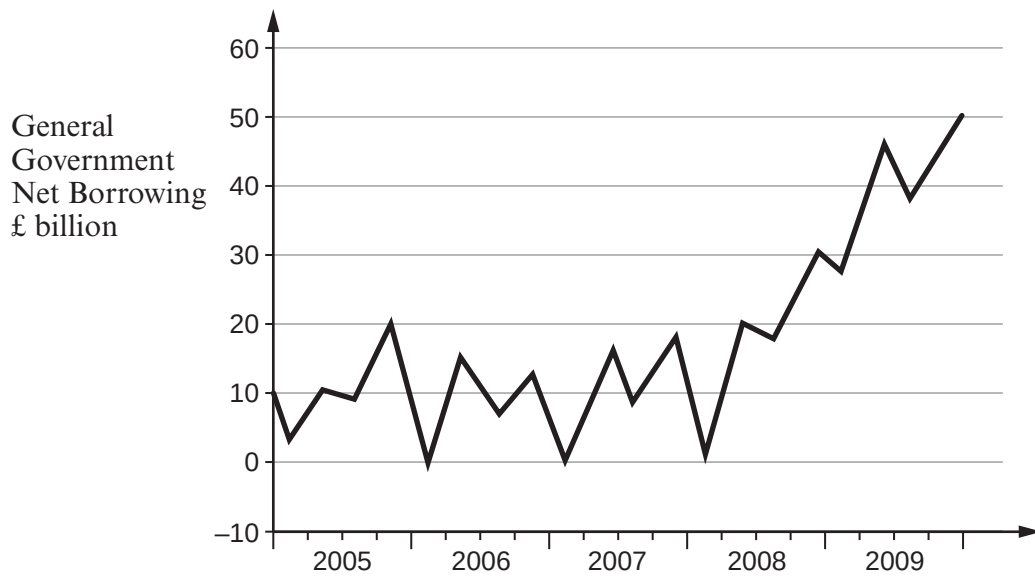
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5.

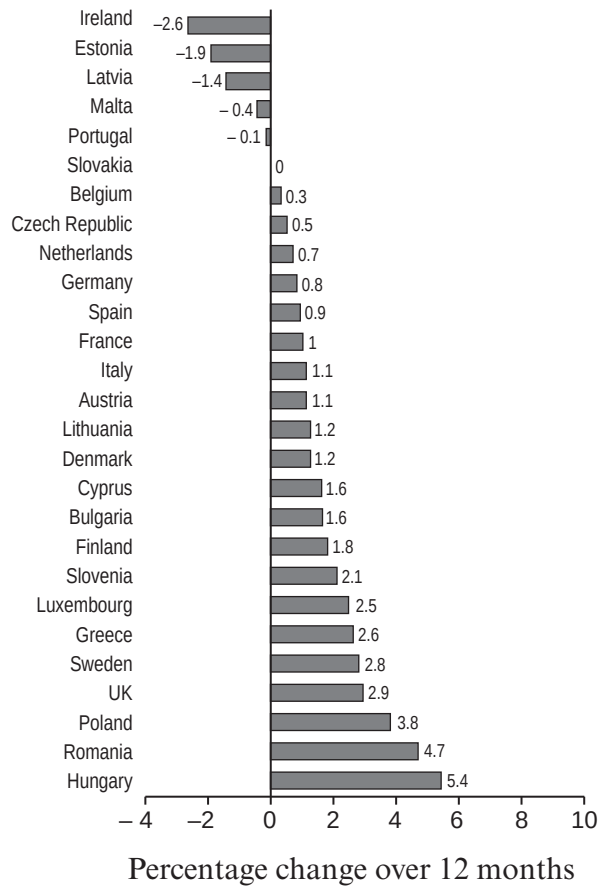
Changes in UK Real Gross Domestic Product (GDP) 2005-09**Government borrowing 2005-09**

Source ONS

[illegible]

16

6.

European Union (EU) member states inflation rates 2009

Source: ONS

Hungary is hoping to join the eurozone by 2012.
What problems does the data suggest might occur for its economy?

[6]

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010009**Total mark** **/6**

7. The table below shows selected economic indicators for Portugal and Saudi Arabia in 2007.

Indicator	Portugal	Saudi Arabia
GDP (PPP) \$US per head	22 765	22 935
World GDP (PPP) \$US per head ranking	42	40
Human Development Index (HDI)	0.909	0.843
World HDI ranking	34	59
Life Expectancy (Years)	78.6	72.7
Adult Literacy rate % (of population aged 15 and above)	95.0	85.0

GDP = Gross Domestic Product

PPP = Purchasing Power Parity

[illegible]

8

Answer one question from this section.

- Answer the question from Section B using the following pages.**

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting practice. There are no margins, text, or other markings on the page.

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting or typing. There are no margins, text, or other markings on the page.

(1133-01)

This image shows a full page of a handwriting practice worksheet. It consists of numerous horizontal dashed lines spaced evenly across the page, providing a guide for letter height and placement. The background is plain white, and there are no other markings or text present.

Handwriting practice area with 25 horizontal dotted lines.

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting or typing. There are no margins, text, or other markings on the page.

[illegible]