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Edexcel GCE

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Economics

Advanced Subsidiary

**Unit 1: Competitive Markets: How they work
and why they fail**

Tuesday 13 May 2014 – Morning
Time: 1 hour 30 minutes

Paper Reference

6EC01/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** the questions in Section A and **one** question from Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Check your answers if you have time at the end.

Turn over ►

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Section A: Answer all the questions in this section

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Opportunity cost arises because

(1)

- A** the price mechanism may lead to a misallocation of resources
- B** resources are scarce
- C** the supply of goods and services is infinite
- D** supply may exceed demand

Answer

Explanation

(3)

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(Total for Question 1 = 4 marks)



2 The most likely consequence of an increase in the division of labour in the construction of new houses is an increase in

(1)

- A** output per unit of labour
- B** the price of houses
- C** the production cost of each house
- D** the range of skills required by each worker

Answer

Explanation

(3)

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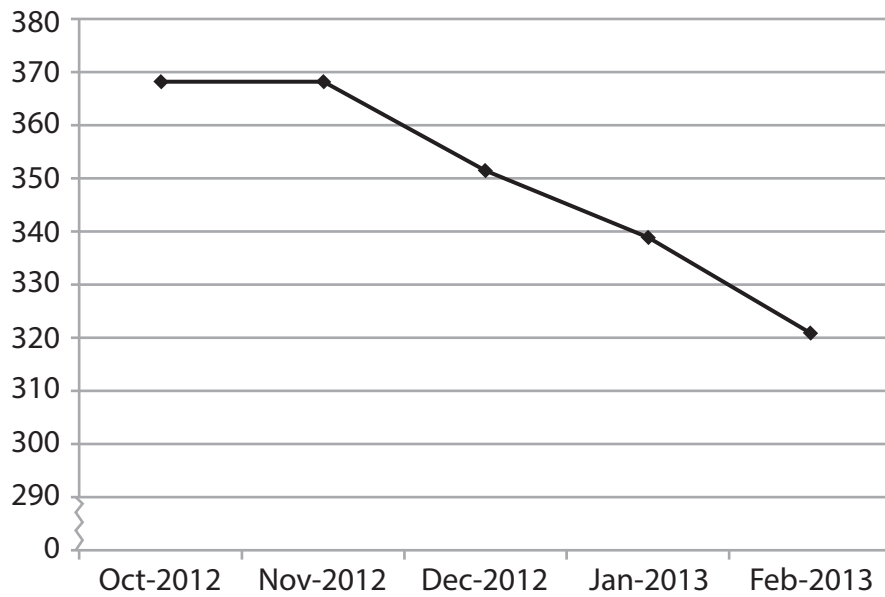
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(Total for Question 2 = 4 marks)



3 The price of black tea, US cents per kilogram



(Source: © IMF)

The graph shows the price of tea between October 2012 and February 2013.
(You may use a demand and supply diagram in your answer.)

A possible cause of this fall in the price of tea is

(1)

- A** an increase in the wages of tea growers
- B** an increase in the price of coffee
- C** a larger tea harvest than expected
- D** a decrease in the price of sugar

Answer



Explanation

(3)

Handwriting practice area with horizontal dotted lines.

(Total for Question 3 = 4 marks)



4 A negative cross elasticity of demand may be expected for which of the following pair of goods?

(1)

- A Motor vehicles and rail travel
- B Bus transport and potatoes
- C Motor vehicles and petrol
- D Bus transport and taxi services

Answer

Explanation

(3)

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(Total for Question 4 = 4 marks)



5 Estimates of income elasticity of demand for selected food items in Cyprus and the Maldives.

Product	Cyprus	Maldives
Cereals e.g. rice	-0.12	0.50
Fish	0.37	0.64
Oils and fats	0.00	0.52

(Source: <http://www.ers.usda.gov/Data/InternationalFoodDemand>)

It may be deduced from the data in the table that

(1)

- A the demand for fish is income inelastic in both countries
- B the demand for oils and fats is perfectly income elastic in Cyprus
- C cereals are a normal good in Cyprus but an inferior good in the Maldives
- D the demand for oils and fats is more responsive than the demand for fish to a change in income in the Maldives

Answer

Explanation

(3)

(Total for Question 5 = 4 marks)



6 Market research estimates that a 100% increase in the price of coffee in Uganda leads to a 33% increase in the quantity supplied. This information suggests the supply of coffee in Uganda is

(1)

A income inelastic

B price elastic

C unit elastic

D price inelastic

Answer

Explanation

(3)

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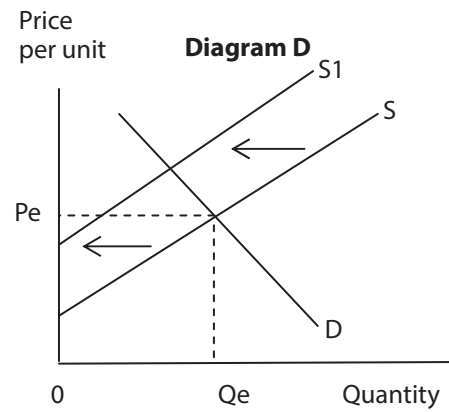
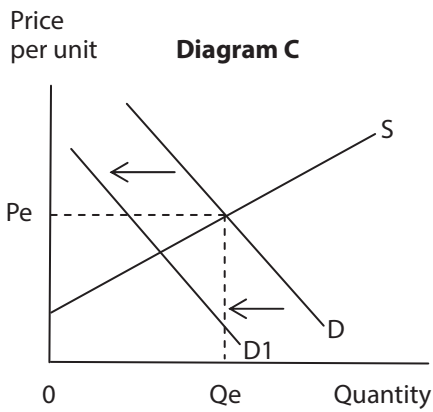
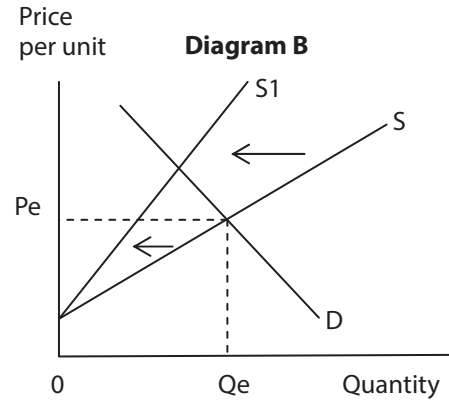
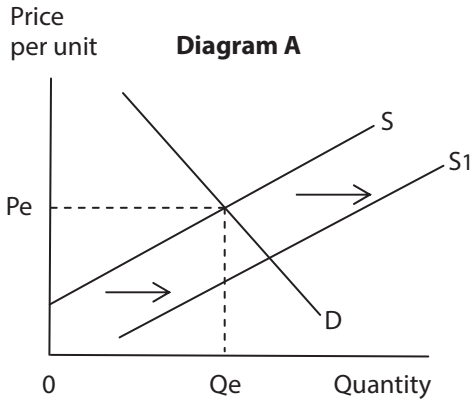
(Total for Question 6 = 4 marks)



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Turn over for Question 7



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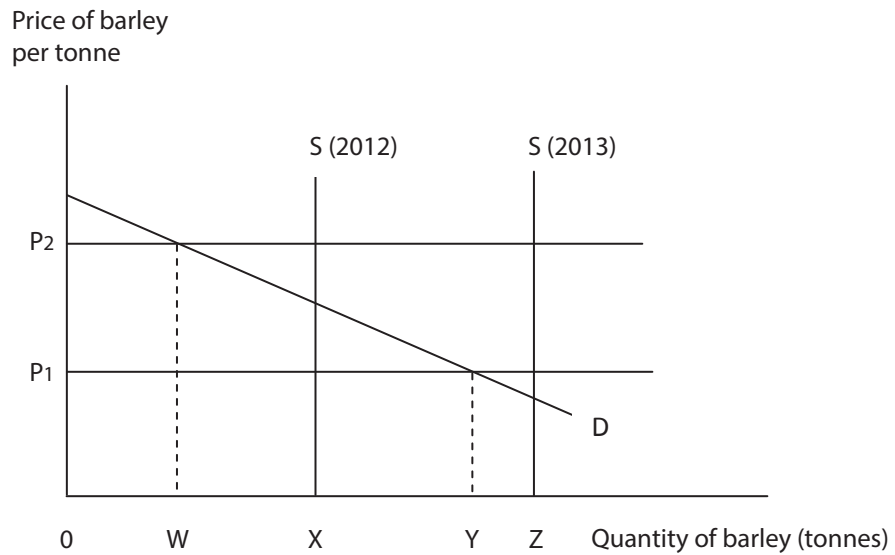
In September 2012 the Spanish Government increased the sales tax (VAT) on goods such as clothing to 21%. Which of the diagrams, labelled **A**, **B**, **C** and **D**, best illustrates the effects of the increase in sales tax? (You may annotate the relevant diagram in your answer.)

Answer

(1)



8



The diagram shows the operation of a buffer stock scheme in the barley market where a government agency intervenes to ensure the price remains between P_1 and P_2 . (You may annotate the diagram in your answer.)

The 2013 harvest led to

(1)

- A an excess demand for barley
- B the government agency selling barley from its stockpile
- C price increasing to P_2
- D the government agency buying barley and adding to its stockpile

Answer



Explanation

(3)

A series of horizontal dotted lines for writing the explanation.

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS



Section B: Answer either Question 9 or Question 10.

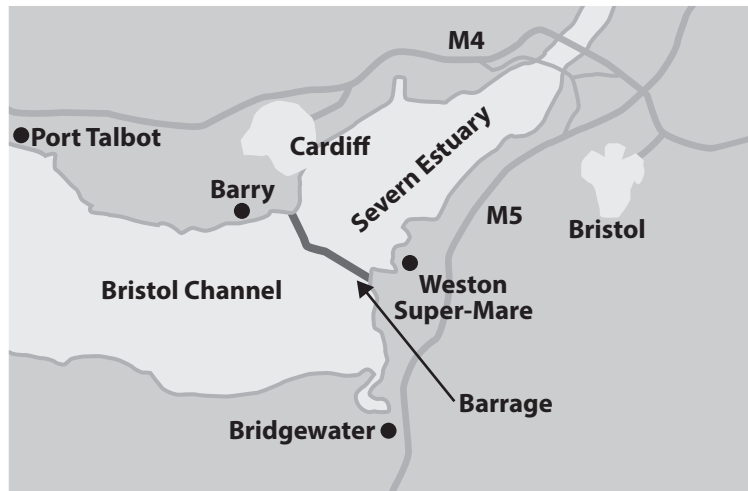
If you answer Question 9 put a cross in this box .

Question 10 starts on page 26.

You should spend 55 minutes on this section.

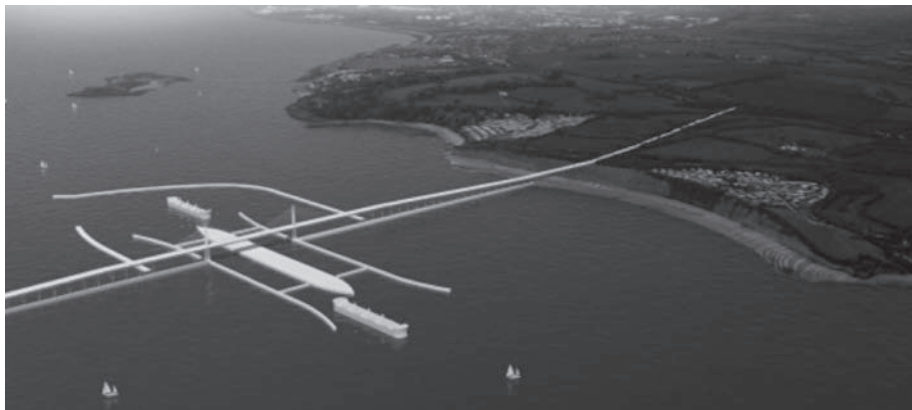
9 Proposals for a tidal barrage in the Severn Estuary

Figure 1 The proposed tidal barrage between Cardiff and Weston-Super-Mare



(Source: © Crown copyright 2002)

Figure 2 The proposed Severn Barrage



Extract 1 Benefits and costs of the tidal barrage

Plans for an 11 mile tidal power barrage across the Severn Estuary have been proposed by private consortium Corlan Hafren. The scheme would generate around 5% of the UK's electricity needs and be funded by overseas investors. No UK government subsidy would be involved in funding the huge £34 billion cost of the scheme. However, consumers will be expected to pay higher prices for the electricity generated from this renewable energy source (to cover increased production costs) compared to non-renewable energy supplies such as gas and coal. 5

The Severn Estuary has the world's second largest tidal range of almost 14 metres. Harnessing this energy would make a significant contribution to the government's target of generating 20% of the nation's energy from renewable sources by 2020. A tidal barrage, once complete, is carbon neutral. It would help diversify the UK's energy supply and operate for at least 120 years. This compares favourably with the lifespan of nuclear power plants (35 years) and wind turbines (25 years). These forms of renewable energy receive substantial government subsidies and planning restrictions are relaxed to promote their development. 10 15

More than 30 000 local jobs would be created from the scheme. This includes constructing road and rail links on top of the barrage to improve the transport infrastructure in the region. A factory to build the 200 giant turbines required for the tidal barrage and a deep water dock facility is also planned in Port Talbot.

The tidal barrage would also help reduce flooding along the river Severn floodplain. In 2007 severe flooding in the area led to £3.2 billion of damage. 20

However, the tidal barrage will have a significant impact on wildlife and their habitats. The Royal Society for the Protection of Birds believes that the barrage would destroy huge areas of estuary marsh and mudflats used by 70 000 birds. It would also block the migration routes of fish including wild salmon. Corlan Hafren intends to reduce the negative effects by building turbines which rotate at slow speed to minimise damage to sea life. 25

(Source for Figure 2 and Extract 1: Adapted from 'UK Government considering new multi-billion plan for barrage across Severn Estuary, Western Mail, 7th December 2011)

- (a) Explain **two** likely reasons why the UK government has a target of 'generating 20% of the nation's energy from renewable sources by 2020' (Extract 1, line 10). (6)
- (b) Explain how 'funding the huge £34 billion cost of the scheme' could proceed without a UK government subsidy (Extract 1, lines 4 and 5). (4)
- (c) Examine the possible impact on the production possibility frontier for the UK economy if the Severn Estuary tidal barrage is constructed. Illustrate your answer with an appropriate diagram. (10)
- * (d) Discuss factors which might influence the supply of labour for constructing the tidal barrage scheme. (14)
- * (e) Evaluate **two** measures, other than supporting the Severn Estuary tidal barrage, by which the Government could promote the generation of renewable energy. (14)



(a) Explain **two** likely reasons why the UK government has a target of 'generating 20% of the nation's energy from renewable sources by 2020' (Extract 1, line 10).

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(b) Explain how 'funding the huge £34 billion cost of the scheme' could proceed without a UK government subsidy (Extract 1, lines 4 and 5).

(4)

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(c) Examine the possible impact on the production possibility frontier for the UK economy if the Severn Estuary tidal barrage is constructed. Illustrate your answer with an appropriate diagram.

(10)

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* (d) Discuss factors which might influence the supply of labour for constructing the tidal barrage scheme.

(14)

A series of horizontal dotted lines for writing the answer.



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*(e) Evaluate **two** measures, other than supporting the Severn Estuary tidal barrage, by which the Government could promote the generation of renewable energy.

(14)

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(Total for Question 9 = 48 marks)

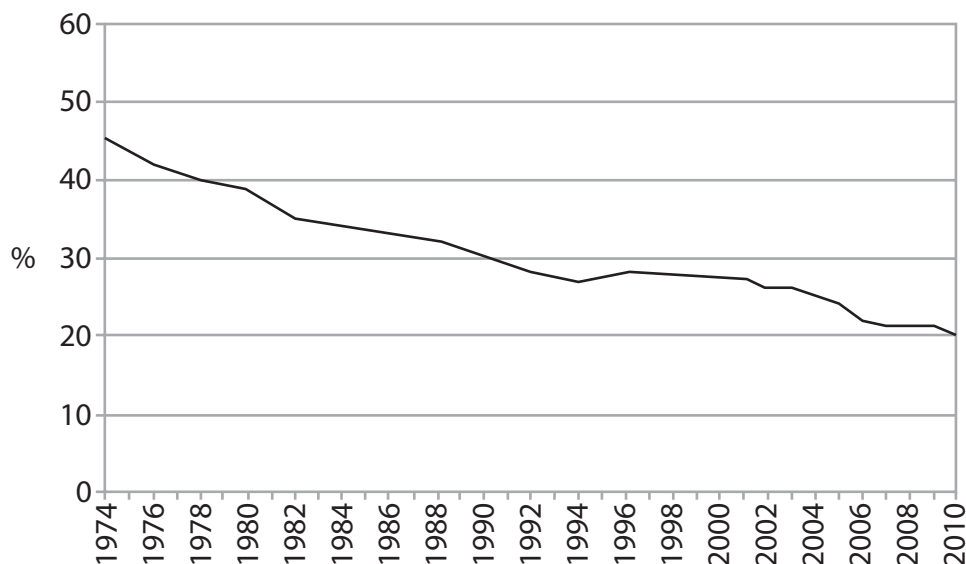


P 4 3 3 0 4 A 0 2 5 4 0

If you answer Question 10 put a cross in this box .

10 Tobacco consumption in Britain

Figure 1 Percentage of adults in Great Britain who smoke cigarettes, 1974–2010



(Source: © Crown copyright)

Figure 2 The estimated costs of tobacco smoking in Britain

Type of cost	£ billion per year
National Health Service	2.7
Loss of productivity from smoking breaks at work	2.9
Staff absence from work owing to tobacco-related illnesses	2.5
Cleaning up tobacco litter	0.3
House fires from tobacco smoking	0.5
Loss of output from early death of smokers	4.1
Loss of output from early death of passive smokers	0.7
Total	13.7

(Source: © ASH)



Extract 1 The decline of tobacco smoking in Britain

Tobacco smoking has fallen over the past fifty years following government health campaigns warning people of its dangers and greater regulations on its sale and consumption. Higher taxes on cigarettes have also contributed to the decline in smoking. The tax on tobacco now accounts for 80% of the £7.45 price paid for a premium packet of cigarettes.

5

The leading anti-smoking pressure group ASH, believes it will take a further fifty years to eliminate smoking in Britain. ASH claims that up to two-thirds of lifelong smokers are eventually killed by their habit.

(Source: © ASH)

Extract 2 Tobacco taxation

In the 2012 Budget the Chancellor George Osborne increased the tax on tobacco by 5 percentage points above the rate of inflation (known as the tobacco tax escalator). This added 37 pence to the price of a packet of cigarettes. The government received £12.1 billion in revenue from indirect taxes on tobacco in 2012.

Despite price increases on tobacco contributing to a fall in its demand, total expenditure has risen (including the tax receipts). For example, consumer expenditure on tobacco increased from £15.1 billion in 2010 to £15.3 billion in 2011.

5

Tobacco consumption among 11–15-year-old children has not changed over the past five years with 5% being regular smokers. Tobacco smoking also remains much higher for low income workers in manual occupations (29%) compared to higher income workers in professional and managerial occupations (13%).

10

There has also been a significant switch in tobacco sales, from high quality, expensive brands to low quality and cheap cigarettes. The latter now account for 30% of the British market.

(Source: © ASH)

Extract 3 Tobacco smuggling and government regulations

Around 20% of all tobacco smoked in the UK is smuggled into the country and the government loses more than £2 billion a year in potential tax revenue. High tobacco taxes are blamed for creating the illegal trade. The trade is dominated by criminal gangs who can import into the country more than 10 million cigarettes in just one lorry container load.

5

However, some of the highest levels of smuggling were found in Spain and Italy, two countries with the lowest tax rates on tobacco.

There has also been an increase in the manufacture of counterfeit tobacco products. Many counterfeit cigarettes are hard to distinguish from genuine brands and often consist of even more harmful chemical compounds. Government plans to force tobacco companies to use plain packaging may make it easier to produce counterfeit cigarettes.

10

A government smoking ban imposed on enclosed public spaces since 2007 has coincided with more than 1 500 pubs and bars closing down each year.

(Source: © ASH)



- (a) With reference to the information provided, explain **two** possible causes of the decrease in tobacco smoking. (4)
- (b) Outline the likely impact on consumer surplus and producer surplus in the tobacco market of a decrease in demand for tobacco. Illustrate your answer with a supply and demand diagram. (6)
- (c) Using the information in Extract 2 and your own knowledge, discuss whether the demand for tobacco products is likely to be price inelastic or price elastic. (10)
- * (d) With reference to the information provided and your own knowledge, discuss the likely benefits to consumers and the government of a decrease in tobacco smoking. (14)
- * (e) With reference to the information provided and your own knowledge, to what extent might regulations on the sale of cigarettes and high taxes on tobacco result in government failure? (14)



(b) Outline the likely impact on consumer surplus and producer surplus in the tobacco market of a decrease in demand for tobacco. Illustrate your answer with a supply and demand diagram.

(6)



(c) Using the information in Extract 2 and your own knowledge, discuss whether the demand for tobacco products is likely to be price inelastic or price elastic.

(10)

A series of horizontal dotted lines provided for writing the answer to the question.



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* (d) With reference to the information provided and your own knowledge, discuss the likely benefits to consumers and the government of a decrease in tobacco smoking.

(14)

Dotted lines for writing.



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***(e)** With reference to the information provided and your own knowledge, to what extent might regulations on the sale of cigarettes and high taxes on tobacco result in government failure?

(14)

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(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B = 48 MARKS
TOTAL FOR PAPER = 80 MARKS



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Economics

Advanced Subsidiary

Unit 2: Managing the Economy

Wednesday 21 May 2014 – Afternoon

Time: 1 hour 30 minutes

Paper Reference

6EC02/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **EITHER** Question 1 or Question 2.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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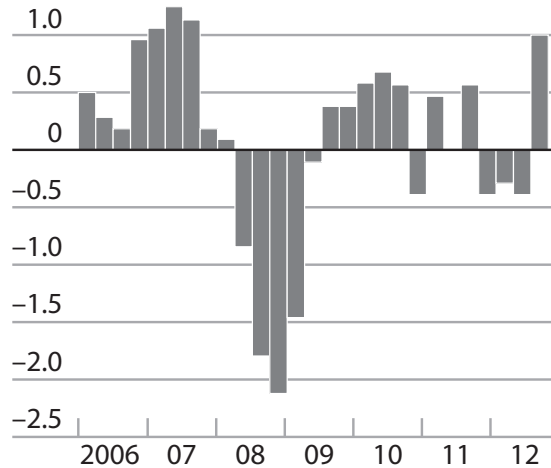
PEARSON

Answer EITHER Question 1 or Question 2.

If you answer Question 1, put a cross in this box .

1 Growth, Productivity and Unemployment

Figure 1
UK Growth, percentage change in real GDP from previous quarter



Extract 1
Exceptional effects on growth

The 1% growth rate in real GDP in the third quarter of 2012 from the previous quarter was the strongest in five years. However, the economy is still no bigger than it was a year ago, and is 3% smaller than it was before the financial crisis hit in 2008. One-off factors such as the Queen's Diamond Jubilee and the London Olympics also improved the third quarter figure, which was better than the 0.6% economists predicted.

5

But few believed the better data signalled the start of a strong economic recovery. Employment is rising, real disposable incomes are recovering and retail sales are picking up. However, the global economy is slowing, the government plans to reduce its budget deficit further next year and confidence among businesses and households remains fragile.

10

(Source for Figure 1 and Extract 1: © The Financial Times Ltd 2013)

Extract 2
UK unemployment and employment

UK ILO unemployment is at 2.51 million, up 55% since 2007, a similar increase to the US and the eurozone, according to the OECD. That eurozone average disguises huge variations, however, from rises of well over 100% in Greece and Spain to a fall of 33% in Germany.

5

In past recessions, the proportion of the unemployed out of work for more than 12 months in the UK has typically increased to 40–50%. This time it has reached only 35%. This has been partly attributed to the welfare-to-work policies of current and previous governments which try to push people quickly back into whatever jobs are available.

The UK's strength in creating jobs, taking the number employed back above the pre-crisis level, has been balanced by concern about the quality of those jobs – a lot of them self-employed, part-time or temporary – and a poorer productivity performance than the average for developed countries.

10

(Source for Figure 1 and Extract 2: © stats.oecd.org)



- (a) (i) With reference to Figure 1, explain how the growth rate in the third quarter of 2012 can be “the strongest in five years” (Extract 1, line 2) while the economy is “smaller than it was before the financial crisis hit in 2008” (Extract 1, line 3). (6)
- (ii) With reference to Extract 1 and your own knowledge, explain **two** likely benefits of economic growth. (8)
- (iii) Using the concept of the multiplier, assess the contribution of “one-off factors such as the Queen’s Diamond Jubilee and the London Olympics” (Extract 1, lines 3 and 4) to economic growth. (12)
- (b) (i) Explain how ‘UK ILO unemployment’ (Extract 2, line 1) is measured. (4)
- (ii) Explain **two** possible problems for the UK economy of 35% of the unemployed being “out of work for more than 12 months” (Extract 2, lines 5 – 6). (8)
- *(iii) According to Extract 2 (lines 11 – 12) the UK has a “poorer productivity performance than the average for developed countries.” Assess the likely impact of the UK’s relatively poor productivity performance on its economy. (12)
- *(c) With reference to the information provided and your own knowledge, evaluate the policies that the UK government could adopt to improve productivity. (30)



(a) (i) With reference to Figure 1, explain how the growth rate in the third quarter of 2012 can be “the strongest in five years” (Extract 1, line 2) while the economy is “smaller than it was before the financial crisis hit in 2008” (Extract 1, line 3).

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(ii) With reference to Extract 1 and your own knowledge, explain **two** likely benefits of economic growth.

(8)

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(iii) Using the concept of the multiplier, assess the contribution of "one-off factors such as the Queen's Diamond Jubilee and the London Olympics" (Extract 1, lines 3 and 4) to economic growth.

(12)

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(b) (i) Explain how 'UK ILO unemployment' (Extract 2, line 1) is measured.

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(ii) Explain **two** possible problems for the UK economy of 35% of the unemployed being "out of work for more than 12 months" (Extract 2, lines 5 – 6).

(8)

A series of horizontal dotted lines for writing the answer.



*(iii) According to Extract 2 (lines 11 – 12) the UK has a “poorer productivity performance than the average for developed countries.” Assess the likely impact of the UK’s relatively poor productivity performance on its economy.

(12)

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*(c) With reference to the information provided and your own knowledge, evaluate the policies that the UK government could adopt to improve productivity.

(30)

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(Total for Question 1 = 80 marks)



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If you answer Question 2, put a cross in this box .

2 Inflation, living standards and monetary policy

Figure 1
UK Consumer Price Index (CPI)

	UK CPI (Annual Average) 2005 = 100	UK CPI percentage change over 12 months
2008	108.5	3.6%
2009	110.8	2.2%
2010	114.5	3.3%
2011	119.6	4.5%
2012	123.0	2.8%

(Source: adapted from data from the Office for National Statistics licensed under the Open Government Licence v.1.0.)

Extract 1 **Living standards fall in the UK and inequality rises between generations**

According to the Institute for Fiscal Studies the standard of living in Britain has fallen as the average household income fell by 2.4% over the period 2008–9 to 2010–11.

This has coincided with rising inequality of income between different generations. Using data from government income surveys of more than 750 000 households, analysis by the Financial Times shows that the average real household disposable income for people aged 20–29 fell 6.3% between 2008–09 and 2010–11. This figure takes account of CPI inflation reducing the purchasing power of money. If housing costs are included, the fall was even larger, at 9%. 5

In contrast, households with people in their 60s, 70s and 80s saw average real disposable incomes rise by about 1% over the same two-year period. That finding supports a longer-term study by the Office for National Statistics showing that pensioners saw the fastest growth in living standards for any group in Britain during the past 35 years. 10

According to Robert Joyce of the Institute for Fiscal Studies, the government's planned changes to the tax and benefit system up to 2015 will mean pensioner households will lose less on average than younger adults aged 20–29, who will see their living standards squeezed further. This latter age group is particularly affected by a high rate of unemployment, annual benefit rises capped at 1% in nominal terms and falling real wages. 15

(Source: © The Financial Times Ltd 2013)
(Source: Adapted from www.ifs.org.uk/comms)



Extract 2 Inflation

Recessions are normally associated with falling inflation rates. However, since the recession started in 2008 the Bank of England's Monetary Policy Committee (MPC) has overseen several periods in which inflation has exceeded the upper limit of the target inflation rate's tolerance. There have been four sources of inflationary pressure. First, oil prices rose sharply because of popular unrest in many Arab nations which led to the development of uncertainty around the security of supply. Secondly, a period of bad weather resulted in harvest failure in many areas and wheat prices soared. In addition, the sterling exchange rate has weakened and since 2008 it has fallen by around 25% against the U.S. dollar. A final factor was the increase in VAT from 15% to 17.5% in January 2010 and then in January 2011 it was raised to 20%.

5

10

The monetary tools available to the MPC of the Bank of England have most impact on the demand side of the economy, which has been weak and was not the source of the inflationary shocks. The danger with raising interest rates to achieve the inflation target in the short term is that they might weaken the economy further.

(Based on a variety of media sources)

- (a) (i) Figure 1 shows that in 2008 average prices were lower than in 2012. Calculate, in percentage terms, how much **higher** prices were in 2012 than in 2008. (4)
- (ii) Explain **two** reasons why the government has a low rate of inflation as a macroeconomic objective. (8)
- (iii) With reference to the information provided, evaluate the significance of **two** likely causes of UK inflation over the period 2008 to 2012. (12)
- (b) (i) Explain how the standard of living may be measured. (6)
- (ii) With reference to Extract 1 and your own knowledge, analyse **two** likely reasons why living standards have fallen for people aged 20–29. (8)
- *(iii) Evaluate possible changes in government spending and taxation aimed at increasing living standards for younger adults in the UK. (12)
- *(c) With reference to the information provided and your own knowledge, to what extent might monetary policy help the UK government achieve its macroeconomic objectives? (30)



(a) (i) Figure 1 shows that in 2008 average prices were lower than in 2012. Calculate, in percentage terms, how much **higher** prices were in 2012 than in 2008.

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(iii) With reference to the information provided, evaluate the significance of **two** likely causes of UK inflation over the period 2008 to 2012.

(12)

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(b) (i) Explain how the standard of living may be measured.

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(ii) With reference to Extract 1 and your own knowledge, analyse **two** likely reasons why living standards have fallen for people aged 20–29.

(8)

[The page contains a series of horizontal dotted lines intended for writing an answer.]



P 4 3 3 0 5 A 0 2 3 3 2

*(iii) Evaluate possible changes in government spending and taxation aimed at increasing living standards for younger adults in the UK.

(12)

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(Total for Question 2 = 80 marks)

TOTAL FOR PAPER = 80 MARKS



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Centre Number

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Economics

Advanced

Unit 3: Business Economics and Economic Efficiency

Tuesday 3 June 2014 – Morning

Time: 1 hour 30 minutes

Paper Reference

6EC03/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer the **all** questions in Section A and **one** question from Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 72.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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PEARSON

Section A: Answer ALL the questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Dairy Crest Group is a British food producer which uses a large amount of milk in its production processes to make dairy products. In March 2013, Dairy Crest Group bought Proper Welsh Milk, a firm which specialises in selling fresh milk. This takeover could lead to advantages of

(1)

- A** horizontal integration
- B** backward vertical integration
- C** forward vertical integration
- D** conglomerate integration
- E** external economies of scale

Answer

Explanation

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(Total for Question 1 = 4 marks)



2 A cherry grower finds it impossible to influence the market price of her produce. Which of the following conditions would most clearly indicate that she operates in a perfectly competitive market?

(1)

- A** She produces at an output at which marginal cost is less than marginal revenue
- B** Marginal cost is equal to total cost at every level of output
- C** Marginal cost is equal to average cost at every level of output
- D** She produces at the same output in the short run as in the long run
- E** Average revenue equals marginal revenue at every level of output

Answer

Explanation

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(Total for Question 2 = 4 marks)



P 4 3 3 0 6 A 0 3 3 2

3 The management at a famous football club aim to promote the firm's success in matches as their primary objective. The firm's shareholders indicate at a meeting that they will accept low dividends on their shares on the condition that the club invests in new players. This indicates that the

(1)

- A** management is aiming for short-term gains in share prices
- B** management is profit satisfying
- C** management is profit maximising in the short run
- D** firm cannot make supernormal profits in the long run
- E** average variable cost of players is equal to the marginal revenue gained from their employment

Answer

Explanation

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(Total for Question 3 = 4 marks)



- 4 The table gives weekly information about the possible short run output, costs and revenue of a firm making military equipment. Some cells have been left blank for your own workings.

Output per week	Total revenue (£millions)	Average revenue (£millions)	Total cost (£millions)	Average cost (£millions)	Marginal cost (£millions)
0	0	-	10	-	-
1	40	40		25	15
2	60				9
3	78				18
4	96				44
5	105				54

Which level of weekly output would mean that the firm is sales maximising?

(1)

- A 1
- B 2
- C 3
- D 4
- E 5

Answer



Explanation

(3)

Handwriting practice lines consisting of 12 horizontal dotted lines.

(Total for Question 4 = 4 marks)



5 Supermarkets selling freshly baked bread are operating in an oligopoly. They tend to keep prices stable for a popular, frequently compared product, an 800 gram white loaf. One reason for this might be

(1)

- A** supermarkets know that the pricing decisions of one supermarket will impact on those of other supermarkets
- B** supermarkets are independent and base their prices on costs alone
- C** there is heavy regulation in the industry to prevent tacit collusion
- D** supermarkets are unable to engage in non-price competition
- E** if prices were cut by one supermarket then the others would leave prices unchanged

Answer

Explanation

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(Total for Question 5 = 4 marks)



6 Barr and Britvic are two of the three largest soft drink firms in the UK. In February 2013, the proposed takeover by Barr of Britvic was referred to the Competition Commission for investigation. There were likely to have been concerns that the takeover would lead to

(1)

- A economies of scale
- B an increase in consumer surplus
- C a decrease in contestability
- D a reduction in external economies of scale
- E a signal for more firms to enter the industry

Answer

Explanation

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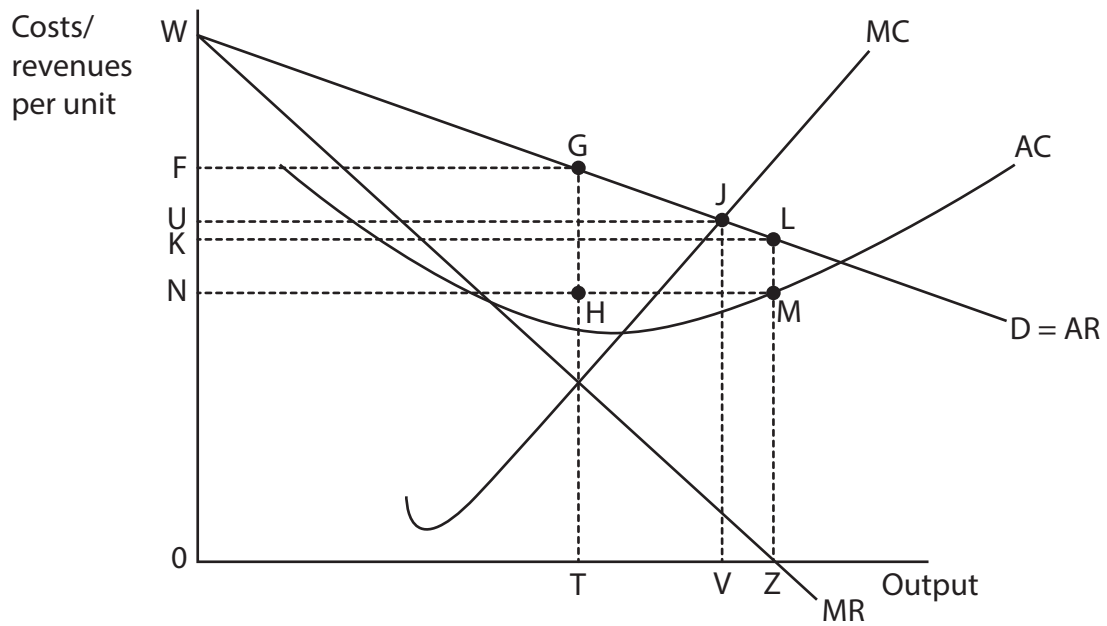
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(Total for Question 6 = 4 marks)



7 The diagram shows the costs and revenues for a firm with monopoly power.



Which of the following statements is true?

(1)

- A At output T the firm is revenue maximising
- B At output V the firm is allocatively efficient
- C At output Z the firm is productively efficient
- D At profit maximising output the supernormal profits are KLMN
- E At output Z the price is zero

Answer



Explanation

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(Total for Question 7 = 4 marks)



8 In March 2013, the government agreed to a £288 million Private Finance Initiative (PFI) hospital contract, to replace the Alder Hey Children's Hospital in Liverpool.

What is the most likely reason that a PFI hospital contract was used?

(1)

- A This method would not lead to an immediate increase in government borrowing
- B Private borrowers can borrow at a cheaper rate than the government can
- C PFI contracts increase x-inefficiency
- D It is easy to get out of a PFI contract once agreed
- E The government has no experience of large-scale building projects

Answer

Explanation

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(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS



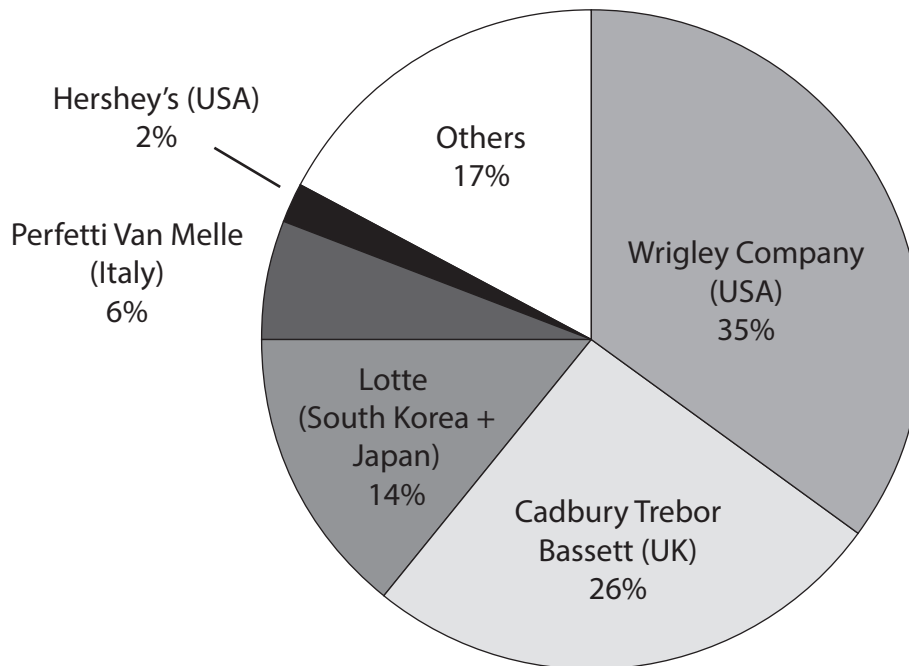
Section B: Answer either Question 9 or Question 10.

If you answer Question 9 put a cross in this box .

You should spend 55 minutes on this section.

9 The chewing gum market

Figure 1 Global market shares for chewing gum manufacturers



Extract 1 British designers create non-stick chewing gum that dissolves

Chewing gum is a problem worldwide and has even been banned in some countries. Normal chewing gum is made from synthetic latex, which is resistant to the weather and is strongly adhesive. A piece of gum costs around 3 pence to make, but it costs an estimated 10 pence to scrape it off the pavement using freezing machines, corrosive chemicals or even high-pressure steam hoses. The UK Government currently spends £150 million each year removing chewing gum from the streets using chemicals.

5

Recently a non-stick chewing gum that dissolves within just 24 hours has gone on sale in the US. The gum, developed in Britain, contains a special polymer which makes it far less sticky. 'Rev7' has the same taste and texture as normal chewing gum, but is water soluble and can be easily removed from clothes using soap and water. This ability to retain water also results in a longer lasting flavour which improves the experience for consumers. It is also more effective when used as a nicotine gum, designed to help smokers give up cigarettes, because it releases the nicotine in a more controlled way. Tests show that most of the gum can be removed by conventional street cleaning. Any gum washed into the drains will degrade into minerals, biodegradable products and inert materials.

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Designer Terry Cosgrove, a scientist at Bristol University, said: "The motivation to invent the product came from seeing chewing gum on the streets in this country and in America. It's everywhere. The materials developed can be used for lots of other uses such as anti-graffiti paint and bacterial protection. But because chewing gum is such an enormous problem at the moment we decided to target this as our main area. This is like a dream come true for me, seeing academic research result in a real commercial product." He reportedly offered the product design to Wrigley's, the current market leader in chewing gum, but no agreement was made.

Instead, Revolymer was set up in Wales in 2005 based on technology developed by Cosgrove at the University of Bristol. Revolymer was awarded patents relating to the Rev7 polymer technology, and the firm was aided by a grant of £1 million given in 2006 by the Welsh Assembly Government and the South West Regional Development Association to support the development of removable chewing gum. "There are also several other exciting ventures in the pipeline" said Cosgrove.

(Sources: adapted from www.telegraph.co.uk 5 October 2010 and www.revolymmer.com/history March 2013)

Extract 2 Rev7 is withdrawn from US market

Revolymmer is to stop directly selling its 'Rev7' confectionery gum in the US at the start of 2013. The US gum market as a whole is shrinking and there is a challenge to Revolymer's patent for nicotine gum products by other gum manufacturers. The firm said the shut-down of sales of Rev7 in the US is set to incur a one-off cost of £360 000 but the annual cost base of its US operation is £500 000 which it said would not be incurred in the future.

Its Rev7 gum has recently been launched in Ireland in partnership with the Topaz service station network as an initial test market for the rest of Europe.

Revolymmer is seeking more commercial partnerships for its nicotine gum. The first product resulting from such a partnership was launched in Canada in 2012. In a statement, Revolymer said: "Management continues to believe that Revolymer's strategy of licensing its technology to commercialisation partners, rather than seeking to market its own products, will generate significant shareholder value."

(Source: adapted from www.insidermedia.com 20 December 2012)

- (a) Using the data in Figure 1, explain the market structure in the global market for chewing gum. (4)
- (b) Discuss **two** benefits of awarding patents to new products developed by scientists. (8)
- *(c) Using a cost and revenue diagram, discuss **two** reasons why Revolymer is to stop selling its Rev7 confectionery gum in the US. (12)
- *(d) Discuss strategies that could be used by existing chewing gum manufacturers in response to the entry of a new competitor such as Revolymer. (16)



(a) Using the data in Figure 1, explain the market structure in the global market for chewing gum.

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(b) Discuss **two** benefits of awarding patents to new products developed by scientists.

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*(c) Using a cost and revenue diagram, discuss **two** reasons why Revolymer is to stop selling its Rev7 confectionery gum in the US.

(12)

A series of horizontal dotted lines for writing the answer.



Handwriting practice area with 20 horizontal dotted lines.



* (d) Discuss strategies that could be used by existing chewing gum manufacturers in response to the entry of a new competitor such as Revolymer.

(16)

A series of horizontal dotted lines for writing the answer.



Handwriting practice area with 25 horizontal dotted lines.



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(Total for Question 9 = 40 marks)



If you answer Question 10 put a cross in this box .

10 Camera retailing



(Source: metro.co.uk)

Extract 1 Peter Jones reopens Jessops

Jessops, the photography retailer, made a surprise return to the high street in March 2013 when Peter Jones, one of Britain's best-known entrepreneurs on the BBC programme *Dragons' Den*, relaunched the chain 11 weeks after it collapsed. Jessops, which was founded in Leicester in 1935, reached shut-down point in January 2013. Jessops suffered both from consumers' shift to buying cameras on the internet and their increased reliance on cameras built into mobile phones. Mr Jones became Chief Executive of Jessops after buying the firm from its administrators PricewaterhouseCoopers. Mr Jones made his money from the telecoms industry and operates some stores for Vodafone and has online retail investments. He has invested £4 million in Jessops and will reopen around 40 shops, far fewer than the 187 shops the retailer had before.

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"Britain's high street is fighting back," Mr Jones said as he reopened a refurbished flagship Oxford Street store, adding that shops could compete with online traders if prices are competitive. "Who would *not* want to buy a camera from expert and enthusiastic staff?" he said. Stores will feature areas to try out products before buying. Customers will be able to create photo albums and take photography courses through the Jessops Academy. Staff will also turn photos into calendars and posters while you wait. Mr Jones said companies such as Apple had proved that customers would spend time and money in a welcoming environment with quality staff in busy locations. "It is very Apple-ish. We have learnt from other retailers, I believe Jessops is an iconic British brand which can lead the retail resurgence on Britain's high streets, powered by new innovations and world-leading, expert staff" he said. "Image is everything and, even in the mobile and tablet era, there's no substitute for a quality camera when it comes to taking the perfect picture."

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P 4 3 3 0 6 A 0 2 1 3 2

Mr Jones has reduced fixed costs from £8 million to £1.5 million by cutting administration costs, closing stores and further rationalisation. Jessops will have outlets in centres such as London, Birmingham, Manchester and St Albans, with six opening immediately. Jessops will hire as many as 500 staff and many are drawn from the 1 400 who lost their jobs when it collapsed. "A lot contacted me on Twitter and asked for a job and it's great to have them," said Mr Jones.

Prices will be matched to those of Jessops.com and Mr Jones said it would be "competitive" with other online retailers such as Amazon. "We will make our profit margin on the accessories," he said. He said "click and collect" would be a powerful driver of sales and Jessops promised greater integration with its online presence, including an option to collect internet orders at store. "I think Amazon will start to lose their market share because they do not have a collect at store. Nobody likes waiting in for a delivery."

Mr Jones forecasts sales of more than £80 million in his first year and expects to take some 15% of the digital single lens reflex camera market in the UK. Revenue before Jessops shut was £304.6 million, but the firm is said to have made a loss of £12 million in the fifteen months up to its closure.

More than 10 000 jobs have been lost in retail this year as chains such as HMV and Republic have fallen into administration. However, Mr Jones is not the only person to see potential in the high street despite flat retail sales. Sports Direct bought fashion chain Republic while Gordon Brothers Europe, the private equity firm, this week bought Blockbuster UK, the entertainment group, out of administration and will keep half its 528 stores open, claiming it can "bring new life" to them.

(Source: adapted from By Andrew Bounds FT.com 28 March 2013, www.ft.com/cms/ and www.thisisleicestershire.co.uk)

- (a) Using examples from the data, explain what is meant by a 'shut-down point' (Extract 1 line 4). (4)
- (b) Using the data in Extract 1 and an appropriate diagram, discuss why Jessops was making a loss before it went into administration. (8)
- *(c) To what extent is price discrimination possible for firms selling products both on the internet and in high street shops? (12)
- *(d) Discuss strategies, apart from price discrimination, that high street retailers might use to increase profit in the face of greater competition from online retailers. (16)



(a) Using examples from the data, explain what is meant by a 'shut-down point'
(Extract 1 line 4).

(4)

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(b) Using the data in Extract 1 and an appropriate diagram, discuss why Jessops was
making a loss before it went into administration.

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* (c) To what extent is price discrimination possible for firms selling products both on the internet and in high street shops?

(12)

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Handwriting practice area with 20 horizontal dotted lines.



*(d) Discuss strategies, apart from price discrimination, that high street retailers might use to increase profit in the face of greater competition from online retailers.

(16)

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(Total for Question 10 = 40 marks)

TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 72 MARKS



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Economics

Advanced

Unit 4: The Global Economy

Tuesday 10 June 2014 – Afternoon

Time: 2 hours

Paper Reference

6EC04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ►

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PEARSON

SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

- *1 (a) The budget deficits of many countries including France, Greece, Ireland and the UK fell between 2009 and 2013.
- Assess the likely causes of such a decrease in the budget deficit of a country of your choice.
- (20)
- (b) In 2012, France announced its intention to increase its top rate of income tax from 46.7% to 75%.
- Evaluate the likely economic effects of such an increase in the marginal rate of income tax.
- (30)

(Total for Question 1 = 50 marks)

- *2 (a) In the early 1970s, the USA, Germany and Japan accounted for over one-third of world trade but, by the 1990s, global trade had become more diversified. By 2012, China was the world's second largest trading country after the USA.
- Assess the factors that may cause changes in a country's pattern of trade with other countries.
- (20)
- (b) In 2012, EU agricultural subsidies amounted to €76 billion (\$94 billion) and US agricultural subsidies were €138 billion (\$172 billion).
- Evaluate the economic effects of such agricultural subsidies on the global economy.
- (30)

(Total for Question 2 = 50 marks)

- *3 (a) Assess the view that economic development is dependent on economic growth. Refer to examples of developing countries in your answer.
- (20)
- (b) Discuss the view that savings gaps in developing countries are the most significant constraint on economic growth.
- (30)

(Total for Question 3 = 50 marks)



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TOTAL FOR SECTION A = 50 MARKS



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SECTION B

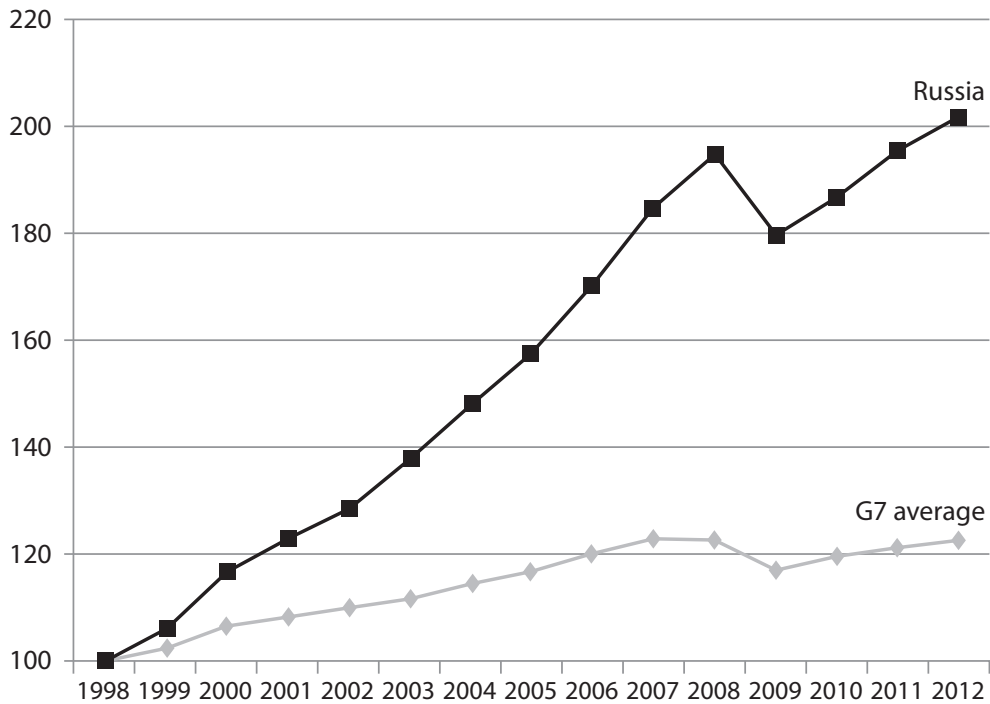
Answer ONE question from this section.

You should spend 60 minutes on this section.

If you answer Question 4 put a cross in the box .

4 The Russian economy and membership of the World Trade Organisation (WTO)

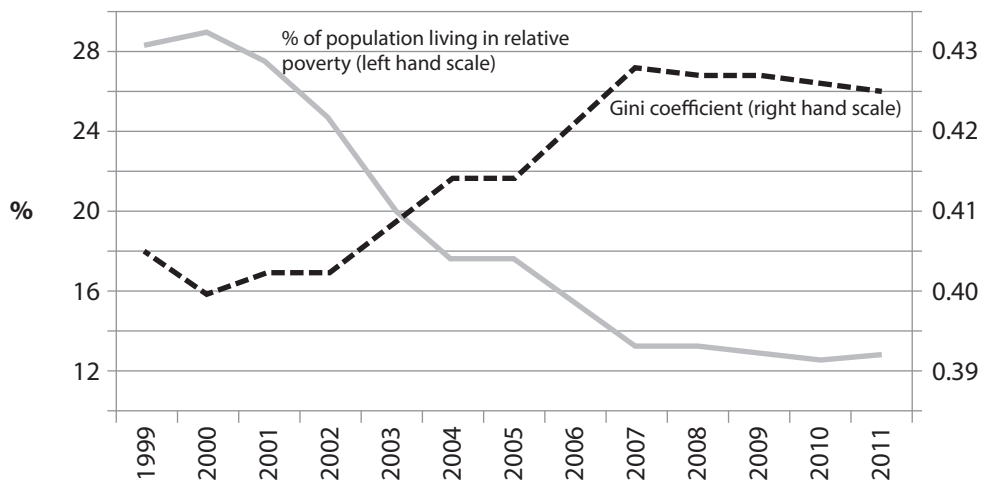
Figure 1 Index of real GDP in the G7* and Russia 1998-2012 (1998 = 100)



* the USA, UK, France, Germany, Italy, Canada, and Japan

(Source: © Forbes.com LLC)

Figure 2 Relative poverty* and inequality in Russia

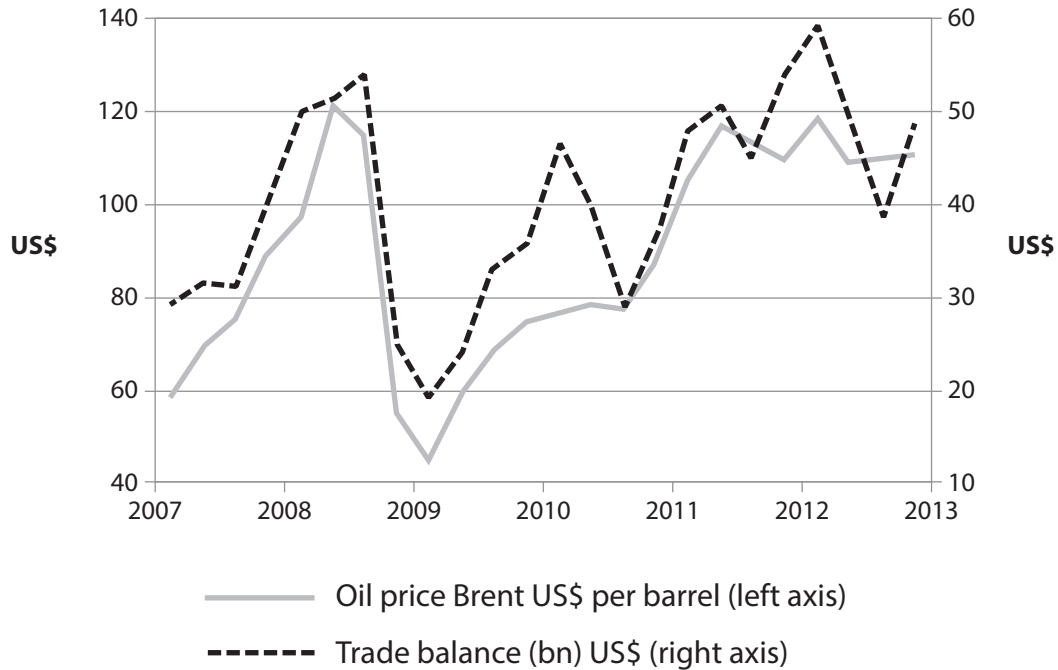


*a level of income set at 60% or less of median household income

(Source: © The World Bank Group, 2012)



Figure 3 Oil price and Russia's trade balance



(Source: © The World Bank Group, 2013)

Extract 1 Russia needs a plan for modernising its economy

Between 2000 and 2008 personal incomes in Russia doubled. The unemployment rate fell from around 12% to 7% in the same period. Russia acquired \$500 billion of foreign currency reserves and the decline in population was halted.

Russia's economy is still not performing badly. Thanks to the high oil price, economic growth is likely to stay at 4% or a little less for the next few years – respectable by West European standards. The problem is that Russia's rulers do not appear to have a plan for modernising the economy, which is alarmingly unbalanced. Oil and gas provide half the government's revenue and almost 70% of export earnings. Output of oil and gas is static and few new fields are coming on stream. Even if the oil price stays high, Russia is heading for current account and budget deficits in the years ahead.

5

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(Source: © Centre for European Reform)



Extract 2 Russia's entry to World Trade Organisation (WTO) ends 19 years of negotiations

Russia's entry into the WTO in August 2012 had been a long time in coming. Negotiations began soon after the breakup of the Soviet Union and the collapse of communism and have been rumbling on for the past 19 years.

Russia's membership of the WTO means that the last major economic power has joined the global trading system. The WTO will force Russia to lower its average tariffs from 9.5% to 6% by 2015. WTO membership will also make the government curb subsidies to some industries, including farming. Russia is hoping entry will provide the sort of boost enjoyed by China after it was admitted to the WTO in 2001. However, that looks unlikely for three reasons. The economic climate is much less favourable than it was in 2001, when the global economy was about to embark on its strongest period of growth since the late 1960s and early 1970s. China's economy was much better equipped to reap the benefits of WTO membership, with a strong manufacturing base contrasting with Russia's over-reliance on oil and gas. Finally, China gained from being the first former communist giant to join the WTO.

There are still, of course, potential benefits to Russia from WTO membership. The government is hoping for a surge in foreign direct investment that will help make Russian industry more efficient. Russia's exporters will gain approximately \$1.5 billion to \$2 billion (£950 million to £1.3 billion) a year from the dismantling of foreign trade barriers. Lower tariffs on imported goods should lead to cheaper goods in the shops, boosting the spending power of consumers.

But WTO membership comes at a price. Dismantling protective barriers means that large sections of Russian industry may struggle to compete. Already, there are doubts about the ability of the automobile sector to survive in a more open trading system.

(Source: © Guardian News and Media Ltd, 2012)



- (a) With reference to Figure 1, comment on the performance of the Russian economy in the period shown. (5)
- (b) With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate your answer with a Lorenz curve diagram. (8)
- (c) With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period. (10)
- *(d) Assess the implications for the Russian economy of its dependence on oil and gas. (12)
- *(e) Evaluate the likely benefits for Russia of its decision to join the WTO. (15)



(a) With reference to Figure 1, comment on the performance of the Russian economy in the period shown.

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(b) With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate your answer with a Lorenz curve diagram.

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(c) With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period.

(10)

A series of horizontal dotted lines for writing the answer.



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*(d) Assess the implications for the Russian economy of its dependence on oil and gas.

(12)

A series of horizontal dotted lines for writing the answer.



Handwriting practice area with 20 horizontal dotted lines.



*(e) Evaluate the likely benefits for Russia of its decision to join the WTO.

(15)

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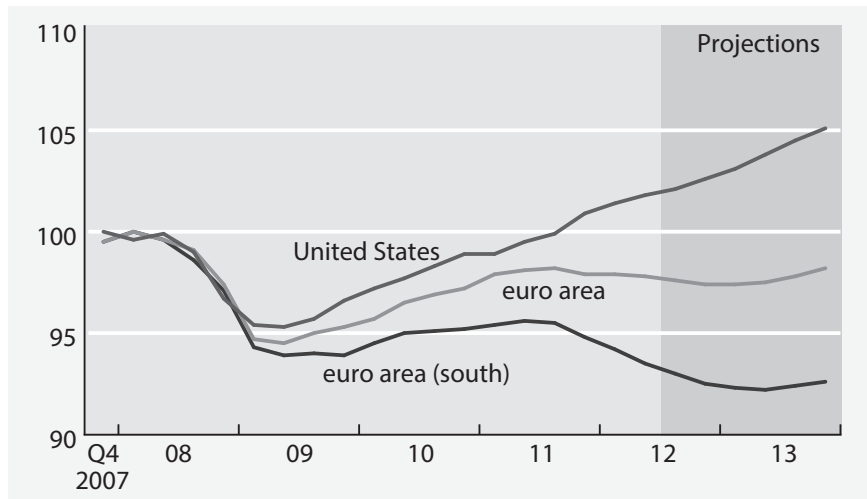
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If you answer Question 5 put a cross in the box .

5 Competitiveness

Figure 1 Changes in Real GDP in the United States, the euro area and in the euro area (south)* (2007 = 100)



*euro area (south) comprises Greece, Italy, Portugal and Spain

(Source: © IMF, 2012)



P 4 3 3 0 7 A 0 2 7 4 0

Figure 2 International competitiveness based on the Global Competitiveness Index 2012–2013

Rankings of selected countries

Country	Ranking (out of 144)
Singapore	2
United States	7
Hong Kong SAR	9
Taiwan	13
South Korea	19
Malaysia	25
Ireland	27
China	29
Spain	36
Italy	42
Portugal	49
Greece	96

(Source: World Economic Forum, 2013)



Figure 3 Unit labour costs in selected euro area countries (2000 = 100)

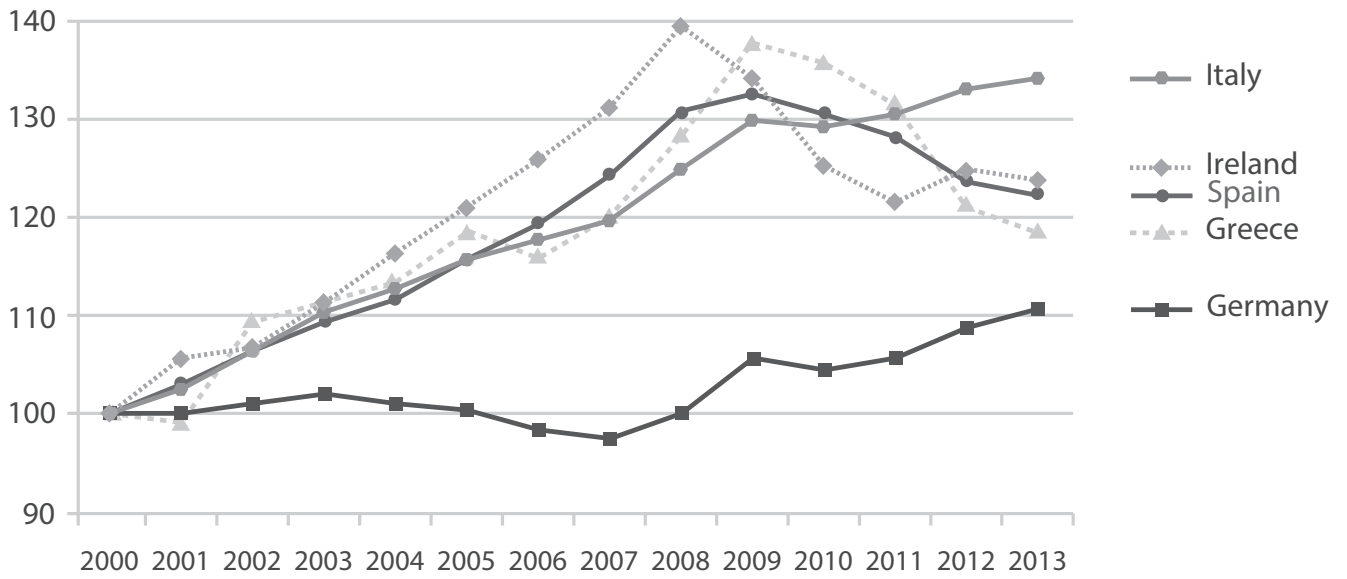
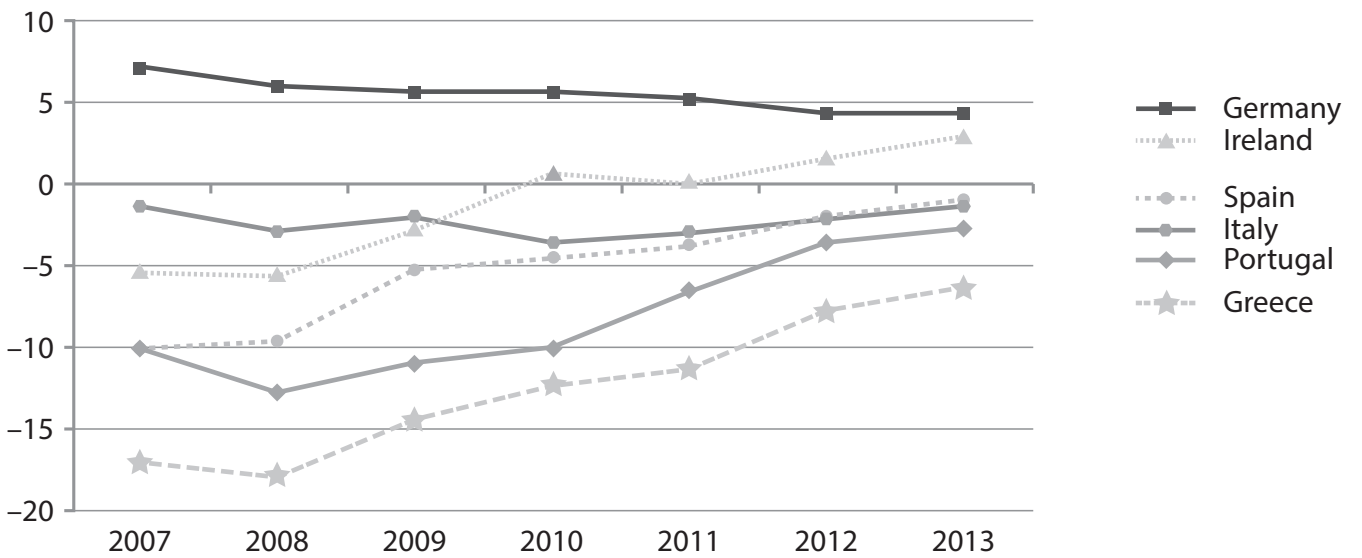


Figure 4 Current account balances in selected euro area countries (percentage of GDP)



(Source: © Bruegel 2013)



Extract 1 Stimulating growth in the euro area

The ongoing euro area crisis underlines the importance of reforms but also the increasing complexity of achieving them. Without an independent exchange rate, structural reforms must take the lead when it comes to increasing competitiveness.

Lack of growth in some parts of the euro area arose from both imbalances in trade and capital flows that built up after the adoption of the common currency. Further, this lack of growth resulted from weaknesses caused by poor competitiveness, particularly in the labour market, reinforced by higher price increases and higher labour costs in euro area (south) countries since the beginning of the monetary union. Problems in the labour market were caused by restrictions in hiring and firing workers, high minimum wages and centralised wage bargaining. Meanwhile, product markets were hampered by a lack of contestability.

Research shows that product market reforms, such as reducing barriers to competition and improving the business environment, can lift growth substantially. Labour market reforms, in addition to raising growth and employment in the long term, can restore countries' lost competitiveness by giving employers more flexibility in hiring and firing workers and keeping wage growth under control. However, such reforms are unlikely to deliver a sufficient boost to short-run activity during the current economic slump when aggregate demand is weak.

(Source: Adapted from IMF Finance and Development, December 2012)

- (a) With reference to Figure 2 and your own knowledge, explain what is meant by *international competitiveness*. (5)
- (b) With reference to Figure 1, comment on the projected GDP in the euro area (south) in 2012–13 compared with 2007. Illustrate your answer with an appropriate diagram. (8)
- (c) With reference to Figure 3 and your own knowledge, examine factors influencing a country's unit labour costs. (10)
- * (d) Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4. (12)
- * (e) To what extent might labour market reforms be successful in stimulating economic growth and reducing unemployment in euro area (south) economies? (15)



(a) With reference to Figure 2 and your own knowledge, explain what is meant by *international competitiveness*.

(5)

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(b) With reference to Figure 1, comment on the projected GDP in the euro area (south) in 2012–13 compared with 2007. Illustrate your answer with an appropriate diagram.

(8)

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(c) With reference to Figure 3 and your own knowledge, examine factors influencing a country's unit labour costs.

(10)

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(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS



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Mark Scheme (Results)

Summer 2014

Pearson Edexcel GCE
in Economics (6EC01) Paper 01

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Summer 2014

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

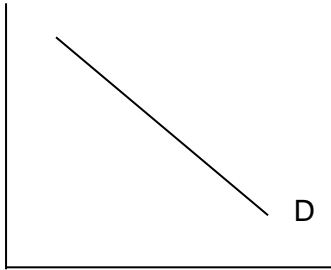
NB: candidates may achieve up to 3 explanation marks even if incorrect option is selected.


NB: candidates may achieve up to 3 marks for explaining three incorrect options (provided three different reasons are offered and each option key is explicitly rejected).

Question Number	Answer	Mark
Q1	<p>Correct option B (1 mark)</p> <ul style="list-style-type: none"> • Definition of opportunity cost (the value of the next best alternative foregone) (1 mark) • Definition of scarcity (resources are limited or finite in supply and so cannot meet all human wants) NB: need reference to wants or needs here to award (1 mark) • Definition of resources (for example, labour, land, capital and enterprise used in production of goods and services) (1 mark) <p>NB: award for a maximum of 2 definition marks.</p> <ul style="list-style-type: none"> • Example of scarce resources (for example, fossil fuels are finite in supply) (1 mark) • Application of opportunity cost (for example, a producer or consumer may have to choose between two different products / government may have to choose between a new hospital or a new school) (this may be shown by diagrammatic analysis: movement along the production possibility frontier / revealing the gain in one good and loss of the other good) (1+1 marks) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A incorrect since this is a definition of market failure – not an explanation of why resources are scarce. (1 mark) • Option C incorrect since resources are finite compared to human wants / or finite resources result in the basic economic problem. (1 mark) NB: do not double award with regards to the definition of scarcity. • Option D incorrect since supply exceeding demand is due to price being too high / the resources used in supply are scarce. (1 mark) 	(4)

Question Number	Answer	Mark
Q2	<p>Correct option A (1 mark)</p> <ul style="list-style-type: none"> • Definition of division of labour (for example, production of a good is broken down into different tasks and labour allocated to each task). (1 mark) • Application to building a house (for example, painter and decorators, bricklayers, plumbers, electricians, roof tilers)(1 mark) • Reason(s) for an increase in output per unit of labour/productivity: workers becoming more skilled in particular tasks through repetition / more efficient use of equipment / less time wasted moving from one job to another different job / less time taken for workers to get trained on a particular job or lower training costs). (1+1 marks) • Award a demand and supply diagram depicting an increase in supply and lower price / or a written explanation to this effect. (1 mark) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option B incorrect since prices are more likely to fall since cost of building each house has fallen. (1 mark) • Option C incorrect since the cost of producing each house should fall as labour productivity increases. NB: do not double award if diagram mark already given. (1 mark) • Option D incorrect since each worker will concentrate on a narrow range of skills such as a bricklayer, rather than other skills involved with tiling and plumbing (1 mark) 	(4)

Question Number	Answer	Mark
Q3	<p>Correct option C (1 mark)</p> <ul style="list-style-type: none"> • Explicit reference to the price data, for example, price fell from 368 cents to 321 cents per kilo. (1 mark) • Diagram depicting an increase in supply / decrease in price (1+1 marks) OR written explanation to this effect (1 mark). <div data-bbox="464 510 997 965" data-label="Figure"> <p>The diagram is a standard supply and demand graph. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity'. A downward-sloping line is labeled 'D' (Demand). Two upward-sloping lines are shown: 'S' (original Supply) and 'S1' (new Supply). An arrow points from S to S1, indicating an increase in supply. The initial equilibrium is at the intersection of S and D, with price P_e and quantity Q_e. The new equilibrium is at the intersection of S1 and D, with price P_1 and quantity Q_1. Dashed lines connect these points to the axes. Arrows also point from the equilibrium points towards the new equilibrium point, showing the direction of change.</p> </div> <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A incorrect since an increase in wages of tea growers would increase production costs and so lead to a decrease in the supply of tea or raise price. (1 mark) • Option B incorrect since tea and coffee are substitutes. An increase in the price of coffee should cause the demand for tea to increase – so raising its price. (1 mark) • Option D incorrect since sugar and tea are complementary goods. A decrease in price of sugar is likely to cause an increase in demand for tea, so raising its price / accept idea of little or no effect on the price of tea. (1 mark) 	(4)

Question Number	Answer	Mark
Q4	<p>Correct answer option C (1 mark)</p> <ul style="list-style-type: none"> • Definition of cross elasticity of demand or correct formula (the responsiveness in demand for good B due to a change in price of good A, or, $\% \Delta QD \text{ good B} \div \% \Delta P \text{ good A}$). (1 mark) • Goods which have a negative XED are complementary goods / joint demand. (1 mark) • Substitutes have a positive XED. (1 mark) • Application: an increase in the price of motor vehicles is likely to cause a decrease in demand for petrol (accept vice-versa) (1 mark) • Correct diagram depicting a negative XED. (1 mark) <p>Price of Motor vehicles</p>  <p>Quantity demanded for petrol</p> <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A incorrect since motor vehicles and rail travel are substitutes with a positive XED or, Option D incorrect since bus transport and taxis are substitutes with a positive XED. NB: need both substitutes and positive XED to award (1 mark) • Option B incorrect since bus transport and potatoes have no relationship between them / have an XED value of zero / are likely to be inferior goods with a negative income elasticity of demand. (1 mark) 	(4)

Question Number	Answer	Mark
Q5	<p>Correct option A (1 mark)</p> <ul style="list-style-type: none"> • Definition of income elasticity of demand or correct formula (the responsiveness of demand for a good due to a change in income, or, $\% \Delta QD \div \% \Delta Y$). (1 mark) • The demand for fish is income inelastic in both countries since their values are between 0 and 1 or less than 1, or, definition of income inelastic demand (the percentage change in demand is less than the percentage change in income) / demand for fish is more inelastic in Cyprus than Maldives. (1 mark) • Application: e.g. a 1% rise in income causes a 0.37% rise in demand for fish in Cyprus and a 0.64% fish in demand for fish in the Maldives. (1 mark) NB: do not award for referring directly to 0.37 and 0.64. • Diagram depicting a positive income elasticity of demand for fish. (1 mark) <div style="text-align: center;">  </div> <p>Rejection marks</p> <ul style="list-style-type: none"> • Option B incorrect since the income elasticity of demand for oils and fats in Cyprus is perfectly income inelastic, or, a change in income causes no change in demand for oils and fats. (1 mark) • Option C incorrect since cereals are an inferior good in Cyprus or a normal good in the Maldives (must use the data). (1 mark) • Option D incorrect since the income elasticity of demand for oils and fats is 0.52 which is less than the demand for fish which is 0.64 in the Maldives. (1 mark) 	(4)

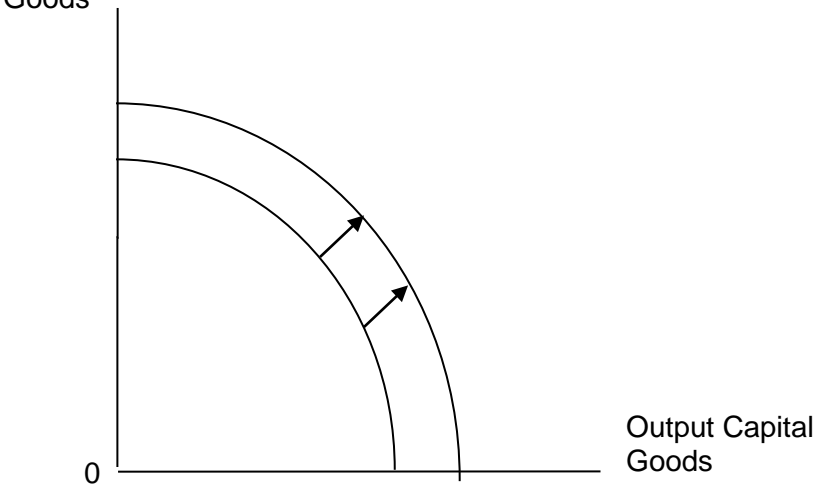
Question Number	Answer	Mark
Q6	<p>Correct option D (1 mark)</p> <ul style="list-style-type: none"> • Definition or formula for price elasticity of supply (the responsiveness of supply of a good due to a change in its price, or, $\% \Delta QS \div \Delta P$). (1 mark) • Coffee is inelastic since the answer is between 0 and 1 or less than 1 / coffee is inelastic since the percentage change in supply is less than the percentage change in price • Diagram depicting a price inelastic supply curve. (1 mark) • Price elasticity of supply of coffee calculation equals 0.33 (1 mark) • Explanation of why coffee may be price inelastic supply e.g. long time period to grow or low stock levels. (1 mark) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A incorrect since no information on income is provided in the question / rather the information concerns price and supply / the question is not concerned with income elasticity of demand. (1 mark) • Option B incorrect since price elastic supply would require an answer above 1. (1 mark) • Option C incorrect since unit price elastic supply means the answer is 1 / where the percentage change in supply is equal to the percentage change in price. (1 mark) 	(4)

Question Number	Answer	Mark
Q7	<p>Correct option B (1 mark)</p> <ul style="list-style-type: none"> • Identification that this is an indirect tax / is an ad valorem tax (1 mark) • The effect of the tax is to act like an increase in production costs (1 mark) • Supply curve pivots inwards / a non-parallel leftward shift in supply curve (1 mark) • Annotation of diagram to show an increase in equilibrium price and a fall in output / the tax area. (1+1 marks) OR suitable written explanation of supply decreasing and price increasing. (1 mark) <div data-bbox="438 683 1021 1198" data-label="Figure"> <p>Diagram B</p> <p>Price</p> <p>P1</p> <p>Pe</p> <p>Tax area</p> <p>S1</p> <p>S</p> <p>D</p> <p>0</p> <p>Quantity</p> <p>Q1</p> <p>Qe</p> </div> <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A incorrect since an outward shift of the supply curve would be the result of a subsidy. (1 mark) • Option C incorrect since as a tax imposed on a good adds to the supply price, so shifting the supply curve rather than the demand curve / an increase in income tax would cause the demand curve to shift inwards / other factors which may shift the demand curve inwards. (1 mark) • Option D incorrect since this is the effect of a specific tax which causes a parallel shift in the supply curve / a specific tax is imposed as a fixed amount per unit of good. (1 mark) 	(4)

Question Number	Answer	Mark
Q8	<p>Correct option D (1 mark)</p> <ul style="list-style-type: none"> • Explanation of buffer stock (for example, an agency buys or adds to its stocks in times of a good harvest and sells from its stocks in times of a poor harvest / a scheme to stabilise producer incomes. (1 mark)) • Identification that without intervention the price will fall below P1 in 2013 (this may be annotated on the diagram). (1 mark) • The agency buys YZ. This may be shown by annotation of the diagram but must be labelled or identified in the answer. (1 mark) • Identification of the total area spent by agency adding to its stocks (OP1 multiplied by YZ). This may be shown by annotation of the diagram but must be labelled or identified in the answer. (1 mark) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A incorrect since there is a good harvest that leads to an excess supply at the lowest target price / the agency would release stock on to the market in times of excess demand. (1 mark) • Option B incorrect since the agency will buy YZ and add to its stockpile / as there is an excess supply / agency will only sell from stockpile when there is a poor harvest. NB: do not double award if this point already credited. (1 mark) • Option C incorrect since for price to increase to P2 there has to be a poor harvest below original output W / there is an excess demand. (1 mark) 	(4)

Question Number	Answer	Mark
9(a)	<p>6 KAA marks</p> <ul style="list-style-type: none"> • Definition of renewable resources (resources that can be replenished or sustained for future generations) (1 mark) • Identification of two reasons (1+1 marks) and their development (2+2 or 3+1 marks). • Reasons include: <ul style="list-style-type: none"> ➤ To reduce pollution or CO2 emissions: to meet EU targets (do not award for referring to UK targets as it is in the question) / tidal power is carbon neutral in operation and so environmentally friendly / slows the impact of global warming or climate change / reduce danger of flooding / floods in 2007 led to £3.2 billion of damage / reduce costs of cleaning up after fossil fuels. ➤ To diversify UK energy sources: the economy becomes less reliant on fossil fuels / less dependent on imports of fossil fuels / long term price of fossil fuels likely to rise as they run out. ➤ To have a sustainable energy source: tidal power is a constant source of energy / a reliable source of energy / the tidal barrage is expected to last 120 years / it will increase the supply of energy / fossil fuel energy sources are running out. <p>NB: Accept a mixture of these points.</p>	(6)

Question Number	Answer	Mark
9(b)	<p>4 KAA marks</p> <ul style="list-style-type: none"> • Explanation of subsidy (government grant to increase production / reduce production costs). (1 mark) • The £34 billion funding of the tidal barrage would come from private investors, for example overseas investors. (1 mark) • The costs of the scheme would be passed on to consumers through higher electricity prices. (1 mark) • Energy is price inelastic in demand / so total revenue and profits might increase as prices rise. (1+1 marks) • Some development offered: the scheme may be profitable over the long time period it operates / low interest rates on savings may make capital projects more attractive / UK government may relax regulations on pricing of electricity. (1+1+1 marks) • Award for other possible reasons why project can proceed without funding e.g. tax breaks / local authority support and charity support. (1 mark) 	(4)

Question Number	Answer	Mark
9(c)	<p>6 KAA marks</p> <ul style="list-style-type: none"> • Definition of production possibility frontier (e.g. maximum output an economy can achieve when all its resources are fully or efficiently employed). (1 mark) • Diagram of a Production possibility frontier depicting an outward shift in the curve / suitable labelling of axes e.g. capital goods versus consumer goods or private goods versus public goods or tidal barrage versus alternatives. (1+1 marks) <p>NB: award a maximum of 4 KAA marks if no appropriate diagram offered</p> <ul style="list-style-type: none"> • The tidal barrage represents an increase in the capital stock or capital goods or investment / this is likely to increase potential output or economic growth. (1+1 marks) • Award for 30 000 jobs created only if linked to infrastructure and new factories. • Tidal barrage will provide an energy source to enable future production of goods and services for many years. (1 mark) • Tidal barrage may lead to further investment programmes e.g. road and rail links in the region / factory to build turbines and a new dock / multiplier effects. (1+1 marks) • The project may attract more domestic or foreign direct investment e.g. funding is likely to be from overseas / this could increase production possibilities further. (1+1 marks) • Less flooding risks so production not disrupted as in recent years. (1 mark) <p>Output Consumer Goods</p>  <p>Output Capital Goods</p>	(10)

	<p>Evaluation (2+2 or 1+3 or 1+1+2 marks)</p> <ul style="list-style-type: none">• Discussion of impact on fishing and tourist industries and how their output might be affected.• Discussion of magnitude of project; just 5% of UK energy needs so may not have massive impact / discussion of the significance of 30 000 jobs created to the local or national economy.• Accept idea of an opportunity cost to the tidal barrage / this may be referred to in a movement along the PPF curve.• Unemployed resources may be used up and so increasing output closer to its production possibility potential rather than cause a shift the curve outwards / so that it is closer to full employment level of output.• Discussion of time period: it may take many years to build / but the impact is likely to be over 120 years / many of the 30 000 jobs created may be short term.• Discussion of funding: the overseas funding suggests income stream from the project will go abroad / accept macro arguments on impact on trade balance.• Discussion that there might be no change to the production possibility frontier since renewable energy is just replacing non-renewable energy power stations.• Tidal barrage may be unproven technology.	
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Question Number	Answer	Mark
9(d)	<p>8 KAA marks (2+2+2+2 or 3+3+2)</p> <p>Factors influencing the supply of labour include:</p> <ul style="list-style-type: none"> • Definition of supply of labour (quantity or quality of labour supplied at a given wage rate) • Diagram of either a movement along a supply curve for labour (which must be explained) or a shift in the supply curve for labour. • The wage rate or earnings: as the wage rate rises then so too will the supply of labour / since greater financial incentive to work longer hours. • Net advantages in construction of the tidal barrage: these may include bonuses / possible dangerous working conditions / sick pay and paid holidays / job satisfaction job security. • The level of training, qualifications, skills or work experience required: the high level of qualifications and skills on building turbines may limit the supply of labour. • Income tax or National Insurance Contributions: the lower the rate of income tax then the greater the disposable income / the greater the incentive to work or supply of labour. • Government social security benefits: cuts in the Job seekers' Allowance and Housing Benefits / may increase incentive to work or supply of labour / especially for low skilled areas of construction work. • Reference to the National Minimum Wage: an increase in NMW may raise incentive to work / so more supply of labour • The raising of school leaving age or retirement age: it may increase supply of labour for the project. • Net migration inflows to UK / membership of the Single European Market has increased net migration flow of labour to UK. • Trade Unions may affect rate of pay or other working conditions / e.g. more job security or safety at work. • Accept factors which may affect the regional or local supply of labour e.g. local house rental prices / local facilities such as public transport. • General state of labour market or economy / high unemployment may lead to greater supply of labour for tidal barrage project. Demographic factors e.g. population increase / increase in retirement age. 	(14)

NB: award a maximum of 6 KAA marks if no reference to the tidal barrage scheme. One reference to the barrage is sufficient to award the full KAA marks.

Evaluation 6 marks (2+2+2 or 3+3 or 4+2 marks)

- Prioritisation of factors e.g. availability and rental price of local housing likely to be very important compared to a change in NMW / geographical mobility of labour.
- Discussion of elasticity of the supply of labour.
- Many construction workers earning well above NMW so little impact / some labour may work below NMW.
- Discussion of type of construction work and variety of skills required: some work is highly skilled and so this may limit the supply of labour / e.g. engineers to build dams / other occupations in building the tidal barrage are less skilled e.g. building labourers.
- Supply of labour may increase over time / more knowledge of job vacancies or time to gain skills for the work.
- Accept discussion of income and substitution effects / backward sloping supply curve for labour.
- Accept discussion of measures to increase the supply of labour e.g. housing subsidies or training courses and other supply side policies.

NB: a maximum of 4 marks available for discussion of measures to increase supply of labour.

The quality of written communication will be assessed in this question based on the candidate's ability:

- To present an argument and conclude on the basis of that argument.
- To organise information clearly and coherently.
- To use economics vocabulary appropriately.
- To use grammar, spelling and punctuation appropriately.

Question Number	Answer	Mark
9(e)	<p>8 KAA marks</p> <p>A variety of measures can be used which include: subsidies of renewable energy schemes (other than the tidal barrage), minimum pricing for renewable energy schemes, taxation of non-renewable energy, tradable carbon permits, regulation and deregulation.</p> <p>Regulations may come in various forms, for example, relaxation of planning laws, carbon-offsetting, renewable energy certificates.</p> <p>NB: accept nuclear power as a renewable energy source.</p> <p>Two measures: (4+4 or 5+3 or 6+2)</p> <ul style="list-style-type: none"> • Subsidies for renewable energy schemes / lower production costs / raise supply and reduce price / encourage firms into the market / raise producer surplus or profits / application to specific schemes. <ul style="list-style-type: none"> ➤ Award up to 2 marks for diagram (increase in supply curve / subsidy area). • Taxation of non-renewable energy producers / higher production costs / lower supply and raise price / firms may exit market / lower producer surplus or profits / tax revenue can be used to subsidise renewable schemes / application to specific schemes. <ul style="list-style-type: none"> ➤ Award up to 2 marks for diagram (decrease in supply / tax area). • Regulations: this may take various forms such as tighter planning controls for non-renewable energy schemes / looser planning controls on renewable energy schemes / these may raise or lower production costs. Regulations could include Renewable energy certificates, carbon offsetting. • Tradable pollution permits / cap and trade system / penalises heavy polluters who have to buy extra permits / incentive for firms to reduce pollution and sell spare permits / pollution permits can be reduced over time. <ul style="list-style-type: none"> ➤ Award up to 2 marks for diagram (decrease in supply of permits / identification of higher price). • Minimum price schemes for renewable energy / being proposed for nuclear power / ensure long term returns for the investment / impact on price and output. 	(14)

- Award up to 2 marks for diagram (demand and supply diagram / minimum price set above free market price).

NB: If just one measure considered cap at 6 KAA marks

NB: If more than two measures discussed, award for the best two responses.

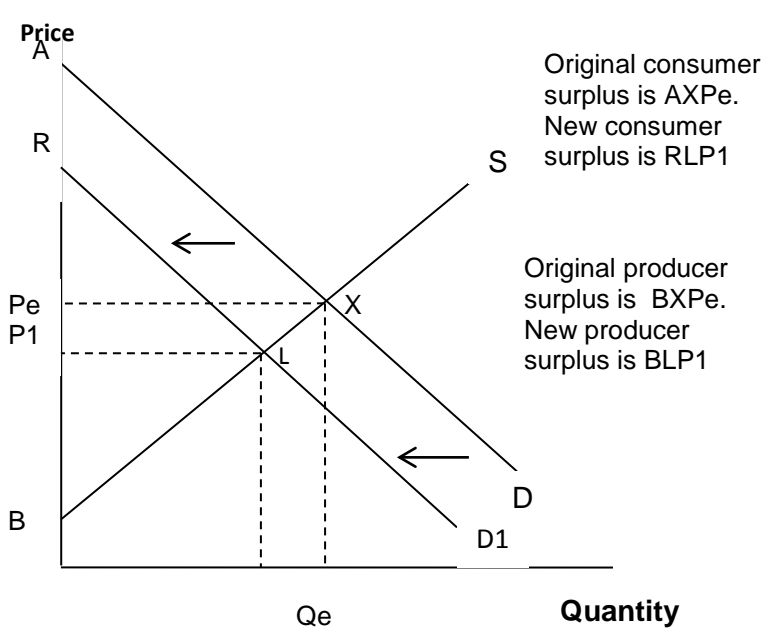
Evaluation 6 marks (2+2+2 or 3+3 marks)

- Tax revenue may not be used for renewable energy / discussion of price elasticity of demand for fossil fuels.
- Subsidies have an opportunity cost for government / development of point.
- Subsidies may create inefficiencies / dependency of the firms.
- Specific issues with renewable energy, for example, reliability of wind power and solar power / external costs of renewable energy such as damage to wildlife.
- Problems with tradable pollution permits e.g. over-supply / extension of scheme to airlines.
- Renewable energy certificates may increase production costs for firms.
- Minimum price will increase consumer energy bills / lead to an increase in fuel poverty.
- Discovery of non-renewable resources and their development may reduce costs and increase supply e.g. fracking of gas and oil – so less need for renewable energy.
- Issues of magnitude and time period.
- Cost of monitoring and enforcing the schemes.
- General issues concerning Government failure e.g. setting the correct level of tax or subsidy to internalise externality.

The quality of written communication will be assessed in this question based on the candidate's ability:

- To present an argument and conclude on the basis of that argument.
- To organise information clearly and coherently.
- To use economics vocabulary appropriately.
- To use grammar, spelling and punctuation appropriately.

Question Number	Answer	Mark
10(a)	<p>4 KAA marks (2+2 marks)</p> <ul style="list-style-type: none"> • Explicit reference to Figure 1 which depicts the decline in tobacco smoking (for example, a decline in adult smokers from around 28 per cent in 1998 to 20 per cent in 2010). (1 mark) • Identification of two causes of the decline in tobacco smoking (1+1 marks) • Development of the two reasons (1+1 marks) <p>Reasons include:</p> <ul style="list-style-type: none"> ➤ Government health campaigns: these increase market knowledge on the harmful effects of smoking / examples include use of television, radio and newspaper campaigns / health awareness campaigns in schools. ➤ Increase in taxes on tobacco: it is now 80% of the price (do not double award) / this reduces its affordability / link to low income groups or children / example of the tax increase from the 2012 Budget where a 37 pence tax increase was imposed on a packet of cigarettes OR tax on cigarettes increasing at 5 per cent above the rate of inflation / a real increase in tax on cigarettes / cigarette tax escalator set to continue in future years. ➤ Regulations on the sale of tobacco smoking: Examples include an increase in the age of buying tobacco from 16 years to 18 years / tobacco cannot be on view in shops / plain packaging / health warnings on cigarette packets / ban on tobacco sales from vending machines / tobacco advertising ban. ➤ Regulations on the consumption of tobacco smoking: Examples include a ban on smoking in enclosed public places and work places such as shops and restaurants / increase in age of buying tobacco from 16 to 18 years. <p>NB: Accept other reasons for the decline in tobacco smoking (for example, healthier lifestyles, increase in incomes, and development of effective substitutes such as e-cigarettes).</p>	(4)

Question Number	Answer	Mark
10(b)	<p>6 KAA marks</p> <ul style="list-style-type: none"> • Consumer and producer surplus are likely to fall (need to mention that both have fallen) (1 mark) • Definition of consumer surplus (e.g. the difference between the price consumers are willing to pay for a good and the actual market price OR stating the area below the demand curve and above equilibrium price) (1 mark). • Definition of producer surplus (e.g. the difference between the price producers are willing to supply a good for and the actual market price OR stating the area above the supply curve and below the equilibrium price) (1 mark). • Diagram (up to 4 marks) <ul style="list-style-type: none"> i. Original areas of consumer and producer surplus (both must be identified) (1) ii. An inward shift in the demand curve for tobacco (1) iii. New consumer area identified / or the change in consumer surplus identified (1) iv. New producer surplus area identified / or the change in producer surplus identified (1)  <p>Original consumer surplus is AXPe. New consumer surplus is RLP1</p> <p>Original producer surplus is BXPe. New producer surplus is BLP1</p>	(6)
	<ul style="list-style-type: none"> • NB: Accept relevant diagram which depicts a decrease in the supply curve for tobacco and the original and new areas of consumer and producer surplus identified (up to 4 marks) <p>NB: cap at maximum of 3 marks if no suitable diagram offered</p>	

Question Number	Answer	Mark
10(c)	<p>6 KAA marks</p> <ul style="list-style-type: none"> • Definition or formula of price elasticity of demand. (1 mark) • Explanation of price inelastic demand (the percentage change in demand is less than the percentage change in price) or numerical application: for example, a 10% rise in price of tobacco might cause a 2% fall in demand. (1 mark) • Reference to Extract 2: Demand for tobacco smoking is likely to be price inelastic since total expenditure has increased following a price rise / use of data e.g. consumer expenditure on tobacco increased from £15.1 billion to £15.3 billion following price rise (1 + 1marks) • Diagram depicting a price inelastic demand curve / showing an expenditure or revenue increase from a price rise (up to 2 marks) <p>Price £</p> <p>NB: accept supply curve shifts depicting a tax increase.</p> <ul style="list-style-type: none"> • Tobacco smoking is addictive or habit forming / development of this point (e.g. due to nicotine or socialising) (up to 2 marks) • Tobacco smoking has no close substitutes / development of this point (e.g. plastic pipes and chewing gum are weak alternatives) (up to 2 marks) • Tobacco smoking takes up a small percentage of income / development of this point (e.g. still relatively cheap at £7.40 a pack which could last some time) (up to 2 marks) • Extract 2 suggests tobacco smoking is more price inelastic in demand for the manual class workers (29% still smoke) / development of this point (e.g. less 	(10)

	<p>receptive to health warning campaigns or less concerned about the long term implications of smoking).</p> <ul style="list-style-type: none"> • Extract 2 suggests tobacco smoking is more price inelastic for a minority of teenagers / as the proportion of 11-15 year olds smoking has not changed over the last 5 years / development of this point (e.g. what constitutes a regular smoker or questioning the data since these children will be restricted by income). <p>Evaluation (2+2 or 3+1 or 2+1+1 or 4+0 marks)</p> <ul style="list-style-type: none"> • Price elasticity of demand may vary between different types of brands of tobacco / development of this point (e.g. switch to lower quality cheaper cigarettes suggest demand is price elastic for these / comprising some 30% of the market). • Consideration of shifts in the demand curve rather than movement along the demand curve for tobacco / other factors have affected demand than price e.g. health campaigns and change of lifestyle. • Discussion of smoking statistic for teenagers / expect increases in tax to cause reduction in smoking rates as typically they have low incomes. • Price elasticity may vary over time e.g. a large drop in tobacco smoking from 45% to 20% of adult population between 1974 and 2010. • Price elasticity of demand may vary between countries / development with use of an example. • New technology / development of new substitutes such as e-cigarettes affect price elasticity of demand. • Discussion on the reliability of the information provided / development of this point (since it is from the anti-smoking pressure group ASH) / the data might not include influence of smuggling. 	
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Question Number	Answer	Mark
10(d)	<p>8 KAA marks (2+2+2+2 or 3+3+2)</p> <ul style="list-style-type: none"> • There might be a reduction in market failure in the tobacco market since the Private costs and external costs associated with tobacco smoking will fall (1 mark) • Diagram of social, external and private costs / depicting a decrease in external costs. (1+1 marks) NB: this could also be shown by a relevant social, external and private benefits diagram. <ul style="list-style-type: none"> • Consumers benefit: <ul style="list-style-type: none"> ➢ Better health and longer life expectancy / ASH refers to two-thirds of smokers die from their habit. ➢ Less passive smoking or cleaner air / more people may visit restaurants and pubs. ➢ Improved NHS as lower waiting times to receive treatment. ➢ More income available to spend elsewhere ➢ Consumers may benefit from less house fires e.g. £0.5 billion. • Government benefit: <ul style="list-style-type: none"> ➢ Reduction in government borrowing or an improvement in its finances. ➢ National Health Service should benefit from treating fewer smoking related patients the £2.7 billion cost should fall / divert resources to other areas of health care ➢ More tax revenue from people in work / possible to raise retirement age. ➢ Less spending on disability benefits through smoking related illnesses. ➢ Less government expenditure on cleaning up litter. <p style="text-align: center;">NB: cap at 6 KAA marks if no reference made to both consumers and government.</p> <p>6 Evaluation marks (2+2+2 or 3+3 or 1+1+1+1+2)</p> <ul style="list-style-type: none"> • Difficult to place a monetary value on the benefits of a reduction in smoking / e.g. how to value improved health or life expectancy. • Some consumers actually enjoy tobacco smoking so this benefit may be reduced / undermine individual freedom. • Extract 3 mentions more than 1500 pubs closing down and linked to smoking ban in enclosed public places / loss of direct taxation revenue and possible higher spending on benefits. 	(14)

- Government may lose tax revenue over time / it was £12.1 billion from indirect taxes on tobacco in 2012.
- Government spending may increase on the ageing population as non-smokers live longer / such as state pensions and NHS costs.
- Discussion of time period or magnitude: Figure 1 indicates there is a long term trend of the decline in smoking and ASH indicates it may take a further 50 years to eliminate smoking.
- Discussion of prioritisation: the reduction in smoking is not so successful among manual workers / a persistent proportion of 11-15 year olds still smoke.
- Questioning the data: accuracy of the estimates on the costs of tobacco smoking to society / tobacco smuggling could exaggerate the fall in tobacco smoking / the benefits from reduction in smoking may be exaggerated.

The quality of written communication will be assessed in this question based on the candidate's ability:

- To present an argument and conclude on the basis of that argument.
- To organise information clearly and coherently.
- To use economics vocabulary appropriately.
- To use grammar, spelling and punctuation appropriately.

Question Number	Answer	Mark
10(e)	<p>8 KAA marks</p> <ul style="list-style-type: none"> • Definition of government failure (government intervention leads to a misallocation of resources / leads to a net welfare loss). (1 mark) <p>NB: Be prepared to accept one view as KAA and the other as evaluation</p> <p>Government failure since:</p> <ul style="list-style-type: none"> • High tobacco taxes may have encouraged illegal smuggling of tobacco / as 80 per cent of the price of cigarettes comprises tax or 20 per cent of cigarettes smoked in Britain are illegal / encourages people to break the law. (1+1 marks) • Counterfeit) cigarettes may be more harmful than branded cigarettes / some development e.g. plain packaging regulation may it easier to counterfeit cigarettes. (1+1 marks) • High tobacco taxes may increase inequality / since a greater proportion of lower income groups smoke (29%) than higher income groups (13%). (1+1 marks) • Unintended consequences: Government regulations or high taxes may have contributed to closure of pubs and shops or a decrease in employment / increase in losses or fall in profits. (1+1 marks) • Costs of monitoring and enforcing regulations / some development e.g. under-age smoking or funding border customs. (1+1 marks) • Accept critical approach to other regulations not mentioned in extracts. (1+1 marks) <p>6 Evaluation marks (2+2+2 or 3+3)</p> <p>Not government failure since:</p> <ul style="list-style-type: none"> • Without government intervention there would be a much greater market failure / use of data from Figure 1. • The tobacco tax helps to pay for the costs of smoking or internalise external costs / development of this point e.g. the £12.1 billion tobacco tax revenue covers a large portion of the £13.7 billion estimated total costs of smoking / reduce effects of passive smoking. • Government can reduce asymmetric information or imperfect knowledge / development of this point e.g. public health campaigns so consumers realise the true costs of tobacco smoking / reduce problem of myopia among tobacco smokers. • Government intervention can reduce the chances of addiction to a dangerous substance / development of this point e.g. high tobacco taxes may discourage teenagers from smoking. 	(14)

	<ul style="list-style-type: none">• Government intervention help reduce tobacco smoking among children / development of this point e.g. ban on advertising or selling to under 18 year olds / ban on selling cigarettes in vending machines which children can often use.• High tobacco taxes may not be significant cause of tobacco smuggling / Spain and Italy have much lower tobacco taxes but higher rates of smuggling.• Government intervention can increase the quality of life / raise life expectancy.• Government intervention may increases output of labour at work / higher profits.• Government intervention can reduce pressure on NHS / enable resources to be diverted to treat other illnesses. <p>The quality of written communication will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none">➤ To present an argument and conclude on the basis of that argument.➤ To organise information clearly and coherently.➤ To use economics vocabulary appropriately.➤ To use grammar, spelling and punctuation appropriately.	
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Mark Scheme (Results)

Summer 2014

Pearson Edexcel GCE
in Economics (6EC02) Paper 01

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Summer 2014

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question Number	Indicative content	Mark
1 (a) (i)	<p>KAA 6 marks Reward up to 4marks</p> <ul style="list-style-type: none"> • Although real (or potential) output in 3rd quarter of 2012 increased at the highest rate since the start of the recession (2), the fall in the economy's real output was so large in 2008-9 that even with the increase in the third quarter output was yet to reach the level of 2007 (2) • Up to 2 marks for any one reason why growth was high in 2012 • Reward an illustrative graph of real output that is well explained e.g. output gap diagram (2) <p>Up to 2 marks for correct use of any one piece of data</p> <ul style="list-style-type: none"> • 1% in Q3 of 2012 • Q3 2012 is still 3% below 2007 levels 	(6)

Question Number	Indicative content	Mark
(a) (ii)	<p>KAA 8 marks 2 x 4 marks for identifying a benefit (2) and explaining it (2). Award 2 benefits only.</p> <ul style="list-style-type: none"> • More employment opportunities/lower unemployment • Increase in real disposable income. Therefore, consumers can afford to buy more goods and services and/or have more leisure time – i.e. an increase in living standards • Retail sales increasing. Therefore, higher profits for companies which may be used to improve the quality of products or to produce new products • Increased tax revenues for the government which may be used to improve public services or redistribute incomes and/or reduce budget deficit • Higher profits may lead to higher share prices leading to the wealth effect and/or higher dividends leading to more consumption • If there is export-led growth, then the current account of the Balance of Payments would improve • Real economic growth increases LRAS and could lower inflation 	(8)

Question Number	Indicative content	Mark
(a) (iii)	<p>KAA 8 marks</p> <p>Definition of multiplier (2); the number of times a rise in national incomes exceeds the rise in injections that cause it. It measures the subsequent effects when an injection or withdrawal changes. Accept formula $1/(1-m.p.c.)$ or $1/m.p.w.$ or $1/(m.p.s.+m.p.m.+m.p.t.)$</p> <p>Maximum 6 marks for KAA if no multiplier reference</p> <p>Other 6 marks for one or more of the following (maximum 4 marks if no reference to output/growth):</p> <ul style="list-style-type: none"> • Increase in C as people spend money in the UK on tickets and food and merchandise and therefore AD and real output rises • Increase in exports as tourists spend money on tickets and holidays in the UK and therefore AD and real output rises • Impact on employment: boost to construction industry; higher wages for construction workers; <p>Reward up to 2 marks for a relevant diagram which helps explain the transmission mechanism</p> <p>Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include:</p> <ul style="list-style-type: none"> • Size of the multiplier will have an impact on the increase in economic growth • Significance of elasticity of AS curve on growth in output • Consumption is likely to have had a larger effect than exports on AD and therefore on growth in output • Regional differences in impact (i.e. most of the events of the Olympics and Jubilee were held in London) • Short-term/long term- impacts • One-off events unlikely to cause sustained growth • Extract: 'confidence is fragile'. 	(12)

Level	Mark	Descriptor
Level 3	9-12	2 convincing impacts with at least one evaluative point
Level 2	5-8	2 convincing impacts with no connections, or 1 convincing impact with some good analysis but no evaluative point; 1 or 2 less-convincing impacts with some evaluation
Level 1	1-4	Identification of relevant impacts with or without brief evaluative keywords

Question Number	Indicative content	Mark
(b) (i)	KAA 4 marks 4 x 1 mark: <ul style="list-style-type: none"> • It refers to those of working age who are not working (1) • Actively looking for a job and out of work in last four weeks (1) • Ready to work in two (1) • Labour Force Survey/survey (1) • Questionnaire/interview (1) • Conducted quarterly • Internationally recognised (1) • Age 16-64 (1) • Sample (1) 	(4)

Question Number	Indicative content	Mark
(b) (ii)	KAA 8 marks Up to 4 marks for each cost identified and explained/applied. Award up to 2 costs only. Costs might include: <ul style="list-style-type: none"> • Loss of income and/or credit problems (such as house repossession) will have a downward pressure on consumption and AD, and therefore on output. It will have an upward pressure on unemployment. • Loss of skills and other human capital: hard to get into or back into labour market and increased welfare problems for individuals and dependents and poverty issues, possibly leading to a reduction in the PPF and a downward pressure on actual and potential growth. • Government revenue falls so spending likely to fall, leading to a downward pressure on AD and therefore on output. It will have an upward pressure on unemployment. • Increased government expenditure e.g. on benefits • Social costs: large numbers of idle workers can have a negative effect on society, for example crime, morale, social disintegration, possibly leading to a reduction in the PPF a downward pressure on actual and potential growth. • Opportunity costs: resources could be used elsewhere more effectively, leading to an actual output inside the PPF a downward pressure on actual growth • Downward pressure on wages caused by surplus of workers: could lead to increased inequality. 	(8)

Question Number	Indicative content	Mark
* (b) (iii) QWC i-iii	<p>KAA 8 (2 x 4 marks: 2 for identification of point; 2 for analysis). Do not double award analysis</p> <ul style="list-style-type: none"> • Impact on current account balance: UK goods and services will be less competitive. Therefore, exports will become relatively more expensive and imports are relatively less expensive • Increase in unemployment • Lowering of output • Reduction in investment • Increase in inflation • Exchange rate will weaken • Lower profits for firms leading to lower investment • Downwards pressure on wages <p>Up to 2 marks for relevant diagram</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> • Depends on the price elasticity of demand for X and M • Other factors may be more important in determining the current account e.g. exchange rate, quality of goods and services • Problems with measuring productivity • Changes will take some time to come into effect • Impact of other factors • Magnitude <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	(12)

Level	Mark	Descriptor
Level 3	9-12	Effect identified and explained with at least one evaluative point
Level 2	5-8	Effect identified and explained , or effect identified and explained with some good analysis but no evaluative point; effect identified, less-convincing explanation with some evaluation
Level 1	1-4	Identification of relevant effects with or without brief evaluative keywords

Question Number	Indicative content	Mark
(c) QWC i-iii	<p>KAA 18 6 marks</p> <ul style="list-style-type: none"> • Identification of government policy as supply side and/or fiscal (2) • Productivity is output per unit of input (2) Accept labour productivity definition • Diagram showing AS shifts to the right (4); axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift in wrong direction. <p>Factors might include possible policies to raise productivity could include the following: N.B. 2 marks for identification of a relevant policy and 2/4 for analysis. Policies must be related directly to increases in productivity rather than to increased production for 2/4 analysis marks.</p> <ul style="list-style-type: none"> • Increased government spending on infrastructure encouraging investment (inward and/or domestic). • Lower corporation tax to encourage investment (domestic and/or inward) • Redesigning taxes on incomes to create the incentive to work more productively i.e. increased competitiveness in the labour market • Redesigning benefits that create the incentive to work more productively • Improving the quality and focus of education and training will increase its effectiveness at raising productivity (Could be 2 separate points) • Improve health care to reduce sickness and absence which should increase output per worker • Facilitating inward migration of skilled labour increases output per worker • Deregulation to encourage competition leading to greater efficiency • Privatisation • Lower red tape encouragement of entrepreneurship and investment which should lead to higher productivity • Subsidy/tax break on investment such as creation of special enterprise zone or the increase in the use of new technology causing greater efficiency and productivity • Government measures to increase bank lending to further increase investment and productivity- Funding for Lending <p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks); Comments might include reference to</p> <ul style="list-style-type: none"> • Discussion of effectiveness of individual policies- this could be 3 separate points • Effectiveness of certain policies as some services have few opportunities to increase productivity 	(30)

	<ul style="list-style-type: none"> • Prioritisation of objectives such as fiscal deficit reduction limiting scope • Creditworthiness of UK government • Availability of credit in the UK • Size of national debt • A combination of policies may be more effective (e.g. fiscal and supply side) • Time lag and implementation lags • Other things are not equal – e.g. depends on global economic changes or exchange rate movements • Conflict between policies • Conflict with other macroeconomic objectives • Counter argument e.g. effectiveness of training <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	
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Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing policies with at least two evaluative points (an evaluation point is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing policies with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing policies with no evaluative point; 1 or 2 less-convincing policies with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

Question Number	Indicative content	Mark
2 (a) (i)	<p>KAA 4 marks</p> <p>13.36% award 4 marks for anything between 13% and 13.4% without a % sign award 3 marks</p> <p>Award 3 marks for anything between 13.5% and 14% without a % sign award 2 marks</p> <p>$((\text{New} - \text{Original})/\text{Original}) \times 100$ or equivalent (1 mark) or $((123 - 108.5)/108.5) \times 100$ (2 marks)</p> <p>Award 1 mark if relevant CPI figures are identified as 108.5 and 123</p>	(4)

Question Number	Indicative content	Mark
(a) (ii)	<p>KAA 8 marks</p> <p>Award two reasons (2 x 4 marks) 2 marks for identifying each reason and up to 2 marks explaining each reason.</p> <ul style="list-style-type: none"> • Help reduce inequality as inflation damages those on fixed incomes • Other widening of income gaps • To slow the erosion of real incomes • Maintain international competitiveness • Helps price signalling and the efficient functioning of a market • Increased confidence in government control of economy • Avoids the dangers of hyperinflation and/or deflation at the target is set at +2.0% • To maintain value of savings • To encourage long-term planning/investment by firms • Avoid inefficiencies in the economy such as shoe leather costs and/or menu costs 	(8)

Question Number	Indicative content	Mark
(a) (iii)	<p>KAA 8 marks 2 factors up to 4 marks each 2 marks for the identification and 2 marks for the explanation of each factor.</p> <p>Cost push inflation or increasing the cost of factors of production</p> <ul style="list-style-type: none"> • Weakening exchange rates leading to the increased cost of imported components • Rising price of oil which is used by most businesses either directly or indirectly and the UK is a net importer • Rising price of food as the UK is a net importer of food • Tax increases such as VAT which will generate an increase in prices of most goods <p>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include</p> <ul style="list-style-type: none"> • Fixed contracts limit impact of exchange rate depreciation • PED for imports • Magnitude of each factor • Likely persistence of each factor • Importance of each factor • Impact on different groups 	(12)

Level	Mark	Descriptor
Level 3	9-12	1 convincing cause fully explained with at least one evaluative point
Level 2	5-8	1 convincing cause fully explained with no data, or 1 convincing cause with some good analysis but no evaluative point; 1 or 2 causes with some evaluation
Level 1	1-4	Identification of relevant cause with or without brief evaluative keywords

Question Number	Indicative content	Mark
(b) (i)	<p>KAA 6 marks</p> <p>Up to 6 marks for the explanation</p> <ul style="list-style-type: none"> • Definition of standard of living: e.g. measure of welfare of people living in an economy (2) • <u>Real</u> Gross National Income (accept Gross National Product and Gross Domestic Product) (2) per household or capita/head (2). • Average household income in the UK fell by 2.4% over the period 2008-9 and 2010-11 (2) • Reward other relevant measures such as HDI (2) made up of health, education, and economic growth/income (2). Health measures such as life expectancy at birth (2) and education measures such as number of years of schooling (2). Income measures such as GDP per capita or GNI per capita (2) 	(6)

Question Number	Indicative content	Mark
(b) (ii)	<p>KAA 8 marks</p> <p>2 causes up to 4 marks each (2 x 2 marks) 2 marks for the identification and 2 marks for the explanation of each cause.</p> <ul style="list-style-type: none"> • Incomes not keeping pace with inflation • Increased unemployment • Increased youth unemployment • Increased tuition fees at university • Cuts to unemployment and other state benefits • Increased housing costs • Cuts in training <p>Reward use of data from Extract 1 (2)</p> <ul style="list-style-type: none"> • The median household disposable income for those in their 20s fell 6.3 per cent between 2008-09 and 2010-11. If housing costs are included, the fall was even larger, at 9 per cent. 	(8)

Question Number	Indicative content	Mark
* (b) (iii) QWC i-iii	<p>KAA 8</p> <p>Up to 8 marks (2 x 4 marks) for explanation of policies. Award up to 4 marks for each policy & explanation</p> <ul style="list-style-type: none"> • Increase government expenditure e.g. on training programs • Cuts in university tuition fees and/or bursaries for university courses • Increase benefits above 1% cap • Housing policies (mortgage relief, key worker subsidies) • Increased income tax threshold, cut national insurance contributions • Relaxation of austerity measures relaxed • Lower indirect taxes (e.g. VAT), assuming higher propensity to spend in young people • Cut in income tax rate e.g. reintroduction of 10% tax band • Lower corporation tax leading to increased investment, lower unemployment <p>Maximum of 4 marks for listing policies with no explanation.</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> • Conflict with other objectives such as reducing the budget deficit and also the national debt (can award conflicts with different objectives) • Raising benefits might decrease living standards in the long run if it provides less incentive to find work • Long run and short run impacts • Relative importance of the policies • Likely effectiveness of the policies • Mitigating factors • Counter argument <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	(12)

Level	Mark	Descriptor
Level 3	9-12	2 convincing policies with at least one evaluative point
Level 2	5-8	2 convincing policies but no evaluative point; 1 or 2 less-convincing policies with some evaluation
Level 1	1-4	Identification of relevant policy with or without brief evaluative keywords

Question Number	Indicative content	Mark
(c) QWC i-iii	<p>Up to 6 marks</p> <ul style="list-style-type: none"> • Identification of a macroeconomic objective (maximum 2 marks) <ul style="list-style-type: none"> ○ Economic Growth ○ Low and stable inflation ○ Reduction in unemployment ○ Reduction of the deficit on the current account of the balance of payments Accept <ul style="list-style-type: none"> ○ Reduction of the national debt or balancing the budget ○ Making the distribution of income more equal ○ Protection of the environment • Define monetary policy (2) • Diagram showing AD shift and/or AS shift consistent with analysis; axes labelled (1), equilibria labelled (1), AD/AS lines labelled (1), correct shift (1). No marks for diagram if shift inconsistent with analysis. <p>Explanation of how the monetary policies might help achieve government objectives 12 marks (3 x 4 marks or 2 x 6 marks); Marks could be obtained as follows: Link between interest rates and an objective (2) and transmission mechanism explained (2/4). Must be link between monetary policy and objective.</p> <ul style="list-style-type: none"> • Fiscal Policy constrained by austerity promises because of national debt • MPC remains independent with control of interest rates and free of political interference. This helped prevent inflation named target has been clear 2% inflation (+/- 1%) and transparency and openness maintained (open letters to chancellor from 2007) These led to reduced inflationary expectations which is self-fulfilling to some extent. This helps growth, reduce the balance of payments deficit, unemployment and price stability • An increase in interest rates designed to reduce rate of inflation; lower AD improving export price competitiveness • Low interest rates and/or quantitative easing help prevent deflation, high unemployment and low growth • Maintained financial stability in the banking sector helping growth and reduce unemployment and improve price stability • Low interest rates and/or quantitative easing encourage investment, growth, reduce the deficit on the current account of the balance of payments and reduce unemployment • Low interest rates and/or quantitative easing encourage consumption and growth and reduce unemployment 	(30)

	<p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks); Fluctuating state of the economy had inevitable effect on inflation</p> <ul style="list-style-type: none"> • Fluctuating state of the economy had inevitable effect on inflation • Inflation in the recession has been caused by cost push inflation outside the Bank of England's control • Looking at Figure 1, out of tolerance but not out of control • Changed target to CPI which was more stable than RPI possibly because of absence of volatile housing market and mortgage interest payments • Financial stability to some extent has taken priority and the MPC has had loose monetary policy while fiscal policy remained tight • Uncertainty of effect of Quantitative Easing • Vicious cycle of deflation was avoided in 2009 • Other factors such as cheap imports in the early 2000s • Weak unions have prevented the wage-price spiral • Other issues were neglected such as exchange rate stability to promote trade • Conflicts of objectives <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economic vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	
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Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing effects with at least two evaluative points (an evaluation points is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing effects with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing effects with no evaluative point; 1 or 2 less-convincing points with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

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Mark Scheme (Results)

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in Economics (6EC03) Paper 01

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Summer 2014

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

If the **key is incorrect** then the maximum explanation mark is 2, i.e. $0+2=2$

Knockout marks (or rejection marks):

Candidates can be awarded up to 2 marks, 1 per point, for knocking out incorrect answers. This only counts if they have given a valid economic reason to go with their answer, where they have added value to the question.

E.g. for question 1, explaining it's not horizontal integration because that is where you merge/takeover a firm at the same stage in the production process/industry.

Candidates can also receive knockout marks without explicitly selecting a letter, if it's a clear reference is made to a **key**.

Question Number	Answer	Mark
1	<p>Correct option B (1 mark)</p> <p>Vertical – at a different stage of the same industry or process of production or same final product (1) Backwards - it is previous/earlier/towards raw materials/away from consumer (1) Reasons or benefits of merger (1+1) e.g. rationalisation Application to the dairy industry (1) e.g. Proper Welsh is a primary industry. Only award the application marks if relevant to backward integration.</p> <p>Knock out examples It cannot be D because conglomerate integration involves merging with a firm in a different industry It cannot be C because forward integration is towards the consumer</p>	(4)

Question Number	Answer	Mark
2	<p>Correct option E (1 mark)</p> <p>Definition of a price taker e.g. has to sell at the market price (1)</p> <p>Horizontal or perfectly elastic demand curve (1) – could also be awarded from their diagram (not both)</p> <p>Explanation of perfect competition: one characteristic, e.g. no barriers to entry or exit, many firms, homogenous product (1);</p> <p>Diagram showing horizontal AR=MR (1 – if not previously awarded); link to market equilibrium in a separate market or industry diagram (1)</p> <p>Application to cherries – they seem very similar (1)</p> <p>Examples of knock out: It is not A as we assume they are a profit maximiser operating where $MC=MR$</p> <p>It is not C as $MC=AC$ is the productive efficiency point and this will only happen in the LR</p>	(4)

Question number	Answer	Mark
3	<p>Correct option B (1mark)</p> <p>Definition profit satisficing (making enough profit to keep shareholders happy/sufficient/just enough/target/fixed amount) (1)</p> <p>Reasoning, e.g. they may have other objectives (1)</p> <p>It may mean long run profit maximisation (1)</p> <p>Reason why this occurs e.g. divorce of ownership from control, principal agent problem (1)</p> <p>Diagram to illustrate minimum profit as range of output levels (1)</p> <p>Application – people may be shareholders for other reasons than profit e.g. winning matches, attendance at matches, brand development (1 + 1)</p> <p>Example of knock out: It's not C as profit maximising is where $MC=MR$ It's not A as low dividends are likely to make share prices fall (or other logical reasons why share prices change)</p>	(4)

Question Number	Answer	Mark																																										
4	<p data-bbox="363 230 794 264">Correct Option D (1 mark)</p> <table border="1" data-bbox="363 297 1297 633"> <thead> <tr> <th data-bbox="371 309 475 398">Output per week</th> <th data-bbox="483 309 635 398">Total revenue (£millions)</th> <th data-bbox="643 309 794 398">Average revenue (£millions)</th> <th data-bbox="802 309 954 398">Total cost (£millions)</th> <th data-bbox="962 309 1114 398">Average cost (£millions)</th> <th data-bbox="1121 309 1289 398">Marginal cost (£millions)</th> </tr> </thead> <tbody> <tr> <td data-bbox="371 409 475 443">0</td> <td data-bbox="483 409 635 443">0</td> <td data-bbox="643 409 794 443">-</td> <td data-bbox="802 409 954 443">10</td> <td data-bbox="962 409 1114 443">-</td> <td data-bbox="1121 409 1289 443">-</td> </tr> <tr> <td data-bbox="371 454 475 488">1</td> <td data-bbox="483 454 635 488">40</td> <td data-bbox="643 454 794 488">40</td> <td data-bbox="802 454 954 488">25</td> <td data-bbox="962 454 1114 488">25</td> <td data-bbox="1121 454 1289 488">15</td> </tr> <tr> <td data-bbox="371 499 475 533">2</td> <td data-bbox="483 499 635 533">60</td> <td data-bbox="643 499 794 533">30</td> <td data-bbox="802 499 954 533">34</td> <td data-bbox="962 499 1114 533">17</td> <td data-bbox="1121 499 1289 533">9</td> </tr> <tr> <td data-bbox="371 544 475 577">3</td> <td data-bbox="483 544 635 577">78</td> <td data-bbox="643 544 794 577">26</td> <td data-bbox="802 544 954 577">52</td> <td data-bbox="962 544 1114 577">17.3</td> <td data-bbox="1121 544 1289 577">18</td> </tr> <tr> <td data-bbox="371 589 475 622">4</td> <td data-bbox="483 589 635 622">96</td> <td data-bbox="643 589 794 622">24</td> <td data-bbox="802 589 954 622">96</td> <td data-bbox="962 589 1114 622">24</td> <td data-bbox="1121 589 1289 622">44</td> </tr> <tr> <td data-bbox="371 633 475 667">5</td> <td data-bbox="483 633 635 667">105</td> <td data-bbox="643 633 794 667">21</td> <td data-bbox="802 633 954 667">150</td> <td data-bbox="962 633 1114 667">30</td> <td data-bbox="1121 633 1289 667">54</td> </tr> </tbody> </table> <p data-bbox="363 678 1297 925"> Definition sales maximisation $AC=AR$ or $TC=TR$; or selling as much as you can without making a loss (1) Identification that at sales maximisation there are normal profits or no supernormal profits/loss (1) Filling in columns with correct AR, TC, AC, TR-TC or total profit (1 mark for each correct column up to 4 units is sufficient): (1 + 1+ 1) </p> <p data-bbox="363 969 1297 1025"> Diagram showing $AC=AR$ (1) Output is at £96 million TR/TC or £24 million AR/AC (1) </p>	Output per week	Total revenue (£millions)	Average revenue (£millions)	Total cost (£millions)	Average cost (£millions)	Marginal cost (£millions)	0	0	-	10	-	-	1	40	40	25	25	15	2	60	30	34	17	9	3	78	26	52	17.3	18	4	96	24	96	24	44	5	105	21	150	30	54	(4)
Output per week	Total revenue (£millions)	Average revenue (£millions)	Total cost (£millions)	Average cost (£millions)	Marginal cost (£millions)																																							
0	0	-	10	-	-																																							
1	40	40	25	25	15																																							
2	60	30	34	17	9																																							
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4	96	24	96	24	44																																							
5	105	21	150	30	54																																							

Question Number	Answer	Mark
5	<p>Correct Option A (1 mark)</p> <p>Definition of oligopoly e.g. a few firms dominate the market (1) Supermarkets are interdependent (1)</p> <p>Other firms will follow if prices are cut (1) Firms will not follow if prices rise or other asymmetric reaction comments (1)</p> <p>Diagram showing a kinked demand curve with annotation or explanation of inelastic section for downward moving prices or elastic section for upward moving prices (1 +1) – Note kinked demand curve is not required</p> <p>Pay off matrix correctly showing that the firm will not change prices (1 + 1)</p> <p>Application – bread is regularly purchased and therefore easy to spot price changes (1) or often a loss leader (1)</p> <p>Example of a knock out: It's not C as if it is tacit collusion it has not been controlled by the regulator/competition authorities It's not D because supermarkets use non price competition such as loyalty cards and customer service schemes</p>	(4)

Question Number	Answer	Mark
6	<p>Correction Option C (1Mark)</p> <p>Definition of contestability e.g. no/low barriers to entry or exit or no sunk costs (1). May be implicit.</p> <p>Reasons why barriers to entry might rise (or reduced exit options) (1 + 1 + 1) e.g. economies of scale, power to advertise, giving firms monopoly power to limit competition or raise prices. The reasons must be linked to contestability not competitiveness.</p> <p>Role of the regulator, e.g. protect consumer interest/welfare (1)</p> <p>Identification that it is horizontal integration (1)</p> <p>Example of knock out: It's not D because the market size could get bigger or smaller It's not B because consumer surplus is likely to fall if prices rise</p>	(4)

Question Number	Answer	Mark
7	<p>Correction Option B</p> <p>Definition of allocative efficiency, e.g. the price is equal to the marginal cost (AR=MC or P=MC) (1)</p> <p>Explanation of monopoly – single firm dominates or 25%+ market share (1)</p> <p>Explanation that the price has been set at a point that maximises (consumer/producer) welfare (1);</p> <p>Monopoly may do this as marginal cost pricing has been imposed by the government (1)</p> <p>Annotation of diagram showing consumer/producer welfare(1)</p> <p>Example of knock outs (can also come from annotating the diagram)</p> <p>It's not C because M is not at the lowest point of AC</p> <p>It's not D because this is revenue maximisation (or the area KLMN represents SNP for a revenue maximising firm)</p> <p>It's not D as shown by a correctly annotated profit maximising area on their diagram (connecting AR and AC at output T – this will involve a new horizontal line meeting the AC curve)</p>	(4)

Question Number	Answer	Mark
8	<p>Correction Option A</p> <p>Meaning of PFI: major infrastructure/buildings/project/large scale contracts are issued by governments to private firms (1) It is then leased or rented to the public sector (1) over 25-30 years (1) Benefits to the government e.g. – it does not have to borrow this year (off the balance sheet), can spend on current demands, useful in times of fiscal austerity, makes efficient use of specialists, reduces risk for government, leads to more immediate public services, creates competition at point of tendering, “the government’s credit card”(1 + 1 + 1)</p> <p>Costs to the government e.g. - leading to higher overall costs in the long run (1) – these may be incorporated within knock out marks</p> <p>Application to hospitals, e.g. more specialist hospitals or more up to date technology, better quality service(1)</p> <p>Examples of knock outs: It’s not C as PFI will decrease x-inefficiency as there is competition during the tendering process It’s not D as to exit the contract there will be penalty costs It’s not B as the government achieve a lower rate due to carrying less risk</p>	(4)

Question 9 The chewing gum market

Question Number	Answer	Mark
9a	<p>Theory (2): Oligopoly (1) where a few firms dominate the market, or similar explanation (1) OR Monopoly (1) where one firm dominates the market/one firm with more than 25% market share (legal definition)</p> <p>Application (2): 2 firm concentration ratio of 61% (2) 3 firm CR of 75% (2) 4 firm CR 81% (2) 5 firm CR 83% (2) Other application (1 + 1) e.g. – Wrigley has 35% market share or Cadbury's has 26%(1) which is greater than the 25% legal minimum (1) other evidence of oligopoly behaviour e.g. strong brand names, collusive behaviour, barriers to entry, high sunk cost, high cost of research (1)</p> <p>Reserve one application mark for use of Figure 1</p>	(4)
9b	<p>KAA 4 (may or may not include a definition mark) Definition (1): A patent is a legal protection of a design idea or process (1) or, a kind of copyright (1)</p> <p>Benefits of patents (2+2 or 3 +1) might include: For firms:</p> <ul style="list-style-type: none"> • Helps to develop a competitive advantage via a unique feature • Provides a source of monopoly power • Barriers to entry • Give firms short/medium term abnormal profits • Enables firms to develop into new market <p>Benefits to economy as a whole:</p> <ul style="list-style-type: none"> • Encourage Research and Development • Existing firms can take risks with new idea • new ideas from universities will have practical uses • Innovation is encouraged e.g. dynamic efficiency • Macro benefits, e.g. multiplier effects • Investment in research in turn in the long run may benefit society as a whole e.g. cancer • External benefits e.g. less passive smoking <p>Benefits to other stakeholders:</p> <ul style="list-style-type: none"> • Government benefits e.g. reduced costs of cleaning pavements • Consumer benefits e.g. more choice & improved quality <p>CAP 3 KAA if only one benefit of patents</p>	(8)

	<p>Evaluation (2+2 or 3+1 or 4+0):</p> <ul style="list-style-type: none">• Patents allow supernormal profits to be made (question of fairness),• Patents stifle competition or innovation by others;• alternatives to patents might be considered, e.g. subsidies to university research• crowding out of other innovation• leading to higher prices or reduced choice• disadvantages of monopoly• may cause x-inefficiency• Other problems of patents e.g. – cost to achieve, only held for a limited time, not fair to firms who cannot gain them, enforcement issues	
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Question Number	Answer	Mark
9b	<p>KAA 4 (may or may not include a definition mark) Definition (1): A patent is a legal protection of a design idea or process (1) or, a kind of copyright (1)</p> <p>Benefits of patents (2+2 or 3 +1) might include: For firms:</p> <ul style="list-style-type: none"> • Helps to develop a competitive advantage via a unique feature • Provides a source of monopoly power • Barriers to entry • Give firms short/medium term abnormal profits • Enables firms to develop into new market <p>Benefits to economy as a whole:</p> <ul style="list-style-type: none"> • Encourage Research and Development • Existing firms can take risks with new idea • New ideas from universities will have practical uses • Innovation is encouraged e.g. dynamic efficiency • Macro benefits, e.g. multiplier effects • Investment in research in turn in the long run may benefit society as a whole e.g. cancer • External benefits e.g. less passive smoking <p>Benefits to other stakeholders:</p> <ul style="list-style-type: none"> • Government benefits e.g. reduced costs of cleaning pavements • Consumer benefits e.g. more choice & improved quality <p>CAP 3 KAA if only one benefit of patents</p> <p>Evaluation (2+2 or 3+1 or 4+0):</p> <ul style="list-style-type: none"> • Patents allow supernormal profits to be made (question of fairness), • Patents stifle competition or innovation by others; • Alternatives to patents might be considered, e.g. subsidies to university research • Crowding out of other innovation • Leading to higher prices or reduced choice • Disadvantages of monopoly • May cause x-inefficiency • Other problems of patents e.g. – cost to achieve, only held for a limited time, not fair to firms who cannot gain them, enforcement issues 	(8)

Question Number	Answer	Mark
9c	<p>Reserve 2 marks for diagram: Shift showing increasing costs (e.g. legal costs) or falling/insufficient demand (1) and loss area/smaller profit connected with MC=MR (1)</p> <p>Reasons might include (2+2 or 3+1):</p> <ul style="list-style-type: none"> • Nicotine gum manufacturers are acting in a threatening way (game theory might be used to develop this argument) • Too many competitors for the firm to make supernormal profits • Huge costs of operating in US relative to other countries, and other set up costs, e.g. £500 000 annual cost base in US • It has reached shut down point or not making enough profit • It does not expect demand to grow sufficiently in the future • Demand was not as high as expected. 'Gum market is shrinking' in Extract 2 • Challenge to patent • Nicotine firms might be cross-subsidising in the US, or similar comments on the confectionery market being directly affected by the nicotine market problems • other things are not equal • Lack of commercial opportunities in US • Better opportunities elsewhere <p>Evaluation 6 marks: (3x2 marks or 2x3 marks). Points might include:</p> <ul style="list-style-type: none"> • Not enough information to say as insufficient data provided • Other markets might be more profitable, e.g. Ireland/EU • New products find the US more difficult than other countries to break into – higher marketing barriers • Use of game theory might show how new entrants are deterred • Cost and revenue factors work together to magnify the impact, or other weighing together of the factors • Depends on the degree to which they can cross subsidise losses in the US, the amount of retained profits within Revolymer • In the LR the situation may improve e.g. – working with commercialisation partners as in Canada (extract 2 line 10) • Comment on the £360 000 cost of closing down. It might have been better to stay in the US. • Prioritisation of the reasons with justification 	

Question Number	Answer	Mark
9d	<p>Award up to 4 strategies (4x2 marks), or (3+3+2) or (2x4 marks)</p> <p>Strategies might include:</p> <ul style="list-style-type: none"> • Pricing policies (may count as more than one strategy): predatory, limit pricing, sales max • Non-pricing strategies, e.g. heavy marketing (may count as more than one strategy) • Cross subsidisation • Existing firms might cut own costs • Collusion • New ideas might be developed to create barriers to entry • Other barriers to entry discussion • Merger & acquisition activity is likely e.g. new entrants being bought up • Challenge legal patents that have been awarded <p>Award appropriate use of game theory to develop a point</p> <p>KAA CAP 6/8 if no reference to chewing gum manufacturers</p> <p>Evaluation 8 marks (4x2 marks), or (3+3+2 marks) or (2x4 marks):</p> <ul style="list-style-type: none"> • there might not be a reaction – very small firm, already failing in US, niche market • Other magnitude points, e.g. size of profits of existing firms might mean that new entrants cannot compete in marketing • US market is unlike Europe market. Might be more room for growth in Europe or elsewhere. • Depends on whether we are in recession or growth (is the product a luxury?) • Discussion involving game theory can earn evaluation marks, e.g. the behaviour depends on the size of the payoffs • Size of fines, and magnitude of other legal powers • Critical judgement of strategies set out under KAA • Prioritisation with justification 	16

Question 10 Camera retailing

Question Number	Answer	Mark
10a	<p>Theory (2) – Price (AR) is less than or equal to AVC OR Price (AR) is less than or equal to AC (long run) – (1) OR TR is less than or equal to TVC (1)</p> <p>Explanation of the above. For example the firm is:</p> <ul style="list-style-type: none"> • making less than normal profit (1) • making a loss which exceeds the VC (1) or making a loss (1) • not making a contribution (1) • able to make a smaller loss if it discontinued production (1) • not covering its day to day costs/running costs/working capital (1) i.e. an implicit understanding of variable costs, which might be achieved using application <p>A diagram showing price below AVC (1) with loss area shown (1) or other explanation using a valid diagram. Note that the diagram marks are part of the theory.</p> <p>Application (2): Jessops was making a loss of £12 million (1) despite revenues of £304.6 million (1) Since £12million is greater than the fixed costs (£8 million) so the firm is losing £4 million on variable costs alone (1 + 1) Example of variable costs: Jessops is not even covering the costs of its cameras (1) Example of fixed costs: Jessops is not covering rent (1)</p>	(4)

Question Number	Answer	Mark
10b	<p>KAA 4 marks. Reserve 2 marks for diagram.</p> <p>2 marks For answers which discuss two difference revenue or costs changes allow up to 4 marks. The answers must be developed in different ways.</p> <p>Diagram 2 marks.: 1 mark for shift (AR and MR shift, or AC shift (Costs had risen (n.b. fixed costs must be related to data, and no shift in MC)), 1 mark for loss area correctly linked to MC=MR, and cost and revenue curves.</p> <p>Reasons for loss (2 marks: 1+1 or 2+0) might include:</p> <ul style="list-style-type: none"> • Rising costs, with application • Falling demand for cameras as a whole, with application • Increased competition for cameras meaning smaller market power for each firm • Consumers buying on the Internet • Cameras in mobile phones <p>Evaluation 4 marks: (2+2 or 3+1 or 4+0)</p> <ul style="list-style-type: none"> • both demand and cost shifts can be shown to magnify the impact • Jones might be over-optimistic about end of recession – losses may continue • Jones is going to cut costs and increase demand – profits will occur in future, but is temporarily suffering losses • Depends on ability of Jones to reduce future losses • Difficult to know – need more information about causes of loss, e.g. how other firms have got on, e.g. London Camera Exchange • Camera phones are not a good substitute for all buyers • A £12million loss is very small in comparison to a £304.6 million revenue • It is a combined effect, compounded by another factor 	(8)

Question Number	Answer	Mark
10c	<p>KAA 6 marks Allow up to (2x 3 marks) or (3x2 marks) or Diagram (2) plus (2+2) or (3+1)</p> <p>Answer may relate to price discrimination within Jessops or between firms within any retailing market.</p> <p>Allow 1 mark for clear explanation of price discrimination (selling the same product at different prices) (1)</p> <p>Diagram marks (up to 2 marks)</p> <ul style="list-style-type: none"> - Inelastic AR or D linked to high price and/or elastic linked to low price (1) (can be shown through gradient of AR or D) - Profit maximisation output and prices extrapolated from whole firm diagram (1) <p>Reasons why price discrimination is possible:</p> <p>Discussion of fulfilment of conditions for price discrimination:</p> <ul style="list-style-type: none"> • Different price elasticity of demand, e.g. higher PED online as more competition • Monopoly power. Consideration of the branding within the market, and the ability to retain customers even when prices are raised. The appeal of Jones himself might be considered as a marketing tool. • Separation of the market, e.g. people want to try the product and receive advice in a shop, and online there is a time delay before the goods are received • Low costs of preventing arbitrage, or similar. For people shopping in store they may or may not be prepared to go home and buy the product online. Also can consider the risks or other costs of buying on the internet. <p>Award application: as part of these conditions (up to a maximum of 3 marks for each condition overall), e.g.</p> <ul style="list-style-type: none"> - Jessops sells accessories at higher prices in the high street stores but the cameras are very similar prices. - Online prices are lower so people are transferring to the online market. - High street stores are closing for this reason - Jones's comments on trying the cameras in the shop, the Apple-ish model, etc. - Jones does not intend to price discriminate on the major lines, but instead have very similar prices to online. He plans to make the money on accessories 	(12)

	<p>Evaluation: 6 (2x3 marks or 3x2 marks)</p> <ul style="list-style-type: none"> • Discussion of whether price discrimination is in fact possible as a strategy, e.g. in the long term arbitrage will become easy • It's product discrimination not price discrimination because costs in each market are different • It's product discrimination not price discrimination because 'Try before you buy' and other advice in the shop means that the product in the shop is not the same as the one online (or similar application points) • Changes in the economic cycle will affect PED, and other determinants of PED • Jones is willing to stake £4million that discrimination is possible • Depends on the season, e.g. Christmas, and the PED • Depends on other factors, such as ability to park, availability of other retail outlets nearby, as to the willingness of face-to-face shoppers to spend. • Depends on actions of competitors e.g. click and collect • Other criticisms of price discrimination, e.g. it can be illegal in some cases, and might be investigated by the competition authorities 	
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Question Number	Answer	Mark
10d	<p>Award up to 4 strategies (4x2 marks), or (3+3+2 marks) or (2x4 marks)</p> <p>Any comments regarding price discrimination are NOT permitted</p> <p>Strategies MUST be linked to profit. These might include:</p> <ul style="list-style-type: none"> • Pricing policies (may count as more than one strategy): predatory, limit pricing, cost-plus, BOGOF <i>if linked to profit</i> • Non-pricing strategies (may count as more than one strategy) e.g. heavy marketing, loyalty cards, good sales information, after sales service, friendly, photo albums, posters whilst you wait • Existing firms might cut own costs • New ideas might be developed to create barriers to entry • Other barriers to entry discussion • M&A activity is likely for new entrants being bought up • BOGOF (allowed if not used as a pricing strategy) <p>Award appropriate use of game theory to develop a point</p> <p>KAA CAP 6/8 if no reference to high street retailers</p> <p>Evaluation 8 marks (4x2 marks), or (3+3+2 marks) or (2x4 marks):</p> <ul style="list-style-type: none"> • it might not be possible to make profits – odds are stacked against high street stores as their costs are higher • Magnitude issues, e.g. size of cuts in number of stores by Jones is a significant shift in fixed costs • Depends on whether we are in recession or growth (camera is luxury, large part of income, YED issues etc) • Discussion involving game theory can earn evaluation marks, e.g. the behaviour depends on the size of the payoffs • Depends on the actions of other firms (game theory might be used) • Some practices are illegal e.g. predatory pricing • Cost of policies, e.g. advertising • The high street retailer can adapt to also become an online retailer • Critical judgement of strategies set out under KAA • Prioritisation with justification 	(16)

Mark Scheme (Results)

Summer 2014

Pearson Edexcel GCE
in Economics (6EC04) Paper 01

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Mark scheme: 6EC04 JUNE 2014

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

QUALITY OF WRITTEN COMMUNICATION:

Quality of written communication (QWC) is assessed in **both parts of the essays and in parts (d) & (e) of the data response questions** and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question No.	Answer	Mark
1 (a)	<p>KAA 14; EV 6.</p> <p>Causes include:</p> <ul style="list-style-type: none"> Cuts in public expenditure: in capital expenditure; in current expenditure and in welfare benefits (could count as up to 2 points) Tax increases: in direct taxes such as income tax and national insurance contributions; and in indirect taxes such as VAT; also, corporation tax increases possible e.g. Greek corporation tax was increased from 20 to 26%; French corporate tax surcharge for large companies (could count as up to 2 points) Some countries experiencing economic growth so causing a rise in tax revenues and fall in government expenditure e.g. on unemployment benefits <p>Evaluation could include:</p> <ul style="list-style-type: none"> Most countries have put the emphasis on public expenditure cuts Consideration of multiplier effects of cuts in public expenditure compared with tax increases Implications of increases in indirect taxes for real incomes and inflation Some austerity measures might only have a short run effect on the budget deficit Important to consider budget deficit as a proportion of GDP rather than its absolute size. <p>N.B. If there is confusion between concepts of national debt and budget deficit, then the answer can achieve no more than 7 marks (top level 1)</p> <p><i>If there is no example of a specific country, award a maximum of 14/20</i></p>	(20)
Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question No.	Answer	Mark
1 (b)	<p>KAA: 21; Ev: 9</p> <p>Effects include:</p> <ul style="list-style-type: none"> Impact on incentives to work: could act as disincentive to take higher paid jobs <i>But: workers might work harder to maintain standard of living</i> Tax revenues/public finances: these might be expected to increase: reference to Laffer curve analysis <i>But: depends at what rate of tax that tax revenues are maximised; reference to Laffer curve analysis; also depends on overall impact on AD & economic growth</i> Could cause an increase in tax evasion (illegal) and tax avoidance (legal) <i>But: depends on powers of tax authorities to collect taxes</i> Might cause an increase in number of tax exiles <i>But income tax is not the only factor which influences a person's decision on where to live</i> Increased income equality: the tax system is more progressive so if the taxes collected are used to redistribute incomes to the poor then inequality will be reduced <i>But: depends on how tax revenues are used and whether other fiscal changes offset the impact of the higher marginal tax rate.</i> Impact on AD and growth, unemployment and inflation <i>But: if savings are reduced to pay for the higher rate of tax, then the effects will be minimal</i> Impact on FDI flows <p><i>Further evaluative points:</i></p> <ul style="list-style-type: none"> <i>Impact depends on where the higher rate threshold is set.</i> <i>Number of higher rate tax payers</i> <i>MPC of higher rate tax payers</i> 	(30)
Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	Answer	Mark
2 (a)	<p>KAA: 14; Ev: 6</p> <p>Factors include:</p> <ul style="list-style-type: none"> • Reduction in tariffs and other protectionist measures; role of WTO in this process <i>But: evidence of some increase in protectionism (including competitive depreciations) after the financial crisis</i> • Opening up of Eastern Europe, China <i>But increased transport costs and higher wages might slow this process</i> • Changes in competitiveness e.g. US & UK loss in low cost manufacturing contrasted with rise in emerging economies Could count as two points <i>But: re-shoring recently</i> • Growth of trading blocs • Abundance of factors of production in different countries • Increase in foreign direct investment which increased manufacturing in developing economies • Changes in comparative advantage: A detailed analysis of the significance of this theory could count as two points e.g. if numerical example or a diagram is included <i>But law of comparative advantage is based on unrealistic assumptions e.g. constant costs of production; perfect mobility of resources</i> • Changes in the exchange rate/'currency wars' of recent years; China: currency controls to prevent appreciation of their currency • Relative inflation differentials linking to real exchange rates <p><i>If no examples of countries, award a maximum of 14/20</i></p>	(20)
Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question No.	Answer	Mark
2(b)	<p>KAA: 21; Ev: 9</p> <p>Analysis might include:</p> <ul style="list-style-type: none"> • Impact on domestic prices and/or domestic production and imports (could count as two points). Concepts might include consumers' and producers' surpluses. N.B. This analysis should be related to the impact on the global economy • Impact on trade patterns: trade diversion away from low cost producers to high cost producers • Impact of resource allocation in global economy/ • Impact of dumping of surpluses • Impact on economies of developed and developing countries e.g. on <ul style="list-style-type: none"> ~ balance of payments; ~economic growth; ~employment; ~inflation; ~equality and ~the environment (Each of the above may be analysed as a separate issue) • Allow analysis/evaluation based on subsidies as a form of protectionism <p><i>Evaluation could include:</i></p> <ul style="list-style-type: none"> • <i>Impact on EU and US economies depends on PED and PES</i> • <i>Also impact on these economies and on global economy depends and on the amount of subsidy given</i> • <i>Such subsidies might encourage developing countries to diversify into secondary and tertiary industries</i> • <i>Disadvantages associated with subsidies might be offset by benefits e.g. reduced dependence on imports; increased food security; less subject to food price fluctuations</i> <p><i>Must refer to global economy/more than one country, otherwise maximum of 24/30</i></p>	(30)

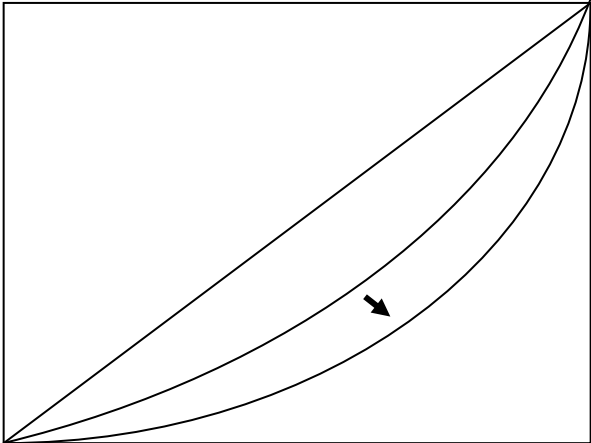
Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	Assess the view that economic development is dependent on economic growth. Refer to examples of developing countries in your answer.		Mark
3(a)	<p>CAA: 14; Ev: 6 Analysis should include:</p> <ul style="list-style-type: none"> • Meaning of economic growth contrasted with economic development e.g. growth relates to changes in real GDP (positive economic concept) whereas development relates to improvements in economic welfare (a normative concept) which may be measured by HDI • Growth important to improve development because more tax revenue available for: <ul style="list-style-type: none"> ~health so helping to increase life expectancy ~education so helping to increase school enrolment rates and literacy rates ~improvements to infrastructure so helping to improve access to clean water, electricity ~ improvements to housing • Growth associated with increased employment leading to rising incomes which may be spent on education, health and housing • Use of any appropriate model of development e.g. Lewis model <p>On the other hand: Economic growth might not lead to development if:</p> <ul style="list-style-type: none"> • Increased inequality results • There is no reduction in absolute poverty • There is no improvement in civil liberties, human rights and democracy • The extra income is spent on defence • There is no improvement in female empowerment • Growth is unsustainable causing development gains to be reversed if the resource(s) are exhausted • Growth is unbalanced leading to a dual economy with development for some but not for most <p>Candidates might take either approach with the counter arguments being used as evaluation.</p> <p><i>If no examples of developing countries, award a maximum of 14/20</i></p>		(20)
Level	Mark	Descriptor	
Level 1	1-7	Identification of points which have limited relevance	
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis	
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation	
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point	
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points	

Question No.	Discuss the view that savings gaps in developing countries are the most significant constraint on economic growth.	Mark
3(b)	<p>KAA: 21; Ev: 9</p> <ul style="list-style-type: none"> • Analysis of savings gaps and significance e.g. low savings; low investment; limited capital accumulation; low growth. • Savings gaps caused by factors such as low incomes; debt repayments; capital flight; absence of FDI <p>Other constraints include:</p> <ul style="list-style-type: none"> • Foreign exchange gaps • Primary product dependency • Rapid population growth • Poor infrastructure • Weak human capital • Poor governance; civil wars; corruption <p><i>Evaluation might include:</i></p> <ul style="list-style-type: none"> • <i>Savings gaps may be filled by:</i> <ul style="list-style-type: none"> ~ aid ~ FDI ~ Debt cancellation ~ Microfinance ~ Borrowing from the IMF/World Bank • <i>Primary product dependency may not be a constraint on development in light of rises in commodity prices since 2000</i> • <i>Rapid population growth could contribute to economic growth in the long run by increasing aggregate supply</i> • <i>Poor infrastructure is less of a constraint for resource-rich African LDCs who are benefiting from Chinese investment in return for commodities</i> • <i>Economic growth usually constrained by a combination of factors; difficult to conclude that one is more important than another</i> <p><i>Discussion of significance of other constraints identified above</i> Candidates might agree or disagree with the view that savings gaps are the most significant constraint on development but should use the counter points as evaluation.</p> <p><i>If no reference to examples of specific developing countries, the maximum of 24/30</i></p>	(30)

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	With reference to Figure 1, comment on the performance of the Russian economy in the period shown.	Mark
4(a)	<p>Answers might include (1 + 1 + 1):</p> <ul style="list-style-type: none"> • Rapid economic growth • Performance relative to G7 • Implies that living standards have increased • Possible explanations for the rise in real GDP • Recognition of fall in real GDP in 2008-09 • Lower unemployment • Accurate definition of real GDP <p>Application (2 marks) :</p> <p>Specific reference to data in Figure 1 e.g. GDP has doubled in Russia between 1998 and 2012 (1) Quantitative reference to recession in Russia in 2008-09 (1) GDP of G7 countries increased by just over 20%(1)</p> <p>3 marks for knowledge</p> <p>2 for application/i.e. 2 data references</p>	(5)
Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for data references

Question No.	With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate your answer with a Lorenz curve diagram.	Mark
4(b)	<p>Lorenz curve diagram : 4 marks awarded as follows: Axis correctly labelled: 1 mark for income and population/households; 1 mark for cumulative %; Line of income equality (45° line): 1 mark Lorenz curve: 1 mark.</p> <div style="text-align: center;">  <p>Cumulative % of income</p> <p>Cumulative % of Population</p> </div> <p>2 marks for any one of the following:</p> <ul style="list-style-type: none"> • Measurement of Gini coefficient: Area A (between 45° line and Lorenz curve) ÷ Area A + B (whole area under 45° line) • Increase in inequality reflected in increase in Gini coefficient • Correctly indicating new Lorenz curve for 2011 further away from the original Lorenz curve <p>Application (2 marks): Two specific data references from Figure 2: e.g. increase in Gini coefficient from 0.4 to 0.425 between 2000 and 2011</p>	(8)
Level	Mark	Descriptor
Level 1	1-2	2 marks for diagram axes and 45° line
Level 2	3-4	2 marks for diagram as indicated above; 2 for application – data reference from Figure 2
Level 3	5-8	4 marks for diagram; 2 for application – data reference from Figure 2, and 2 for explanation

Question No.	With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period.		Mark
4(c)	<p>Reasons for lower relative poverty yet wider inequality include: (4 marks – 2 + 2 or 3 + 1) of which 1 mark for identification of 1 factor.</p> <ul style="list-style-type: none"> • Increase in real GDP – higher tax revenues used to redistribute incomes • Increase in real incomes • Fall in unemployment • Increase in means-tested benefits • Increase in the proportion of income earned by the poorest citizens at the same time as a larger increase in the incomes of the highest earning groups of the population • Application: one reference to data on relative poverty from just over 28% to just over 12% or 'personal incomes doubled between 2000 and 2008'. (2 marks) <p><i>Evaluation (up to 4 marks: 2 + 2; 3 + 1):</i></p> <ul style="list-style-type: none"> • <i>Rapid economic growth could cause relative poverty to increase if welfare payments are not increased</i> • <i>The decline in relative poverty is large in comparison with the increase in income inequality which is relatively small</i> • <i>Data might be inaccurate and based on unreliable information</i> • <i>Since 2007 inequality has started to decline</i> 		(10)
Level	Mark	Descriptor	
Level 1	1-3	1 mark for identification of one factor; 2 for application	
Level 2	4-6	1 mark for identification of one factor; 2 for application 3 for analysis of 2 issues.	
Level 3	7-10	1 mark for identification of one factor; 2 for application); 3 for analysis of 2 issues; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)	

Question No.	Assess the implications for the Russian economy of its dependence on oil and gas.		Mark
4(d)	<p>Issues include (up to 5 marks; maximum 2 for identification only) and 5 marks for evaluation:</p> <ul style="list-style-type: none"> • Tax revenues heavily dependent on oil <i>But: with rapid growth in GDP over recent years there is an opportunity to widen the tax base</i> • Export earnings heavily dependent on oil <i>But: Russia may gain revenues in the future from FDI</i> • Fluctuations in oil price has significant implications for economic growth <i>But: oil price might remain high because supplies are declining and demand continues to increase</i> • Oil reserves are being depleted <i>But: irrespective of oil price, the economy is unbalanced</i> • International agreements aimed at reducing carbon emissions <i>But difficult to agree and enforce</i> • Development of alternative sources of energy <i>But growing demand for energy might result in minimal impact on demand for oil and gas</i> • Appreciation of the country's exchange rate resulting in decline in the manufacturing sector (Dutch disease) <i>But other factors may have a more significant impact on the exchange rate</i> • Increased inequality <p><i>Credit responses which make reference to recent events (e.g. Russian annexation of Crimea) which, in the long run, might result in a reduction in demand for Russian oil and gas.</i></p> <p>Application (2 marks): Oil and gas provide half the government's revenue and almost 70% of export earnings (1 + 1) or reference to Figure 3 showing correlation between oil price and current account balance (1 mark for general reference and 1 mark for specific data reference)</p> <p><i>Evaluation marks (points in italics above): 2 + 3; or 2 + 2 + 1.</i></p>		(12)
Level	Mark	Descriptor	
Level 1	1-2	2 marks for identification of 2 issues;	
Level 2	3-7	2 marks for identification of 2 issues; 2 for application as indicated above; 3 for analysis of 2 problems	
Level 3	8-12	2 marks for identification of 2 issues; 2 for application as indicated above; 3 for analysis of 2 problems; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)	

Question No.	Evaluate the likely benefits for Russia of its decision to join the WTO.	Mark
4 (e)	<p>For knowledge, application and analysis: 9 marks for up to 3 points (up to 5 marks for any one point) Evaluation: 6 marks: (3 + 3; 4 + 2; or 2 + 2 + 2 marks)</p> <p>Benefits include:</p> <ul style="list-style-type: none"> • Increased markets for exporters – leading to benefits of economies of scale; lower costs; higher profits • May relate to benefits from application of law of comparative advantage • Likelihood of increase in FDI and associated benefits e.g. <ul style="list-style-type: none"> ~ AD/AS analysis could be used to show increase in real output and employment ~ balance of payments ~ tax revenues • Lower prices and increased choice for consumers; increased consumer surplus. May be illustrated using a tariff diagram, showing reduction in tariffs and reduction in welfare losses. <p>Maximum 7/9 if no data references or relevant examples</p> <p><i>Evaluation might include:</i></p> <ul style="list-style-type: none"> • <i>Some domestic firms may be unable to compete and go out of business causing unemployment</i> • <i>Critique of assumptions behind law of comparative advantage</i> • <i>Disadvantages associated with FDI e.g. repatriation of profits to shareholders in country from which it originated</i> • <i>In the long run, consumer choice may decline and prices may increase if there is a dependence on overseas suppliers</i> • <i>Increased significance of regional trade agreements so membership of WTO less significant than in the past</i> • <i>Credit responses which make reference to recent events (e.g. Russian annexation of Crimea) which have resulted in sanctions so offsetting benefits of WTO membership</i> 	(15)
Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 benefits; 2 for application (2 data references/examples)
Level 2	5-9	2 marks for identification of 2 benefits; 2 for application (2 data references/examples); 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 benefits; 2 for application (2 data references/examples); 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

Question No.	With reference to Figure 2 and your own knowledge, explain what is meant by <i>international competitiveness</i>.	Mark
5(a)	<p>Answers might include: (1 + 1 + 1)</p> <ul style="list-style-type: none"> • Competitiveness is a measure of a country's advantage or disadvantage in selling its products in international markets. • Allow measures of competitiveness as an explanation of above definition e.g. relative unit labour costs; relative labour productivity • Price competitiveness • Non-price competitiveness. <p>Application: specific reference to 2 countries from Figure 2.</p> <p>3 marks for knowledge 2 for application/i.e. 2 data references (actual rankings not necessary)</p>	(5)
Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for 2 data references

Question no.	With reference to Figure 1, comment on the projected GDP in the euro area (south) in 2012-13 compared with 2007. Illustrate your answer with an appropriate diagram.		Mark
5(b)	<p>AD/AS diagram/PPF diagram/trade cycle diagram : 4 marks awarded as follows: AD/AS Diagram: Axes correctly labelled: 1 mark; 1 mark for showing equilibrium output at below full employment level; 1 mark for showing full employment level of real income or shift in AD or AS; 1 mark for showing gap between equilibrium level of output and full employment level of output or new equilibrium output.</p> <p>PPF diagram: 4 marks: Axes correctly labelled: 1 mark; 1 mark for showing output at below full employment level (inside PPF); 1 mark for showing full employment level of output (on PPF); 1 mark for showing gap between current level of output and full employment level of output.</p> <p>Explanation marks (2 marks):</p> <ul style="list-style-type: none"> • Definition of recession/negative output gap • Possible causes of fall in AD or fall in AS <p>Application: 2 marks for one specific data reference from Figure 1: e.g. approx. 7% fall in real GDP between 2007 and 2013.</p>		(8)
Level	Mark	Descriptor	
Level 1	1-2	2 marks for diagram axes and equilibrium output	
Level 2	3-4	2 marks for diagram as indicated above; 2 for application – data reference from Figure 2	
Level 3	5-8	4 marks for diagram; 2 for application – data reference from Figure 2, and 2 for explanation	

Question No.	With reference to Figure 3 and your own knowledge, examine factors influencing a country's unit labour costs.		Marks
5(c)	<p>Factors include (2 + 2 or 1 + 3 marks) of which 1 mark for identification of 1 factor :</p> <ul style="list-style-type: none"> • Wage rates • Level of national minimum wage • Productivity – in turn, this is affected by a range of factors such as the quality of human capital; quantity and quality of capital; capital per worker (could count as up to 2 points) • Degree of unionisation • Non-wage costs e.g. pension or social security costs • Net migration • Labour market regulation <p>Application (2 marks): 2 data references from Figure 3 or relevant examples.</p> <p><i>Evaluative comments (up to 4 marks: 2 + 2; 3 + 1) could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation with reason</i> • <i>Short run/long run influences</i> • <i>Higher wages might act as an incentive for workers to increase their productivity</i> • <i>Similarly, the minimum wage might act as an incentive to firms to increase the training of workers so increasing their productivity</i> • <i>Magnitude of each factor</i> 		(10)
Level	Mark	Descriptor	
Level 1	1-3	1 mark for identification of 1 factor; 2 for application (reference to 2 relevant examples of countries)	
Level 2	4-6	1 mark for identification of 1 factor; 2 for application (reference to 2 relevant examples of countries); 3 for analysis of 2 factors.	
Level 3	7-10	1 mark for identification of 1 factor; 2 for application (reference to 2 relevant examples of countries); 3 for analysis of 2 factors; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)	

Question No.	Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4		Marks
5(d)	<p>Reasons include (up to 5 marks; maximum 2 for identification only) and <i>5 marks for evaluation</i>:</p> <p>For deficit countries:</p> <ul style="list-style-type: none"> • Recession or very low growth in most countries leading to a reduction in demand for imports • Improvements in competitiveness • Reduction in unit labour costs • Increase in productivity • Might also be the result of improvements in other elements of the current account e.g. current transfers and investment income • Austerity measures • Allow depreciation of the euro against other currencies <p>For surplus country (Germany):</p> <ul style="list-style-type: none"> • Fall in exports relative to imports because of weak demand in eurozone countries and in rest of EU • Germany had positive growth for much of the period so imports continued to increase • Might also be the result of a deterioration in other elements of the current account e.g. current transfers and investment income <p>Application (2 marks): 2 data references/examples e.g. from Figures 3 or 4.</p> <p><i>Evaluation could include:</i></p> <ul style="list-style-type: none"> • <i>Reductions in imbalances may be short-term only: when economic growth returns they could increase again</i> • <i>Without exchange rate flexibility, such imbalances are likely to recur</i> • <i>External imbalances with countries outside of Eurozone may be different</i> • <i>Reference to performance in different parts of the current account</i> • <i>In relation to depreciation of the euro: J curve and Marshall-Lerner condition</i> • <i>Significance of causes</i> <p><i>Evaluation marks (points in italics above): 2 + 3; or 2 + 2 + 1.</i></p>		(12)
Level	Mark	Descriptor	
Level 1	1-2	2 marks for identification of 2 reasons	
Level 2	3-7	2 marks for identification of 2 reasons; 2 for application (e.g. reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 reasons	
Level 3	8-12	2 marks for identification of 2 reasons; 2 for application (e.g. reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 reasons; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)	

Question No.	Answer	Mark
5(e)	<p>For knowledge, application and analysis: 9 marks for up to 3 points (up to 5 marks for any one point) Evaluation: 6 marks: (3 + 3; 4 + 2; or 2 + 2 + 2 marks)</p> <p>Labour market reforms might include:</p> <ul style="list-style-type: none"> • Measures to make it easier to hire and fire workers <i>But danger of demotivation leading to lower productivity</i> • Reductions in the national minimum wage <i>But: could act as a disincentive to take jobs; workers may be better off on benefits; could increase inequality</i> • Local wage bargaining <i>But: could decrease geographical mobility of labour if it results in an increased regional house price differentiation</i> • Introduction/extension of flexi-contracts, enabling employers to change a worker's hours without renegotiating contracts <p>Such reforms would help to reduce firms' costs. In turn this could:</p> <ul style="list-style-type: none"> • Increase the competitiveness of the goods and services of these countries so leading to an increase in exports and a reduction in imports <i>But domestic consumption could fall if the reforms result in a fall in real personal disposable incomes</i> • Encourage an increase in FDI <i>But FDI depends on a variety of factors apart from labour costs</i> • Enable firms to make higher profits which could be used for research and development and the introduction of new products <i>But firms might use profits to increase dividends to shareholders</i> <p><i>Must link analysis to either lower unemployment and/or to higher growth. Otherwise, maximum 7/9 marks</i></p>	(15)
Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 points; 2 for application (reference to particular countries or examples)
Level 2	5-9	2 marks for identification of 2 points; 2 for application (reference to particular countries or examples); 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 points; 2 for application (reference to particular countries or examples); 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (a) Questions: Performance Criteria for Mark base 20	
Level 1	1-7	<ul style="list-style-type: none"> • Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily <p><i>Identification of points which have limited relevance</i></p>
Level 2	8-10	<ul style="list-style-type: none"> • Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance <p><i>Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis</i></p>
Level 3	11-14	<ul style="list-style-type: none"> • Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence <p><i>Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation</i></p>
	11-12	Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are not well developed/reasoned
	13-14	Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are well developed and reasoned
Level 4	15-16	<ul style="list-style-type: none"> • Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way <p><i>Typically, answers will consider 3 factors with 1 evaluative point</i></p>

Level 5	17-20	<ul style="list-style-type: none">• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues• Demonstrates an outstanding ability to select and apply economic ideas to economic problems• Evaluation is well balanced and critical leading to valid conclusions• Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated• Excellence is displayed across all assessment objectives <p><i>Typically, answers will consider 3 factors with 2 evaluative points</i></p>
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GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (b) Questions: Performance Criteria for Mark base 30	
Level 1	1-11	<ul style="list-style-type: none"> • Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily <p><i>Identification of points which have limited relevance</i></p>
Level 2	12-15	<ul style="list-style-type: none"> • Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance <p><i>Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis</i></p>
Level 3	16-21	<ul style="list-style-type: none"> • Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence <p><i>Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation</i></p>
	16-18	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are not well developed/reasoned
	19-21	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are well developed and reasoned
Level 4	22-25	<ul style="list-style-type: none"> • Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way <p><i>Typically, answers will consider 4 factors with 2 evaluative points</i></p>
Level 5	26-30	<ul style="list-style-type: none"> • Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives <p><i>Typically, answers will consider 4 factors with 3 evaluative points</i></p>

