

WJEC A-LEVEL ECONOMICS

ECONOMICS



EXAM QUESTION PACK

UNIT EC4 OLD SPECIFICATION PAPERS

STEMUP

These questions belong to WJEC, not to us.

The examination questions, mark schemes and examiner reports in this pack were written and published by WJEC. They are past assessment materials, reproduced here so that students can revise from them.

What we do not own

STEMUP is not affiliated with WJEC and does not own, and makes no claim to own, any of the question, mark scheme or examiner report material in this pack. WJEC has not endorsed, approved or been involved in the production of it. WJEC and the qualification titles used here belong to their respective owners and appear for identification only.

Where to find the originals

WJEC publishes its past papers, mark schemes and examiner reports free of charge. Always check the current specification at wjec.co.uk before you revise, because content and wording can change between series.

If you hold the rights to any material in this pack and would like it amended or removed, contact admin@stemup.co.uk and we will act on it.



GCE A level

1134/01



S15-1134-01

ECONOMICS – EC4

A.M. FRIDAY, 19 June 2015

2 hours

1134
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 **one** question from Section A.

You are advised to spend no more than 1 hour and 15 minutes on Section A.

Answer **one** question from Section B.

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.

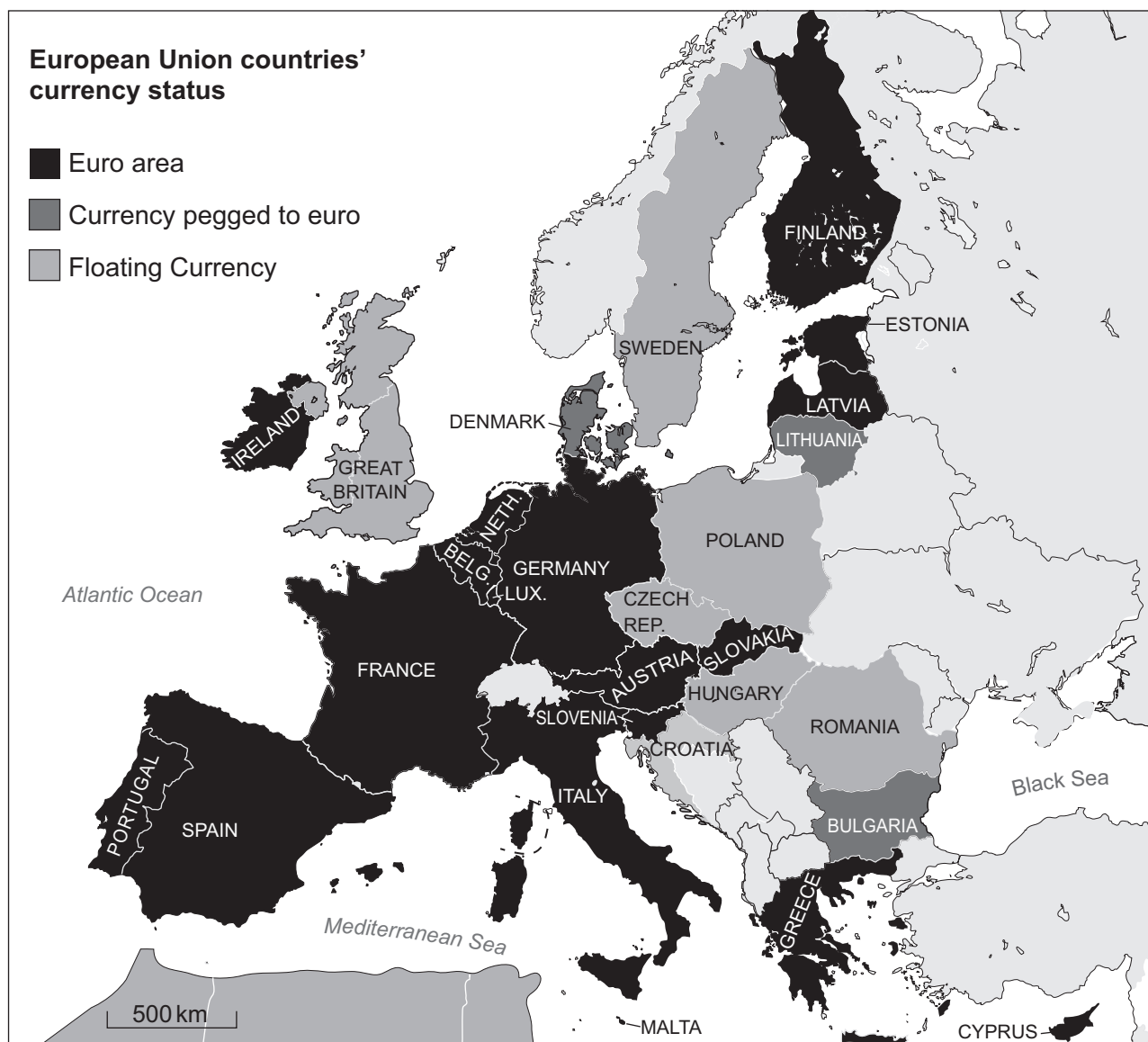
SECTION A

Answer **one** question from this section.

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

CHALLENGING TIMES FOR THE EUROZONE.

Figure 1.



Source: *The Economist* (adapted)

- 5 When the UK joined the European Union in 1973 many people in Britain thought that the country was merely joining a free trade area. However, even back in 1973 it was a customs union; and now the EU has developed into the Single European Market. The single market is not complete yet and there are plans to create an internal market for energy and a single digital market. Croatia joined the European Union in 2013 and other Balkan countries such as Macedonia and Bosnia will join in subsequent years. New members gain open access to an export market of over 500 m people comprising 28 countries which account for 20% of global GDP. According to many economists enlargement of the EU benefits both new and existing members.

10 All new members of the EU are committed to eventually joining the single currency, the euro. Being part of economic and monetary union (EMU) and preparing to join the Eurozone means that countries have to meet five economic convergence criteria (Figure 2). Latvia joined the Eurozone in 2014. Only the UK and Denmark have 'opt-outs' from Eurozone membership. By
15 2014 18 of the 28 EU member states had joined the Eurozone, with Lithuania likely to join in 2015. By 2014 the euro had become an established reserve currency alongside the dollar and the yen but the financial crisis and the recession have put severe strain on the Eurozone in recent years.

Spain and Ireland suffered banking crises and Portugal and Greece have had government borrowing problems with their fiscal (budget) deficits and public sector debts over the last few
20 years. In June 2012 Spain became the fourth country in the 17-nation Eurozone to require a financial bailout from the EU after Greece, Ireland and Portugal. Mario Draghi, head of the European Central Bank, has said he will do "whatever it takes" to save the single currency. In October 2012 euro area finance ministers introduced a permanent lending facility for members in trouble. It may well be needed as the Greek public sector debt reached 175% of GDP by the
25 end of 2013, an unsustainable burden to the Greek economy.

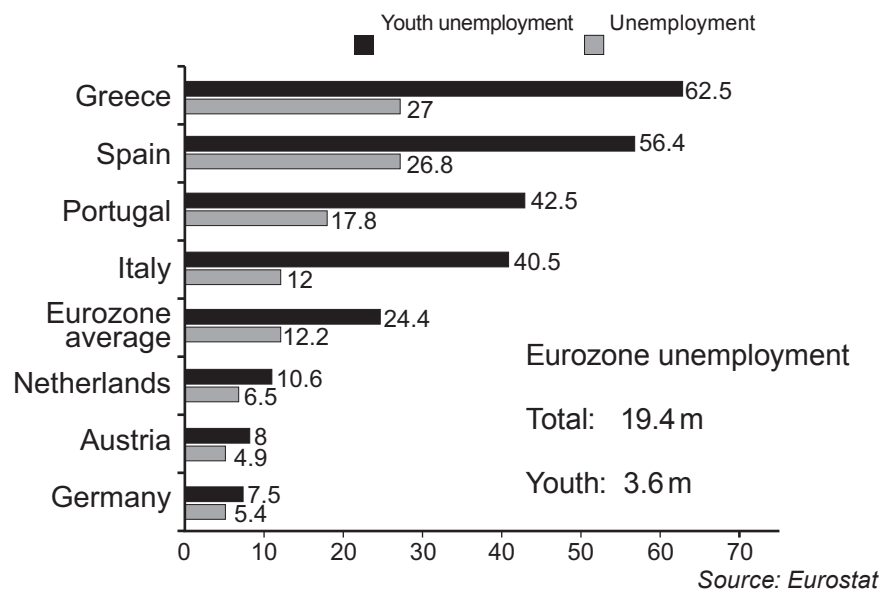
Figure 2 – The five convergence criteria for Eurozone members.

	1	2	3	4	5
What is measured:	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured:	Consumer price inflation rate	Budget deficit as % of GDP	Government public sector debt as % of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria:	Not more than 1.5 percentage points above the rate of the three best performing member states	Not more than 3% of GDP	Not more than 60% of GDP	Not more than 2 percentage points above the rate of the three best performing member states in terms of price stability	Stable exchange rates against the euro for two years prior to entry

Source: European Commission.

Countries across the Eurozone have been trying to get their government finances back in line with the convergence criteria shown in Figure 2 by raising taxes and cutting government expenditure. These so-called austerity programmes have arguably made the already high unemployment across the Eurozone even worse, provoking protests on the streets in Spain
30 and Greece. Many euro critics think that the euro is doomed and say that the 'one size fits all' interest rate set by the European Central Bank (ECB), for 18 different economies with varying levels of unemployment is just plain crazy (Figure 3).

Figure 3 – Record breaking Eurozone unemployment (%) 2013.



35 Eurozone growth rates have been poor in recent years compared with other developed economies. Many supporters of the euro say that the low growth and high unemployment among Eurozone countries cannot be blamed solely on EMU. Instead inflexible labour markets, poor regulation of banking sectors and a fundamental lack of competitiveness in many countries is the real problem. The euro is arguably a politically driven project and its supporters will stop at nothing to preserve it, but for how long?

- (a) With reference to Figure 3 explain the costs of high unemployment to countries such as Greece and Spain. [8]
- (b) Explain why potential Eurozone members have to meet the convergence criteria described in Figure 2. [8]
- (c) 'Countries such as Greece should leave the euro if they want to boost economic growth and reduce unemployment.' Discuss. [12]
- (d) The 'enlargement of the EU benefits both new and existing members' (line 9). Discuss. [12]

BLANK PAGE

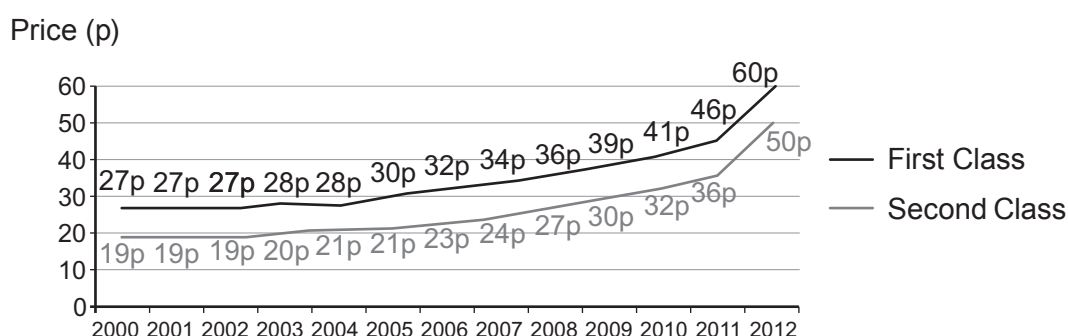
2. Study the information below and then answer the questions that follow.

PRIVATISATION OF THE ROYAL MAIL.

The Royal Mail traces its roots to a service founded by Henry VIII in 1516. Almost 500 years later, after several false starts, the Coalition Government has finally privatised the Royal Mail selling 60% of its ownership to private shareholders and another 10% being given in shares to postal workers. The sale of the company will raise around £2bn for the government helping to reduce the ever increasing public sector debt. The entry of the Royal Mail on to the Stock Exchange as a PLC in 2013 is the biggest privatisation for twenty years and is highly controversial. Even Mrs Thatcher, the architect of the 1980s privatisations of gas, electricity, water and the railways drew back from the privatisation of the Royal Mail.

The government argues that once the Royal Mail is in the private sector it will have better access to capital, enabling it to adapt to falling letter volumes and its growing parcels business. The government also say that the Royal Mail must continue to modernise so as to reduce its costs further. This is despite significant recent investment in new technology in the sorting process. Letter volumes have been hit by email, texting and social networking sites and not helped by the rise in price of a first and second class stamp (Figure 1).

Figure 1 – First and second class stamp prices from 2000-2012

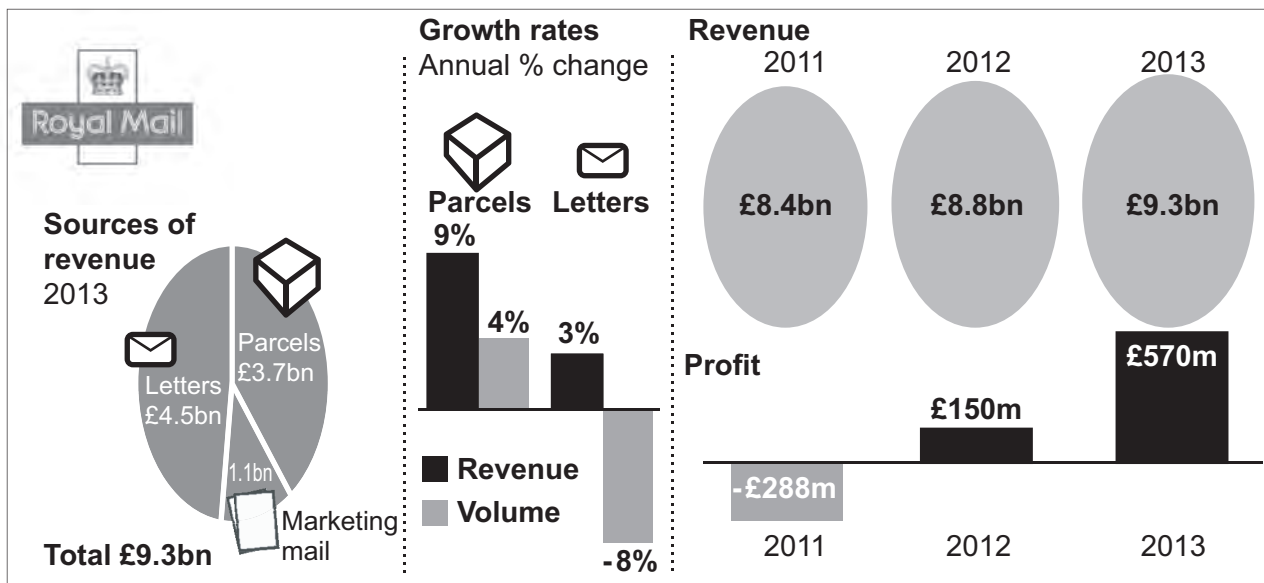


Source: RoyalMail

The privatised Royal Mail will still be obliged to provide the 'universal service obligation' which means every UK household is guaranteed a postal delivery on six days a week. Letters will also be priced the same whether they are being sent 2 miles or 200 miles in the UK. This is all overseen by the regulator, Ofcom. The problem for the Royal Mail is that it already has stiff competition from private firms in its letters business. In 2012 for instance, TNT handled 3.8 billion letters, compared with 1.1 billion in 2006 and UK Mail handled around 2.7 billion. These rivals can simply 'cherry pick' the best bulk mail contracts, such as those from banking giants, without ever having to worry about getting a loss making second-class postcard from Cornwall to Carlisle, for example. Many of Britain's biggest companies including Barclays, Tesco, Sky and TalkTalk use the services of the Royal Mail's competitors. The Royal Mail delivers around 18 billion letters a year but many of these are first collected and sorted by TNT and UK Mail.

With letter volumes falling it is the Royal Mail's parcels sector that is growing, fuelled in part by the popularity of online shopping. Indeed the Royal Mail is increasingly becoming a parcel delivery service and with its rivals DHL and UPS already in the private sector it seems logical for it to join them.

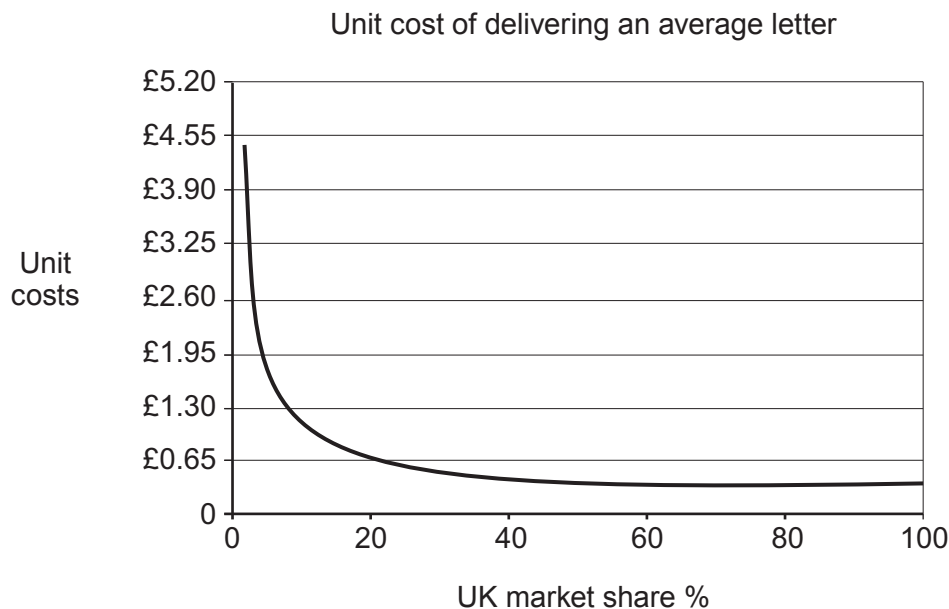
Figure 2 – Royal Mail (key data)



Source: Royal Mail

However, the sale of the Royal Mail is opposed by postal workers with their trade union, the CWU, threatening strike action. Postal workers being offered free shares in the new company leaves the union unimpressed fearing that the inevitable efficiency savings after privatisation will involve reducing the 150,000 strong workforce. In addition many believe that it will be hard to see the universal service obligation surviving although it could be subsidised from the parcels business. Critics also say that the privatisation of the Royal Mail threatens to repeat the mistakes of the sell-off of the railways: a natural monopoly sold off for the sake of a quick profit. The privatisation of mail services elsewhere in Europe does not inspire confidence for the Royal Mail sale according to *The Guardian* newspaper which reports that Holland has four different post companies competing to nobody's benefit.

Figure 3 – Economies of scale in postal deliveries



Is there a danger in the UK of having several different post boxes on our streets for competing mail companies who all deliver separately to our homes? In 2012 TNT embarked on a limited trial of delivering post to the doorstep using 400 delivery workers on bicycles to serve 250,000 households in West London.

- (a) With reference to the data and Figures 1 and 2 explain the changes to the Royal Mail's revenue and profit. [8]
- (b) With reference to the data explain why the Royal Mail's letter delivery service can be said to be a 'natural monopoly'. [8]
- (c) Evaluate the case for and against the privatisation of the Royal Mail. [12]
- (d) 'Once the Royal Mail is privatised and the UK market for letters and parcels is completely open to competition there will be no need for Ofcom to regulate the market.' Discuss this statement. [12]

SECTION B

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

- 3. How far do you agree with the view that the only cause of inflation is an excessive growth of the money supply? [20]
- 4. 'A current account deficit on the balance of payments should be a major concern to the government.' Evaluate this statement. [20]
- 5. Evaluate the different policies which can be used to achieve economic development in less developed countries. [20]

END OF PAPER



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.

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 - EC4

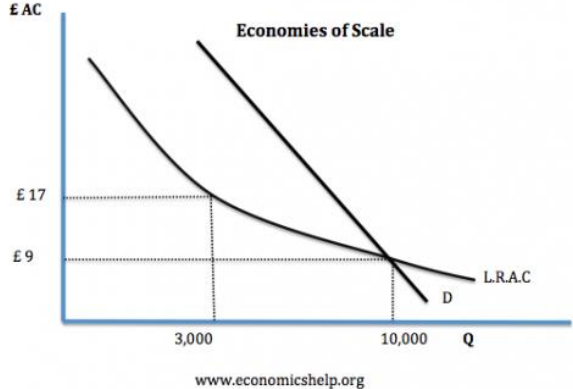
Question	Answer	Mark allocation	Assessment objective
1(a)	With reference to figure 3 explain the costs of high unemployment to countries such as Greece and Spain. Level 1. Identification of at least TWO factors to a maximum of FOUR: • Lost output of goods and services/lower GDP/lower long run growth. • Reduced profits of firms thus less investment/innovation/loss of dynamic efficiency. • Waste of scarce economic resources/links to PPF. • Fiscal costs to the government (higher government spending/lower tax revenues). • Deadweight loss of investment in human capital/de-skilling/hysteresis/increase in the natural rate of unemployment. • Links to social and economic deprivation/relative poverty/crime and income inequality. (1-4) Level 2. Up to 4 for each factor to maximum of 4 factors 2 marks for a relevant integrated diagram. PPF/link to Pareto inefficiency. Or an AD/AS diagram/ Figure 7-7 Macroeconomic Equilibrium During a Recession Two well explained factors 8 marks (4 marks each)	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
1(b)	Explain why potential Eurozone members have to meet the convergence criteria described in figure 2. Level 1 (1-4) Identification of TWO reasons linked to the criteria below: • an inflation rate no more than 1.5 percentage points above the average of the three countries with the lowest inflation rates • nominal long-term interest rates not exceeding by more than 2 percentage points those for the three countries with the lowest inflation rates • no exchange rate realignment for at least two years • a government budget deficit not in excess of 3 percent of each country's GDP • a gross debt to GDP ratio that does not exceed 60 percent of GDP Or A general explanation of convergence linked back to the Eurozone is also worth up to 4. Level 2. Explanation of reasons (5-8) At least one specific criterion must be developed for level 2. Price stability will help ensure that (a) New member states do not suffer from falling competitiveness relative to Germany (b) prevent the euro from being undermined. Also it makes it more likely that the single interest rate will be able to cover a wider range of member states; if inflation rates are wildly divergent, a single interest rate won't work. Sound public finances will also reduce the need for bail-outs, prevent contagion hence preventing increases in borrowing costs for other euro zone states. Long-term interest rates will also help to ensure that there is no shock on joining the zone when yields will converge as a result of the one size fits all policy. Exchange rate stability helps to ensure that countries are joining at an appropriate rate, ensuring that they do not lock into a currency that will be permanently over or under valued, hence preventing (for example) competitiveness issues if joining at an overvalued rate. Up to 4 for each criterion covered in detail (Deficit/debt is one criterion/stability and growth pact.)	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
1(c)	‘Countries such as Greece should leave the euro if they want to boost economic growth and reduce unemployment’. Discuss. Level 1 (1-2). Identification of two factors: • Independent monetary and fiscal policy. • Freedom to devalue foreign exchange rate. Level 2 (3-6). Explanation of above factors – up to 3 per factor • Relaxed monetary policy, reflationary fiscal policy and a low exchange rate would increase AD boosting growth and employment. • Internal devaluation would take far too long/painful austerity could be abandoned. • Lower exchange rate would boost tourism and FDI. • Greece would still benefit from the single market of the EU. • Lack of competitiveness against Germany when using the same currency. Level 3. Evaluation (7-12): • Greece needs to tackle fundamental supply side problems to solve a lack of competitiveness. • Internal economic reform needed. • Costs of creating a new currency. Panic in the banking sector. • A devalued Greek currency would increase the price of imports causing inflation. • Many of the Greek economic problems are not related to the euro ie poor tax collection. (7-12) Two evaluation points required up to 3 per point. Levels 2 and 3 are reversible.	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
1 (d)	The ‘enlargement of the EU benefits both new and existing members’ (line 9). Discuss. Level 1. Identification of at least TWO factors. • Access to SEM new members/enlargement of SEM for existing members- trade creation. • Free movement of capital and labour-more efficient allocation of resources. Bigger pool of labour to recruit from. (new/existing) • Access to EU structural funds (new members) • Attracts FDI (new and existing members). • Benefit to individuals is the freedom to travel, live, work, study and retire anywhere in the EU. (new) • Common/higher standards for health/safety/environment. (new) • Deregulation/liberalisation of some markets (air travel/telecoms) • EU provides social protection for workers: working time; temporary work; and parental leave. (new) • New EU members have to join the euro which has significant advantages (transactions costs etc) (1-2) Level 2 (3-6). Explanation of at least two factors. (up to 3 per factor). Level 3. Evaluation (7-12). • Structural change for new member economies have to adjust to new trade patterns as many industries in new member states will not be able to compete with lower costs in more advanced EU members. • Migration of labour can have negative effects on both new and existing members. • Existing members have to make bigger EU budget contributions to support new/poorer members. • Cheap imports damage domestic industry. • New members have to comply with EU directives they may not approve of/loss of sovereignty/over-regulation/bureaucracy. • New EU members are committed to Eurozone membership and have to meet tough pre-entry criteria. Trade diversion resulting from the common external tariff. (new) (7-12) A Level 3 answer requires mention of the effects of enlargement on existing and new members. Also answers should not merely become a case for and against becoming a member of the EU. Maximum 8 marks for existing members and 8 marks new members. Maximum 3 marks for each evaluated point explained. Levels 2 and 3 are reversible.	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
2(a)	With reference to the data and figures 1 and 2 explain the changes to the Royal Mail's revenue and profit. Level 1 (1-4): • Recognition that overall revenue and profits have risen. • Change in balance between letters and parcels • Both letters and parcels have contributed to the rise in revenue. • For 4 marks in this level the data will have been directly used. (1-4) Level 2 (5-8): • Revenue from letters has risen despite the fall in volumes, • Reference to price of stamps rising and price inelastic demand (1-2). • Profits could have risen due to lower costs because of efficiency gains (1-2) • Use of data on automated sorting (1-2). • Growth in parcels revenue/profits due to on line shopping (1-2). (5-8) • MC pricing leads to losses in natural monopoly (e.g. 2011) 6 max if only revenue or profits are covered.	8	AO1 4 AO2 4
2(b)	With reference to the data explain why the Royal Mail's letter delivery service can be said to be a 'natural monopoly'? Level 1 (1-4): Understanding of a natural monopoly with reference to economies of scale as a result of high market share. Or Explanation of why Royal Mail is a pure monopoly with letter delivery (rather than a natural monopoly) i.e. barriers to entry etc. (1-4) Level 2 (5-8): • Application of figure 3. • USO could not be met without a very high market share (60%) (2). • High fixed costs in distribution • Reference to cherry picking in a competitive market (2). • Data reference to duplication etc. when there is competition (e.g. Multiple post boxes would be inefficient)(2).	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
	2 marks for a relevant integrated diagram.  www.economicshelp.org		
2 (c)	Evaluate the case for and against the privatisation of the Royal Mail. Level 1 (1-2): Identification of reasons for privatisation, easier for the Royal Mail to raise finance, reduce the fiscal deficit, make postal services more efficient (more pressure to reduce costs), changes in the way people communicate make it unnecessary to operate a state owned monopoly, privatisation is a supply side policy (use of AD/AS analysis). Reduce the power of trade unions. Postal workers given shares (motivational benefits) (1-2) Level 2 (3-6): Explanation of at least two reasons. (up to 3 per point) Level 3 (7-12): • Deterioration in quality of service/possible end of USO. • Royal Mail is a profitable business (use of data) so why sell it off? • Rise in stamp prices-the price regulation of stamps has been scrapped to increase the attractiveness of Royal Mail to investors. • The Royal Mail is a strategic industry and should be owned by the state to be run in the national interest. • Job security of postal workers will deteriorate. • Royal Mail was sold too cheaply. Max 3 marks for each evaluated point explained. Level 2 and 3 are reversible.	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
2 (d)	‘Once the Royal Mail is privatised and the UK market for letters and parcels is completely open to competition there will be no need for Ofcom to regulate the market’. Discuss this statement. Max 3 mark for each developed argument on either side of the debate. Level 1 (1-2): Identification of at least two factors which suggest that increased competition will benefit consumers. (1-2) Level 2 (3-6): Explanation of the benefits of increased competition: increased quality and choice, lower costs, more innovation etc. Role of regulator explained and thus its role is diminished ie no price caps. (up to 3 per point) Excessive regulation may depress profits reducing investment. Regulation may be ineffective, danger of regulatory capture. Level 3 (7-12): Evaluation: despite a competitive market there may still be tacit collusion/price leadership, complex pricing, asymmetry of information issues and insufficient contestability. Royal Mail is so large that it will always be dominant, hence regulation needed to ensure that competition does in fact continue. Privatisation doesn’t guarantee competition. Evidence from sectors that are theoretically competitive, but still need regulating (such as rail and energy). Levels 2 and 3 are reversible. Max 3 marks for each evaluated point explained.	12	AO3 6 AO4 6

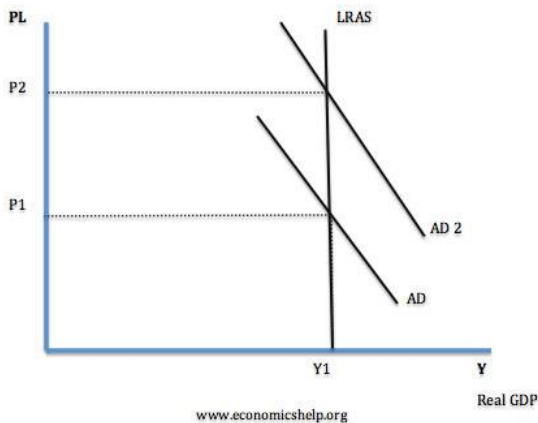
SECTION B

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
3	How far do you agree with the view that the only cause of inflation is an excessive growth of the money supply? • Explanation of the quantity theory of money ($MV=PT$). • In normal economic circumstances, if the money supply grows faster than real output it will cause inflation. • Inflation is always a monetary phenomenon/cost push and demand pull are symptoms of excessive monetary growth. • Former governor of the Bank of England, Mervyn King said that M4 was an important variable for influencing monetary policy. Negative M4 growth was a key factor in the justification for more quantitative easing, and recent attempts to bolster bank lending. Evaluation: • In a depressed economy (liquidity trap) the money supply/inflation correlation breaks down because of a fall in the velocity of circulation. This is why in a depressed economy Central Banks can increase the money supply without causing inflation. This occurred in the US between 2008 and 2011. There was a large increase in money supply but no inflation. • However, when the economy recovers and velocity of circulation rises, increased money supply is likely to cause inflation. • Quantity theory of money is a tautology. QE link to money supply and inflation not proven from evidence. • V and T are not stable thus a rise in M may not directly affect P. • Very weak link between money supply and inflation. The relationship between money supply and inflation has always been weak. Money supply can vary due to changes in the way of managing bank accounts and money. • Difficult to define exactly what is the money supply (M0, M3 M4 etc)	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	Explanation of why inflation can be caused by cost push and demand pull factors: especially cost push in recent years (commodities and government policies such as rises in indirect taxes/tuition fees) Max 14 without evaluation. Max 4 marks for each evaluated point explained. 2 marks for a relevant integrated diagram.  Reversible answer. L4 requires an evaluated answer which shows understanding whether of the quantity theory or a robust understanding of the QE process. L2 only (max) if no explanation at all of the links between money and inflation.		
4	‘A current account deficit on the balance of payments should be a major concern to the government.’ Evaluate this statement. Identification and explanation of factors: - Current account in balance is a macroeconomic objective. - A current account a/c deficit leads to a fall in AD causing lower growth and rising unemployment. - A deficit is a sign of a lack of competitiveness/linked to low economic growth and high unemployment. - Deficit could lead to a depreciation of the currency and cause a rise in import prices and inflation. - A large current account deficit usually implies some kind of imbalance in the economy.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	- Financing a deficit on the current account means a surplus on the financial account and this means that a higher proportion of assets are owned by foreigners. - Higher interest rates needed to attract inflows of 'hot money' to make balance of payments balance. - Country with severe deficits could run out of foreign exchange reserves and need IMF help. Evaluation. - Deficit on the current account can be financed a surplus on the capital/financial account. This depends on the nature of the financial/capital account surplus. (a) Central Bank purchases. (b) Short term inflows - cash, bond purchases, share purchases, property purchases, each of which may have different effects. (c) Long term inflows of FDI which may be far more favourable. - In a floating exchange rate system the current account is self-correcting but this depends on the price elasticity of demand for exports and imports. (Marshall –Lerner condition). - Depends how big the deficit is as a % of GDP/how persistent/is it related to the trade cycle i.e. cyclical and not structural? - How much of the deficit is down to an underlying competitiveness issue or an over-valued exchange rate problem? - Depends on what is being imported-capital goods/raw materials help economic growth. - Other objectives may mean that the current a/c deficit is not the major concern. Maximum 14 without evaluation. Max 4 marks for each evaluated point explained. 2 marks for a relevant integrated diagram.		

Question	Answer	Mark allocation	Assessment objective
5	Evaluate the different policies which less developed countries can use to achieve economic development. Economic development means an improvement in economic welfare through higher real GDP, but also through an improvement in other economic indicators, such as improved literacy, better infrastructure, reduced poverty and improved health care standards. Identification, explanation and evaluation of factors: Government interventionist supply side policies - increased spending on 'public goods' such as education, public transport, infrastructure and health care. But problems with low tax revenues and 'bad' government. Export Oriented Development – Reduction in tariff barriers and promoting free trade as a way to improve economic development. But tariff barriers from trade blocs such as the EU and NAFTA remain a barrier to free trade for LDCs. Better to promote import substitution. Diversification away from agriculture to manufacturing as a way to promote economic development. Primary products have volatile prices with unpredictable incomes for producers. But countries with a poor basic level of infrastructure struggle to make effective use of capital investment in manufacturing. Some argue government attempts to encourage manufacturing industry are often ineffective as they have poor information about best kinds of industries to promote as well as corruption by some governments. Assistance from international institutions: e.g. the World Bank is committed to the reduction of poverty in developing countries. It offers long term loans for capital programs. But their policies have been criticised ie structural adjustment policies.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	Foreign Aid can help boost capital investment in schemes which improve economic development. But it depends on the type of foreign aid Foreign Direct Investment (FDI) LDCs can benefit from improved knowledge and expertise of foreign multinational higher wages and improved working conditions, also employment and balance of payments benefits. But FDI may be a convenient way to bypass local environmental laws. Developing countries may be tempted to reduce environmental regulation to attract the necessary FDI. FDI does not always benefit recipient countries as it enables foreign multinationals to gain from ownership of raw materials, with little evidence of wealth being distributed throughout society. Import substitution industrialisation (ISI): active industrial policy to subsidize and orchestrate production of strategic substitutes, protective barriers to trade (such as tariffs), an overvalued currency to help manufacturers import capital goods (heavy machinery), and discouragement of foreign direct investment But often these policies lead to inefficiency within domestic markets and growth slowed when the size of the domestic market was reached meaning that they were most successful in countries where domestic economies were biggest (e.g. Brazil). Non-interventionist supply-side - liberalisation: The use of free market policies to stimulate competition and growth. Internal - privatisation, deregulation and cuts in public spending to promote enterprise and stimulate growth. Externally, reductions of protectionism and floating the currency (generally devaluing) to increase growth. Hence classic supply-side policies. In theory efficiency increases, hence growth is created. But cuts in government spending may hit health and education, one sided/unilateral free trade can lead to dumping by MEDCs and other LEDCs, devaluation drives up the costs of essential imported goods, privatisation may prove difficult to implement effectively unless there is strong institutional strength. Maximum 14 without evaluation. At least THREE well evaluated policies for maximum marks 2 marks for a relevant integrated diagram. L4 requires relevant use of a country-specific example. L4 requires relation back to living standards.		



GCE A level

1134/01

ECONOMICS – EC4

P.M. TUESDAY, 10 June 2014

2 hours

1134
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 **one** question from Section A.

You are advised to spend no more than 1 hour and 15 minutes on Section A.

Answer **one** question from Section B.

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.

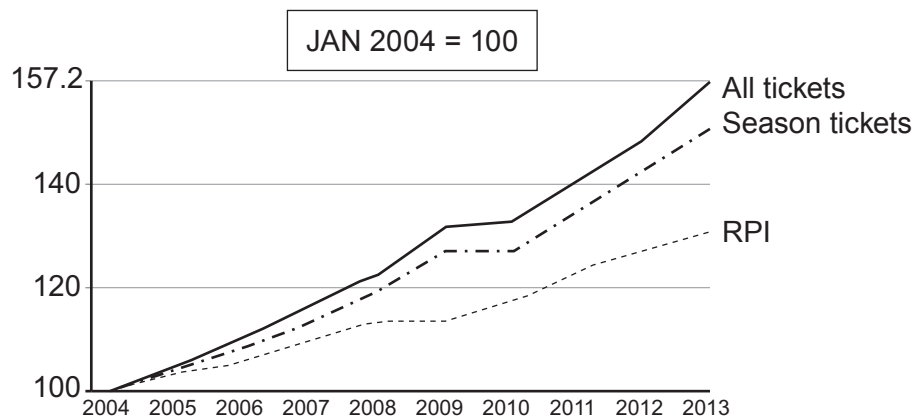
SECTION A

Answer **one** question from this section.

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

1. HS2: George Osborne hails 'engine of growth' for north as high-speed rail route disclosed

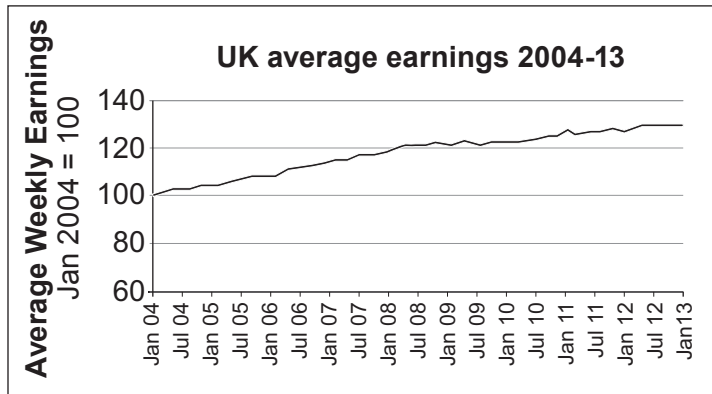
Figure 1 – Rail fares and inflation



Source: Office of Rail Regulation

Figure 2 – HS2 planned route

Figure 3 – UK average earnings



Source: ONS

Figure 4 – UK Government spending

UK Government spending 2011-12		
	2011-12 £bn	Real % change on previous year
Health	107	-1.2
Education	56	-5.7

The Chancellor insisted that the UK's second high-speed line (HS2) will be an "engine of growth for the north of the UK" and that it will help to end the country's reliance on the City of London. The HS2 line will cut journey times between London and Manchester to one hour and eight minutes. Under the plans a journey from London to Leeds will take an hour and 22 minutes—50 minutes quicker than the current journey time. The 225 mph trains will link London with Birmingham, Manchester and Leeds by 2033. The Government has said the project will bring wide-ranging benefits to UK businesses and create 100,000 jobs.

Patrick McLoughlin, the Transport Secretary, said the train line will take pressure off the UK's transport network despite conceding that the project will be "annoying" for some people. Mr McLoughlin said he understands that some people will be "very opposed to the route".

"Overall one has got to look at the long-term chances for the United Kingdom. I think the truth of the matter is that we've got to look to the future. We haven't actually built a railway line in this country north of London for 120 years. What this is doing is actually saying that to increase rail services, we need to actually increase rail capacity". He said that the Government eventually wants to link Scotland in phase 2 of the HS2 project. Construction on the extension could start in the middle of the next decade with the line open by 2032-33. It is expected to cost about £33 billion over the next 20 years.

But the Government will face huge opposition from more than 70 groups that are against the plans. A number of councils along the route have also said that the project will increase pollution and is a waste of taxpayers' money.

The announcement comes just after this month's increase in rail fares in England, Scotland and Wales of an average of 3.9%, the third successive year in which the rise has outstripped RPI inflation. The cost of an average rail season ticket in Great Britain has risen to £2,191, equivalent to 8% of the average UK salary and considerably higher than the £1,441 fuel cost of driving to work. Many rail travellers are concerned that as both rail passengers and taxpayers they are already paying enough for the railways. The Government's longstanding policy, however, is that the burden of paying for rail travel and investment in the network should be shifted from taxpayers to rail passengers. This requires cuts in Government subsidies and increases in fares.

The North Wales for HS2 group, however, disagrees "even though the line won't cross over the Welsh border, we know it will bring us huge benefits if properly done. The new line will make it dramatically quicker to get to North Wales from London via Manchester and Liverpool. Suddenly, getting business representatives to North Wales and back in a day looks easy. It will also be easier for people and goods to travel to England and Europe".

Adapted from BBC News, 28 Jan 2013

- (a) Explain what happened to rail fares between 2004 and 2013. [8]
- (b) Explain George Osborne's argument that the HS2 link would be an "engine of growth for the north of the UK" (lines 1-2). [8]
- (c) Discuss whether improvements in the rail network should be financed by an increase in fares rather than by increasing subsidies. [12]
- (d) Discuss the view that it would be better to spend £33 billion on improving education and health services than on the HS2 link. [12]

BLANK PAGE

2. British economy faces threat of lost decade

A week in which the UK's high street looked to be on course for total collapse has raised fears that we could now be in the middle of a long period of stagnation.

Figure 1 – GDP by sector

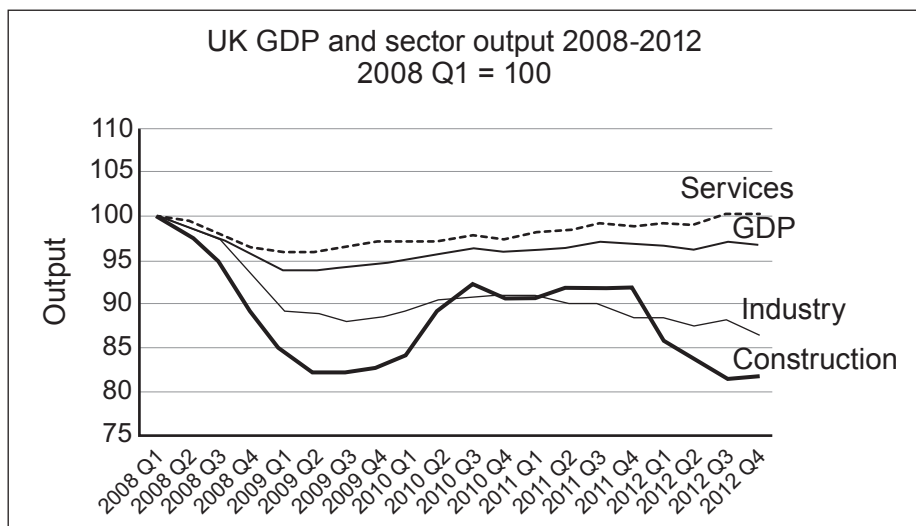


Figure 2 – UK house prices

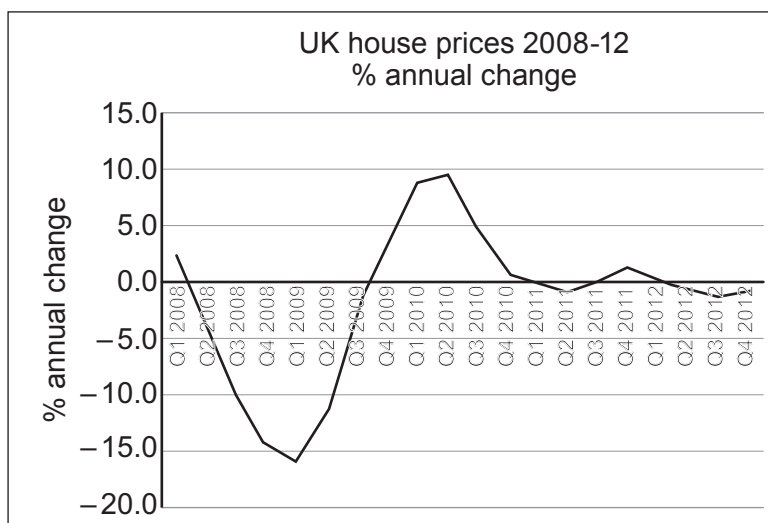


Figure 3 – UK mortgage rates

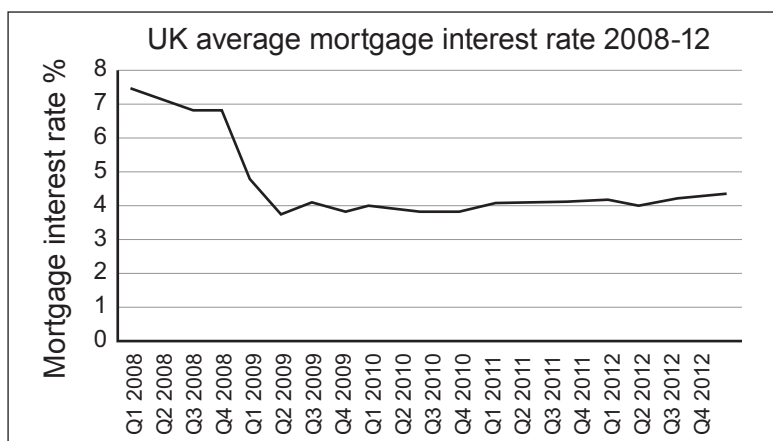
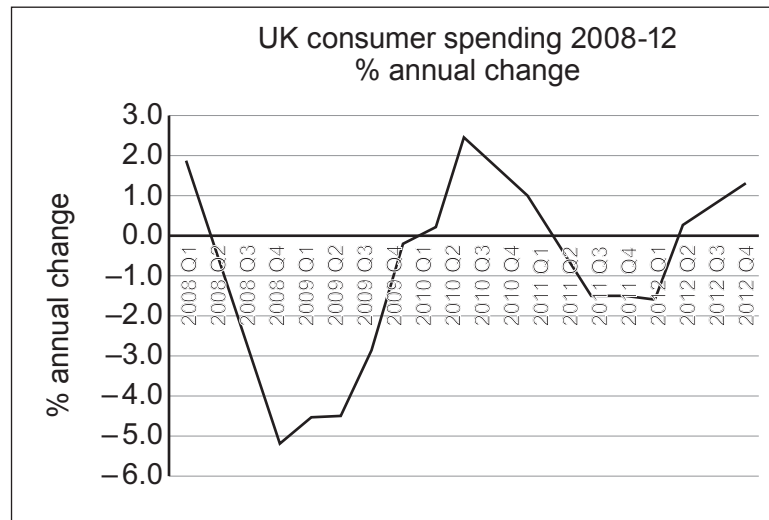


Figure 4 – UK consumer spending



There could be few better symbols of the fragile state of Britain's recession-hit economy than the news that with HMV and Blockbuster joining the dismal list of retailers forced into administration, an extraordinary 1,400 shops on high streets up and down the county are now at risk of closure within less than a month. Together with the boom in Internet sales, the chronic weakness of consumer demand in Britain's stagnant economy has been a key factor in driving so many well-known names out of business.

If, as many City analysts expect, official figures reveal on Friday that the UK economy slipped into reverse in the final quarter of 2012, Chancellor George Osborne will face fresh questions about whether the UK is heading for its own "lost decade".

David Kern, chief economist at the British Chambers of Commerce (BCC) which represents many smaller firms, says he backs the Chancellor's broad aim of tackling the deficit, but believes spending in some key areas could be increased without him losing credibility. That might mean, for example, improving the country's infrastructure, such as transport, schools and hospitals. Peter Spencer, of forecasting group the Ernst and Young Item Club, agrees: "If the Government tries to create growth through spending on infrastructure – let's say £15bn, financed by borrowing – over time it would get it back in tax and reduced unemployment benefits."

With little hope that Osborne will relax his grip on the finances, one area some economists feel it is ready for a rethink is the role of the Bank of England in guiding the economy. Mark Carney, the Canadian hired by Osborne to take over from Sir Mervyn King as Bank of England Governor this summer, sparked excitement before Christmas when he suggested that it might be time to drop the inflation-targeting regime that has evolved since the 1990s.

Carney suggested that when, as now, interest rates are near zero and growth is weak, it might be right for central banks such as the Bank of England to take more radical action. It should be announcing that it plans to keep interest rates low for a long time, at least until mid-2015.

If that should fail, he added, the inflation target could be dropped. At times when growth is very low, a bit of inflation should be less of a concern than the impact on the economy of a long period of stagnation. The Bank should be able to forget its concerns about inflation and go all out to kick-start growth. Spencer at the Item Club backs a change of regime: "It's the combination of inflation and growth that is important."

35 However, even within its current target of keeping inflation close to 2%, the Bank has ignored its target and allowed inflation to remain higher than the target rate, because, as King has repeatedly argued, bringing it back down to 2% more rapidly would have led to an even deeper recession and higher unemployment.

40 However Adam Posen, a former member of the Bank of England's Monetary Policy Committee (MPC) is cautious about dropping the inflation target, despite calling for the Bank to take more aggressive action, such as lending directly to cash-starved businesses. He warns that ditching the inflation target might immediately be seen by financial markets as a decision to let inflation rise.

Instead of changing the monetary policy regime, Posen would like to see Chancellor Osborne relax his grip on the nation's purse strings and abandon his obsession with cutting the public sector deficit. "When you've implemented a policy and it hasn't worked, it is time to change the policy."

45 A climbdowndown would be humiliating for a Chancellor who has pinned his reputation on continuing austerity, but the weak recovery, which has seriously damaged the Treasury's fiscal plans, has already resulted in Osborne having to extend the planned period of austerity for three years longer than he had hoped, to 2017-18.

Copyright Guardian News & Media Ltd 2013

- (a) Using the data in Figure 1, explain how the output of different sectors of the economy changed between 2008 and 2012. [8]
- (b) Explain possible reasons for the changes shown in Figure 1. [8]
- (c) Discuss the possible effects of the Bank of England "announcing that it plans to keep interest rates low for a long time, at least until mid-2015" (line 26). [12]
- (d) Discuss the argument that George Osborne should "relax his grip on the nation's purse strings and abandon his obsession with cutting the public sector deficit" (lines 42-43). [12]

SECTION B

Answer one question from this section.

- 3. Discuss the view that a policy of significant cuts in the rates of all taxes is the best way to create long-term growth. [20]
- 4. "A sudden increase in aggregate demand in the UK would be more likely to increase inflation than to reduce unemployment." Discuss. [20]
- 5. "The protectionist policies of rich industrialised countries are the largest obstacle to the development of poor developing countries." Discuss. [20]

END OF PAPER



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.

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 – EC4
MARK SCHEME -SUMMER 2014

Section A

Question	Answer	Mark allocation	Assessment objective
1. (a)	Explain what happened to rail fares between 2004 and 2013. Level 1 Identification of increase for all tickets/season tickets e.g. higher than inflation for 3rd successive year rose compared to earnings. 1 – 4 marks Level 2 Development e.g. rising in real terms (tickets 57%, earnings 30%) use of figures/percentages differential between ‘all tickets’ and season tickets narrowed after 2012. 5 – 8 marks	8	AO1 4 AO2 4
(b)	Explain George Osborne’s argument that the HS2 link would be an “engine of growth for the north of the UK”. Level 1 Identification of possible benefits e.g. faster travel, businesses establish in north orders for construction businesses other multiplier effects reduced need for Government support in north. 1 – 4 marks Level 2 Development related to growth e.g. reduction in costs increased international competitiveness increase in AD/AS - Outward movement of PPC - because of improved infrastructure. The wealth moves North. 5 – 8 marks	8	AO1 4 AO2 4
(c)	Discuss whether improvements in the rail network should be financed by an increase in fares rather than by increasing subsidies. Level 1 Explanation of possible advantages of policy e.g. reduction in subsidies/tax burden Government spending fairer that passengers should pay more rail passengers better off than average taxpayer better use for tax revenue elsewhere/opportunity cost. 1 – 6 marks	12	AO3 6 AO4 6
	Level 2 Evaluation of policy e.g. fares already rising in real terms/as proportion of income Government backing required for larger-scale investment might create greater external costs by increasing road travel. 7 - 12 marks		

Question	Answer	Mark allocation	Assessment objective
(d)	Discuss the view that it would be better to spend £33 billion on improving education and health services than on the HS2 link. Level 1 Explanation of case for education and health spending rather than HS2 e.g. benefits would be more widespread HS2 will widen regional disparities Education and health merit goods e.g. will make workforce more productive/increase LRAS more efficiently Might create more employment. HS2 benefits are very long term. 1 – 6 marks Level 2 Evaluation of case e.g. HS2 needed to make businesses more efficient/will shift LRAS to right boost for output. Employment and profit in construction and ancillary industries regional multiplier effects will reduce business costs reduction of traffic congestion and pollution UK will be more internationally competitive. 7 – 12 marks	12	AO3 6 AO4 6
2. (a)	Using the data in Figure 1, explain how the output of different sectors of the economy changed between 2008 and 2012. Level 1 Identification of different rates e.g. services maintained output over period/ fell until 2009 and rose afterwards industry and construction fell (approximately 13% and 18% respectively) construction fell most. 1 – 4 marks Level 2 Development using data e.g. construction fluctuated most Use of percentages e.g. industry and construction fell (approximately 13% and 18% respectively). 5 – 8 marks	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
(b)	Explain possible reasons for the changes shown in Figure 1. Level 1 Explanation of possible causes e.g. falling house prices reduce construction output and house-related industries e.g. white goods, furniture, DIY consumers reducing spending on durables may reduce industry output world recession likely to hit industry rather than services service employment supported by high percentage of jobs being in public sector manufacturing and construction more reactive to changes in GDP/income. 1 – 4 marks Level 2 Development using figures/percentages/explaining effects of economic variables e.g. income elasticity of demand, wealth effect, multiplier effects on different sectors. Effect of recession/growth. 5 – 8 marks	8	AO1 4 AO2 4
(c)	Discuss the possible effects of the Bank of England “announcing that it plans to keep interest rates low for a long time, at least until mid-2015”. Level 1 Explanation of possible advantages of committing to low interest rates beneficial for housing market and related industries e.g. might encourage people and firms to increase consumption and investment might foster more optimistic expectations may help to keep exchange rate competitive/help to reduce trade deficit. Theoretical development e.g. rising AD/AS. 1 – 6 marks Level 2 Evaluation of policy may indicate lack of commitment of controlling inflation low interest rates may discourage saving capital inflows may fall exchange rate may fall and increase inflation effect may be long-term won't work unless consumer and business confidence strong/other factors may be more relevant than interest rates. 7 - 12 marks	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
(d)	Discuss the argument that George Osborne should “relax his grip on the nation’s purse strings and abandon his obsession with cutting the public sector deficit.” Level 1 Explanation of case for abandoning concentration on public sector deficit e.g. reducing quality of public services causing job losses and higher social security payments/lower tax revenue reducing confidence downward multiplier effects because of public spending cuts may lead to high interest rates more important to create growth and employment lower provision of merit goods e.g. health education may reduce LRAS alternative is permanent stagnation lower interest rates not working could use supply-side policies. 1 – 6 marks Level 2 Evaluation of abandoning “austerity” e.g. may reduce confidence in the economy possible inflationary effects may discourage foreign investment/need to maintain confidence of international financial markets possible effects on exchange rate might make UK uncompetitive higher Government spending may lead to higher interest rates/crowding-out/bad effect on housing market GDP rising again after 2009 so policy must be working. 7 – 12 marks	12	AO3 6 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.

Section B

Question	Answer	Mark allocation	Assessment objective
3.	Discuss the view that a policy of significant cuts in the rates of all taxes is the best way to create long-term growth. Definition of long-term growth e.g. increase in LRAS/outward shift of PPC, distinction between growth and recovery, descriptive explanation of effect of tax cuts. Explanation of how tax cuts may affect growth using appropriate theory e.g. AS/AD analysis e.g. higher disposable income if personal taxes cut tax cuts create incentives to effort/enterprise/investment higher retained profits for investment if corporation taxes reduced higher potential profitability cutting excise taxes will lower prices/inflation/create negative externalities e.g. higher alcohol and tobacco consumption cutting customs duties may increase imports will increase aggregate demand creation of confidence. May increase tax revenue/Laffer curve. Evaluation e.g. may have only short-term effects if AS is unresponsive depends upon level of output possible inflationary effects may increase imports/widen trade deficit need for supply-side policies to accompany fiscal policy if LRAS is to shift. Other policies better (answers must focus mainly on tax cuts). Level 4 answers should refer to possible effects on other macroeconomic variables/whether policy would work e.g. inflation, imports, time-lags before policy takes effect.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
4.	“A sudden increase in aggregate demand in the UK would be more likely to increase inflation than to reduce unemployment”. Discuss. Identification and explanation of increase in AD/possible causes e.g. higher consumption/investment/Government spending/exports. Explanation of why prices may rise without reducing unemployment e.g. demand-pull inflation, prices will rise if AS does not rise in line with AD if output is static unemployment may not fall effect depends upon elasticity of supply/shape of LRAS curve firms may be unwilling to expand output/investment because of lack of confidence that increased AD will last increased AD may increase imports therefore little effect on output/employment theoretical explanation e.g. Friedman’s long-run Phillips curve, use of Keynesian X/AS/AD analysis. Evaluation of statement e.g. If LRAS curve horizontal (e.g. mass unemployment) output and therefore employment may increase without increase in price level increased AD may increase business confidence and investment therefore shifting LRAS curve to right and reducing/removing possible inflationary effect theoretical explanation e.g. traditional Phillips curve, use of Keynesian X/AS/AD analysis. Level 4 answers should refer to importance of assumption about LRAS curve and refer to other macroeconomic variable such as growth and trade balance.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
5.	“The protectionist policies of rich industrialised countries are the largest obstacle to the development of poor developing countries”. Discuss. Identification and explanation of protectionist measure e.g. tariffs, quotas, exchange controls, licence restrictions, domestic subsidies. Explanation of how protectionism may damage developing countries e.g. generally heavier on goods and services than on commodities large trade blocs e.g. EU/NAFTA often restrict access rich countries subsidise own producers such as farmers effects on developing countries e.g. exports made dearer in richer countries by tariffs/restricted by quotas/subsidies make domestic prices lower. Evaluation of statement e.g. WTO has encouraged dropping of trade barriers Technology transfer is improving LDC productivity Poorer countries have natural resources/lower costs so can compete Other factors such as labour skills, governance, economic policies etc. more important than protectionism some countries such as tigers/BRIC have succeeded. Level 4 answers should refer to specific examples of LDCs and explain why the effects of protectionism may vary between different countries. The answer should focus on protectionism.	20	AO1 4 AO2 4 AO3 6 AO4 6



GCE A level

1134/01

ECONOMICS – EC4

A.M. TUESDAY, 11 June 2013

2 hours

1134
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 **one** question from Section A.

You are advised to spend no more than 1 hour and 15 minutes on Section A.

Answer **one** question from Section B.

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 one question from this section.

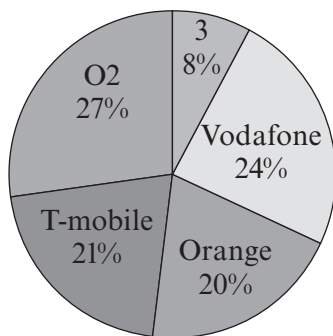
1. Study the information below and then answer the questions that follow.

Orange customers turn purple as cost of calls rockets

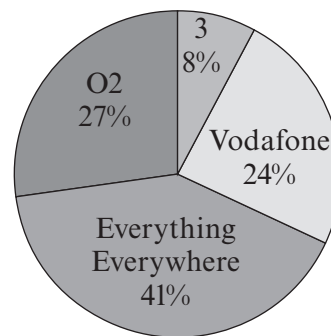
Watchdog Ofcom urges complaints to be lodged after average price of calls jumps 32% since Orange merger with T-Mobile to form Everything Everywhere, a move that reduced competition by cutting the number of independent mobile phone networks from five to four.

UK Mobile Network market share 2010

Before Orange & T-Mobile merger



After Orange & T-Mobile merger



Source: TelecomsMarketResearch.com

Orange customers, according to research by uSwitch, the price comparison website, are paying 75% more since March 2010.

The government's telecoms regulator Ofcom responded to the growing rebellion from Orange contract customers over a 4.34% January price rise by urging angry consumers to lodge a formal complaint. A spokesperson said "Ofcom is monitoring the situation and will consider taking action if appropriate."

Orange defended the increase, saying it was in line with the current inflation rate of 5.4%. But research by uSwitch shows that mobile phone networks have already contributed to rising costs. Since March 2010, the average per-minute charge for a voice call has risen from 23.4p for pre-pay customers to 31p.

Since the merger of Orange and T-Mobile into Everything Everywhere in 2010, reduced competition has combined with a number of other factors to push prices up for the poorest customers, who tend to opt for pre-pay contracts. Network operators have been charging pre-pay customers more to get back income lost by regulator-enforced cuts to so-called "mobile termination rates", the charge for calling a mobile phone from a landline or another mobile.

Ofcom has promised to join other European regulators in gradually slashing termination rates by up to 80% by 2015, saving consumers and businesses some £800m a year. Ofcom argued that operators' charges were far higher than the costs of providing the connection. But operators have openly said that they would respond by charging more for other calls, reducing handset

subsidies or cutting investment in their networks. Higher pre-pay tariffs are also being used to push customers into long-term contracts, which attract much higher average monthly spending and provide a more predictable income.

UK mobile phone operators would welcome mergers in the sector, said lawyer Chris Watson, of CMS McKenna, adding that firms saw the current levels of competition as “ruinous” because of how low they had to keep prices to win customers. There are 30% more mobile phones than people in the UK, with many people having more than one phone and often easily able to hop between one network and another. The “churn rate” – the number of customers switching to a different supplier – is over 30% for mobile phone networks, far higher than for most consumer products.

Everything Everywhere has cut 550 jobs as its new boss, Olaf Swantee, has tried to reduce costs. The merger between T-Mobile and Orange, which created the largest mobile group in the UK and which operates the mobile phones of 28 million Britons, has already seen 1,200 staff depart in an earlier round of cost-cutting as the newly created business targeted duplication in its workforce.

Since the merger Everything Everywhere has cut costs by £203 million and plans to make further cuts. Customer numbers fell by 390,000 to 27.5 million compared with the same period last year. Revenue per customer actually fell, from a monthly average of £19.20 to £18.70. In the same period Vodafone, has reported 5.1% growth in the UK.

Everything Everywhere has a larger network coverage than rivals, O2, Vodafone and 3. It has 713 retail stores and 20 outlets in HMV stores. At the time of the merger, the company said that it would reduce the number of stores but eight months on, it has decided to open several dozen more stores and add 50 new HMV outlets. As phones become more complicated, the company needs an increased local presence in order to help customers with their new gadgets.

Everything Everywhere is also looking at increasing the 173 Wi-Fi hotspots that T-Mobile already owns – in airports and railway stations as well as on the Heathrow Express, West Coast mainline and London to Brighton route – as the merged company looks to benefit from the scale of its business and increase the range of services available to its customers. T-Mobile, unlike rivals Orange, O2 and Vodafone, has never had a residential broadband service but plans to introduce one.

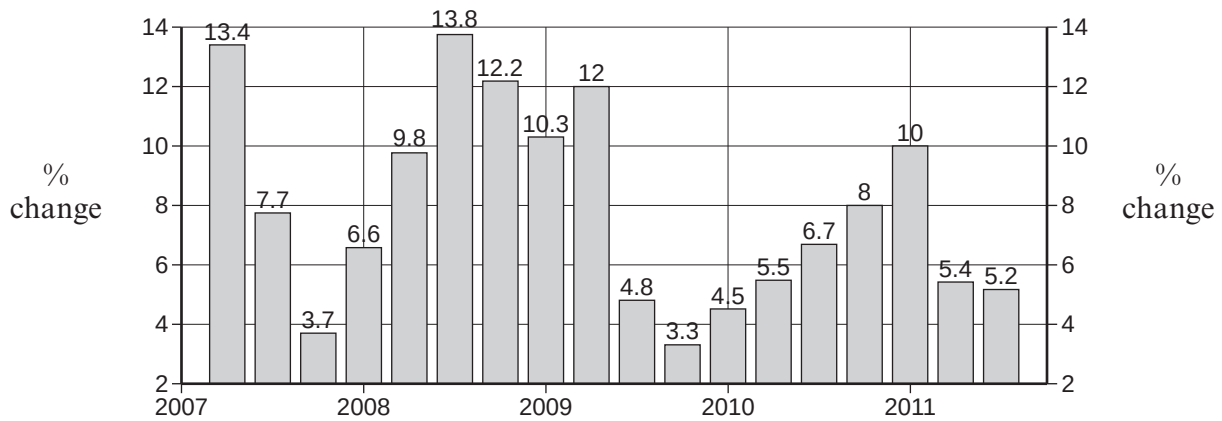
- (a) With reference to the data, explain possible reasons for the changes in Orange’s charges since March 2010. [8]
- (b) Explain what the data suggests about the market structure of mobile phone networks in the UK. [8]
- (c) Discuss whether customers of Orange and T-Mobile were likely to benefit from the proposed merger. [12]
- (d) To what extent is it desirable to regulate the market for mobile phone services? [12]

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

Ghana the fastest growing economy in the world

GHANA GDP ANNUAL GROWTH RATE

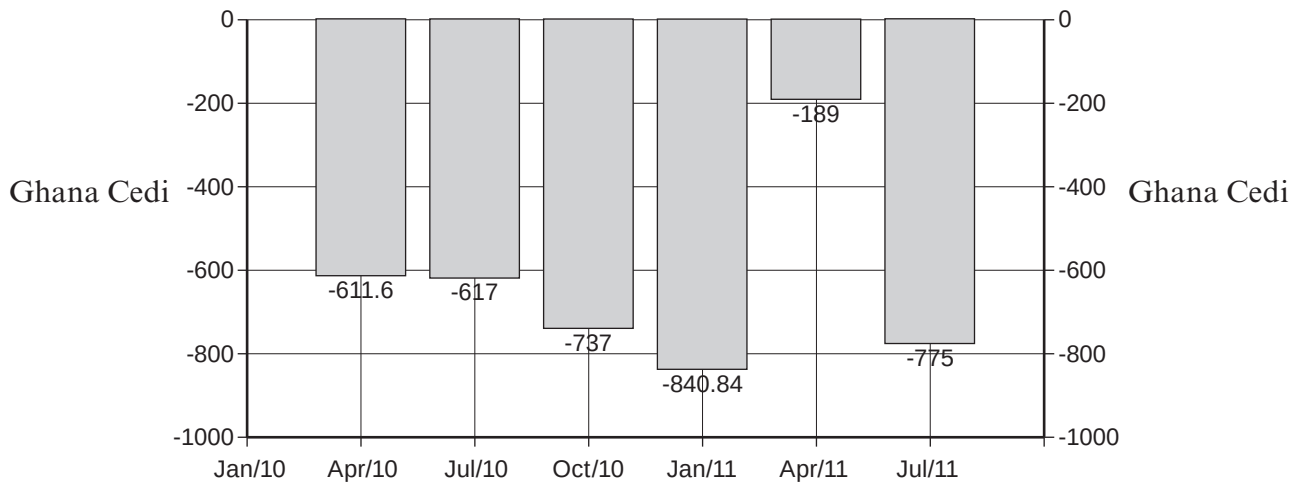
Percentage Change in Gross Domestic Product



Source: www.tradingeconomics.com / Ghana statistical service

GHANA BALANCE OF TRADE

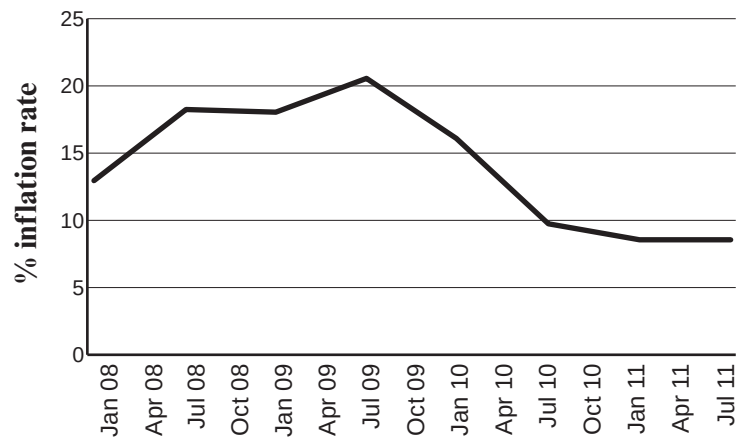
Balance of Trade (million Cedi*)



Source: www.tradingeconomics.com / Bank of Ghana

*Ghana's currency is known as the Cedi.

Ghana annualised inflation rate



Source: Ghana Statistics

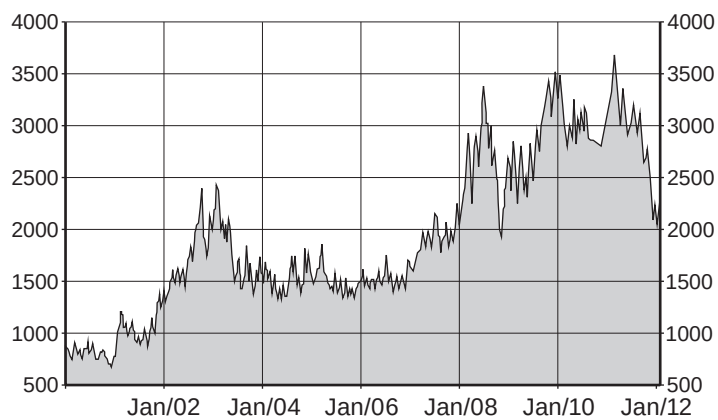
World gold price (\$US per ounce)

US\$ per ounce



World cocoa price (\$US per tonne)

US\$ per tonne



Source: www.tradingeconomics.com

Indicator	2000	2010
Human Development Index	0.451	0.541
Life expectancy at birth (years)	67	69
Mortality rate, under-5 (per 1,000)	87	58
Clean water source (% of rural population with access)	58	74
Agriculture (% of GDP)	39	30
Industry (% of GDP)	28	19
Services (% of GDP)	33	51
Internet users (per 100 people)	0.2	8.6
Terms of trade index (2000 = 100)	100	176
Debt repayment as % of exports of goods, services and income	15.8	3.4

5 Ghana has been identified by the International Monetary Fund (IMF) as the fastest-growing economy in the world. Standards of living have increased significantly since 2000. It enjoys one of the strongest democracies in Sub-Saharan Africa and is well-endowed with natural resources. Gold and cocoa production are major sources of foreign exchange earnings. Oil production at Ghana's offshore Jubilee field began in mid-December, 2010, and is expected to boost economic growth. Estimated oil reserves have jumped to almost 700 million barrels.

10 Improvement of the abilities and skills of the country's labour force is seen as a particular priority in making the country more competitive in international markets, and in reducing the rising unemployment rate. Ghana's literacy rate is 72% for men and 58% for women. It has a primary school enrolment system for all children and one of the highest school enrolment rates in Africa. The government plans further investment in education and training in order to maximise Ghana's economic potential as its growing service sector develops and foreign investors pump capital into the economy.

15 The benefits to farmers of increases in global cocoa prices, which doubled between 2007 and 2011, significantly encouraged growth in production. Ghana is one of the largest producers of cocoa in the world. On the downside the expansion of cocoa output has come largely from increased use of land for cocoa farming. Ghana has suffered huge losses of its forest resources through deforestation over the years, with forest being lost to cocoa farms. Its rainforest has been reduced by nearly 90%. In 2011 continued high export receipts and oil-related private sector investment stimulated aggregate demand. In real terms, both household consumption and investment in 2010 increased by 9.6% and 11% respectively. Consumption and investment were expected to grow by similar rates in 2012.

25 Ghana's trade deficit increased in 2010. Import growth in 2010 (36% compared with 2009) was mainly driven by higher imports of capital goods and processed industrial supplies. Export earnings were boosted by a 36% and 19% increase in the value of cocoa and gold exports respectively. Imports increased by 43% during the same period; up 47% for capital goods and 57% for consumption goods. Foreign direct investment increased by 25%.

30 In early 2010 President John Atta Mills announced that reducing the high inflation rate, the trade deficit and government budget deficit would be his priorities. Sound macro-economic management along with high prices for gold and cocoa helped to sustain GDP growth in 2010. The government started fulfilling its budget promise to repay its debts to domestic lenders in the first half of 2011.

35 Ghana's economic outlook for 2011 and beyond is favourable. Growth prospects remain high, stimulated by high international commodity prices. Real GDP growth will be over 14% in 2011. Inflation will remain in single figures. The government claims considerable success in managing the Ghanaian economy.

Adapted from The World Bank, CIA World Factbook 2011

- (a) Explain what evidence there is to suggest that “standards of living have increased significantly since 2000” in Ghana (line 2). [8]
- (b) Explain why investment in education and training was seen as important for the economy of Ghana. [8]
- (c) To what extent is the government's claim of “considerable success in managing the Ghanaian economy” (lines 35-36) justified? [12]
- (d) Discuss whether being “well-endowed with natural resources” (lines 3-4) is beneficial to Ghana's economy. [12]

SECTION B

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

3. “It is essential for the government to cut public spending and raise taxes to reduce the public sector deficit.” Discuss. [20]
4. In early 2012 UK unemployment rose to 2.8 million, 8.4% of the workforce. Discuss the view that reduction of unemployment should be the government’s main priority. [20]
5. To what extent are free market policies the best way for developing countries to raise their living standards? [20]



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 – EC4

Summer 2013

Question	Answer	Mark allocation	Assessment objective
Q.1 (a)	With reference to the data, explain possible reasons for the changes in Orange's charges since March 2010. Level 1 Identification of rising prices e.g. 4.34% January 2011; 32% since merger; 75% for pre-pay customers; below inflation rate 5.4%. Level 2 Development using data e.g. merger creates monopoly power; possible cartels/tacit or explicit collusion/ interdependent pricing strategies; had to cut termination rates; charging more for handsets and other calls falling in real terms in January; Some charges rose faster than inflation (e.g. prepay); inflation increased production costs; phone companies taking advantage of customer loyalty.	8 1-4 5-8	AO1 4 AO2 4
Q.1 (b)	Explain what the data suggests about the market structure of mobile phone networks the UK. Level 1 Identification of basic structure using figures e.g. high level of concentration/3 firms dominate industry (3-firm CR 92%); oligopoly (or EE/O2 monopolies 41% & 27% market share). Level 2 Development e.g. interdependence in pricing; arguably a monopoly situation (2 firms above 25% threshold); offer similar services; market concentration; market shares; benefit of economies of scale/national; Ofcom as regulator.	8 1-4 5-8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
Q.1 (c)	Discuss whether customers of Orange and T-Mobile were likely to benefit from the proposed merger. Level 1 Explanation of possible benefits e.g. firms cutting duplication costs; customers should benefit from lower prices; economies of scale should lower costs; more retail outlets, wifi spots etc.; T-mobile customers may get new services e.g. residential broadband; higher profits may create capital for new investment. Level 2 Evaluation of benefits e.g. prices have rise/consumer surplus falls; still keeping separate brand names; not removing duplication; fewer customers/customers spending less; suggests that customers have not benefitted.	12 1-6 7-12	AO3 6 AO4 6
Q.1 (d)	To what extent is it desirable to regulate the market for mobile phone services? Level 1 Explanation of case for price control e.g. monopoly power present; customers may be exploited; termination rates far above costs suggesting abnormal profit; to reduce X-inefficiency; appropriate diagrammatic analysis; control quality of provision; can protect poorer consumers; Level 2 Evaluation of case e.g. will cut profits and reduce investment; still a lot of competition e.g. more phones than people, customers can move between networks (high churn rate); unnecessary networks have to cut prices because of fierce competition; may discourage new entrants; possible diseconomies of scale/loss of benefits of natural monopoly in network; companies are large-scale producers & employers.	12 1-6 7-12	AO3 6 AO4 6

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 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
Q.3	“It is essential for the government to cut public spending and raise taxes to reduce the public sector deficit.” Discuss Definition/explanation of reasons for Government debt e.g. spending consistently higher than taxes Cost of rescuing banks Recession Explanation and evaluation of arguments for cutting spending/raising taxes e.g. debt may be unsustainable in the long-run; lower consumption in future years; cost of interest payments; difficulty of meeting pension liabilities; may make recession worse; possible mass unemployment; social costs of cutting spending/raising taxes; high taxes discourage domestic investment; high taxes discourage FDI/may lead to tax avoidance; effects depend on types of spending and taxes changed; use of AS/AD analysis to illustrate possible problems. Level 4 answers should evaluate effect of spending cuts/higher taxes on macroeconomic objectives. e.g. deflationary policy may reduce employment, growth, personal incomes etc.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
Q.4	In early 2012 UK unemployment rose to 2.8 million, 8.4% of the workforce. Discuss the view that reduction of unemployment should be the Government's main priority Definition/explanation of unemployment. e.g. ILF/claimant count measures Explanation and evaluation of arguments for prioritising reduction of youth unemployment. e.g. waste of resources; reduces AD -may further increase unemployment; young unemployed do not develop work skills/may become unemployable; social problems e.g. crime, poor mental health may lead to higher taxes and Government spending economy may suffer long-term stagnation/difficult to break out of downward cycle; use of appropriate theory e.g. AS/AD analysis in long-run economy will return to full employment without Government intervention. Level 4 answers should evaluate effect of policies on macroeconomic objectives. e.g. reflationary policy may create higher inflation, increase imports etc.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
Q.5	To what extents are free market policies the best way for developing countries to raise their living standards? Definition and explanation of free market policies. e.g. Privately-owned firms producing for profit/less Government intervention. Explanation & evaluation of possible arguments for free market policies. e.g. private firms will minimise costs/use of resources; creates incentives for innovation & enterprise; consumer sovereignty will be maximised; taxes and government borrowing can be reduced; will encourage inward investment; increased international competitiveness; firms will only produce what is profitable; will not produce public goods; merit goods may be 'under-produced'; may ignore externalities; may lead to monopoly power; domestic firms will be unable to compete; Government spending may be needed to make infrastructure suitable for private enterprise; may have to cut spending on education and welfare services; may widen distribution of income/have regressive effect. Level 4 answers should make a reasoned judgement referring to issues such as economic growth and living standards/differences between different countries' situations, etc.	20	AO1 4 AO2 4 AO3 6 AO4 6



GCE A level

1134/01

ECONOMICS – EC4

A.M. WEDNESDAY, 20 June 2012

2 hours

1134
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 **one** question from Section A.

You are advised to spend no more than 1 hour and 15 minutes on Section A.

Answer **one** question from Section B.

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 one question from this section.

1. ‘No more new taxis,’ says Cardiff Council

Cardiff Council has decided to limit the number of taxis in the city following a survey which showed an excess supply compared to the level of demand.

Figure 1 – Licensed taxis in Cardiff 2002-2010

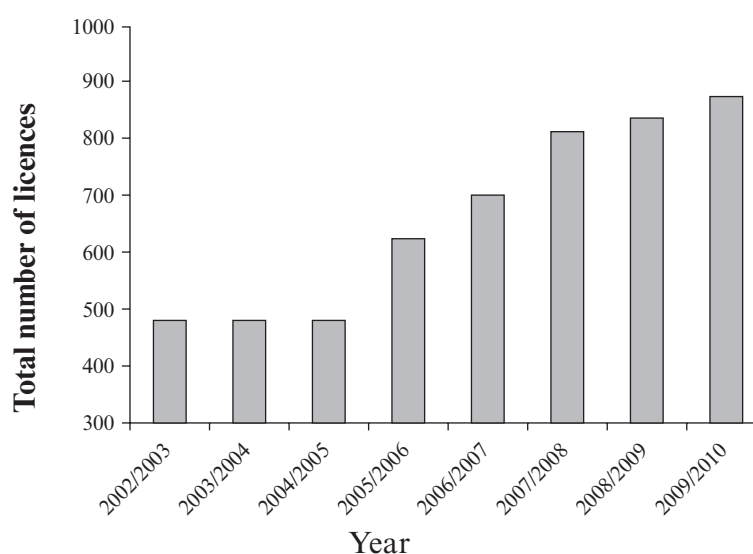


Table 1 – Cardiff population growth 1989-2010

1989	292 000
1994	312 000
2010	330 000

No new licences for taxis in Cardiff will be granted after the council decided today to limit the number of taxis in the city. The decision is welcomed by taxi drivers, who have held a year-long campaign to stop new licences being granted by Cardiff Council.

The council has been waiting for the completion of a survey conducted this year to find out if numbers of taxis in the city exceeded the demand. Following the results of the survey, the council was satisfied that a limit on the number of taxis in Cardiff was needed.

Government guidance advises city councils not to limit the number of taxis in cities, insisting that competition is essential to maximise customer benefits. Cardiff will be in the minority of UK cities going against the recommendation for no limits.

Councillor Asghar Ali said: “We have more than enough taxis in Cardiff. The number of taxis with licences has more than doubled in the last five years.”

Philip Boots, an independent taxi driver who has worked in Cardiff for the last 30 years, said: “Taxi licences were being given out too easily, but now they have decided to limit them, it’s removed a lot of uncertainty for independent drivers, and means we’ll go back to making a better living.”

- Although there are a large number of firms operating taxi services in Cardiff, none have a large share of the market. The market contains many one-person businesses, often relying upon the loyalty of regular customers. Many are struggling to make profits, especially as prices are fixed by Cardiff Council. There is concern that limiting the number of licences will make it difficult for new drivers to take up taxi work, especially if it results in a rise in the price of the taxi licence plates required to operate. In the past, it has been relatively easy for people to set up in the taxi business, an option that many workers made redundant from local firms have taken.

The survey findings

- The study looked at taxi ranks and public attitudes towards the numbers of taxis. Results showed there was always an excess supply of taxis at ranks to meet the demand – particularly around Cardiff Central station. The study recommended that the number of taxi licences be limited.

- There has been a huge increase in the number of taxi licences in the city from 480 in 2002. Now there are currently 875 taxis operating in the city, alongside 865 private hire licensed vehicles. There is one taxi per 359 people. Bigger cities like Birmingham have one taxi per 726 people – which suggests there are a lot more taxis in Cardiff than there need to be.

The survey also found taxi drivers outside Cardiff Central Railway Station often had to wait 48 minutes at weekends to pick up a new passenger. On average they had to wait between 10 and 15 minutes to get a customer.

- The survey also questioned 1,000 members of the public in February 2010. Some respondents said they had to wait two hours at a taxi rank, especially when events such as major concerts or rugby games were on – but the majority caught taxis straight away. In general, people were satisfied with taxi services and were unaware there was a problem with surplus numbers of taxis in the city.

- South Wales Police have expressed concern that limiting taxi numbers might lead to more people, waiting to leave the city centre late at night, particularly at weekends, with the possibility of increased alcohol-related crime. Cuts in bus services might increase this problem.

Disability campaigners also point to the fact that limiting new licences will mean fewer new taxis. All newly-licensed taxis must be under 3 years old and must be accessible by wheelchairs.

Adapted from the Guardian, 30 March 2010

- (a) Using the data, explain the argument that there were “more than enough taxis in Cardiff” in March 2010 (line 12). [8]
- (b) What does the data suggest about the structure of the taxi market in Cardiff? [8]
- (c) Discuss whether Cardiff Council were right to restrict the number of taxi licences to be issued in Cardiff. [12]
- (d) Some environmental campaigners have suggested that Cardiff Council should subsidise local buses and discourage taxi and private car access to the city centre. Discuss the case for and against this policy. [12]

BLANK PAGE

2. After decades of closures, can the UK's factory gates open again?

With an election looming, politicians are competing to support manufacturing, which despite years of neglect has survived by innovating and specialising.

Table 1 – UK Employment 1980-2010 (millions)

Year	Services	Manufacturing	Other	Total jobs
1980	17.5	6.3	3.4	27.2
1985	18.3	5.0	3.2	26.5
1990	20.8	4.9	3.6	29.3
1995	21.0	4.1	2.8	27.9
2000	22.9	4.0	2.7	29.6
2005	25.0	3.1	2.9	31.0
2010	25.3	2.5	2.9	30.7

Figure 1 – Contribution by sectors to GDP 1980 and 2010

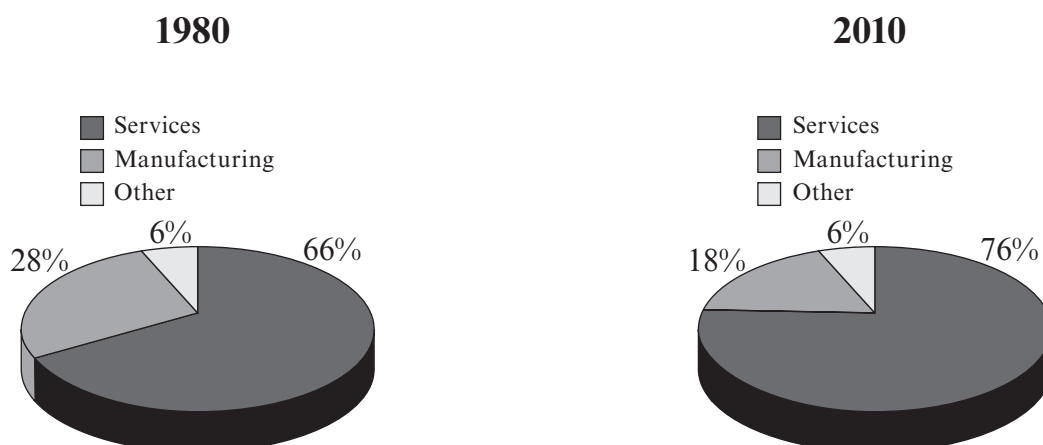
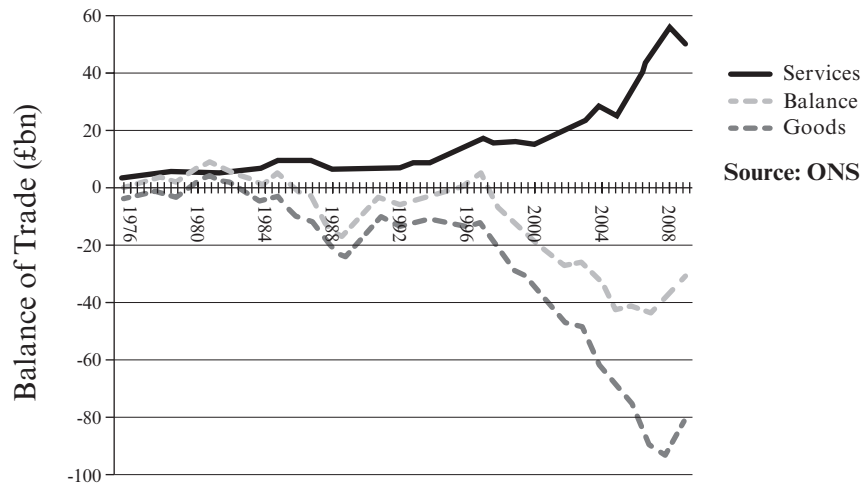


Figure 2 – UK balance of trade in goods and services 1975-2009



West Midlands businessman Alan Vurlan is reminiscing about the tail end of the boom years for manufacturing. “When I grew up, at five o’clock you needed to get off the streets because people were coming out of the factories and it would be like a stampede.”

5 It was a similar picture across the country. Factories employed many millions. They made up more than a third of the nation’s economic output. But by the time Vurlan’s generation were starting on their own careers in the early 1970s the decline was under way.

As competition from overseas manufacturers increased, school leavers and graduates were lured away by a brighter outlook in a fast-growing services sector that was increasingly supported by successive governments. By the time this latest recession struck, manufacturing had already
 10 suffered decades of neglect. Once-powerful British businesses such as engineering firm Turner & Newell and carmaker MG Rover had long since closed down.

Today the manufacturing sector makes up 18% of the nation’s GDP and employs 2.5 million people, compared with 4 million in 2000. Yet now, with recovery beginning but looking fragile, politicians are seeking to show their support for manufacturing by making pre-election promises. Labour
 15 Chancellor Alistair Darling’s budget last month promised help to smaller firms struggling to attract finance, while the Conservatives are promising corporation tax cuts, to “make Britain an attractive place for manufacturers to do business” and help for firms who want to run apprenticeships.

At the same time claims that UK manufacturing is dead, or at least not worth saving in our 21st century economy, are finally being drowned out, now that Britain has realised that over-reliance
 20 on any one sector can end in disaster. With the Government having to spend billions on bailing out the banks, the previous focus on financial services no longer seems so wise.

“The myth that we can exist without paying our way in the world has been exposed,” says Steve Radley, director of policy at the manufacturers’ organisation Engineering Employers Federation. “A rebalanced economy with a focus on an innovative, high-value manufactured goods sector will
 25 ensure we are much better placed to enjoy the benefits of higher living standards and higher quality jobs.”

But if the manufacturing sector is to be one of the engines of recovery, tapping into new industries such as clean energy to create new jobs and increasing Britain’s exports, there are questions about how quickly that can happen.

30 The UK remains the world's sixth biggest manufacturer and is home to world-renowned businesses such as Rolls-Royce and JCB. But it has also lost some big names to takeovers by overseas competitors – most recently the Birmingham-based chocolate-maker, Cadbury – something that worries local firms who supplied British firms such as Cadbury that are now foreign-owned. It is a trend that is all too familiar to Warwickshire industrial estate owner Bruce Undy. “We have seen a dramatic reduction in the large companies that our smaller companies supplied, either directly or indirectly,” says Undy.

Another hurdle facing the manufacturing sector is that of the loss of important work skills. Digby Jones, former head of The Confederation of British Industry (CBI), saw many experienced UK workers laid off during the recession and believes they will be hard to win back. Nor is there much new talent emerging to replace those lost workers, he argues.

“Manufacturing has a long, long way to go before it can consider it is out of the recession,” Alan Vurlan says. “One of the problems we face as a country is the lack of skilled workers”. His business needs scientifically skilled staff to develop new products for the building trade. Vurlan wants to see measures from the next government to support apprenticeships, closer links between job centres and business, and better ties with universities to introduce more graduates to the attractions of a manufacturing career.

But for manufacturing industry to prosper, businesses need certainty about the economic outlook, argues Chris Clifford of the CBI. “Investment decisions are being put off. Businesses are uncertain about what is going to happen over the next 12 months or so, and none of the main political parties are giving a clear line as to how they are going to reduce the public sector deficit. Companies need stability and certainty, and at the moment we have got neither.”

Adapted from The Observer, 11 April 2010

- (a) Describe how the structure of the UK economy has changed since 1980. [8]
- (b) Explain the factors which may have caused these changes. [8]
- (c) How far does the change in its industrial structure matter to the success of the UK economy? [12]
- (d) Recent Government economic policies have been focused on reducing the public sector deficit by increasing some taxes and cutting Government spending. Discuss whether these are the best policies to help UK manufacturing firms. [12]

SECTION B

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

3. In 2012 it seems unlikely that the UK will join the European Monetary Union (EMU) in the near future.
Discuss whether continued absence from the EMU is good for the UK economy. [20]
4. In 2011 the UK's rate of inflation rose to over 5%. Evaluate the view that the reduction of inflation should be the Government's main priority. [20]
5. Evaluate the policies that poor developing countries might use when trying to compete with richer more developed countries. [20]



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

EC4 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 – EC4

Summer 2012

- Q.1 (a) Using the data, explain the argument that there were 'more than enough taxis in Cardiff' in March 2010. [8]**

Level 1 1-4 marks	Identification of basic arguments, e.g. • increase in taxi licences compared to rise in population • Cardiff has far more than similar cities
Level 2 5-8 marks	Explanation of argument using figures, e.g. • number of taxis almost doubled, population increased more slowly

- (b) What does the data suggest about the structure of the taxi market in Cardiff? [8]**

Level 1 1-4 marks	Identification of basic structure, e.g. • large number of businesses • none particularly dominant • customer loyalty important • few barriers to entry
Level 2 5-8 marks	Development, e.g. • monopolistically competitive • can only make normal profit at most <i>allow up to 4 for perfect competition with appropriate illustration</i>

- (c) Discuss whether Cardiff Council were right to restrict the number of taxi licences to be issued in Cardiff. [12]**

Level 1 1-6 marks	Explanation of arguments for restriction, e.g. • taxi-drivers unable to make sufficient income • long waiting times for drivers • demand much greater than supply • may avoid creating unemployment for taxi- drivers
Level 2 7-12 marks	Evaluation of arguments against restriction, e.g. • restricts competition • may make it more difficult for passengers to get taxis • more alcohol-related crime • lower quality of taxis • fewer wheelchair-accessible taxis

- (d) **Some environmental campaigners have suggested that Cardiff Council should subsidise local buses and discourage taxi and private car access to the city centre. Discuss the case for and against this policy.** [12]

Level 1 1-6 marks	Explanation of arguments for policies, e.g. • reduction of social costs such as pollution and congestion • fewer accidents • social benefits for lower income groups • has progressive effect • use of appropriate diagram(s)
Level 2 7-12 marks	Evaluation of argument, e.g. • higher Council spending • opportunity cost of subsidies • bus passengers should pay for own transport • too expensive/inefficient to have late-night buses • restricts consumer choice • loss of jobs for taxi-drivers • loss of trade/jobs in city centre • <i>bus companies may not pass on savings</i>

- Q.2 (a) **Describe how the structure of the UK economy has changed since 1980.** [8]

Level 1 1-4 marks	Identification of trends, e.g. • fall in manufacturing share of employment and output • rise in service sector • primary sector percentage little change
Level 2 5-8 marks	Development using figures. <i>Maximum 6 if don't use trade figures</i>

- (b) **Explain the factors which may have caused these changes.** [8]

Level 1 1-4 marks	Identification of relevant factors, e.g. • foreign takeovers of UK firms • high UK inflation • high exchange rates • lower costs in other countries • success of UK financial services • decline in trade balance
Level 2 5-8 marks	Explanation of relevant factors, e.g. • foreign firms may not use local suppliers • higher productivity/technological change in manufacturing • high exchange rate makes exports dearer, imports cheaper • <i>higher Government spending has been mostly on services</i>

- (c) **How far does the change in its industrial structure matter to the success of the UK economy?** [12]

Level 1 1-6 marks	Arguments for concern about trends, e.g. • manufacturing industry important as customer for other sectors • decline may increase trader deficit • may hit particular regions harder than others • loss of skills • financial sector not as successful as previously
Level 2 7-12 marks	Evaluation of reasons for concern, e.g. • service sector replacing manufacturing jobs • need to concentrate upon areas where UK has comparative advantage • many manufacturing jobs low-skilled/low value-added • <i>interdependence of service & manufacturing sectors</i>

- (d) **Recent Government economic policies have been focused on reducing the public sector deficit by increasing some taxes and cutting Government spending.**

Discuss whether these are the correct policies to help UK manufacturing firms. [12]

Level 1 1-6 marks	Explanation and evaluation of arguments for cutting spending/raising taxes, e.g. • public sector debt may be unsustainable in the long-run • possible crowding-out • lower consumption in future years • lower long-term interest rates • will eventually reduce inflation and interest rates for manufacturing firms • will release finance for private sector manufacturers • lower tax burden eventually
Level 2 7-12 marks	Arguments against policy, e.g. • may make recession worse and cut demand for manufactured goods • possible higher unemployment • will lead to lower spending on education and training • will reduce growth and confidence in the UK economy • may lead to lower profits and investment • depends which taxes are reduced • other policies, e.g. developing skills, supply-side • <i>disincentives to effort</i> • <i>alternative policies e.g. supply-side, tariffs</i>

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 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.

Q.3 In 2012 it seems unlikely that the UK will now join the European monetary Union (EMU) in the near future.

Discuss whether continued absence from the EMU is good for the UK economy.

[20]

Definition and explanation of EMU and implications, e.g.

- single European currency European Central Bank, common interest rates

Explanation and evaluation of possible advantages and disadvantages of adopting EMU, e.g.

- easier trading
- no exchange rate fluctuations
- lower transaction costs
- Government cannot devalue
- 'discipline' on inflation
- wider markets for UK firms/possibility of economies of scale
- possible higher growth and employment
- possible outward shift in PPC/AS curve
- if entry delayed will be more difficult to adjust in later years
- increased competition from abroad may lead to higher unemployment/lower growth
- reduced independence for UK economic policy
- not joining may lead to lower inward investment
- *British people happier and more confident abroad if used to using the euro*
 - common interest rate may be unsuitable for countries with different economic conditions/UK economy more sensitive to interest rate changes (e.g. because of variable-interest mortgages)
 - benefits/difficulties of having to meet convergence criteria
 - benefits partially dependent upon mobility of factors
 - costs to business of adjusting to Euro
 - effects upon London as financial centre
- *British people will feel lost if don't have the Queen's head on their currency*

Level 4 answers should make a judgement as to whether the Government should enter EMU and refer to wider macro-economic effects such as those on inflation, unemployment and growth as well as basic 'exchange' effects.

Q.4 In 2011 the UK's rate of inflation was rose to over 5%. Evaluate the view that the reduction of inflation should be the Government's main priority.

[20]

Definition/explanation of inflation/causes of inflation

Descriptive explanation of problems caused by inflation, e.g.

- falling value of money
- shoe-leather and menu costs
- uncertainty
- reduced value of savings/fixed incomes
- distorts functions of money
- fiscal drag
- *Unfair redistribution of income away from pensioners, public sector workers etc*

Theoretical development linked to other macro-economic objectives, e.g.

- maintaining growth and employment
- meeting EMU convergence criteria
- self-perpetuating, e.g. wage-price spiral
- may increase Government spending, e.g. index-linked social security

Evaluation, e.g.

- consequences of Government anti-inflationary policy
- importance of other macro-economic objectives, e.g. getting economy out of recession/mass unemployment

Q.5 Evaluate the policies that poor developing countries might use when trying to compete with richer more developed countries. [20]

Explanation and illustration of possible problems, e.g.

- low levels of education/skill
- dependence upon particular industries
- dependence upon imports
- lack of appropriate technology
- high debt repayments
- protectionism
- *Use of appropriate theories e.g. Lewis, Rostow, Harrod-Domar*

Evaluation of possible methods for overcoming difficulties, e.g.

- encouraging strategic industries
- protectionist measures
- concentration upon import substitution
- relying upon free competition and trade
- attracting inward investment
- aid from other countries

Level 4 answers should attempt to balance relative merits of alternative policies, e.g. explanation of why best policies may vary between different countries.



GCE A level

1134/01

ECONOMICS – EC4

P.M. THURSDAY, 23 June 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 black ball-point pen.

Answer **one** question from Section A.

You are advised to spend no more than 1 hour and 15 minutes on Section A.

Answer **one** question from Section B.

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 **one** question from this section.

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

Big bus groups lash out at OFT competition referral

Britain's biggest transport groups have warned that investment may be cut and new laws undermined by the Office of Fair Trading's (OFT) decision to refer the £3.6bn bus market to the Competition Commission.

Figure 1 Local Bus journeys UK except London & N. Ireland 1996-2009

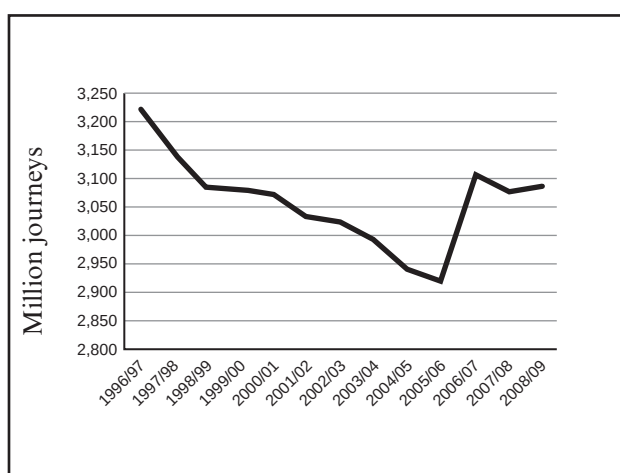


Figure 2 Private cars licensed in UK 1997-2008

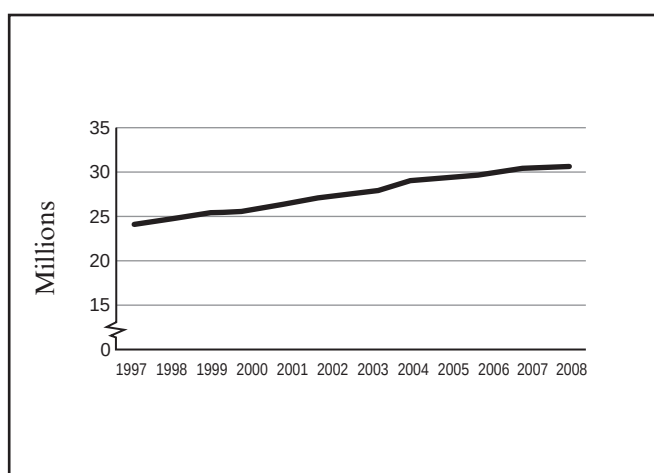


Figure 3 Real disposable income and transport costs 1997-2008

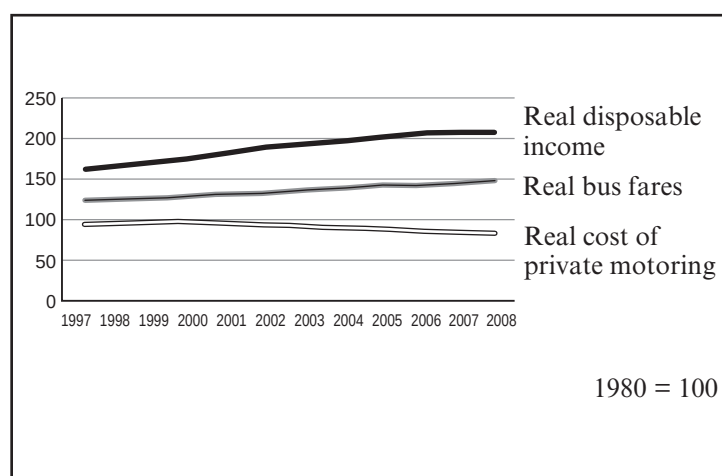
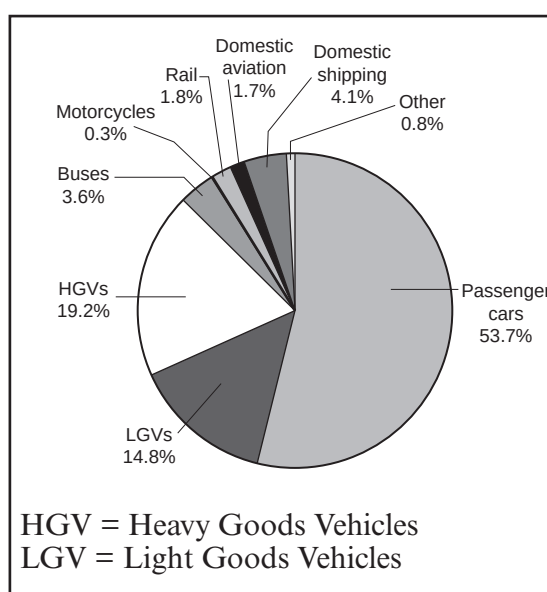


Figure 4 UK greenhouse gas emissions from domestic transport 2008



- 5 The Office of Fair Trading (OFT) said yesterday that it wanted a full Competition Commission investigation after finding “evidence that limited competition between bus operators tends to result in higher prices and poorer services for bus users”.

Heather Clayton, OFT senior director, said the Commission should “look at the tendency for local areas to become dominated by a single operator”. The OFT claimed fares could be 9 per cent higher in such areas, while it had also found evidence of large existing operators driving out smaller rivals through “predatory behaviour”. The trigger for the OFT’s inquiry was the decision by Cardiff Bus to set up a loss-making rival to new low-cost competitor, 2 *Travel*. As a result 2 *Travel* was forced out of the market.

“One of the concerns that we think the Competition Commission should take a look at is the tendency for local areas to become dominated by a single operator” said Heather Clayton. “This is certainly not about a return to ‘bus wars’ or competition on every route, but we do think large bus operators should face a healthy level of competition. Given the size and importance of this industry, with at least £1.2 billion coming from Government subsidies every year, the OFT believes that the Competition Commission should investigate how competition can deliver what passengers want and also the best value for money for the tax payer.”

Bus companies’ annual revenue for services outside of London is £3.6 billion. Of this approximately £450 million comes from subsidies for services judged as socially desirable (for example in rural areas). A further £750 million is given to bus companies to provide free or cheap fares for groups such as children, pensioners and people with disabilities. The remaining £2.4 billion comes from ordinary fares.

The OFT’s main complaints are that:

- Many routes are served by a single operator. At a national level none of the major operators serve all parts of the country. Many large areas (for example Scotland, the South West and North Wales) are served by only two major national operators. 35 per cent of areas outside London are served by only one of the four national groups. Many counties have one very large bus provider with a high market share. Many towns have only a single bus company.
- Fares are at least 9 per cent higher where there is limited competition;
- Existing large operators act in predatory ways, such as slashing fares, to deter new entrants;
- Large national operators appear to largely respect each others’ territories and do not try to move into other operators’ areas, partly for fear of retaliatory behaviour.

The OFT’s decision to refer the entire industry (outside London and Northern Ireland) to the Commission for an investigation that could take two years and cost £20m drew fierce criticism from the bigger providers. Between them Stagecoach, FirstGroup, Arriva and Go-Ahead have about two-thirds of the bus market outside of London.

A Stagecoach spokesman said: “This is a huge waste of taxpayers’ money, a pointless academic exercise for the competition authorities and an unnecessary distraction for the bus industry.” The OFT appears “blind to the fact that bus services face constant competition from the car,” he added. Bus companies view private cars as their main competition, and tend to operate only in areas close to their main depots to keep fuel costs low. Despite the growth of private motoring, since 2005 the number of journeys taken by bus has actually started to rise, reversing a steady downward trend that began in the mid-1990’s (see Figure 1). This was rather different from what might have been expected.

FirstGroup said the referral “could become an unnecessary and costly distraction from the Government’s own objective of reducing traffic congestion” and warned that “it may also delay
 50 further investment in the industry”. The Government’s own advisers, the Commission for Integrated Transport, have recently concluded that “bus operating costs have been driven up by worsening traffic congestion, reducing the average speed achieved by buses which increases the use of fuel”.

Talk to a smaller operator, however, and a different picture emerges. According to Simon Dunn,
 55 the chief executive of Rotala, a West Midlands bus operator: “We have experienced unfair competition on a daily basis.” He claims that a FirstGroup company cut fares in Redditch and Worcester to such an extent that it became impossible for Rotala to compete.

Adapted from, The Daily Telegraph January 8 2010, and Transport Trends 2009

- (a) Explain why the trend in bus journeys after 2005 was “rather different from what might have been expected”. (lines 46-47) [8]
- (b) Explain what the data suggests about the market structure of bus transport in the UK. [8]
- (c) To what extent are bus passengers likely to benefit from the OFT’s referral of the bus market to the Competition Commission? [12]
- (d) Discuss the economic arguments for the Government subsidising bus travel. [12]

BLANK PAGE

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

Our exports may be cheap, but Europe is not buying

Figure 1 **UK balance of trade in goods and services 1995-2009 (£ billion)**

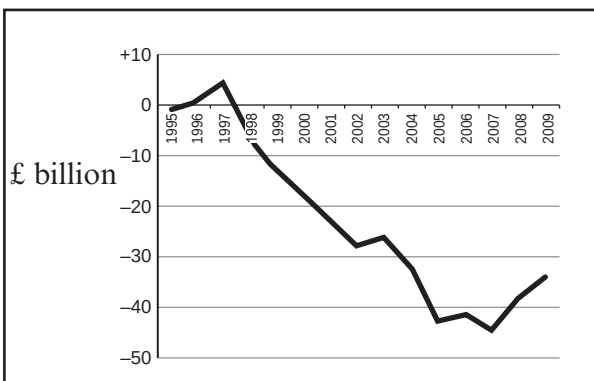


Figure 2 **UK exports of goods and services 1995-2009 (£ billion)**

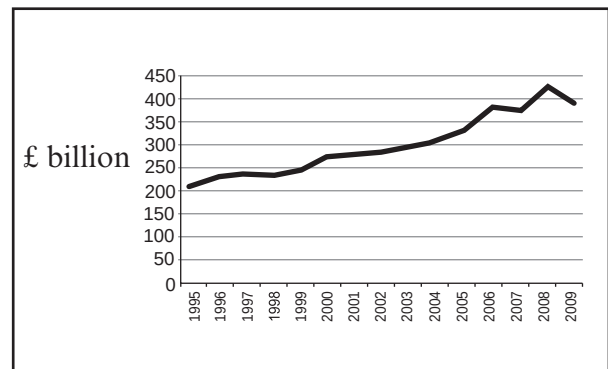
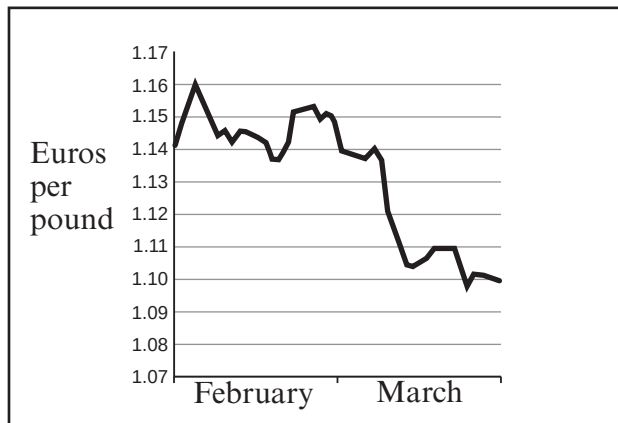


Figure 3 **Exchange rate of sterling in euros, February-March 2010**



A few days ago, something odd happened. A bad set of monthly trade figures came out and they resulted in sterling falling on the foreign exchanges. Why odd? Because it is a long time since the markets took any notice of the monthly trade figures. In the distant past, they were regarded as the single most important indicator of the economy's health. Later, capital flows took over from trade as the main factor affecting currency movements. Sterling was strong from 1996 to 2007 because of this, despite a deteriorating trade picture that nobody took much notice of. Now, it seems, trade is important again.

So are the markets right to focus on the trade figures again? No and yes. The trade deficit of £3.8 billion on goods and services in January looked dreadful compared with the December figure of £2.6 billion. But part of the problem for sterling at the moment is political uncertainty because of the election in May 2010. The other is the London effect. London is the world's biggest foreign-exchange centre, and is much more vulnerable to currency speculation than other European financial centres.

- 15 But yes, markets are right to regard trade as more important now. One reason that sterling was strong before the crisis was capital flows into the UK banking system from abroad. Those flows have been greatly reduced and will remain so, which helps to explain sterling's fall.

Despite the huge advantage of a competitive exchange rate, there are two problems for the UK when it comes to exporting. We don't make enough of the right things and we don't sell them to the right places. That is particularly true of goods, in which 2009's UK exports of £228 billion were less than three-quarters of the value of imports, at £309 billion.

On the first problem, a report last week, *Ingenious Britain: Making the UK the leading high-tech exporter*, offered some useful pointers. It was written by Sir James Dyson, the inventor and entrepreneur. Britain does a lot better in high-tech exports than is usually thought. The Engineering Employers' Federation reports a strong revival for high-tech sectors, particularly electronics.

However, there is a lot more that can be done. In 2007 Britain registered only 17,000 international patents, compared with 240,000 registered by America and 330,000 by Japan. Dyson argues that the problem starts in schools, where only 4% of teenage girls want to be engineers compared with 32% who want to be models, and he blames the bias against science and technology in education. Paying science, mathematics and technology teachers a lot more might help.

Financing high-tech start-ups is risky and should be rewarded with more generous tax relief. Government support, particularly for research and development, should be refocused on small, high-tech businesses. By their nature, however, these changes will take time.

On the second problem, what about shifting the geographical bias of our exports? One possibility is increasing exports to emerging economies such as China and India. The good news is that exports to China are rising. In the latest three months UK exports to China were up by an impressive 48.4% compared with a year earlier. Exports to South Korea rose by 22%.

However, the problem is that China's trade barriers are growing. Lord Mandelson, the UK's Minister for Business believes that "while tariffs have been reduced or have disappeared, more invisible barriers and restrictions and regulatory inhibitions to trade and investment have grown up". China's failure to protect foreign copyrights, national government subsidies to Chinese businesses and regulations that favour Chinese companies are among the methods used to limit the competitiveness of foreign companies in China. The Business Software Alliance, representing computer software manufacturers, estimates that 79 percent of China's computers in 2009 ran on pirated software. Although it is far from the closed market that it was twenty years ago, India still also maintains substantial tariff and non-tariff barriers that hinder EU countries trying to export there.

Adapted from The Sunday Times, 14 March 2010

- (a) Explain what Figures 1 and 2 show about the UK's trade with the rest of the world between 1996 and 2009. [8]
- (b) Explain the factors which appear to have influenced the exchange rate of sterling in early 2010. [8]
- (c) Discuss the likely effectiveness of spending more on education and high-tech start-ups as methods to increase the UK's exports. [12]
- (d) Discuss whether the protectionist methods used by countries such as China and India might damage the development of **their own** economies. [12]

SECTION B

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

3. To what extent do policies for reducing inflation necessarily tend to increase unemployment?
[20]
4. “The high level of the Government’s debt means that it must raise taxes sharply and cut Government spending severely.” Discuss.
[20]
5. How far do the activities of foreign multinational companies benefit the poor developing countries in which they operate?
[20]