GCE AS MARKING SCHEME

SUMMER 2022

AS
ECONOMICS - UNIT 2
2520U20-1

© WJEC CBAC Ltd.

INTRODUCTION

This marking scheme was used by WJEC for the 2022 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

© WJEC CBAC Ltd.

GENERAL MARKING GUIDANCE

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

© WJEC CBAC Ltd.

GCE AS ECONOMICS - UNIT 2

SUMMER 2022 MARK SCHEME

1. (a)	**Using an example from the data, describe what is meant by the term 'scarcity' (line 2).** **[2]**
	AO1: 1 mark Award **1** mark for correct definition **Indicative content:** When finite/limited resources are insufficient to meet infinite/unlimited wants [1] **AO2: 1 mark** Award **1** mark for correct use of example from the data **Indicative content:** Food may become increasingly scarce as the world population grows [1]

1. (b)	**Outline whether salmon is a normal or an inferior good.** **[2]**
	AO2: 2 marks Award **1** mark for identifying that salmon is a normal good Award **1** mark for 'consumers typically increase their spending on … salmon … as their income increases'

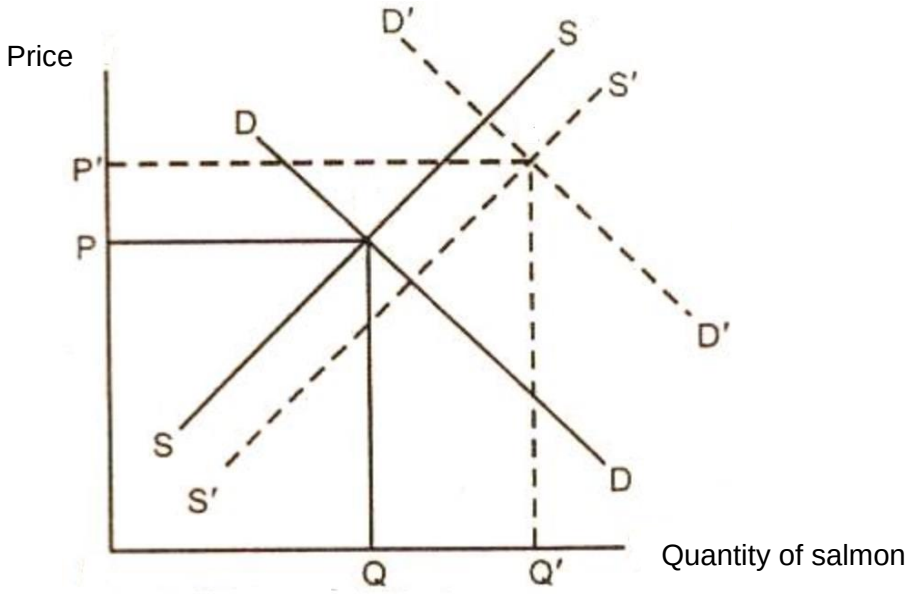
© WJEC CBAC Ltd.

1. (c)	**With reference to lines 6-11, explain why salmon prices have risen. Use a supply and demand diagram in your answer. [6]**		
Band	AO1	AO2	AO3
	2 marks	2 marks	2 marks
	Does the candidate demonstrate knowledge of a supply and demand diagram?	*Is the answer applied well to the context of the salmon market?*	*Has economic theory been used to explain why the price of salmon has risen?*
2	**2 marks** Good knowledge Diagram shows both demand and supply have increased (but demand by more) 1 major error allowed	**2 marks** Good application Use of data is integral to the explanation.	**2 marks** Good explanation Candidate links changes in the demand and supply for salmon to its rise in price
1	**1 mark** Limited knowledge Diagram shows only demand has increased 2 or more major errors but the understanding is still clear	**1 mark** Limited application It is likely that quotes have been identified but that they are not tied in (integrated) to the explanation	**1 mark** Limited explanation
0	**0 marks** No diagram or incorrect diagram	**0 marks** No use of data or incorrect use of data	**0 marks** No analysis or incorrect analysis

© WJEC CBAC Ltd.

Indicative content:

AO1
Supply and demand diagram shows an increase in supply and a larger increase in demand.



AO2
The answer must be linked to the salmon market.

References might include:
- Global population is rising.
- Farmed salmon 'can offer one solution to meeting this increased demand'.
- 'the demand for salmon is increasing as people are actively encouraged to consume more fish as part of a healthy and balanced diet'.
- 'an improving economic environment globally has therefore further increased demand'.
- 'total supply continuing to rise'.

AO3
Analysis may include:
Both demand for, and supply of, salmon have increased.
The increase in demand is greater than the increase in supply, leading to an increase in salmon prices.

© WJEC CBAC Ltd.

1. (d)	**Consider whether the supply of farmed salmon is price inelastic or price elastic.** **[6]**			
Band	AO1	AO2	AO3	AO4
	2 marks	1 mark	1 mark	2 marks
	Does the candidate show a good understanding of PES?	*Is the answer applied to the context of farmed salmon?*	*Did the candidate use economic theory to explain why supply of farmed salmon is price inelastic?*	*Has economic theory been used to evaluate the arguments made in AO3?*
2	**2 marks** Good knowledge Candidate effectively defines/describes price elasticity of supply and identifies supply of farmed salmon is price inelastic in the short run			**2 marks** Good evaluation Candidate uses economic theory to explain why supply of farmed salmon is price elastic in the long run (or other relevant evaluation)
1	**1 mark** Limited knowledge Candidate shows an incomplete understanding of price elasticity of supply	**1 mark** Limited application Candidate uses examples from the data or own knowledge to contextualise their answer in terms of farmed salmon	**1 mark** Limited analysis Candidate uses economic theory to explain why supply of farmed salmon is price inelastic in the short run	**1 mark** Limited evaluation
0	**0 marks** No knowledge	**0 marks** No application	**0 marks** No analysis	**0 marks** No evaluation offered.

© WJEC CBAC Ltd.

THIS IS A REVERSIBLE ANSWER

Indicative content:

AO1
Price elasticity of supply measures the responsiveness of supply to a change in the price of a good. If supply is price inelastic, a change in price results in a proportionally smaller change in quantity supplied (0<PES<1); if supply is price elastic, a change in price results in a proportionally larger change in quantity supplied (PES>1).

The supply of farmed salmon is likely to be price inelastic in the short run.

AO2
The answer must be linked to the salmon market.
References might include:

- 'Improved productivity within the salmon farming industry should mean that the supply of farmed salmon is price responsive.'
- 'in the short run, supply is limited by the 3-year production process, regulations, and capacity constraints.'

AO3
Lines of argument include:
In the short run, supply of farmed salmon is likely to be price inelastic as it takes time to breed salmon / long production process.

In the short run, supply of farmed salmon is likely to be price inelastic as there are regulations and capacity constraints limiting the extent to which salmon farms can increase their production.

AO4
Possible lines of argument include:
In the long run, supply of farmed salmon is likely to be price elastic as farmers have time to breed more fish, to meet regulations, and/or to expand their capacity.

The PES may vary from farm to farm, or from country to country.

Increased environmental regulation / damage to marine ecosystems may make supply more price inelastic in the future, even in the long run.

© WJEC CBAC Ltd.

1. (e)	**To what extent does salmon farming in Scotland lead to market failure? [12]**			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	4 marks	4 marks
	Does the candidate show a good understanding of market failure and its form(s)?	*Is the answer applied well to the context of the salmon market?*	*Does the candidate explain why the form(s) (in AO1) arise and cause market failure?*	*Has economic theory been used to evaluate the question effectively?*
3			**4 marks** Excellent analysis Candidate explains in depth why salmon farming might be a source of market failure	**4 marks** Excellent evaluation An excellent range and depth of evaluation which leads to an overall reasoned judgement
2	**2 marks** Good knowledge Candidate understands market failure and identifies at least one form.	**2 marks** Good application Use of data is integral to the explanation.	**2-3 marks** Good analysis Candidate explains why market failure may arise in less depth	**2-3 marks** Good evaluation A good range and depth of evaluation but an overall reasoned judgement may be missing
1	**1 mark** Limited knowledge Candidate shows an imprecise understanding of market failure, or does not identify any relevant form	**1 mark** Limited application It is likely that quotes have been identified but that they are not tied in (integrated) to the explanation	**1 mark** Limited analysis	**1 mark** Limited evaluation
0	**0 marks** No knowledge	**0 marks** No application	**0 marks** No analysis	**0 marks** No evaluation

© WJEC CBAC Ltd.

Indicative content:

AO1/AO3
Possible lines of argument include:

- Given its nutritional content, salmon might be a merit good meaning that it is likely to be under-consumed in the free market.
- The data implies that there are external costs in farmed salmon production. This would mean that at the free market equilibrium, the marginal social costs of farmed salmon production are greater than the marginal social benefits, and so farmed salmon is over-produced in the free market. Candidates may illustrate this with an appropriate diagram.
- There may be external benefits to the consumption of salmon, given its nutritional content. Healthier eating may reduce strain on the NHS/increase worker productivity etc.
- Information asymmetries may be present in the salmon market: consumers might not know about its nutritional benefits, leading to under-consumption; or consumers may not be aware of the possible negative effects of salmon fishing on the environment, leading to over-consumption.

AO2
The answer must be linked to the salmon market.
References might include:

- 'Farmed salmon has high levels of Omega-3 and is also a good source of high-quality protein, vitamins and minerals.'
- Salmon farming 'has been blamed for the decrease in wild salmon stocks over recent years' as disease is spread to wild populations.
- Sea lice which spread disease may be spread to wild animals.
- Stocks of other wild fish may be endangered by them being inefficiently used to feed farmed salmon.
- A report by the Scottish Government's environment committee said 'that marine ecosystems faced "irrecoverable damage" if concerns were not addressed.

AO4
Possible lines of argument include:
The extract refers to people being 'actively encouraged to consume more fish as part of a healthy and balanced diet', helping to close any information gaps.
The external costs of farmed salmon production may be questioned as:

- It is very difficult to put a monetary value on them;
- Farmed salmon 'is one of the most eco-efficient and sustainable forms of protein', using less water per kg of edible meat, and leaving a smaller carbon footprint than chicken, pork or beef.
- Salmon farming has external benefits, for example producing local/regional multiplier effects in Scotland, generating tax revenue etc.
- Perhaps it is the way that salmon farming is currently done, i.e. around 20% of salmon farms failing to meet statutory environmental standard, rather than salmon fishing per se which has resulted in market failure.

© WJEC CBAC Ltd.

1. (f)	**Discuss the likely impacts on the Scottish economy of the closure of all salmon farms.** **[12]**			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	4 marks	4 marks
	Does the candidate show a good knowledge of the likely impacts on the Scottish economy?	*Is the answer applied well to the context of salmon farms in Scotland?*	*Does the candidate explain why the impacts (in AO1) would arise?*	*Has economic theory been used to evaluate the question effectively?*
3			**4 marks** Excellent analysis Candidate explains in depth at least two likely impacts on the Scottish economy	**4 marks** Excellent evaluation An excellent range and depth of evaluation of both impacts which leads to an overall reasoned judgement
2	**2 marks** Good knowledge Candidate identifies two likely impacts on the Scottish economy.	**2 marks** Good application Use of data is integral to the explanation.	**2-3 marks** Good analysis Candidate explains one likely impact in depth, or multiple likely effects in less depth	**2-3 marks** Good evaluation One impact is evaluated in depth, or multiple impacts are evaluated in less depth
1	**1 mark** Limited knowledge Candidate identifies one likely impact on the Scottish economy	**1 mark** Limited application It is likely that quotes have been identified but that they are not tied in (integrated) to the explanation	**1 mark** Limited analysis	**1 mark** Limited evaluation
0	**0 marks** No knowledge	**0 marks** No application	**0 marks** No analysis	**0 marks** No evaluation

© WJEC CBAC Ltd.

Indicative content:

AO1/AO3
Possible lines of argument might include:
Less employment opportunities / more unemployment in Scotland as people currently employed in salmon farms are made redundant.

Negative multiplier effect in the areas where salmon farms are closed, as unemployed workers cut their spending, and firms making up the salmon farms' supply chain lose business.

Less tax revenue paid to the government and greater government spending is required on transfer payments, worsening the government budget balance.

A fall in exports may lead to a worsening of the balance of payments on current account / trade balance for the UK.

Falls in exports, investment and consumption may put downward pressure on aggregate demand, leading to a slower rate of economic growth in Scotland.

Average incomes and standards of living may fall.

AO2
The answer must be linked to the farmed salmon industry and the Scottish economy.
References might include:

- Farmed salmon is 'a positive contributor to local communities'.
- 'salmon farming is one of Scotland's most profitable industries'
- 'it currently provides over 12 000 jobs across the country'
- 'farmed Scottish salmon is Britain's biggest single food export'
- Salmon farms are often located in rural areas with few other large employers

AO4
Possible lines of argument include:
Significance: is 12 000 jobs significant across the whole population of Scotland?

Unemployment may only be short term, depending on workers' occupational and geographical mobility of labour. That said, it may create long term structural unemployment which has a more negative effect on the economy.

Other jobs may be created, such as in the fishing of wild salmon, or in the tourism industry as Scotland's marine ecosystems recover.

Questioning of the ceteris paribus assumption: other components of aggregate demand may change and off-set/out-weigh the effects identified.

Effects of a fall in aggregate demand depend on the elasticity of the Keynesian LRAS curve. Given that unemployment is historically low across the UK, there may be relatively little impact on real GDP and employment.

© WJEC CBAC Ltd.

2. (a) (i)	**Using the data, explain how "raising interest rates by 50%" and "increasing interest rates by 0.25 percentage points" are the same thing. [2]**
	AO2: 2 marks *NB - Interest rates were raised from 0.5% to 0.75%.* • An increase from 0.5 to 0.75 is an increase in 0.25 percentage points (0.75-0.5 = 0.25) [1] • It is also an increase of 50% (% change from 0.5 to 0.75 is 50%) [1]

2. (a) (ii)	**"Someone with a £5 000 savings balance benefiting from a 0.25 percentage point rate increase will see their interest income rise by £1.04 per month". Show how this was calculated. [2]**
	AO2: 2 marks • £5 000 x 0.25% = £12.50 [1] • £12.50/12 = £1.04 [1]

2. (b) (i)	**Other than inflation, state two factors that the Monetary Policy Committee is likely to take into account when setting the bank rate. [2]**
	AO1: 2 marks **1 mark per factor identified** This is not an exhaustive list: • Unemployment rate • GDP growth rate • Exchange rate • House prices • Interest rates in foreign countries • Business/consumer confidence levels **NB Do not award current or forecast inflation rate**

2. (b) (ii)	**In addition to setting the bank rate, the Bank of England has many other roles. State two other roles of the Bank of England. [2]**
	AO1: 2 marks Two other roles identified (1 mark per role) • Controlling the money supply • Lender of last resort • Regulator of the financial system (through the FCA) • Stores the nation's treasure/gold reserves • Banker to the Government • Responsible for anti-fraud services on banknotes

© WJEC CBAC Ltd.

2. (c)	**To what extent will increasing the bank rate affect the levels of consumption and investment in the UK? [10]**		
Band	AO2	AO3	AO4
	2 marks	4 marks	4 marks
	Is the answer contextualised to the UK?	*How good is the analysis of how Bank Rate will affect the levels of consumption and investment?*	*Has economic theory been used to evaluate the arguments made in AO3?*
3		**4 marks** Excellent analysis Candidate effectively uses economic theory to explain how the use of Bank Rate can affect both variables.	**4 marks** Excellent evaluation An excellent range and depth of evaluation which leads to an overall reasoned judgement.
2	**2 marks** Good application Candidate uses examples from the data or own knowledge to contextualise their answer in terms of the UK economy.	**2-3 marks** Good analysis. For Band 2 there is no requirement for students to consider BOTH objectives although a range of analysis should be credited.	**2-3 marks** Good evaluation More than one evaluative point is NOT absolutely necessary for Band 2 but a range of evaluative points should certainly be credited where appropriate.
1	**1 mark** Good application	**1 mark** Limited analysis	**1 mark** Limited evaluation
0	**0 marks** No application	**0 marks** No use of the data Confused/incorrect use of the data.	**0 marks** No evaluation offered

© WJEC CBAC Ltd.

Indicative content:

AO2

Any appropriate use of data or own knowledge can be credited.

AO3

Consumption may fall because:

- Increasing Bank Rate, normally means that consumption will fall. This is because people will greater reward for saving their money in a bank. As a result, they will prefer to save and not spend their money as much.
- (Variable rate) mortgage repayments are increasing and so people have less discretionary income to spend.
- Credit cards will gradually become more expensive and so people making purchases on credit will find that it is more expensive and may stop.

In addition, investment normally requires a loan from a bank. If interest rates are higher, this means that taking a loan is more expensive and then firms will be less willing to take the loans out. Investment will fall.

AO4

Evaluative points may include:

- It is only a very small change from 0.5% to 0.75% (25 percentage points) and therefore this may not be a large enough change to change behaviour. The gains in savings are so small.
- Banks may take a long time to pass on the Bank Rate changes, even if they do at all.
- Inflation is still high, so a 0.75% interest rate is well below the inflation rate (2.7%). This means the real interest rate is negative and, in real terms, savers are actually losing money.
- Unemployment is high and therefore job security may be high. Consumer confidence may be high and therefore consumers may continue to spend, firms may continue to invest.

© WJEC CBAC Ltd.

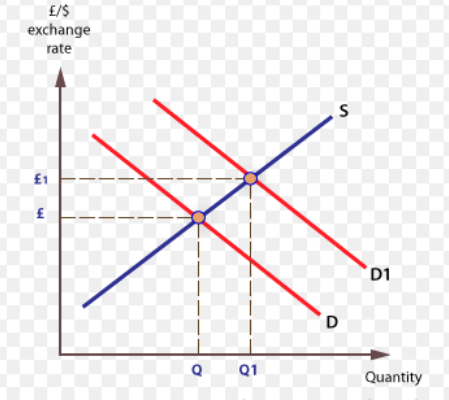
2. (d)	**With reference to the data and with the use of an exchange rate diagram, discuss whether interest rates are the main factor affecting exchange rates. [10]**			
Band	**AO2**	**AO3**		**AO4**
	2 marks	**2 marks**	**2 marks**	**4 marks**
	Is the answer contextualised?	*Does the candidate use a diagram effectively?*	*Does the answer explain the relationship between interest rates and exchange rates?*	*Has economic theory been used to evaluate the arguments made in AO3?*
3				**4 marks** An excellent range and depth of evaluation which leads to an overall reasoned judgement
2	**2 marks** Good application Candidates demonstrates good use of data and/or good use of own examples	**2 marks** Good diagram Effective use of diagram to show impact of interest rates changes on D and/or S for a currency.	**2 marks** Good analysis Candidate explains the link effectively.	**3-2 marks** Good evaluation More than one evaluative point is NOT absolutely necessary for top band AO4 but a range of evaluative points should certainly be credited where appropriate.
1	**1 mark** Limited use of data	**1 mark** Diagram has more than two minor errors or one major error.	**1 mark** Limited analysis	**1 mark** Limited evaluation
0	**0 marks** No application	**0 marks** Incorrect diagram or No diagram	**0 marks** No analysis	**0 marks** No evaluation offered.

© WJEC CBAC Ltd.

Indicative content:

AO2

Any appropriate use of data or own knowledge can be credited.



AO3

Normally, when interest rates increase the exchange rate should appreciate. This is because as interest rates rise, the reward for saving in that country increases. This causes foreign investors to put their money into those banks. They demand more of that currency. As a result, the demand curve for the currency shifts rightwards/outwards and this creates upwards pressure on the value of the currency. All other things being equal, this will cause an appreciation of the currency.

AO4

Evaluative points may include:

- Speculative flows are the biggest driver of exchange rates but speculation doesn't just depend on interest rates. Speculators look at a range of indicators but it may also just be down to animal spirits.
- Exchange rates are affected by the trade balance and imports/exports. The UK is a net importer and so this may depress the exchange rate even though the interest rates are increasing.
- Political tension or uncertainty may be a larger factor. In the case of the UK, worries over Brexit were the biggest factor affecting the exchange rate after 2016.
- The impact of changes in demand for the currency depend on its PES. This is likely to be relatively elastic, reducing the impact of a change in demand on the exchange rate.

© WJEC CBAC Ltd.

2. (e)	**Using an AD/AS diagram, evaluate whether the use of demand-side policies always leads to a conflict of policy objectives. [12]**			
Band	AO1	AO1	AO3	AO4
	2 marks	3 marks	3 marks	4 marks
	Is the diagram correct?	*Is there a good understanding of the key terms?*	*Is the AO1 understanding developed to explain how demand-side policies can lead to a conflict of policy objectives?*	*Has economic theory been used well to evaluate the arguments in AO3?*
3		**3 marks** Excellent understanding of the terms: Demand-side policy AND at least TWO policy objectives	**3 marks** Excellent analysis	**4 marks** Excellent evaluation An excellent range and depth of evaluation which leads to an overall reasoned judgement
2	**2 marks** Correct diagram (up to 2 minor mistakes only)	**2 marks** Good understanding of the terms: Demand-side policy AND ONE policy objective, or just TWO policy objectives.	**2 marks** Good analysis Candidate explains the link effectively.	**2-3 marks** Good evaluation More than one evaluative point is NOT absolutely necessary for Band 2 but a range of evaluative points should certainly be credited where appropriate.
1	**1 mark** Partially correct diagram	**1 mark** Limited understanding Or Good understanding of only one term	**1 mark** Limited analysis	**1 mark** Limited evaluation
0	**0 marks** No or totally incorrect diagram	**0 marks** No or totally incorrect understanding of key terms	**0 marks** No or totally incorrect explanation	**0 marks** No evaluation offered

© WJEC CBAC Ltd.

Indicative content:

AO1/AO3

Policy objectives include: inflation 2%, low unemployment, steady growth, positive trade balance etc …

A demand-policy is one in which the primary aim of the policy is to shift AD. When AD shifts to the right, it could cause a conflict in policy objectives.

Demand-side policies are often used to achieve the policy objectives of positive growth and low unemployment. Often, they can be expensive policies for the Government – for example, an increase in transfers or current spending – and so will also worsen the budget balance.

As spare capacity in the economy decreases, further increases in AD will create high inflationary pressure in the country.

If the policy is concerned with infrastructure building such as roads and bridges, or it creates pollution because industry is making more output – this may cause a conflict with environmental objectives.

AO4

There is no conflict if the AD shifts outwards on the perfectly elastic section of the LRAS curve. At this stage, the country has enough spare capacity (is operating inside its PPF) to ensure there is no great inflationary pressure.

Similarly, there is no conflict if LRAS is shifting out at the same time. For example, a policy like building infrastructure will increase capacity at the same time as trying to use that capacity.

The Government can impose environment regulations on firms to make sure that they do not damage the environment excessively.

A prudent approach to fiscal policy may allow the Government to run a budget deficit in the short-run. If the policy objectives of growth and low unemployment are then achieved, the Government may well find it very easy to pay back that debt in the long-run (by collecting more tax revenue).

© WJEC CBAC Ltd.