

Mark Scheme Summer 2009

GCE

GCE Economics (8EC01)

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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.

6EC01 Mark Scheme

Question Number	Answer	Mark
1	<p>Answer D</p> <ul style="list-style-type: none"> • Definition of a production possibility frontier (the maximum output combinations of two goods / services an economy can achieve when all its resources are fully / efficiently employed) (1 mark). • An outward shift in agricultural goods indicates an increase in potential output (accept output) (1 mark). • An increase in agricultural output can result from technological changes with no opportunity cost in tourist services (1 mark). <p>Application to technological improvements in agriculture e.g. new machinery, GM crops, fertilisers. (1+ 1 mark).</p>	(4)

Question Number	Answer	Mark
2	<p>Answer C</p> <ul style="list-style-type: none"> • Definition of division of labour (production of a good is broken down into different tasks and labour allocated to each task) (1 mark). • Advantages of division of labour, for example less time taken to train / repetition in one task quickly leads to greater productivity / greater variety of jobs to choose from / more efficient use of machinery (1 + 1 mark). • Application to beauty industry, for example face creams, lipsticks, eye shadow, other make up (1 mark) • Also award for diagram showing a decrease in average cost (1 mark). 	(4)

Question Number	Answer	Mark
3	<p>Answer D</p> <ul style="list-style-type: none"> • Definition or formula of income elasticity of demand (responsiveness of demand for a good due to a change in income) (1 mark). • Calculation of income elasticity of demand for clothing and footwear (+3.6 accept 3.5 or 3.7) (1 mark). • Calculation of food and soft drinks (+0.63 accept 0.6 or 0.5) (1 mark). • Both categories of food and soft drinks, and clothing and footwear are normal goods (1 mark) 	(4)

Question Number	Answer	Mark
4	<p>Answer D</p> <ul style="list-style-type: none"> • Definition of consumer surplus (the difference in the price consumers are prepared to pay for a good and the actual market price paid) (also accept the area above the equilibrium price and below the demand curve) (1 mark). • Original consumer surplus is XYP1 (1 mark). • Increase in consumer surplus is P1YZP2 (1 mark). 	(4)

Question Number	Answer	Mark
5	<p>Answer D</p> <ul style="list-style-type: none"> • Definition of free market economy (where resources are allocated by the price mechanism and there is no government intervention) (1 mark). • Definition of the price mechanism (1 mark). • Application of price mechanism to rationing: eg an increase in price will cause demand to fall / diagrammatic analysis (up to 2 marks). • Explanation of scarcity / basic economic problem (up to 2 marks) 	(4)

Question Number	Answer	Mark
6	<p>Answer A</p> <ul style="list-style-type: none"> • Definition of cross elasticity of demand • Goods which have a positive cross elasticity of demand are substitutes. • Application to motor vehicles and rail travel. <p>Accept correct diagrammatic analysis depicting a positive cross elasticity of demand.</p>	(4)

Question Number	Answer	Mark
7	<p>Answer C</p> <ul style="list-style-type: none"> • Definition of government failure (government intervention leads to a net welfare loss / inefficient allocation of resources) (1 mark). • High taxes on tobacco make it worthwhile for some people to break the law and smuggle in cheaper tobacco from abroad (1 mark). • It is government failure since it leads to a loss of tax revenue (1 mark). • Allow other forms of government failure, eg cheap smuggled cigarettes means people smoke more (1 mark) 	(4)

Question Number	Answer	Mark
8	<p>Answer B</p> <ul style="list-style-type: none"> • Definition of market failure (the price mechanism leads to a net welfare loss / inefficient allocation of resources) (1 mark). • Identification of the type of market failure (external costs) (1 mark). <p>Application: the carbon permits will restrict the amount of pollution from these industries to a certain level and so reduce extent of external costs (1 mark).</p>	(4)

Question Number	Answer	Mark
9(a)	<ul style="list-style-type: none"> • Any two reasons for falling property prices: (2 + 2 marks) <ul style="list-style-type: none"> ➢ Rising unemployment / falling consumer confidence / more households unable to afford mortgage repayments or to purchase property. ➢ Credit crunch has meant banks are less willing to lend / due to poor debtors. • Diagram showing a decrease in demand and falling house prices: (original equilibrium price and quantity; new equilibrium price and quantity; inward shift in demand curve) (3 marks) <div style="text-align: center;"> </div>	(7)

Question Number	Answer	Mark
9(b)	<ul style="list-style-type: none"> • Any two points developed (2 + 2 marks) <ul style="list-style-type: none"> ➤ The fall in property prices means it is easier for first time buyers to afford to buy / take out smaller mortgages. ➤ If property prices continue to fall over next two years then more first-time buyers will be able to afford to get on housing ladder. ➤ Nature of first time buyers and type of housing sought is changing: first-time buyers are older / look for smaller, more affordable properties. <p>Evaluation (2 marks for any one point)</p> <ul style="list-style-type: none"> • It depends on the magnitude of house price fall - 13.4% is quite significant for one year; if this continues for the next two years then more first time buyers will be successful. However, house prices still greatly exceed average earnings so perhaps little impact. • It depends on whether first-time buyers are able to obtain mortgages as banks have greatly reduced their lending. Banks lack funds to lend and are under pressure to reduce debts. • The extract refers to the dramatic decrease in numbers of first time buyers / this is linked to difficulties in obtaining mortgages / higher cash deposit requirements. • Some first-time buyers may become unemployed or risk becoming unemployed. This will reduce their ability to purchase property. 	(6)

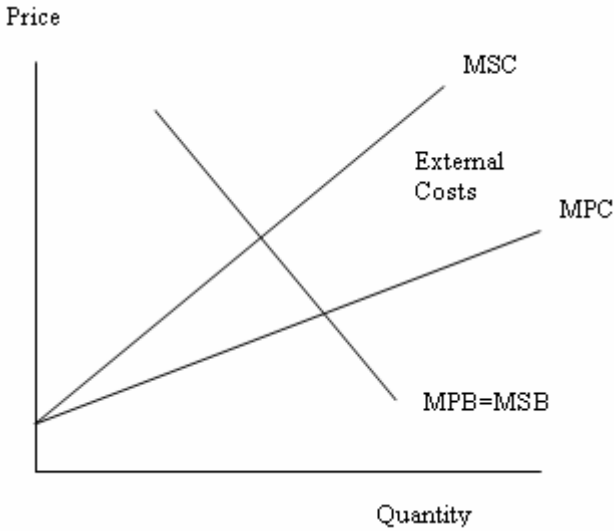
Question Number	Answer	Mark
9(c)(i)	<ul style="list-style-type: none"> • Accept any two regions, though most candidates are likely to select Greater London / South East to compare with another region. • Identification of two or more factors (1 + 1 marks) <ul style="list-style-type: none"> ➢ Differences in regional average earnings ➢ Differences in availability of land Accept other factors, eg differences in wealth / employment rates / net migration / cultural attractions. ➢ Differences in regional unemployment rates. • Development of two factors (2 + 2 marks) <ul style="list-style-type: none"> ➢ Higher regional earnings mean people can afford to pay more for housing - so higher demand will push up average price. Also accept view of lower average earnings in some regions. ➢ Availability of land in some regions is less than others; where supply very limited average house prices will be higher. Also accept view of more availability of land in some regions. ➢ Lower regional unemployment rates may lead to higher regional house prices / due to stronger demand in the housing markets. <p>Evaluation: (3 + 3 marks or 2 + 2 + 2 marks)</p> <ul style="list-style-type: none"> • Prioritise between the two reasons, eg differences in the cost of land might be the major cause. • Regional average earnings may not account for the differences in house prices. The disparities in regional earnings are significantly less than regional house prices. • Time factor - the major house building programme for south-east may reduce regional differences in house prices. • Magnitude of the house price differentials. • Geographical element could be involved. The further the region is from London the lower average house prices. This suggests access to London is major determinant of regional house price differentials. 	

	<ul style="list-style-type: none"> • Data issues: more information required for example, regional wealth holdings / household earnings may be more appropriate than individual earnings / intra regional migration. <p>Quality of written communication skills 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. 	(12)
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Level	Mark	Descriptor
Level 1	1-2	Identification of two factors but no explanation.
Level 2	3-4	Explanation of two factors but no evaluation. (Mark cap of 6 if no evaluation offered).
Level 3	5-7	Explanation of two factors and one evaluation point.
Level 4	8-10	Convincing explanation of two factors and two or more evaluation points offered.

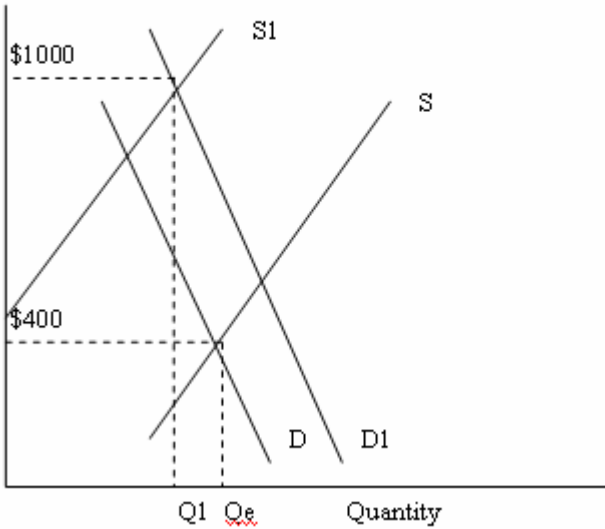
Question Number	Answer	Mark
9(c)(ii)	<ul style="list-style-type: none"> • Understanding of geographical mobility of labour, eg the ability of labour to move from one region to another without obstacles (1 mark). • People in high house price regions are likely to have more geographical mobility. They will find it relatively easier to move to lower price regions. (1 mark). • People in low house price regions are likely to have less geographical mobility. They will find it relatively harder to move to higher price regions. (1 mark). • Explanation such as labour shortages likely to arise in Greater London / South-East since people unable to afford to buy or obtain mortgage (1 + 1 marks). • Labour can rent property rather than buy - as long as rent not too expensive. (1 mark) <p>Evaluation (2 marks for one or more factors).</p> <ul style="list-style-type: none"> • Magnitude: regional house price disparities are huge and people outside of the Greater London / South-East will have great difficulty in purchasing a house within this region. • Labour mobility could increase due to immigration from Eastern Europe -despite high house prices in some regions. • Labour may still be able move into Greater London / South-East if accept smaller property. • Labour moving into Greater London / South-East are likely to be on higher earnings, so may be able to afford more expensive property. • Labour might be able to commute into Greater London / South-East. • Labour mobility not so significant since many people work from home due to growth of Information Technology sector. 	(7)

Question Number	Answer	Mark
9(d)(i)	<ul style="list-style-type: none">• Definition of private costs: (cost internal to an exchange / cost which the price mechanism takes into account / a direct cost to the producer or consumer) (1 + 1 marks).• Definition of external cost: (cost external to an exchange / negative third party effect / spillover from production or consumption / cost which the price mechanism fails to take into account / difference between private cost and social cost) (1 + 1 marks).	(4)

Question Number	Answer	Mark
9(d)(ii)	<ul style="list-style-type: none"> • An example of private costs from house building and development (labour / raw materials / machinery / land purchase / fuel / insurance / security) (1 + 1 marks). • An example of external costs from house building and development (scenic pollution / noise pollution / air pollution from the machinery / damage to wildlife / falling property prices in nearby villages) (1+1 marks). • Relevant diagram depicting marginal private cost and marginal social cost curves) (2 marks). <div style="text-align: center;">  </div> <p>Evaluation (3 + 3 or 2 + 2 + 2 marks)</p> <ul style="list-style-type: none"> • Discussion of whether the house building programme is a market or government failure. Issue of internalising the external costs to reduce welfare loss. • Discussion of magnitude of house building programme: more than 1.1 million homes in South-East. This is very ambitious. • Time factor: 2016 means a relatively short time to construct so many homes. Will quality suffer? • Size of external costs will depend on various factors, eg planning regulations, quality of new builds, size of new houses, environmental awareness of housing companies. 	

	<ul style="list-style-type: none"> • Credit crunch could mean the target for house building will not be met. House building companies face problems in raising finance / potential house buyers face problems raising finance. <p>Quality of written communication skills 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. 	(12)
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Level	Mark	Descriptor
Level 1	1-4	Examples of private costs and external costs of a major house building programme.
Level 2	5-6	Examples and relevant diagrammatic analysis applied to house building programme. No evaluation. (Mark cap of 6 if no evaluation offered).
Level 3	7-9	Examples and relevant diagrammatic analysis; one evaluation point offered.
Level 4	10-12	Convincing examples and diagrammatic analysis; two or more evaluation points offered.

Question Number	Answer	Mark
10(a)(i)	<ul style="list-style-type: none"> • Identification and explanation of increase in demand: rising incomes in developing countries such as China / population growth in India and Indonesia (1 + 1 marks). • Identification and explanation of decrease in supply: severe floods and drought in rice growing regions (1 + 1 marks). • Diagrammatic analysis which shows: <ul style="list-style-type: none"> ➤ an increase in the demand curve (1 mark). ➤ a decrease in the supply curve (1 mark). ➤ original equilibrium price and quantity (1 mark). ➤ New final equilibrium price and quantity (1 mark). <p>Price per ton</p>  <p>Quantity</p>	(8)

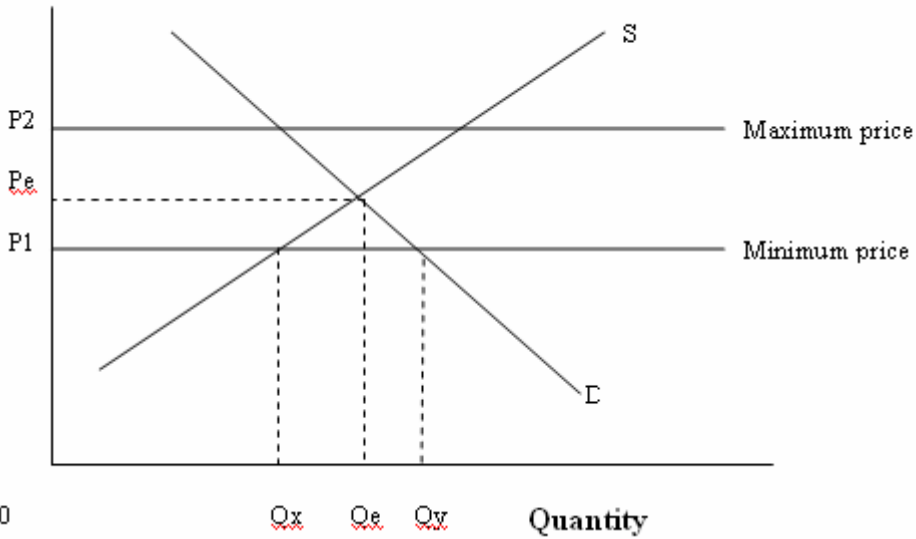
Question Number	Answer	Mark
10(a)(ii)	<ul style="list-style-type: none"> • Identification and explanation (1 + 1 marks) <ul style="list-style-type: none"> ➤ Demand factors include: change in tastes / rise in price of substitutes such as maize / fall in price of complements such as vegetables and fish / cut in income taxation leading to increase in disposable income. • Identification and explanation (1 + 1 marks) <ul style="list-style-type: none"> ➤ Supply factors include: deterioration in quality of soil for rice growing / decrease in supply of agricultural land due to urbanisation / withdrawal of government subsidies to rice growers. 	(4)

Question Number	Answer	Mark
10(b)	<ul style="list-style-type: none">• Definition or formula of price elasticity of demand (1 mark) • Demand is likely to be price inelastic / it is an essential good (1 + 1 marks) <p>Evaluation (up to 2 marks for either point)</p> <ul style="list-style-type: none">• Significance of price inelastic demand, for example, Extract 1 refers to food riots following price increase. • No close substitutes exist for rice in many developing countries.	(5)

Question Number	Answer	Mark
10(c)	<ul style="list-style-type: none"> • Definition or formula of price elasticity of supply (1 mark) • Supply may be inelastic in the short run / due to time taken to grow (1 mark). • Supply is relatively price elastic in the long run / as farmers give up their jobs in towns and cities and return to work the fields (1 + 1 marks). • Diagram showing how price elasticity of supply might change over time (1 mark). • Understanding that in the short run, at least one factor input is fixed in quantity whereas in the long run all factor inputs are variable (1 mark). <p>Evaluation (2 + 2 marks)</p> <ul style="list-style-type: none"> • Supply could be relatively elastic in the short run too since up to four harvests of rice can be planted each year. • Discussion on the availability of land for growing rice / could switch land use from other types of crops to rice production / finite nature of land. • Discussion on the mobility of factor inputs, for example, growing rice requires limited skills so plentiful supply of labour. • Discussion on level of spare capacity in the economy. • Discussion on the quality of farmland after storms, flooding and drought. This could make supply less elastic. • Discussion on how long the price of rice will remain high - perhaps rice prices could fall dramatically over next few years if supply increases worldwide. 	(9)

Question Number	Answer	Mark
10(d)	<ul style="list-style-type: none"> • Definition / understanding of government failure (government intervention in a market which leads to a net welfare loss / inefficient allocation of resources) (1 + 1 marks). • Government intervention takes the form of restricting exports / which mean producers may switch supplies to domestic markets / reducing price for domestic consumers (1 + 1 + 1 marks), • Government failure will occur if farmers lose incentive to grow rice for domestic market due to low price (1 mark). Development of this point, for example, farmers have less revenue to re-invest into rice production / farming commodities suffer a fall in incomes (1 + 1 marks). <p>Evaluation (2 + 2 marks)</p> <ul style="list-style-type: none"> • Magnitude of restriction on exports. The greater the restrictions the greater the effect on domestic farmers. The policy could backfire on the governments since there could still be rice shortages. • Time period in which restrictions on exports of rice may occur - over a short period there may be little effect. Over a long period farmers may exit the market / suffer bankruptcy. • Discussion of other effects, for example, a worsening in the Balance of Trade for rice exporting countries / negative multiplier effects / emergence of hidden market for exporting rice. • Discussion of view that it is not a government failure since it should reduce food shortage / reduce food prices in domestic market. It depends on the response of rice farmers. <p>Quality of written communication skills 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 	(10)

Level	Mark	Descriptor
Level 1	1-2	Definition of government failure. No development.
Level 2	3-4	Explanation of why government failure - lower domestic price or rice may lead to lower production and revenue. (Mark cap of 6 if no evaluation).
Level 3	5-7	Explanation of why government failure and one evaluation point offered.
Level 4	8-10	Convincing explanation and two or more evaluation points.

Question Number	Answer	Mark
10(e)	<ul style="list-style-type: none"> • Correct diagram(s) (up to 4 marks) (accept variation which shows one target price). <div style="text-align: center;"> <p>Price</p>  <p>Quantity</p> </div> <ul style="list-style-type: none"> • Explanation of how buffer stock schemes work (up to 3 marks for any one point). <ul style="list-style-type: none"> ➤ An organisation intervenes in the market by holding stocks of rice; it will buy or sell rice to stabilise price / producer revenue. ➤ Reference to output less than Q_x or more than Q_y and how this causes intervention through the buffer stock scheme. ➤ Stocks released on to market if supply is less than Q_x / stocks added to if supply is greater than Q_y. <p>Evaluation (3 + 3 or 2 + 2 + 2 marks)</p> <ul style="list-style-type: none"> • The scheme is unlikely to be successful since the extract refers to failure of previous buffer stock schemes. <ul style="list-style-type: none"> ➤ It requires spare stocks to cope with shortages - as in the current situation, otherwise the scheme will be unable to hold price down within the target range. The long term trend looks bleak as prices are likely to remain high. ➤ Rice producers may be unwilling to participate in a scheme that would reduce rice prices. ➤ It requires major rice producer countries to participate - otherwise risk being undersold. There is a danger of cheating among producers too. 	

	<ul style="list-style-type: none"> ➤ There are millions of rice farmers across south east Asia and so it will be very difficult to co-ordinate and manage the scheme. ➤ Require funds to purchase stocks or support farmers in time of surplus. There are also storage costs of the stockpiles. These funds may not be available. ➤ Danger of growth of substitute foods such as maize, wheat and barley. <p>The scheme could be successful:</p> <ul style="list-style-type: none"> ➤ Rice can be stored for a relatively long time - as long as kept cool and dry. This enables the holding of stockpiles. ➤ It might work in the short term if producers and government are seeking price stability. Over the long term there is more pressure on the scheme to breakdown. <p>Quality of written communication skills 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. 	(12)
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Level	Mark	Descriptor
Level 1	1-2	Limited explanation of buffer stock scheme.
Level 2	1-4	Correct diagram and explanation of buffer stock scheme. (Mark cap of 6 if no evaluation offered).
Level 3	5-7	Correct diagram and explanation of buffer stock scheme and one evaluation point offered.
Level 4	8-10	Convincing diagram, and explanation of buffer stock scheme with two or more evaluation points