GCE MARKING SCHEME

SUMMER 2019

ECONOMICS - UNIT 1
2520U10-1

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INTRODUCTION

The marking schemes which follow were those used by WJEC for the 2019 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.

Positive Marking

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

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SECTION A

Question	Answer	Assessment Objective
1	D	AO1
2	A	AO1
3	B	AO2
4	A	AO2
5	E	AO2
6	D	AO1
7	D	AO1
8	E	AO2
9	E	AO2
10	B	AO2
11	B	AO2
12	C	AO2
13	A	AO2
14	C	AO1
15	B	AO1

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SECTION B

Q.16 (a)	**Using the House Price Index in Table 1, calculate the price of the graduate's £200 000 house 4 years later in 2017. Give your answer to two decimal places. [2]**
	AO2
	2 marks
	Correct figure: £278 431.37 (or £278 440.00) [2 marks] If incorrect, give ONE mark for any ONE of the following: Rounding up error [1] Calculation of the correct % change (39.22% or approx. 40%) [1]
Q.16 (b)	**Identify and calculate the opportunity cost of buying the house. [2]**
	AO1 1 mark Identification of the opportunity cost: "Buying UK Shares". Can be implicit or explicit (£236 000 can be considered implied understanding). *A definition of opportunity cost should not be credited.* **AO2 1 mark** Calculation can be presented either as **£236 000** OR **£36 000.**

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Q.17 (a)	**Describe how prices help to allocate resources between different uses. [2]**
	AO1
	2 marks
	2 marks Good description **1 mark** Limited description **Indicative content:** **For AO1 there is NO requirement to use examples from the data.** Candidates can choose to talk about the rationing function of price. Prices serve to ration scarce resources when demand in a market outstrips supply. When there is a shortage, the price is bid up – leaving only those with the willingness and ability to pay to purchase the product; be it the demand for houses increases the market price which acts a rationing device to equate demand with supply. In the case study of football games (above), if prices are falling, this may be indicative that demand for the good/service is decreasing and therefore less needs to be produced. Candidates can also choose to talk about the signalling function of prices. Prices rise and fall to reflect scarcities and surpluses. If prices are rising because of high demand from consumers, this is a signal to suppliers to expand production to meet the higher demand.

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Q.17 (b)	**Using price elasticity of demand (PED) calculations, explain why PED changes along a straight line downward sloping demand curve. [4]**
	AO2 – are the PED calculations correct? [2] **2 marks** TWO correct PED calculations which are relevant to the question set. **1 mark** ONE correct PED calculation which is relevant to the question set. **AO3 – explain why PED changes along a straight line downward sloping demand curve. [2]** **2 marks** Good explanation **1 mark** Limited explanation **Indicative content:** **Good explanation** might include: theoretical or mathematical explanations. For example, when prices fall they became a lower percentage of a consumers' income and therefore the PED becomes more inelastic. Or The reason for this is that we are measuring the percentage change in both price and quantity. As you move along a linear curve and approach one of the axes, the percentage changes in that axis variable (either price or quantity) get smaller and smaller and the percentage changes of the opposite axis get bigger and bigger. For example, when the price of tickets fell from £90 to £80, PED was -1.35. But, when the price of tickets fell from £80 to £70, PED was just -1.04. If the manager reduces the price further, we might assume that PED is -0.81 (assuming that the linear function of the demand curve holds!). As the price moves further away from the point of unitary elasticity, PED will become increasingly inelastic.

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Q.17 (c)	**Consider whether the marketing manager should continue to reduce ticket prices in order to increase revenue. Use revenue calculations to support your answer. [6]**		
Band	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**
	Appropriate calculations are used to support answer	*Has economic theory been well developed to support the argument that she should reduce prices?*	*Has economic theory been used to evaluate the arguments made in AO3?*
2	**2 marks** TWO correct revenue calculations which are relevant to the question set	**2 marks** Good analysis	**2 marks** Good evaluation
1	**1 mark** ONE correct revenue calculation which is relevant to the question set	**1 mark** Limited analysis	**1 mark** Limited evaluation
0	**0 marks** No calculations offered or incorrect calculations	**0 marks** No or incorrect analysis	**0 marks** No evaluation offered

Indicative content:

AO2
Possible calculations: 90 x 20 000 = £1.8m, 80 x 23 = £1.84m, 70 x 26 = £1.82m

MAX 1 - Mark for lack of units in millions.

AO3
Good analysis could include either:
(a) Continued price falls (considering a fall in prices below £70)
Or
(b) Using *economic theory** to explain why the revenue changes has occurred.

*Economic theory** may include the relationship between price elasticity of demand and revenue, ie when PED is inelastic, prices should be increased in order to increase revenue. When PED is elastic, prices should be decreased in order to increase revenue.

AO4
Good evaluation might include
(a) Continued price falls (considering a fall in prices below £70 / above £90)
Or
(b) Using *economic theory** to explain why the revenue changes has occurred.
Or
(c) Using an alternate method to increase revenue.

For example:
Elasticity changes along the line and as prices reduce further it is likely that the PED will soon become inelastic. At that point, reducing price will simply reduce revenue.

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Following on with the values on the graph, if she drops the price by another £10, she will actually reduce the revenue.

Demand curves do not have to behave as linear functions and therefore we are unsure exactly how much the quantity will increase by after another fall in price. To that end, we are unclear exactly what the revenue will change by.

There are many factors that affect demand and it may be that by the time the next game comes along the demand function/curve has shifted and then the revenue gained/lost by the price drop may reflect changes in demand rather than the original demand curve.

The answer is reversible.

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Q.18 (a)	**Outline one reason why the aggregate demand curve slopes downwards. [2]**
	AO1
	2 marks
	2 marks Good understanding **1 mark** Limited understanding **Indicative content:** **AO1** Learners are expected to describe at least **one of the following reasons**: the real balance effect, the trade effect and the interest rate effect. 1. **Real balance effect:** As the price level rises, the real value of people's incomes falls, and consumers are less able to buy the items they want or need. If, over the course of a year, all prices rose by 10% whilst your money income remained the same, your real income would have fallen by 10%. 2. **The trade effect:** A persistent rise in the price of level of Country X could make foreign-produced goods and services cheaper in price terms, causing a fall in exports and a rise in imports. This will lead to a reduction in net trade and a contraction in AD. 3. **Interest rate effect:** if the price level rises, this causes inflation and an increase in the demand for money and a possible rise in interest rates with a deflationary effect on the economy. This assumes that the central bank (in our case the Bank of England) is setting interest rates in order to meet a specified inflation target.
Q.18 (b)	**Outline why the LRAS curve is vertical at the full employment level of output. [2]**
	AO1
	2 marks
	2 marks Good understanding **1 mark** Limited understanding **Indicative content:** After the middle section of the Keynesian AS curve, output cannot be increased since all the factors of production are being fully utilised. Therefore, no matter what the level of demand is, output cannot increase, and prices will simply rise. Can also be explained via a Classical Economic description; for example, that the economy will always self-stabilise at Yfe because it represents the point of full employment. This is output which would be made when all factors of production are being fully utilised, including labour. The only unemployment at this point is voluntary unemployment.

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Q.18 (c)	**Using an example of a fiscal supply-side policy, discuss whether it would be effective at achieving the policy objective of low inflation in this economy.** **[6]**		
Band	**AO1**	**AO3**	**AO4**
	1 mark	**3 marks**	**2 marks**
	Is there a good example of a supply-side fiscal policy?	*Does the answer explain why the policy will be good at achieving low inflation*	*Has economic theory been used to evaluate the arguments made?*
2		**3 marks** A good analysis	**2 marks** Good evaluation
1	**1 mark** Appropriate example	**1-2 marks** A limited analysis	**1 mark** Limited evaluation
0	**0 marks** No use of the data	**0 marks** No or incorrect analysis	**0 marks** No evaluation offered

Indicative content:

AO1
Examples might include:
Influencing incentives to work and to invest (such as decrease in income tax/corporation tax/ unemployment benefits)
Improving infrastructure
Education and training programmes

AO3
Good analysis. Must include a reference to the specific policy offered in AO1.

The answer needs to explain how the policy can lower inflation. For example, the economy in question is suffering from a lack of surplus capacity; it is at full capacity. Therefore, if the government improves the infrastructure, this suddenly creates greater capacity in terms of greater transport links and ability for firms to do business with each other (communications networks). It may also lead to an increase in investment as firms see transport costs decrease and workers can commute easier so there is a greater incentive to work.

By increasing the capacity, this will help shift the AS curve rightwards, causing an extension along the AD curve and a fall in the price level.

AO4
Good evaluation. Must include a reference to the specific policy offered in AO1.

The supply-side policy infrastructure is likely to be effective only in the long-term. It takes a long time to build the infrastructure and therefore the effects will take a while. In addition, if the government is spending lots of money on the policy, this will cause AD to increase in the SR and actually creates upwards pressure on the price level in the short-term.
Any policy which is not a fiscal supply-side policy (such interest rates, raising the minimum wage) can only score a MAX of 3 (limited analysis and limited evaluation).

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Q.19 (a)	**Explain two ways in which monetary authorities can influence the value of an exchange rate in a free-floating system. [4]**
	First factor AO1 – Identification of appropriate factor [1 mark] AO3 – Explanation why that factor can appreciate/depreciate the value of the currency [1 mark]
	Second factor AO1 – Identification of appropriate factor [1 mark] AO3 – Explanation why that factor can appreciate/depreciate the value of the currency [1 mark]

Indicative content:

AO1/3

Any TWO appropriate policies can be credited here:

Monetary authorities can lower interest rates. This will reduce the incentive for foreigners to save in domestic banks and therefore the demand for currency will reduce and the value of the currency will fall.

Similarly, they can sell currency on the FOREX market. This will increase the level of supply of currency on the market and therefore reduce the value of the currency.

Monetary authorities can impose capital controls on citizens either buying or selling currency on the FOREX. This action essentially restricts the amounts of capital inflow and outflow of currency into/out of a country, thereby influencing the exchange rate.

Monetary authorities can embark on a programme of Quantitative Easing which will increase the money supply in a country. As a result, the value of the money is likely to fall (inflation may increase) and demand for currency will fall.

Monetary authorities can 'talk' a change in exchange rates, e.g. by simply saying that an ER is 'too high', markets anticipate a fall in the ER and react by reducing the demand for the currency/selling more of the currency.

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Q.19 (b)	**Evaluate whether Donald Trump's claims that China is holding its exchange rate artificially below the free market level is likely to worsen the US' trade balance. [10]**			
Band	**AO1**	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**	**4 marks**
	Good understanding of the effects on trade balance?	*Is the answer in context about the relationship between the US and China?*	*AO1 points are developed in order to explain why the effects on trade balance is occurring*	*Has economic theory been used to evaluate the arguments made?*
2	**2 marks** Good understanding Explicit or implicit	**2 marks** Good application	**2 marks** A good analysis Both sides (X and M) of the trade balance need to be considered	**3-4 marks** Clear, well-reasoned and balanced evaluation Clear reference to economic theory to justify the judgement
1	**1 mark** Limited understanding	**1 mark** Limited application	**1 mark** A limited analysis Only one side of the trade balance is considered	**1-2 marks** Limited evaluation The evaluation may be unbalanced and superficial
0	**0 marks** No use of the data	**0 marks** No application	**0 marks** No or incorrect analysis	**0 marks** No evaluation offered

Indicative content:

AO1/AO3

The trade balance represents the relationship between a country's exports and imports. With a low exchange rate held below the free market level, the price of US exports is held artificially higher and their goods are now less competitive. Therefore, there should be a fall in US exports.

Similarly, the price of Chinese imports is now lower to US consumers; they are more competitive and therefore Chinese imports should rise.

Together, then, higher Chinese imports and lower US exports should see a deterioration in the US' trade balance.

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AO4 (Evaluation):

It depends on the PED for exports and imports. For example, if imports are inelastic, consumers may continue to buy them anyway despite the higher prices. There is NO requirement to mention the J curve but, if correct, it should be credited.

It depends on the extent of the devaluation. Obviously, President Trump contends that it is a significant factor but, without figures, we are unclear.

The US has other trading partners – not just China. Therefore, its trade balance does not completely depend on the outcome of trading with China (although, admittedly, it is very significant).

It depends on how Trump reacts with regard to protectionist policies of his own. Trump may enact legislation (like quotas) that restrict Chinese imports despite their competitive price.

AO2

Any appropriate use of the data should be credited.

This is not an exhaustive list of factors.

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