V1.0

**General Certificate of Education (A-level)
June 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.

June 2013   **ECON3**

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Advanced Level Economics Unit 3

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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.

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

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

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 Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good 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 Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, 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 Where 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 Quite 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 Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited 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 Where 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**, identify **two** significant points of comparison between 1990 and 2010 for the data shown in **Graphs (i)** and **(ii)**.   *(5 marks)* |

Identifying two significant points of comparison between years.

For each point:

For identifying a significant point of comparison **(1 mark)** and providing relevant supporting data **(2 marks)**. Without units, **max 2 marks**.	**Up to 3 marks**
For identifying a feature, with units, but no comparison.	**1 mark**
For a 'trawl' through the numbers with no significant point of comparison identified or for simply providing an item of data.	**0 marks**

Significant points of comparison between years include

- for urban population the gap between improved and unimproved drinking water increases from 0.1 bn to 0.2 bn

- total rural population increases from 3.0 to 3.4 billion, while improved sanitation increases slightly more, from 0.9 billion to 1.6 billion

- unimproved drinking water for the rural population reduces from 1.1 billion in 1990 to 0.7 billion in 2010

- improved sanitation for urban population increases from 1.8 billion in 1990 to 2.8 billion in 2010.

MAXIMUM FOR PART 01: 5 MARKS

02	Explain what is meant by 'absolute poverty' (**Extract C**, line 4) **and** analyse how access to clean water is 'closely linked to production, income and wealth, both within and between countries' (**Extract B**, lines 1 and 2). *(10 marks)*

Explanation:	
For a relevant explanation or definition of absolute poverty, eg in terms of a lack of access **(2 marks)** to a recognised minimum amount of resources **(2 marks)**. An example of a criterion, eg 'living on a dollar a day' **(2 marks)**. For contrasting 'absolute' with relative **(2 marks)**.	**Up to 4 marks**

Maximum 4 marks for the explanation

Analysis of the links: Award 1 mark for each step in a logical chain of reasoning.	
For example:	
• ownership of water resources gives a source of income and wealth **(1 mark)** to those with the property rights **(1 mark)** since the water can be traded **(1 mark)** or used in production **(1 mark)** eg in agriculture or industry **(1 mark)** • in turn, people with more income and/or wealth are more likely to have access **(1 mark)** to water than poorer people because they have a greater ability to pay **(1 mark)** • richer countries can afford to invest in the necessary infrastructure **(1 mark)** such as reservoirs, pipelines **(1 mark)** • irrigation **(1 mark)** improves the land and enables countries to lift themselves out of subsistence agriculture **(1 mark)** • access to cheap clean water reduces the cost of living **(1 mark)** and boosts real income **(1 mark)**.	
	Up to 8 marks for the analysis
For making appropriate use of diagrams, eg supply of and demand for water.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

A candidate can be awarded a maximum of **6 marks** for the analysis if the explanation has not been attempted.

MAXIMUM FOR PART 02: 10 MARKS

Mark Scheme – General Certificate of Education (A-level) Economics – ECON3 – June 2013

03	'The supply and use of water results in many externalities, both positive and negative' (**Extract B,** line 16).
	Using the data and your economic knowledge, evaluate UK government policies that could be used to deal with problems associated with the supply and use of water. *(25 marks)*

In this part of the question, candidates 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*

Candidates can approach the question with a focus on the UK government or government in general. Either approach can gain full marks. Also, they can focus on 'externalities' or wider 'problems' of market failure.

Issues and areas for discussion include:

Introduction	• definitions/descriptions of, eg o externalities o positive and negative • clean water as a merit good • polluted water as a demerit good.
Developing the response to the question (Application)	• relevant use of theory, eg private costs, benefits, social costs, benefits • evidence from the data, eg reference to • pressures on drinking water • lowering of water tables • floods • polluted wells, sanitation • unnecessary waste (bottled water) • costs in terms of oil • private (personal) health benefits of clean water • external health benefits of clean water (avoidance of contagious disease) • environmental issues arising from above points

Developing the response to the question (analysis)	- wider environmental issues, and international comparisons, eg - floods in Bangladesh, drought in southern Spain; - Britain's case of universal drinking water (a result of infrastructure investment over generations). - discussion of water as a private/public/merit good - consequences of different views of the economic nature of water, in terms of government policy, eg - a private good implies privatisation and marginal cost pricing; a public good implies nationalisation and payment out of taxation - a merit good (clean water, good sanitation) implies social benefits exceeding private benefits and under supply/ under consumption, and an argument for direct government provision or subsidy - a de-merit good (unfit water, poor sanitation) implies social costs exceeding private costs and over supply/over consumption, and an argument for government action to remove the negative externalities (eg making the polluter pay) - regulation versus de-regulation - policies for supply - policies for use.
Evaluation	- reasons why market failure/externalities/environmental grounds might be a reason for having a special view of the economics of water; eg water is ubiquitous and a fundamental part of the environment; a basic of life - use of markets to distribute water (eg trade in licences to abstract water) - inequality in buying power, eg utilities can pass costs of buying water along their supply chain to customers; smaller firms, eg farmers, cannot - providing sanitation and clean drinking water cost money, and there is a role for commercialisation (eg there is a debate in the UK about how water should be priced; there is clearly a consumer demand for water in plastic bottles) - balance of advantages and disadvantages of governments regarding water as a merit good - consideration of costs and benefits of, eg - government action - the bottled water industry - alternative uses for water - role of government in general in water-related matters - role of UK government in particular - discussion of whether the UK has consistently regarded water as a 'merit good' ('water and sewerage' businesses have been privatised; however, they have also been strongly regulated) - market failure versus government failure *Examiners should note that, for some of the weaker or average candidates, 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 4 AND 5 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 of total per capita health expenditure that takes place in the public sector in the UK, **and** identify **one** significant point of comparison between countries for the data shown. *(5 marks)*	

The calculation

The correct answer is 82.4% (max **2 marks** without 'per cent' or %)	**3 marks**
Another answer between 82 and 83 inclusive, irrespective of decimal places.	**2 marks**
For showing a correct method but arriving at a wrong number, ie <u>any number</u> x 100 = wrong number any number	**1 mark**

Identifying one significant point of comparison	
For identifying a significant point of comparison (**1 mark**) and providing relevant supporting data (**2 marks**). Max **2 marks** without units (% or thousands of dollars).	**Up to 3 marks**
For identifying a feature, with units, but no comparison.	**1 mark**
For a 'trawl' through the numbers with no significant point of comparison identified or for simply providing an item of data.	**0 marks**

Significant points of comparison between countries include:

- The USA has a higher expenditure on health as a percentage of GDP (17.6%) than the UK (9.6%)
- France has a larger gap between private and public expenditure in terms of percentage of GDP than UK (2.6% compared with 1.6%)
- Germany has a larger gap between private and public in terms of dollars per head than UK ($800 compared with $600)
- Greece and Spain (totals 10.2% and 9.6%) in Graph (iii) exchange rank order places in Graph (iv) with expenditures of $3100 and $3000 per head
- The USA has a significantly higher expenditure in both percentage terms (17.6%) and spending per head ($8200) compared with any of the EU countries shown (appropriate figures quoted).

MAXIMUM FOR PART 04: 5 MARKS

| 05 | Distinguish between price elasticity of demand and income elasticity of demand, **and** analyse why, when people have medical insurance, the price elasticity of demand for medical treatment might be 'very low' while the income elasticity of demand is 'likely to be high' (**Extract E**, lines 22 to 24). *(10 marks)* |

Explanation	
For defining/distinguishing between price elasticity (responsiveness of the quantity demanded to a change in price) **(2 marks)** and income elasticity of demand (responsiveness of quantity demanded to a change in income) **(2 marks).** Formulae **(2 marks)**.	**Up to 4 marks**

Maximum 4 marks for the explanation

Analysis of the reason: Award 1 mark for each step in a logical chain of reasoning. For example:
(PED) The link between the consumer and price **(1 mark)** is broken by insurance **(1 mark)** and the purchasing decision is now taken by the insurance company **(1 mark)** or by the state **(1 mark)** or its agent (eg the GP **(1 mark)**. The patient will want life saving treatment whatever the price **(1 mark)**. However some people are not members of insurance schemes **(1 mark)** or might not qualify for state provision **(1 mark)**.   - assymetric information; unpredictability of medical need   - universal state provision replaces price rationing with the queue (or waiting list) insurance enables people to jump the queue   (YED) Higher incomes make insurance more affordable   - arguable that people on higher incomes will be more aware of treatments available   - possibility of unnecessary treatments and procedures, eg cosmetic surgery for vanity reasons   - meaning of high/low/price/income elasticity.

Up to 8 marks for the analysis	
Maximum of 6 marks for the analysis if either YED or PED is not addressed here	
Make appropriate use of diagrams, eg demand curves related to PED and YED.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

A candidate can be awarded a maximum of **6 marks** for the analysis if the explanation has not been attempted.

MAXIMUM FOR PART 05: 10 MARKS

06	'Many ideas in the UK for coping with rising health care costs are imported from other EU countries.' (**Extract F**, lines 1 and 2).
	Using the data and your economic knowledge, assess whether the UK Government should encourage greater use of market forces in the provision of health care. *(25 marks)*

In this part of the question, candidates 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 market forces - distinction between insurance-based and tax-base systems - importance of the NHS 'free at the point of use' principle.
Developing the response to the question (Application)	- use of theory (monopoly, competition, efficiency) - discussion based on information from the data related to eg - practice in France - practice in Germany - practice in Spain - coordination across the EU (The EHIC) - US views of the 'European Model' - charging - internal markets - public-private partnerships.
Developing the response to the question (Analysis)	- the nature of health services - degree of monopoly; contestable markets - imperfect/asymmetric information - externalities

	• arguments for markets, eg
	    ○ rationing/signalling
	    ○ choice
	    ○ de-centralisation
	    ○ opportunity costs
	    ○ efficiency.
	
	• arguments against, eg
	    ○ market failure, externalities
	    ○ merit good
	    ○ income distribution
	    ○ imperfect information
	    ○ needs and wants
	    ○ economies of scale.

Evaluation	• efficacy of privatisation • critique of idea of increased choice for patients/competition between providers • bureaucracy of health reforms, eg doctors having to spend time commissioning services • comments on alternative arrangements, eg the German split between public, private, not-for-profit • possibility of 'cherry picking' by the private sector • NHS having to underwrite the private sector's errors, eg recent cases of implants • possibility that insurance leads to unnecessary procedures • economies/diseconomies of scale in the NHS • outcomes and results of PPPs • does the 'ownership' of assets and resources matter more than outcomes? • market failure versus government failure • possibility that innovation in health care comes from government funded investment rather than private sector investment. *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 candidates to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 06: 25 MARKS

SECTION B

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

07	Explain why the average and marginal revenue curves of a perfectly competitive firm are horizontal, while those of a monopoly slope downwards. *(15 marks)*

For relevant definitions, eg average revenue, marginal revenue, perfect competition (eg large number of buyers and sellers), monopoly (single/dominant firm).	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explanation of the shape of average and marginal revenue curves under perfect competition (up to 10 marks) and monopoly (up to 10 marks). Award 1 mark for each step in a logical chain of reasoning.

For example:

- Perfect competition: the firm is small compared to the industry **(1 mark)** with no entry/exit barriers (**1 mark**) and is therefore a price taker **(1 mark)** it can clear its production lines if it sells at the current market price **(1 mark)**. Since it can clear production lines at the current market price it would be irrational (assuming profit maximisation) to sell below that price **(1 mark)**. If the seller tries to sell above the market price, demand will disappear (or price elasticity of demand is infinity) **(1 mark)**, because of perfect knowledge **(1 mark)** and homogeneous products (or products being perfect substitutes) **(1 mark)**. While the market demand curve is downward sloping **(1 mark)** the seller-perceived demand curve (demand curve for the output of the firm) is horizontal **(1 mark)** and therefore AR = MR **(1 mark)**.

- Monopoly: the firm is the industry and the firm has some control over price; the downward sloping market demand curve is the firm's average revenue line. Because the firm reduces price to increase quantity demanded or increases price to reduce quantity demanded MR also slopes downwards and MR is less than AR at each level of quantity.

- Geometrical relationships.

Use of diagrams to support the explanation, eg AR and MR for perfect competition and monopoly.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.**
	A complex diagram, eg showing perfect competition and monopoly together, can be awarded up to 4 marks

MAXIMUM OF 10 MARKS for the answer if only average or marginal revenue is addressed.

MAXIMUM FOR PART 07: 15 MARKS

08	'Most people would say that the ending of the BT telephone monopoly, and competition in the telecommunications market, have been beneficial. However, Britain's railways show why some monopolies should not be replaced by a number of competing firms.'
	Evaluate the view that consumers are always better off and producers are always worse off if monopolies are broken up to encourage as much competition as possible. *(25 marks)*

In this part of the question, candidates 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	• definitions of monopoly, competition. Examples.
Developing the response to the question **Application/ Analysis**	**Application** • candidates might use some pre-existing knowledge of telecommunications and/or the UK railway system. They might mention Network Rail, the train operating companies (TOCs) and the rolling stock companies (Roscos) • equally, they might have a general appreciation that some organisations require central direction and coordination, and benefit from having a 'general' at the apex of a decision making pyramid. They can argue that railways are in that category, due to the need for coordination in terms of ticketing, timetabling. Long term investment, etc • the question is worded so that candidates can achieve full marks without reference to telecoms or railways, but can cite other examples.

	Analysis
	• basic concepts, producer surplus, consumer surplus
	• basic idea that monopolists reduce output to push up price consumer surplus becomes producer surplus
	• there is also a deadweight loss

	• welfare transfers and welfare losses between producers and consumers when monopolies are broken up
	    o without consideration of scale economies
	    o with consideration of scale economies

	• effects of wider considerations, eg technological change employment, international competition
	• natural monopoly
	• efficiency concepts: productive, allocative.
Evaluation	• consideration of the word 'always' contained in the question • question of whether breaking up a monopoly leads to 'perfect' competition, or merely replaces a monopoly with an oligopoly • public versus private sector • the role of government, regulators • occasions where monopoly is arguably in the consumer interest, eg when copyrights, designs, patents, grant a limited monopoly in order to encourage innovators to share their ideas • occasions when patents etc are used to restrict competition and work against the consumer interest, eg when biotech companies attempt to 'patent' genetic information or types of seed • efficiency econs of scale, natural monopoly • market failure/resource allocation. *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 4 AND 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 08: 25 MARKS

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

09	In January 2012, a BBC consumer programme reported that British nationals living in Florida were paying £3000 for a return flight to London, while the same airline was charging British tourists flying from London £300 for a return flight to Florida.
	Explain the market conditions that enable firms to charge different customers different prices for a product. *(15 marks)*

For relevant definitions, eg price discrimination, market conditions, monopoly Reward a definition of price discrimination as follows: "different prices to different customers" = 2 marks **and** **either** "for same product" = 2 marks **or** "without cost differences" = 2 marks **Overall max 4 marks**	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explanation of conditions for price discrimination. Award 1 mark for each link in a logical chain of reasoning.

- Some extent of **monopoly power (1 mark)** or other market imperfections **(1 mark)** such as barriers to entry **(1 mark)** or a lack of consumer information **(1 mark)** or a break in the chain of substitutes **(1 mark)** so that firms are not price-takers **(1 mark)** instead they can set prices **(1 mark)** and/or operate opaque or complex pricing **(1 mark)**.

- Consumers with identifiable **characteristics**, such as age, location, club membership, separable into different markets with no arbitrage/transfer/seepage between markets; costs of separating markets and/or keeping them separate must not exceed the potential gains to the producer.

- Different price **elasticities** of demand; possible reasons for these differences.

- Different **degrees** of price discrimination.
  - First: each individual pays their maximum price
  - Second: price varies with quantity demanded
  - Third: consumers are segmented in to groups

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.** **A complex diagram can receive 4 marks.**

                                            MAXIMUM FOR PART 09: 15 MARKS

10	Assess whether price discrimination is always undesirable.	*(25 marks)*

In this part of the question, candidates 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	• further discussion of the meaning of price discrimination eg reference to the importance of costs.

Developing the response to the question
 	
 Application/ Analysis
	Application
	 • further examples of p.d. for instance
	  o adult and child fares
	 • examples which are not p.d, for instance
	  o first class and second class train fares (cost differences, not quite the same product)
	 • price discrimination and revenue maximisation or 'yield management' (this phrase is not in the specification)
	 • business models using price discrimination to manage their revenues, eg the low-cost airlines, budget hotels.
	
	 Analysis
	 • reasons for p.d, eg
	  o to increase profits
	  o to turn a loss-making product into a profitable one
	  o to cross subsidise, so that a good or service is provided which would otherwise be unprofitable
	  o spread fixed costs
	  o gain economies of scale.
	
	 • effects of p.d, eg
	  o loss of consumer surplus
	  o consumer surplus becomes producer surplus.

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advantages to the consumer, eg

  can make some products more affordable (eg budget airlines
  can provide a good or service where none was available before p.d.

disadvantages, eg

  consumers forced to pay the maximum they are willing to pay; loss of real income, possible elimination of consumer surplus.

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Evaluation	- discussion of advantages versus disadvantages - who gains/who loses - instances where price discrimination is linked to social discrimination (different groups in society discriminated against through higher prices) - the link with monopoly - question of possible government intervention - short run versus long run - use of word 'always.' *Examiners should note that, for some of the weaker or average candidates, 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 4 AND 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 10: 25 MARKS

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

| 11 | 'Although the wage differential has increased between top executives and other employees, the government cannot tell people what they should be paid. However, it should act where there has been market failure, because labour markets are not perfect.'

Explain **three** reasons why labour markets may be imperfectly competitive.
(15 marks) |

For relevant definitions eg differentials, market failure, labour market.	**Up to 2 marks per point defined or explained to a maximum of 4 marks**
For explanation of reasons why a labour market may be imperfect (or may not be a "perfect" market) **For example**:	
• **Labour is not homogeneous (1 mark)** people have different abilities **(1 mark)** and qualifications **(1 mark)** there are different attitudes to work (1) some people are hard-working, others lazy **(1 mark)** some are more skilled **(1 mark)** eg at using technology and therefore more productive than others **(1 mark)** • **Collective bargaining** as opposed to individual bargaining, membership of trade unions, professional associations; monopolistic supply of labour; monopsonistic demand for labour; collusion among employers • **Role of government;** employment law, wage legislation • **Mobility/immobility of labour**; geographical, occupational; imperfect information.	**Award 1 mark for each link in a logical chain of reasoning, up to 7 marks per distinct reason**
Use of diagrams to help support explanations, eg supply of and demand for labour.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.** **A complex diagram, eg, comparing a monopsonistic market with a perfect one, can receive 4 marks.**

Notes
- If any two reasons offered are not actually distinct, mark them together with a max, of **7 marks.**
- If three distinct reasons are not actually presented, cap the whole question at **10** out of **15 marks.**
- If more than three distinct reasons are presented, reward the best three.

MAXIMUM FOR PART 11: 15 MARKS

12	Assess the view that wide wage differentials are good for the economy and that governments should therefore play no part in deciding wage rates. *(25 marks)*

In this part of the question, candidates 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 'differentials' • measurement of inequality • types of intervention (eg min/ max wage).

Developing the response to the question
 	
 Application/Analysis
	Application
	 • candidate knowledge of, eg
	 • inequality in the UK
	 • recent issues, eg 'bonus culture'
	 • the argument that inequality is economically dysfunctional.
	
	 Analysis
	 • arguments in favour of differentials, eg
	     o incentive arguments
	     o trickle-down
	     o encouraging enterprise
	     o encouraging work rather than welfare
	     o promoting efficient resource allocation
	 • arguments for government action
	       o market failure
	       o counter-arguments to trickle-down
	       o general disadvantages of inequality (micro/macro).

	• examples of government action affecting equality, eg
	    ◦ income/wealth taxes
	    ◦ encouraging/discouraging a bonus culture
	    ◦ minimum/ maximum wages/ratios between top and medium pay
	       ▪ effects of government action, eg on patterns of spending (synoptic macro point: mpc and mps of low/high income groups)
	• the role of the government as an employer.

Evaluation	• overall assessment of whether inequality is 'good' for the economy • possible economic disfunctions of inequality (eg negative externalities, social costs, inflationary pressures, recession) • costs versus benefits of government action/inaction • equality of opportunity versus equality of outcome • equity, efficiency • market failure versus government failure • long run versus short run. *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 4 AND 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 12: 25 MARKS