

Version 1.0



**General Certificate of Education
June 2010**

ECONOMICS

ECON3

**Business Economics and the
Distribution of Income**

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Advanced Level Economics Unit 3

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

- (i) **An issue based approach.** The mark scheme for questions **01, 02, 04, 05** and the first part **Section B** adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.
- (ii) **A levels approach.** This approach is used for questions **03, 06** and the second part of **Section B**. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (e.g. 14 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

THE LEVELS MARK SCHEME FOR A2

Level Descriptions

In questions **03**, **06** and the second part of **Section B**, 40% of the marks are available to award to candidates who demonstrate that they can evaluate economic arguments and evidence, and make informed judgements. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 15 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

Level 1: A very weak answer

Few, if any, relevant issues are recognised. Descriptions and explanations lack clarity. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. There might be some evidence of organisation in the answer but generally it fails to answer the question. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

0 to 6 marks

Mid-Point 4 marks

Level 2: A poor answer but some understanding is shown

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. Descriptions and explanations are sometimes hard to follow. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. There is some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. There is some limited logic and coherence in the organisation of the answer. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

7 to 11 marks

Mid-Point 9 marks

Level 3: An adequate answer with some correct analysis but very limited evaluation

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. There is some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some use of specialist vocabulary which is applied appropriately.

12 to 16 marks

Mid-Point 14 marks

Level 4: Good analysis but limited evaluation

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate

demonstrates some ability to synthesise the arguments presented and come to some relevant conclusions although these might not always be based on evidence presented. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. A wide range of specialist vocabulary is used with facility.

17 to 21 marks

Mid-Point 19 marks

Level 5: Good analysis and evaluation

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate demonstrates the ability to synthesise the arguments presented and come to conclusions which are based on the evidence presented. A clear final judgement is made. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. A wide range of specialist vocabulary is used with facility.

22 to 25 marks

Mid-Point 24 marks

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

1 THE GLOBAL CONTEXT**Total for this question: 40 marks**

01 Using Extract A , identify two significant features of the data. <i>(5 marks)</i>
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Award one mark for each valid point made and two marks for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- The area under cultivation:
 - Was almost zero in 1996 and increased rapidly in the early years (e.g. from approx 10 to 52 million hectares from 1997 to 2000).
 - Since 2000 has been rising at a fairly constant absolute rate
 - With a larger jump between 2003 and 2004 (approx 63 to 80 million hect.)
- The distribution of cultivation:
 - The USA is by far the single largest producer (approximately 50% of world production or 57.7 million hect.)
 - Also shows a high reading for Latin American countries (e.g. Argentina, 19.1 million hect.)
 - While Europe does not even register

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one valid point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

Candidates can score full marks using only one of the bar charts.

Award **only 1 mark** for data if unit of measurement is not quoted.

MAXIMUM FOR QUESTION 01: 5 MARKS

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- | |
|---|
| 02 Explain what is meant by 'diminishing returns' (Extract B , line 2-3) and analyse why the introduction of GM crops could help farmers to increase their productivity in the long run. (10 marks) |
|---|

For candidates who:

- Define productivity/the long run or any other term **Up to 2 marks per definition**
Max 2 marks overall for definitions
- Either define/describe diminishing returns in general terms and/or state the law of diminishing returns, or relate diminishing returns specifically to food production, e.g. by explaining how food output at first rises more than proportionately than inputs, then less than proportionately as the capacity limits of farmland are approached (alternatively they could explain in terms of falling then rising short run average costs). **Up to 6 marks**
- Explain that GM crops could increase productivity in the short run, e.g. by arguably 'delaying' diminishing returns (**1 mark**) by making more intensive use (**1 mark**) of the fixed factor, land (**1 mark**) through increasing its productive capacity (**1 mark**).
- And/or explain that GM crops could bring economies of scale and provide increasing returns in the long run (alternatively they could explain in terms of falling long run average costs)

Up to **4 marks** for each of the points made (**1 mark** for identification and **3 marks** for elaboration) up to a maximum of **8 marks**.

Up to **2 marks** per diagram showing, for example, a physical product curve or a cost curve (**1 mark** for labelling, **1 mark** for correct information shown) to a maximum of **3 marks**

Award a maximum of 8 marks, including diagrams, for diminishing returns and a maximum of 8 marks, including diagrams, for productivity.

MAXIMUM FOR QUESTION 02: 10 MARKS

03 It is 'difficult to judge whether GM crops will boost productivity to feed the world and create social benefits or cause market failure through monopoly, environmental damage and adverse side effects on human health' (**Extract B**, line 38-40).

Using the data and your economic knowledge, evaluate the view that the UK Government should support the production and use of GM crops. (25 marks)

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

There must be evidence of evaluation to score more than 15 marks.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- Links between the quotation and economic issues that are contested, eg
 - Positive/ negative externalities
 - Consumer choice/ monopoly power
 - Food security/ distributive issues

Developing a response to the question:

- Arguments for government support of production and use, eg
 - Consumer sovereignty (assuming consumers want them)
 - Efficiency arguments
 - The need to feed a rapidly expanding population
 - The need for technical progress
 - Alleged external benefits
- Arguments against, eg
 - Consumer sovereignty (European consumers appear not to want them)
 - Market failures such as
 - Environmental damage
 - Other negative externalities such as damage to organics; health concerns
 - Monopolistic practices
 - Asymmetric information
 - Government failure

Evaluation:

- Market failure versus government failure
- Consideration of whether consumers/governments/farmers have sufficient information, or whether they are influenced by the media, pressure groups and interested parties (both for and against GM crops)
- Very perceptive and aware candidates might discuss whether the word ‘support’ in the question simply means ‘allow’ or ‘facilitate’ or whether there is an argument about actively encouraging GM growers, e.g. through subsidy.

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the arguments for and against, and/or give economic reasons for justifying a particular policy decision.

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR QUESTION 03: 25 MARKS

2 THE EUROPEAN UNION CONTEXT**Total for this question: 40 marks**

- 04** Using **Extract C**, identify **two** significant points of comparison between food stores and non-food stores over the period shown. *(5 marks)*

Award one mark for each valid point made and two marks for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- Non food reaches a higher peak (152) in December 2007 compared with non-food (128)
- Non-food reaches a lower trough (92) in January 2008 compared with food (104)
- Non-food reaches a higher peak (146) in December 2008 compared with non-food (130)
- In January 2009 food reaches a trough (110) then rises, while non-food is at 92 and continues to fall.
- In October 2007 both are at an index of 108 and rising (start of period shown) in March 2009 (end of period shown) both are rising but food is higher than non-food (118 versus 93)

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one valid point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

Award only **1 mark** for data if unit of measurement is not quoted. (But the work “index” only needs stating once, **OR** the answer makes it clear the candidate is dealing with index numbers).

MAXIMUM FOR QUESTION 04: 5 MARKS

05 Explain what is meant by a 'perfectly competitive market' (**Extract D**, line 29) **and**, using a diagram to help you, analyse how a fall in demand across the retail industry can be expected to affect the sales and profits of an individual retail firm operating in a perfectly competitive market. (10 marks)

For candidates who:

- Define demand/profit or any other relevant term. **Up to 2 marks per definition**
Maximum 2 marks for definitions
- Describe 'perfectly competitive market' in terms of, eg, the large number of firms (1 mark), homogenous product (1 mark), perfect knowledge (1 mark), price-taking behaviour (1 mark), low barriers to entry (1 mark), independence of firms (1 mark). **Up to 6 marks**
- Explain how equilibrium under perfect competition in the retail sector is arrived at and how falling prices across the retail sector will affect output and profit (or losses) for individual retail firms. **Up to 6 marks**
- For the relevant use of a diagram(s) showing the impact of a fall in demand

Award up to 2 marks for a demand and supply diagram
(1 mark for labelling, 1 mark for correct information shown)

Award up to 4 marks for a perfect competition diagram
(up to 2 marks for labelling, up to 2 marks for correct information shown)

Maximum 6 marks for diagrams

Award a maximum of 8 marks if no diagram is used.

MAXIMUM FOR QUESTION 05: 10 MARKS

06 'It is significant that some large UK retailers such as Tesco and Marks and Spencer have a presence on the Continent...there are also some possible advantages of the SEM for smaller retailers' (**Extract D**, lines 34-35 and 41-42).

Using the data and your economic knowledge, assess the **costs** and **benefits** to British retailers **and** consumers of being part of a single market across the EU.
(25 marks)

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

Where there is no explicit reference to the data, award a maximum of **21 marks**.

There must be evidence of evaluation to score more than 15 marks.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- Links between the quotation and economic issues that affect firms operating in the SEM, e.g.
 - Economies of scale
 - Market size
 - Market share
 - Efficiency

Developing a response to the question:

- Benefits to large retailers
 - Supply side, e.g.
 - Economies of scale
 - Specialisation
 - Diversification
 - Labour market (a source of willing workers)
 - Demand side, e.g.
 - More consumers
 - Growth opportunities
- Costs to large retailers, e.g.
 - New competitors
 - Firms
 - Products
 - Currency problems (euro against pound)
 - EU competition regime

- Benefits to small firms, e.g.
 - Internet trading without cross-border restrictions
 - Specialist 'niche' in the market
 - Consumers travelling to continental markets
 - Peripatetic markets visiting UK towns
 - Cheap labour from Eastern Europe
 - Examples, e.g. the phenomenon of the Polish grocery shop
- Costs to small firms, e.g.
 - Excessive bureaucracy, e.g. regulations against ugly fruit
 - Costs of compliance, e.g. metrication of weights and measures
- Costs/benefits to consumers, e.g.
 - Lower prices
 - Greater choice
 - More innovation
 - Homogenisation of products and retailers
 - Disappearance of local shops

Evaluation:

- discussing whether retailing relates to the single market in the same way as, say, manufacturing
- distinguishing between the positions of different types of retailers, e.g. grocers, white goods, clothes
- the different impacts on small/ large retailers
- the extent to which the interests of consumers and retailers coincide
- the possible impact of EU competition policy

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the benefits and costs, and/or give economic reasons for justifying a judgement on, for example whether benefits generally outweigh costs.

Also give credit for

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR QUESTION 06: 25 MARKS

SECTION B**3****Total for this question: 40 marks**

07 Explain the factors that might account for the continuing difference between male and female earnings. **(15 marks)**

For candidates who:

- Define or explain 'earnings' eg wage is the 'price' of labour, and relate this to the supply of labour (monetary rewards, non-monetary rewards) and its demand (derived demand, marginal revenue product). **Up to 4 marks**

- Argue that the labour market is not a perfect market, and/ or that wage discrimination is a form of price discrimination, and identify key factors in the gender pay gap, e.g.
 - Human capital differences (educational levels, experience, breaks from paid work, etc.) which lead to differences in marginal revenue product
 - Part time working (more likely for women than men)
 - Travel patterns/ commuting distance differences
 - Occupational segregation (some jobs regarded as 'women's work', especially in retail and caring professions)
 - Workplace segregation (differences in job-grading, appraisal, promotion prospects, etc)
 - Women less likely to be unionised (leads on to part (b))

**Up to 8 marks per factor explained
(1 mark for identification and up to 7 marks for the explanation)**

For example:

Human capital is a factor in gender discrimination (**1 mark**). In the past, men and women have had different life chances in terms of educational qualifications (**1 mark**), work experience (**1 mark**) and family expectations (**1 mark**). While these differences have lessened due to more equal opportunities (**1 mark**) women are still more likely than men to take a career break for children and other dependents (**1 mark**). This takes women out of the promotion ladder (**1 mark**) and might lead to employers preferring male to female employees (**1 mark**).

**Award up to 2 marks for use of each supporting diagram
(1 mark for labelling, 1 mark for relevant information shown correctly)
Up to a maximum of 4 marks for diagrams**

MAXIMUM FOR QUESTION 07: 15 MARKS

08 Assess the view that increased female membership of trade unions would be the most effective way to raise women's earnings. *(25 marks)*

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation to score more than 15 marks.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- Functions of trade unions
- Impact of collective bargaining

Developing a response to the question:

- Factors affecting union power, e.g.
 - Membership levels
 - Militancy
 - Industrial legislation
- Unions and
 - Competitive labour markets
 - Monopsony labour markets
- Likely effects of unions on
 - Female wages
 - The level of female employment
 - Types of jobs available to women
 - Working conditions, e.g.
 - Health and safety
 - Family-friendly working practices
 - Employment practices, e.g. status and protection of part-time staff

Evaluation:

- discussing whether unionisation is the best method of closing the gender gap, or whether other methods would be more effective, e.g.
 - government legislation
 - directing education and training at women
 - leaving it to market forces

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the benefits and costs, and/or give economic reasons for justifying a judgement on, for example whether benefits generally outweigh costs.

Also give credit for

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR QUESTION 08: 25 MARKS

4

09 Explain how technological change has affected the structure **and** competitiveness of markets, such as those for telephone services, recorded music or cars. (15 marks)

Candidates do not have to cover the three named industries. The question says ‘such as’, so they can introduce an example of their own.

For candidates who:

- Define or explain:
 - The idea of technological change **Up to 2 marks**
 - The ‘structure’ of a market **Up to 2 marks**
 - Competitiveness **Up to 2 marks**

Maximum of 4 marks

- Describe the main technological changes and their effects on structure and competitiveness, e.g.
 - Telephone services
 - less reliance on networks of copper wires,
 - more use of wireless technology.
 - the internet
 - And/ Or
 - Recorded music
 - tapes to CDs to internet downloads
 - Ghetto blaster to midi system to i-pod/ MP3
 - Leading in both the above cases to
 - reduced barriers to entry
 - more scope for competition
 - a movement away from monopoly (this movement backed by government policy and de-regulation)
 - And/ Or
 - Cars
 - High-tech components,
 - e.g. electronics, on-board computers
 - Manufactured to exacting world standards
 - Stress on fuel economy/ alternative fuels
 - Leading in this case to
 - A need to produce in huge quantities to make any profit
 - A higher level of output required for minimum efficient scale
 - And a tendency towards oligopoly
 - Although the industry is highly competitive in terms of setting prices (an element of price-taking conduct)

Up to 8 marks per change/effect explained

(1 mark for identification and up to 7 marks for the explanation)

Up to 8 marks for “changes”

Plus up to 8 marks for “effects”

For example:

New technology means that customers can now choose which landline (**1 mark**) network they want. Mobile phone technology (**1 mark**) also gives added customer choice. There are now a number of firms in the industry (**1 mark**), eg BT, Sky, Vodafone (**1 mark**), but it is dominated by a few, large firms (**1 mark**) because of set-up costs (**1 mark**), which act as a barrier to entry (**1 mark**). The structure of the industry is therefore imperfectly competitive (**1 mark**), or even oligopolistic (**1 mark**). This means, whilst there is some price competition (**1 mark**) there is also non-price competition (**1 mark**) with weak branding influenced by different service levels (**1 mark**) and advertising (**1 mark**).

**Award up to 2 marks for use of each supporting diagram
(1 mark for labelling, 1 mark for relevant information shown correctly)
Up to a maximum of 4 marks for diagrams**

MAXIMUM FOR QUESTION 09: 15 MARKS

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- | |
|--|
| <p>10 Discuss whether utilities, such as gas, electricity and water, are better left in the private sector and open to competition or whether all, or some, should be taken back into public ownership. (25 marks)</p> |
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Again, candidates do not have to cover all three named industries/ utilities. The question says 'such as', so they can introduce an example of their own.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation to score more than 15 marks.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory

- Definition/explanation of 'utilities' in terms of essential basic services/public goods
- Definitions of private sector and public ownership

Developing a response to the question

- Arguments in favour of privatisation, e.g.
 - Government failure arguments, e.g.
 - Lack of investment
 - Lack of innovation
- Burden on taxpayer shifted to consumer
- Privatisation creates revenue for the government
- Decentralisation, closer to the wants of the consumer
- Competition and efficiency

- Arguments in favour of nationalisation, e.g.
 - Market failure arguments, e.g.
 - Difference between wants and needs
 - Equity: access to essential services
 - Externalities, social benefits
- The need for central control and accountability for strategic industries
- The idea of 'natural monopoly'
- Any revenue raised from privatisation is one-off ("selling the family silver")
- Experience from the banking crisis and PFIs suggests that while profits are privatised, risks stay nationalised

Evaluation

- Considering the ‘ability to pay’ versus ‘beneficial’ principle of providing public services
- Considering whether privatisation creates competition, or merely creates a private monopoly, which then needs regulating
- Is it a question of either/ or; is there a role for public-private partnerships?

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the benefits and costs, and/or give economic reasons for justifying a judgement on, for example whether benefits generally outweigh costs.

Also give credit for

- Reference to the UK and/ or other economies
- Diagrams
- An overall judgement of the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR QUESTION 10: 25 MARKS

5

11	What are the likely economic effects of poverty in the UK?	<i>(15 marks)</i>
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For candidates who:

- Define or describe 'poverty', e.g. by referring to absolute/ relative poverty. **Up to 4 marks**
- Discuss the economic effects of poverty, e.g. in terms of
 - life-chances, e.g.
 - percentage of low income earners going to university
 - health / life expectancy
 - differential impacts (e.g. gender, race, age groups)
 - problems at the micro/macro interface, e.g. lower income groups, compared with high income groups, are less likely to:
 - save
 - spend
 - build up pension rights
 - and more likely to:
 - be on benefits
 - and in debt
 - and at more punitive interest rates
 - also
 - the cost of living for poorer people is arguably greater than that of higher income earners
- Discuss other relevant issues, e.g.
 - Relationships between income and wealth
 - The possibility of poverty becoming dysfunctional, causing, for example,
 - Industrial/ social strife
 - Costs on the government/ taxpayer

Up to 4 marks per effect explained
(1 mark for identification and **up to 3 marks** for the explanation)

For example:

In terms of life chances poverty tends to be self-perpetuating (**1 mark**). Poor people tend to come from families that were poor (**1 mark**). Children from poor families do less well at school, reducing their chances of getting jobs that will lift them out of poverty (**1 mark**). They also tend to be less fit and healthy, increasing the chances that they will live on welfare benefits rather than their own earning power (**1 mark**).

Award up to 2 marks for each supporting diagram
(1 mark for labelling, 1 mark for relevant information shown)
Up to a maximum of 4 marks for diagrams

MAXIMUM FOR QUESTION 11: 15 MARKS

12 Is the use of the tax and benefits system the best method of reducing poverty or are alternative methods more effective? Justify your answer. *(25 marks)*

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation to score more than 15 marks.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory

- Definitions of
 - poverty (relative/ absolute)
 - taxes and benefits

Developing a response to the question

- The nature, impact and success of taxes and benefits
 - consideration of 'progressive' taxes versus regressive (and/or direct versus indirect)
 - 'means tested' versus 'universal' benefits
 - Effects of taxes and benefits on
 - distribution
 - side effects on other functions of taxation:
 - allocation
 - stabilisation
 - Effects of taxes and benefits on the labour market, e.g.
 - supply of labour
 - flexibility
 - The implications of alternative policies, e.g.
 - the national minimum wage
 - provision of universal public services
 - Specific arguments for and against
 - The narrowing of wage differentials
 - A more equal distribution of income
 - General arguments about the role of government/ consequences of leaving wage determination to market forces
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Evaluation

- discussion of progressive versus regressive taxation
- the impact of transfer payments (the ‘social wage’)
- assessing the success or otherwise of various policies such as the current minimum wage
- the desirability of alternative policies, e.g. proposals for maximum wages/ a cap on bonuses as a counterpart to the minimum wage

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the benefits and costs, and/or give economic reasons for justifying a judgement on, for example whether benefits generally outweigh costs.

Also give credit for

- Reference to the UK and/ or other economies
- Diagrams
- An overall judgement of the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR QUESTION 12: 25 MARKS