

EC3

GENERAL MARKING GUIDANCE

Positive Marking

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

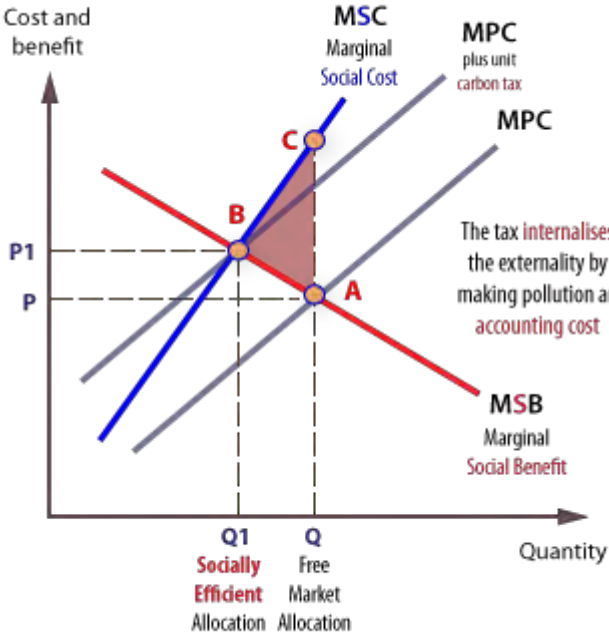
Each question in Section B will be marked using a Levels of Response mark scheme.

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

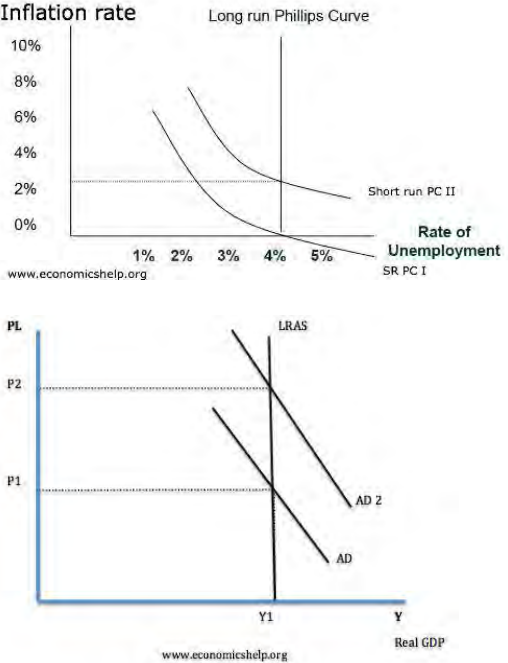
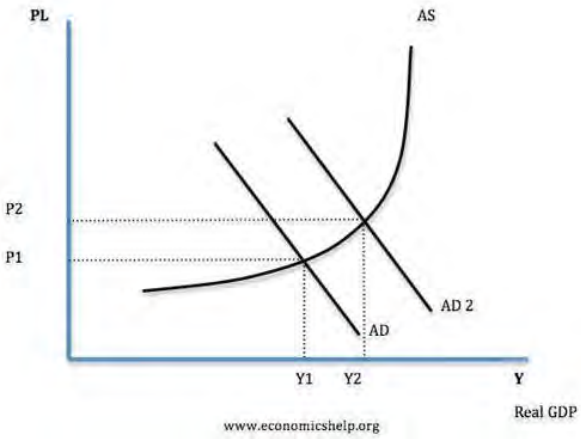
In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS - EC3

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

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

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

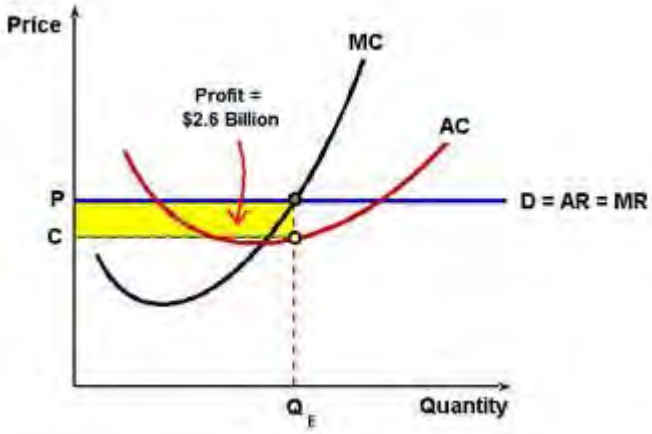
Question	Answer	Mark allocation	Assessment objective
7	<p>How far do you agree with the view that demand side policies to reduce the level of unemployment below its natural rate/NAIRU only work in the short term?</p> <p>Use an appropriate diagram in your answer.</p> <p>Attempts to reduce unemployment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

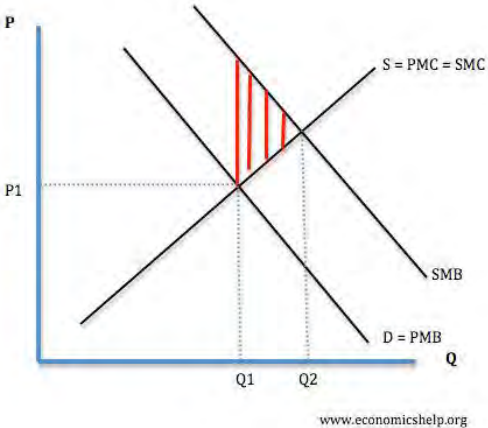
Question	Answer	Mark allocation	Assessment objective
8	<p>Discuss the view that governments should attempt to keep their national currency at an overvalued level against other currencies.</p> <p>An overvalued exchange rate keeps inflation lower through lower import prices. (2) It also pressurises firms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

SECTION B*Answer one question***The following levels should be applied to each question.**

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

Question	Answer	Mark allocation	Assessment objective
9	<p>To what extent can a perfectly competitive market always said to be efficient?</p> <p>Candidate shows as clear understanding of allocative and productive efficiency.</p> <p>Identification and explanation:</p> <p>Perfect competition is allocatively efficient in the short run and the long run-explanation. Candidates may link the maximisation of the consumer surplus and producer surplus to allocative efficiency.</p> <p>Perfect competition is Pareto efficient.</p> <p>Perfect competition is productively efficient in the long run-explanation.</p> <p>Perfect competition is X- efficient</p> <p>Use of diagrams to support this (short run and long run).</p> <div data-bbox="395 1061 1027 1644" data-label="Figure"> </div> <p>Up to the top of level 3 for a very good explanation of why perfectly competitive markets are efficient.</p> <p>Evaluation: Perfect competition is not productively efficient in the short run (supporting diagram) as output is not at minimum average cost.</p>	20	<p>AO1 4 AO2 4 AO3 6 AO4 6</p>

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

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

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

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