



GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

JANUARY 2012

INTRODUCTION

The marking schemes which follow were those used by WJEC for the January 2012 examination in GCE ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conferences was to ensure that the marking schemes were interpreted and applied in the same way by all examiners.

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

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

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EC1

- Q.1 With the aid of the data, define and calculate the opportunity cost for a potential medical student of deciding not to go to university. [3]**

Definition of opportunity cost (1) Application (1) Correct calculation £235,000 (1)

- Q.2 The production possibility frontier, which shows a country producing shoes and cars, has shifted from TW to TU.**

- (a) Identify the opportunity of cost producing OZ cars when the production possibility frontier is TW. [1]**

WY (1)

- (b) Explain one factor which could have shifted the production possibility frontier to TU. [2]**

Increased productivity, investment, more efficient work practices, increased skill levels in the shoe industry which raise potential output of shoes. (2)

- Q.3 Define consumer surplus and identify it on the demand and supply diagram. [3]**

Definition of consumer surplus: the benefit received by consumers as a result of paying a price for a product which is above the maximum they are prepared to pay. (2) Identified on the diagram (1).

- Q.4 (a) The price of a firm's product rises from 50p to 60p and as a result its weekly production rises from 2000 to 2500 units.**

Calculate the price elasticity of supply for the product and comment on its value. [3]

$25\%/20\% = 1.25$ (2) price elastic supply (1) Definition of Pes (1) Supply rises by more than rise in price (1) Max 2 with no calculation.

- Q.5 Beer prices to surge**

Pub drinkers have been warned to prepare for higher beer prices next year because of poorly barley harvests in Eastern Europe, a ban on barley exports by Russia and rises in duty (tax) on beer. Barley is a key ingredient in the production of beer.

Using a demand and supply diagram, discuss the view that the price of beer will rise substantially in the UK. [6]

Candidate draws of a demand and supply diagram showing the supply curve shifting to the left (1) labels new price and quantity (1). Explains the shift (2). Explains impact on price and quantity.

Evaluation rise in price depends on Ped/Pes of beer (2) how much of the cost increase is passed on by brewers or retailers. (2) Brewers may have stocks of barley (2) or alternative suppliers of barley may be available (2). Price rise depends on the magnitude of tax increase (2).

Max 4 without evaluation.

- Q.6 Using the data concerning flood defences, explain what is meant by a public good. [4]**
Candidate explains the characteristics of a public good (non rivalry, non excludability). (2) Candidate uses the data to support his/her answer. (2)
- Q.7 With reference to the data, explain why over-fishing might be seen as an example of market failure? [4]**
Explanation of absence of private property rights. (2)
Application to the data. (2)
Definition of market failure (1)
Information failure (2)
- Q.8 (a) Distinguish GDP from GNP [2]**
GDP - Income/output from UK based factors of production (1)
GNP - Income/output from UK owned factors of production (1)
Accept alternative accurate definitions.
- (b) Using an aggregate demand and aggregate supply diagram evaluate the likely effects on the UK economy until 2015 of the measures taken by the Government in 2010. [10]**
Candidate draws AD/AS diagram showing AD shifting left and AS shifting right. (3)
Candidate explains diagram using the data (3)
Candidate evaluates: relative strengths of each shift (2); time scale (2), changes in the wider economy may affect government figures (2), government policy may change (2). Effects of a rise in VAT on the AS curve (2) Budget deficit may not fall (2).
Max 6 without evaluation. Evaluation 2 x 2 marks.
- Q.9 (a) Explain with the aid of a diagram how a country may be able to keep its country's exchange rate below the level it would be in a free market. [4]**
Use of low interest rates (1) explained (1)
Buying foreign currency and building up reserves (1) explained (1) Diagram (2)
Max 2 without diagram
- (b) Discuss the advantages and disadvantages of a low exchange rate policy for both China and the global economy. [8]**
Advantages: China's artificially low exchange rate boosts its exports as they are cheap.
China's trade surplus enables the country to invest abroad and buy more imports.
Chinese imports are cheap for other countries.
Benefits to the Chinese economy (employment/GDP).
Disadvantages: Other countries have trade deficits with China.
Other countries retaliate and hold their currencies to lower levels thus there is no gain for anyone.
Chinese imports are more expensive causing inflation.
Max 4 without evaluation.
Max 4 if only China or the world economy is referred to.