



GCE MARKING SCHEME

**ECONOMICS
AS/Advanced**

JANUARY 2014

INTRODUCTION

The marking schemes which follow were those used by WJEC for the January 2014 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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GCE ECONOMICS – EC1

Mark Scheme – January 2014

Question	Answer	Mark	AO1	AO2	AO3	AO4
1 (a)	<p>Explain at what is shown by a production possibility frontier.</p> <p><i>The maximum potential output of an economy (1) because existing factors of production are fixed/limited or some implication that resources are scarce(1)using resources to maximum efficiency (1). Constant opportunity cost (1)</i></p>	2	1		1	
1 (b)	<p>Using the diagram explain why a production possibility frontier is normally drawn as a curve concave to the origin rather than as a straight line.</p> <p><i>Factors of production are not perfectly substitutable between different activities/employment (1) opportunity cost increases/some factors are more efficient in one sector than another. Diminishing returns/decreasing returns (1). Use of diagram (1)</i></p>	3	1	1	1	
	Total for Question 1	5	2	1	2	0

Question	Answer	Mark	AO1	AO2	AO3	AO4
2 (a)	<p>Identify one factor which could have caused the supply curve to shift to the left.</p> <p><i>Rise in costs. Imposition of a sales tax. Exit of firms. Natural disaster etc.</i></p>	1	1			
2 (b)	<p>Calculate the price elasticity of demand following the resultant price rise and comment on its value.</p> <p><i>Formula (1) (-)0.25 (2) Price inelastic(1) because it is less than - 1.0 (1) Maximum 2 for incorrect answer with correct explanation.</i></p>	4	2		2	
	Total for Question 2	5	3	0	2	0

Question	Answer	Mark	AO1	AO2	AO3	AO4
3	<p>Use the above data to explain the concept of asymmetry of information.</p> <p><i>Understanding/definition of asymmetry of information. An example of market failure. One party has more information than another Thus imperfect decisions/misallocation of resources (2).</i></p> <p><i>Application to the data. Consumers waste money on an unnecessary product because they are already covered (2). Water companies know that the policy is unnecessary therefore resources are misallocated (2).</i></p>	4	2	2		
	Total for Question 3	4	2	2	0	0

Question	Answer	Mark	AO1	AO2	AO3	AO4
4	<p>Evaluate the likely effectiveness of a carbon trading scheme in reducing carbon emissions.</p> <p><i>Explanation that power station A can sell unused permits to B and has an incentive to reduce pollution further below the cap (2).</i></p> <p><i>Permits issued to meet an emissions target (2). Market based solution to pollution using the price mechanism (2). Firms incentivised to reduce pollution by the price of permits (2). Pollution is reduced in the most efficient way (2).</i></p> <p><i>Max 4.</i></p> <p><i>Evaluation.</i></p> <p><i>Depends on how many permits are issued/auctioned/problem of over-issue of permits. Corruption. Raises costs for firms and reduces competitiveness. Firms exit and relocate in countries where there are no permits. Administrative costs of the scheme. Depends which industries are included in the scheme. Real world examples (ETS).</i></p> <p><i>Max 4.</i></p> <p><i>Max 4 with no evaluation.</i></p>	8	2	2	0	4
Total for Question 4		8	2	2	0	4

Question	Answer	Mark	AO1	AO2	AO3	AO4
5	<p>Using the data, evaluate the extent to which a low interest rate be relied upon to raise aggregate demand and increase GDP?</p> <p><i>Low interest rates increase C and I boost AD and via the multiplier raise GDP (4). Also the exchange rate falls which lowers export prices, and raises export demand. Higher import prices reduce import demand. Rise in AD (2). Fall in savings-less incentive to save thus spending increase. Rise in AD (2).</i></p> <p><i>Link to AD/GDP must be clearly understood.</i></p> <p><i>Max 4.</i></p> <p><i>Expectations may be pessimistic despite low interest rates thus C and I stay low (2). Data suggests that low interest rates have not helped to raise GDP since 2009 (2). Depends how low interest rates are and how long they stay low (2). Other offsetting factors may be more important in affecting GDP such as fiscal policy/supply side/competitiveness/global economy (2). Low interest rates reduce income from savings and cut spending (2).</i></p> <p><i>Max 4.</i></p> <p><i>Max 6 with no data reference.</i></p>	8	1	2	1	4
	Total for Question 5	8	1	2	1	4

Question	Answer	Mark	AO1	AO2	AO3	AO4
6	<p>By adapting the aggregate demand and supply diagrams below and opposite, explain using examples how inflation can arise from:</p> <p>(a) an increase in aggregate demand</p> <p><i>Adapts/labels diagram (2). Use of examples to explain why inflation rises (with examples) (2). Demand-pull inflation (1).</i></p> <p>(b) a significant increase in costs in the economy.</p> <p><i>Adapts/labels diagram . Cost increases shift the lower part of the AS curve vertically (2). Leftward shift of whole AS curve (1). Explain how rises in wages, oil prices, commodities raises prices (2). Cost push inflation (1).</i></p> <p><i>Candidates need to show understanding of the processes involved in the rise in inflation.</i></p>	8		4	4	
	Total for Question 6	8	0	4	4	0

Question	Answer	Mark	AO1	AO2	AO3	AO4
7	<p>Discuss whether this diagram implies that governments should aim to reduce income tax rates</p> <p><i>High marginal rates of tax for top earners discourage initiative/enterprise/seeking promotion. Also encourages avoidance and evasion. Hence tax revenue falls if high tax rates rise to T3. Use of diagram.</i></p> <p><i>Max 4.</i></p> <p><i>Depends where the top marginal tax rate is on the Laffer Curve. If the tax rate is below T2 then a rise in rates will raise tax revenue. Laffer Curve may not be a correct analysis of the real world. Cuts in income tax rates increase spending and increase VAT revenue (2).</i></p> <p><i>Max 4 without evaluation.</i></p>	6	2	1	1	2
	Total for Question 7	6	2	1	1	2

Question	Answer	Mark	AO1	AO2	AO3	AO4
8	<p>Adapt the above diagram to explain how EU producers and governments benefit from the proposed tariff but consumers would lose.</p> <p><i>EU producers gain extra output.</i></p> <p><i>Extra profits – gain in producer surplus (shaded on diagram).</i></p> <p><i>Tax/tariff revenue increases. (shaded on diagram). More employment/higher GDP.</i></p> <p><i>Consumers have higher prices (fall in consumer surplus).</i></p> <p><i>Max 3 without use of the diagram.</i></p>	6	3	3		
	Total for Question 8	6	3	3	0	0