Version 1

AQA

**General Certificate of Education (A-level)
January 2013**

Economics   **ECON3**

(Specification 2140)

Unit 3: Business Economics and the Distribution of Income

Final

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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 students' 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.

Advanced Level Economics Unit 3

General Instructions

Marks awarded to students 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 parts **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question 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 parts **03** and **06** of the data response questions and the second part of each essay question. 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 (eg 13 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.

FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY

AQA ADVANCED LEVEL (A2) ECONOMICS
LEVELS OF RESPONSE MARK SCHEME

A2 LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgements
Level 5 22-25 marks (mid-point 24) **Good analysis and good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues\n\nWhere appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning\n\nGood awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	Good throughout the answer with few errors and weaknesses\n\nGood throughout much of the answer with few errors and weaknesses	Good application to issues\n\nWhere appropriate, good use of data to support answer\n\nSome good application to issues\n\nWhere appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning\n\nGood awareness of the inter-relatedness of economic issues\n\nLargely relevant and well organised with reasonable logic and coherence\n\nSome awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view\n\nReasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable answer, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues\n\nWhere appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present\n\nQuite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors\n\nWhere appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development\n\nLimited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues\n\nWhere appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

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.

An   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, students 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.

Students 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.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Students will be assessed according to their ability to:

• ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
• select and use a form and style of writing appropriate to purpose and complex subject matter
• organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

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

01   Using **Extract A,** calculate to one decimal place the percentage decrease in the number of employees who were union members in 2010 compared with 1995 **and** identify **one other** significant feature of the data shown.   *(5 marks)*

The calculation:

Acceptable answer is 8.4 or 8.5	**3 marks**
Another answer between 8 and 9 (inclusive) irrespective of decimal places.	**2 marks**
For showing a correct method but arriving at a wrong number i.e $\underline{any\ number}$ x 100 = wrong number any number	**1 mark**

Maximum 3 marks for the calculation

Identifying one other significant feature

For identifying a significant feature	**1 mark**
For providing a piece of supporting data	**Up to 2 marks**

Other significant features include:

- membership trend is downwards (7.1 to 6.5 million) over the period shown.

- membership rises between 2002 and 2004 (7.0 to 7.1 million) before falling again

- density trend is downwards over the period shown (32.4% to 26.6%) with no upward blip

- density is highest in 1995 (32.4%)

- density is level, at 28.8%, between 2002 and 2004 while membership is rising, from 7.0 to 7.1 million (either membership or density figures sufficient for the data mark)

No marks for a year-by-year 'trawl' through the numbers with no significant feature identified

Maximum 3 marks for the significant feature

MAXIMUM FOR PART 01: 5 MARKS

02	Explain what is meant by 'monopsonistic demand for labour' (**Extract B**, lines 13-14) **and** analyse how a trade union can influence wages **and** employment levels in an imperfectly competitive labour market. *(10 marks)*

Explanation	
For a relevant definition/explanation of eg a trade union, monopsonistic demand for labour, eg a labour market in which there is only one 'buyer', in terms of a single firm or group of employers of people with particular skills or qualifications, or in a particular locality.	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

Maximum of 4 marks for the explanation

Analysis	
Analysis of trade union influence, for example: The trade union could shift the supply curve of labour to the left **(1 mark)** by restricting the supply of labour **(1 mark)**, eg by insisting on a barrier to entry **(1 mark)** such as minimum qualifications **(1 mark)**. Supply elasticity also reduced **(1 mark)**. This will raise the price of labour (the wage rate) **(1 mark)** above the market equilibrium **(1 mark)** but could reduce the number employed **(1 mark)**. • the union could turn a monopsonistic labour market into a bilateral monopoly • a union-negotiated wage above the market equilibrium • single-union agreements • no-strike deals • 'closed shop' • strikes.	**Award 1 mark for each link in a logical chain of reasoning**
Up to 8 marks for the analysis	
For making appropriate use of diagrams, eg labour market S & D; diagram with the wage rate above the market equilibrium, bilateral monopoly diagram.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

A maximum of 8 marks overall for the question if there is not a reference to both wages and employment levels

MAXIMUM FOR PART 02: 10 MARKS

03	'…any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation' (**Extract C**, lines 21-23). Using the data and your economic knowledge, evaluate whether governments, such as those of the UK and China, should intervene in labour markets to increase trade union membership. *(25 marks)*

In this part of the question, students will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks.**

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

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks** *Mid-point 24*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks** *Mid-point 13*
Level 2	**Weak with some understanding**	**4-9 marks** *Mid-point 7*
Level 1	**Very weak**	**0-3 marks** *Mid-point 2*

Issues and areas for discussion include:

Introduction	• Definitions/descriptions of eg
	  o trade union
	  o collective bargaining.

Developing the response to the question (application)	• Relevant use of theory, eg effects of collective bargaining
	• Evidence from the data, eg reference to
	  o British trade unions **(Extracts A, B)**
	  o Chinese experience **(Extract C)**
	  o multinational behaviour, eg Walmart **(Extract C)**
	  o candidate's own knowledge, eg relevant application of 'minimum wage' concepts to this particular context.

Developing the response to the question (analysis)	• Possible 'negative' effects of trade unions, eg
	  o slow down productivity gains
	  o reduce competitiveness, by, eg
	    ▪ increasing costs of production
	    ▪ reducing flexibility
	    ▪ creating barriers to exit from a market
	• Possible positive effects, eg
	  o protect members' earning power
	  o fight discrimination in the workplace
	  o improve working conditions, eg
	    ▪ health and safety of employees
	    ▪ working hours and holiday entitlement
	  o may <u>reduce</u> costs (easier to negotiate with a single entity)
	• Use of the perfect competition model in the labour market
	• Use of the imperfect competition model in the labour market.

Evaluation	- positive versus negative aspects - consideration of the value-laden word 'exploitation' in the question - challenging basic assumptions, e.g. that employers do not want to be part of a high wage industry, or that unions are not interested in flexibility or efficiency, e.g. through multi-skilling or training - consideration of when is a union not a union (critical view of the Chinese model) - role of government in general in trade union matters - role of UK government in particular - question the implication contained in the data **(Extract C)**, that workers rights are incompatible with investment in and growth of businesses. *Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	- relevant diagrams - an overall judgement on the issues raised.

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 3 AND 4 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 03: 25 MARKS

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

04 Using **Extract D**, calculate to one decimal place the percentage increase in gas bills in real terms in 2010 compared with 1998 **and** identify **one other** significant feature of the data. *(5 marks)*	

The calculation

Acceptable answer is 72.3 or 72.4	**3 marks**
Another answer between 72 and 73 (inclusive) irrespective of decimal places.	**2 marks**
For showing a correct method but arriving at a wrong number ie $\dfrac{\text{any number}}{\text{any number}}$ x 100 = wrong number	**1 mark**
	Maximum 3 marks for calculation

Identifying one other significant feature	
For identifying a significant feature.	**1 mark**
For providing a piece of supporting data.	**Up to 2 marks**

Other significant features include:

- cash terms' prices fall from £277 to £264 between 1998 and 2000, then the trend is upwards to £640 in 2010

- real terms' prices fall from £325 to £300 between 1998 and 2000, then the trend is upwards to £560 in 2010

- the lowest prices are in 2000 (£264 cash terms, or £300 real terms)

- price in cash terms more than doubles, from £227 to £640 over the period shown, while price in real terms less than doubles, from £325 to £560 (NB either cash or real terms figures sufficient for the data mark).

No marks for a year-by-year 'trawl' through the numbers with no significant feature identified.

Maximum of 3 marks for the significant feature

MAXIMUM FOR PART 04: 5 MARKS

05	Explain what is meant by an 'oligopolistic market' (**Extract F**, line 14) **and** analyse why such a market might lead to 'sticky' gas prices (**Extract E**, line 16). *(10 marks)*

Explanation	
For a relevant definition/explanation, eg a market where a small number of firms account for a high proportion of sales or another dimension of economic importance in an industry. Reference to concentration ratios.	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

Maximum of 4 marks for the explanation

Analysis	
Analysis of reasons for price stickiness, for example: The suppliers are an oligopoly **(1 mark)** and adopt the oligopolist's price seeking behaviour **(1 mark)**, having to judge not only consumer reactions to a price change **(1 mark)**, but also competitor reactions **(1 mark)**, fearing that they face elastic **(1 mark)** demand for a price increase **(1 mark)**, and inelastic **(1 mark)** demand for a price decrease **(1 mark)**, either way losing total revenue **(1 mark)**. • price leadership; • cartels/collusion/other relevant monopoly points • admin costs • implications of lack of storage capacity (mentioned in the data) • although this is not required by the question for full marks, it is mentioned in the data, so amply reward any explanation of 'asymmetric' stickiness (prices rising more readily than they fall) as this is likely to be quite sophisticated, eg asymmetric barriers to entry and exit causing asymmetric competitive pressure (it's easier to leave the market than enter it, so existing firms are more likely to leave when costs and prices are rising than new firms are likely to enter when costs and prices are falling).	**Award 1 mark for each link in a logical chain of reasoning**

Up to 8 marks for the analysis

Make appropriate use of diagrams, eg kinked demand curve; game theory matrix.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

MAXIMUM FOR PART 05: 10 MARKS

06	'Consumers might have doubts about the effectiveness of regulators such as OFGEM' (**Extract E**, line 13).
	Using the data and your economic knowledge, assess methods that could be used by the UK government and the EU to promote competition in the supply of domestic gas. *(25 marks)*

In this part of the question, students will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

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

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks** *Mid-point 24*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks** *Mid-point 13*
Level 2	**Weak with some understanding**	**4-9 marks** *Mid-point 7*
Level 1	**Very weak**	**0-3 marks** *Mid-point 2*

Issues and areas for discussion include:

Introduction	• definition of 'competition' • differences between gas and other commodities • regulation explained/defined.

Developing the response to the question (Application)	• use of theory (monopoly)
	 • discussion based on information from the data related to market conditions, eg price changes **(Extract D)**
	     ○ market share **(Extract E)**
	     ○ piped gas and LPG/natural monopoly **(Extract F)**
	     ○ candidate's own knowledge of relevant issues.

Developing the response to the question (Analysis)	Policies aimed at increasing competition, examples, effects eg • competition policy • privatisation • deregulation vs regulation • removing entry barriers • public/private partnerships • contestable markets • increase the scope of OFGEM, eg to cover LPG supplies • direct price controls • simpler/more transparent price tariffs.

Evaluation	- efficacy of OFGEM - question its focus on 'natural monopoly' - what use is 'switching' if tariffs are complicated? (price transparency) - infrastructure investment (data mentions lack of storage. Gas-holders would help reduce price volatility) - should regulators directly regulate price? - should regulation operate at a national or EU level? - advantages/disadvantages of each method, eg 'regulatory capture'. *Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	- diagrams - an overall judgement on the issues raised.

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 3 AND 4 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 06: 25 MARKS

SECTION B

Essay 1   **Total for this Essay: 40 marks**

07	Explain why a perfectly competitive firm might be regarded as statically efficient while a monopoly might be regarded as dynamically efficient. *(15 marks)*

For relevant definitions, eg perfect competition, static efficiency, monopoly, dynamic efficiency.	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explanation of the relationship between perfect competition, static efficiency, monopoly, dynamic efficiency; **for example:**

• Perfect competition and static efficiency, eg because perfect competition involves price taking **(1 mark)**, the seller-perceived demand curve is horizontal **(1 mark),** so that when the industry is in equilibrium P=MC **(1 mark)** giving allocative efficiency **(1 mark)**, and P=MC **(1 mark)** where AC is minimised **(1 mark)**, giving productive efficiency **(1 mark).** The structure of the industry gives static efficiency due to price seeking behaviour **(1 mark)** which drives down costs **(1 mark)** by eliminating inefficient firms **(1 mark)**.	**Award 1 mark for each link in a logical chain of reasoning** **Up to 10 marks**
• Monopoly and dynamic efficiency, eg an argument that monopolies tend to be large, and achieve economies of scale; over time, large firms can devote more resources to research & development and so achieve dynamic efficiency.	**Award 1 mark for each link in a logical chain of reasoning** **Up to 10 marks**
ALTERNATIVELY • perfect competition and monopoly discussed together in a comparative way • other relevant arguments, eg the possibility of a 'trade-off' between static and dynamic efficiency • why monopolies may not be dynamically efficient/ perfect competition may not be statically efficient.	**Award each link in a logical chain of reasoning** **Up to 15 marks**
Use of diagrams to support the explanation	Up to **2 marks** per diagram (**1 mark** for labelling, **1 mark** for information shown) to a total of **6 marks**. A complex diagram, eg showing perfect competition and monopoly together, can be awarded up to **4 marks**

Maximum of 10 marks if only static or dynamic efficiency is discussed

MAXIMUM FOR PART 07: 15 MARKS

08	'While some economic theories become dated, the theory of perfect competition has become more realistic over time.' Discuss whether technological developments, such as the internet, are making markets more competitive and making perfect competition theory more realistic. *(25 marks)*

In this part of the question, students will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks** *Mid-point 24*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks** *Mid-point 13*
Level 2	**Weak with some understanding**	**4-9 marks** *Mid-point 7*
Level 1	**Very weak**	**0-3 marks** *Mid-point 2*

Issues and areas for discussion include

Introduction	• basic assumptions of perfect competition theory, eg perfect knowledge, homogenous products, entry barriers, no. of buyers and sellers. • basic assumptions common to other theory, eg rational behaviour, profit maximisation.

Developing the response to the question
 	
Application/ Analysis
	• Reasons why some assumptions may be unrealistic eg
	  ○ highly technical products (imperfect knowledge);
	  ○ product differentiation/ branding/ persuasive advertising
	• Reasons why theory can go out of date, eg
	  ○ large numbers of small firms being merged, becoming more monopolistic
	• Possible effects of technology such as the internet, supporting competition e.g.
	  ○ Improving information flows
	  ○ Removing barriers to entry
	  ○ Reducing advantages of scale economies (small firms on eBay, Amazon small bookshop partners)
	• Technology supporting theory in a practical sense, eg
	  ○ Computers helping firms to track marginal costs and revenues, therefore supporting the MC=MR assumption.

Evaluation	• internet may support price discrimination eg budget airlines
	• the internet allows some monopolies to emerge and grow, eg Google, Microsoft
	• however, some dominant firms on the internet challenge traditional monopolies (half of Amazon profits come from books whose sales are too low for Waterstones, Smiths, Tesco etc to handle)
	• contestability
	• relevance of legal restrictions (copyright, designs, patents).
	Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.

Also give credit for	• diagrams
	• an overall judgement on the issues raised
	• examples.

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 3 AND 4 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 08: 25 MARKS

Essay 2   **Total for this Essay: 40 marks**

> In August 2011, the UK Secretary of State for Culture said that while there were many local television stations broadcasting in the USA, they did not exist in the UK due to 'market failure'. He proposed a subsidy of £40m from public funds to help create stations which would then be financed by advertising.
>
> **09**   Explain why TV broadcasting might be classified as a public good **and** explain why TV broadcasting can also have some characteristics of a private good. *(15 marks)*

• **For relevant definitions**, eg public good, private good, externalities, excludability, non-diminishability, free-rider.	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explanation of reasons for classifying broadcasts as a public good or private good.

Public good arguments, eg Broadcasts are non-diminishable **(1 mark)**, one person's use does not deny another person access **(1 mark)**, the benefits of broadcasting are communal as well as individual **(1 mark)** broadcasting is high in positive externalities **(1 mark)** it is difficult to attribute benefits to individuals **(1 mark)** and it is therefore fairer to finance by methods other than charging individuals **(1 mark)**. Provision at all means provision for all **(1 mark)**, so broadcasts are, at least to some extent, non-excludable **(1 mark)**. The minister appears to be claiming a 'missing market' **(1 mark)**, or might be mis-interpreting the economist's idea of 'market failure **(1 mark).**	**Award 1 mark for each link in a logical chain of reasoning** **Up to 10 marks**
Private good arguments, eg • challenging 'non-excludability' (evidenced by licence fee enforcement, encryption, pay-tv) • arguments for a 'mixed' type of good, eg some characteristics of a merit/demerit good, arguing that benefits/costs do not end with final consumer (positive/ negative externalities) and the market under-provides/ over-provides.	**Award 1 mark for each link in a logical chain of reasoning** **Up to 10 marks**
Use of diagrams to support explanations.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.**

Maximum 10 marks if either public goods or private goods not considered

                                             MAXIMUM FOR PART 09: 15 MARKS

10 Evaluate the view that attempts by governments to eliminate market failure by intervening in markets for public goods and merit goods will inevitably lead to government failure. *(25 marks)*

In this part of the question, students will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis and good evaluation**	**22-25 marks** *Mid-point 24*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17-21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**.	**10-16 marks** *Mid-point 13*
Level 2	**Weak with some understanding**	**4-9 marks** *Mid-point 7*
Level 1	**Very weak**	**0-3 marks** *Mid-point 2*

Issues and areas for discussion include:

Introduction	- Meaning of market failure - Reasons for and examples of market failure, eg - distinction between public and merit goods - positive and negative externalities - public goods, merit goods - Reasons for and examples of government failure.
Developing the response to the question **Application/ Analysis**	- Policy options for public/merit goods - taxation (the ability to pay principle) - charging (the beneficial principle) - subsidies - direct government provision - public/private partnerships - Opportunity cost - Efficiency arguments - Rationale for govt. intervention in providing MSC=MSB, therefore providing a socially optimum level - Consequences of policy options, eg - consumer welfare and producer surplus - national/ international competitiveness - prices, employment - Reasons for and examples of government failure - Discussion specific to the local TV station example

Evaluation	• effectiveness of different types of policy • intended and unintended consequences • the option of allowing market forces to work without government intervention (in the local TV case, challenging the apparent view of the minister that there is a 'missing market'); consumer sovereignty arguments) • problems of determining social optimum • market vs govt failure. *Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• diagrams • an overall judgement on the issues raised • examples.

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 3 AND 4 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 10: 25 MARKS

Essay 3   **Total for this Essay: 40 marks**

11 A government has a policy of reducing taxes on income while increasing taxes on spending, such as Value Added Tax (VAT). Distinguish between equity and equality **and** explain the effects of this government policy on both equity **and** equality. *(15 marks)*	

For distinguishing between equity and equality, eg basic definitions of equity (to do with 'fairness), equality (to do with reducing 'differentials'/increasing opportunities/affecting outcomes).	**Up to 2 marks per point defined or explained to a maximum of 4 marks**
For explanation of effects of a switch from direct to indirect taxation; for example:	
• **Vertical equity**: The treatment of people in different income **(1 mark)** and wealth positions (**1 mark**). Taxes can be progressive **(1 mark)** proportional **(1 mark)** or regressive **(1 mark)**. Switch to VAT is likely to be regressive **(1 mark)** because, assuming a wide range of goods and services are taxed **(1 mark)**, and as a general rule consumption expenditure represents a decreasing proportion of income **(1 mark)** the actual **(1mark)** amount of tax paid will increase with expenditure **(1 mark)** but fall as a percentage of income **(1 mark)**. • **Horizontal equity:** The treatment of people in similar earning positions. Policy effects depend on, eg the 'universality' or otherwise of the VAT, and whether, say, 'luxury' items can be identified and taxed at higher rates. • **Equality**, eg it could be argued that the switch will affect life chances of both the better off and less well off by increasing 'incentives', and hence affect equality through trickle-down; or that the regressive nature of the switch and the resulting inequality is economically dysfunctional and will cause further inequality; or that the effects are neutral, and wealth taxes would have greater effects on equality than tinkering with income and expenditure taxes.	**Award 1 mark for each link in a logical chain of reasoning** **Up to 10 marks for each of equity and equality**
Use of diagrams to help support explanations	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.**

Maximum of 10 marks if only equity or equality discussed

MAXIMUM FOR PART 11: 15 MARKS

| **12** | Assess the economic costs **and** benefits of government action which results in the UK becoming a less equal society. *(25 marks)* |

In this part of the question, students will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks** *Mid-point 24*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks** *Mid-point 13*
Level 2	**Weak with some understanding**	**4-9 marks** *Mid-point 7*
Level 1	**Very weak**	**0-3 marks** *Mid-point 2*

Issues and areas for discussion include:

Introduction	- Meaning of a 'less equal society' - Measurement of inequality - Examples of government action resulting in inequality, eg - regressive taxes - reducing inheritance taxes - encouraging a bonus culture - removal of universal benefits - raising entry barriers (eg. tuition fees) - reducing the 'social wage' (reducing or slowing down increases in spending on public and merit goods) - equality of opportunity/equality of outcome.
Developing the response to the question **Application/Analysis**	- Benefits of inequality, eg - incentive arguments - trickle-down - encouraging enterprise - encouraging work rather than welfare - impact on saving and investment - Costs of inequality, eg - social cost, unrest, riots - waste of talent - lack of safety nets - wider costs, correlations between inequality and wider economic and social issues - macro effects of inequality and insecurity (synoptic points), eg - downward multiplier - boom and bust - national income and welfare - impact on output of policies to promote equality/ inequality.

Evaluation	- questioning of individual alleged benefits, eg do managers receiving annual 'compensation' measured in millions really have an 'incentive' to improve efficiency? - questioning of individual alleged costs, eg is social unrest caused by inequality as such, or by unreal expectations or simple greed? - overall assessment of costs versus benefits - question of whether 'inequality' is an actual 'aim' of policy - for and against 'trickle down' ideas - impacts depend on the extent of inequality, time periods. *Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	- diagrams - an overall judgement on the issues raised - examples.

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 3 AND 4 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 12: 25 MARKS