



General Certificate of Education

Economics 5141

ECN3 Markets at Work

Mark Scheme

2009 examination - January series

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 Subsidiary Economics**January 2009****ECN3****Mark Scheme****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 for the data response questions:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) to (d) of the data response questions 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. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for marking part (e) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 5. 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.

APPLYING THE 'LEVELS' MARK SCHEME**Levels of Response Mark Band Descriptors**

In part (e) of the data response questions approximately half the marks are available to award to candidates who demonstrate that they can 'evaluate economic arguments and evidence, and make informed judgements'. It is not necessary that the candidate identifies a wide range of issues. As indicated below, the Quality of Written Communication used should be taken into account when awarding the marks.

Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.

0 to 3 marks*Mid-Point: 2 marks***Level 2**

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused. There may be some attempt to present alternative points of view but any attempt at evaluation is superficial. The answer is likely to be poorly organised and is unlikely to have a clear structure. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

4 to 6 marks*Mid-Point: 5 marks***Level 3**

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated. There will be some attempt to present alternative views and to evaluate the issues, arguments and/or data. 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 evidence of the correct use of relevant economic terminology.

7 to 10 marks*Mid-Point: 9 marks***Level 4**

Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology.

11 to 13 marks*Mid-Point: 12 marks***Level 5**

Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. 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. Appropriate use is made of relevant economic terminology.

14 to 15 marks*Mid-Point: 15 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.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing part (e) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

- (i) use of appropriate form and style of writing to organise relevant information clearly and coherently;
- (ii) use of specialist vocabulary, where appropriate;
- (iii) legibility of handwriting;
- (iv) accuracy of spelling, punctuation and grammar.

OPTION 1: THE HOUSING MARKET**Total for this question: 40 marks**

(a) Define the term 'economic growth' (Extract B , line 6).	<i>(3 marks)</i>
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For an acceptable definition, e.g. a an increase in the (real) gross domestic product of a country, measured over a time period; or an increase in productive capacity **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

Increase **1 mark**

GDP/AS/ AD **1 mark**

Time period **1 mark**

Any other relevant aspect, e.g. PPF; actual/ potential output/ productive capacity **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

(b) Briefly explain one reason why 'the current high rate of economic growth might lead the Bank of England to raise interest rates again' (Extract B , lines 6-7).	<i>(4 marks)</i>
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For stating and elaborating on a plausible reason, for example:

Planned growth above productive capacity **2 marks**

Higher growth leads to inflationary pressure **2 marks**

Higher interest rates reduce AD **2 marks**

Lower AD reduces inflationary pressure **2 marks**

MAXIMUM FOR PART (b) 4 MARKS

(c) In **Extracts A** and **B**, two different newspapers, published on the same day, appear to have conflicting headlines.

Explain how the regional and national trends described in the articles can be used to support reports of both 'falling' and 'soaring' house prices. *(8 marks)*

Possible approaches:

Level 1

A rudimentary attempt at explaining the issue. For example by suggesting that newspapers have been selective in their use of facts, or misunderstood the facts. Little understanding of the possible economic reasons for the 'paradox' is demonstrated. **1-3 marks**
Mid point 2

Level 2

There is an explanation which includes a plausible explanation of the paradox, e.g. due to the regionalised nature of the housing market, with one newspaper putting greater weight on the regions where prices are rising. **4-6 marks**
Mid point 5

Level 3

A clear, well organised explanation, with strong evidence that the paradox is understood in economic terms, and the data is used as an integral part of the discussion. **7-8 marks**
Mid point 8

MAXIMUM FOR PART (c) 8 MARKS

- (d) Using a supply and demand diagram to help you, analyse the likely effects on the housing market of an increase in Bank of England base interest rates (**Extract B**, lines 3-4). As part of your answer, explain how the changes in the market will be affected by the price elasticity of supply of housing. *(10 marks)*

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

Anticipated approach:

Higher interest rates will shift the demand curve for houses to the left; price falls, quantity supplied contracts.

Diagram break-down:

Axes labelled (1)

S & D curves correct (1)

Shift in appropriate direction (1)

Change in price clearly shown and labelled (1)

Change in quantity clearly shown and labelled (1)

For a relevant diagram (example below)

up to 4 marks max.

Anticipated approach to written response:

For describing the diagram: reasons for and direction of shift; change in price and quantity

Up to 3 marks

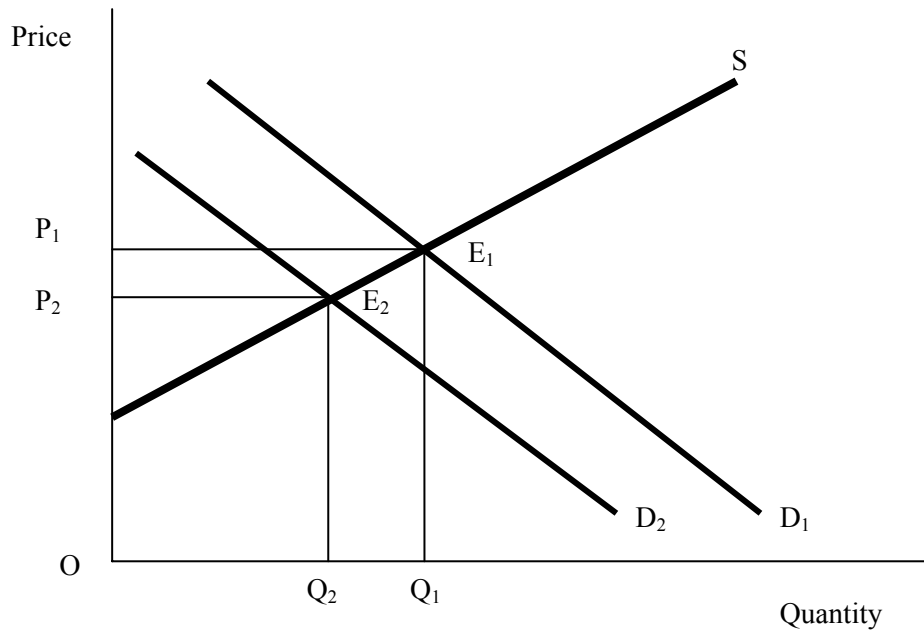
Price elasticity of supply will affect the outcome, e.g increasing the effect on price if PES is low. Factors affecting PES could be discussed, e.g. the time period under consideration.

Up to 4 marks

If income or cross demand elasticity is discussed, then the size of the shift in demand might be discussed and should be credited as advanced analysis (for example, the increased use of fixed-rate mortgages would affect the cross-elasticity of demand between mortgages and houses).

For written explanation

up to 7 marks max.



The market for houses

[Anticipated diagram for 1(d)]

MAXIMUM FOR PART (d) 10 MARKS

(e) 'House prices are affected much more by supply than demand, and at the moment there are not enough new houses being built' (**Extract B**, lines 13-14).

Discuss whether it is better for the government to encourage an increase in the supply of houses **or** to reduce the demand for houses. *(15 marks)*

Relevant points that could be raised include:

- Reasons for government intervention on supply side
 - Housing a merit good
 - Positive externalities
 - To reduce upward pressure on house prices
- Reasons against
 - Cost to taxpayer
 - Opportunity costs of expenditure
 - Government failure arguments
- Reasons for government intervention on the demand side
 - Market failure
 - Key workers being priced out of cities
 - To reduce upward pressure on house prices
- Reasons against
 - Markets know best
 - Effects on mobility of labour
 - Government failure arguments
- Evaluation, e.g consideration of the validity of the idea that
 - Prices affected more by supply than demand
 - Not enough new houses are being built
 - Is this true of the whole of the UK?
 - Would more new houses affect prices in general? (Flow small in relation to the existing stock)
- As always, give credit for sensible use of the data

Maximum of 7 marks if there is no attempt to evaluate.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS

OPTION 2: THE ENVIRONMENT**Total for this question: 40 marks**

(a) Define the term 'economic growth' (Extract E , line 15).	<i>(3 marks)</i>
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For an acceptable definition, eg an increase in the (real) gross domestic product of a country, measured over a time period; or an increase in productive capacity **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

Increase **1 mark**

GDP/AS/AD **1 mark**

Time period **1 mark**

Any other relevant aspect, eg PPF; actual/potential output/productive capacity **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

(b) Briefly explain one reason why floods might be expected to increase social costs.	<i>(4 marks)</i>
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A statement to the effect that social costs = private costs + external costs **2 marks**

A statement that private costs are increased by flooding **1 mark**

An example, such as a householder having to pay for a clean-up **1 mark**

A statement that external costs (or negative externalities) are created by flooding **1 mark**

These occur when the costs are not confined to the first economic agent to suffer from flooding (this exact terminology need not be used) **1 mark**

An example, such as costs to insurance companies or taxpayers **1 mark**

MAXIMUM FOR PART (b) 4 MARKS

(c) Explain why it is possible for some economists to predict that floods will reduce economic growth while others may argue that floods can increase economic growth (**Extract E**).
(8 marks)

Possible approaches:

Level 1

A rudimentary attempt at explaining the issue. For example by a basic statement to the effect that economic predictions are difficult. Little understanding of the possible economic reasons for the 'paradox' is demonstrated.

1-3 marks
Mid point 2

Level 2

There is an explanation which includes a plausible explanation of the paradox, e.g. a disaster can reduce economic activity, while rescue services and reconstruction increase economic activity; in the immediate time period, there might be difficulty of assessing whether 'benefits' will be outweighed by costs,.

4-6 marks
Mid point 5

Level 3

A clear, well organised explanation, with strong evidence that the paradox is understood in economic terms, and the data is used as an integral part of the discussion, e.g. an amplification of the point made about the relative size of the economy, which means that any downturn caused by floods is easily compensated by normal rates of growth.

7-8 marks
Mid point 8

MAXIMUM FOR PART (c) 8 MARKS

(d) Using a supply and demand diagram to help you, analyse the likely effects on the market for breakfast cereals (**Extract D**, lines 1-2) following widespread floods. As part of your answer, explain how the changes in the market will be affected by the price elasticity of demand for breakfast cereals. (10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

Anticipated approach:

The floods disrupt the supply of wheat (as mentioned in the data), the supply curve shifts left, prices rise, quantity demanded contracts.

Diagram break-down:

Axes labelled (1)

S & D curves correct (1)

Shift in appropriate direction (1)

Change in price clearly shown and labelled (1)

Change in quantity clearly shown and labelled (1)

For a relevant diagram (example below)

up to 4 marks max

Anticipated approach to written response:

For describing the diagram: reasons for and direction of shift; change in price and quantity

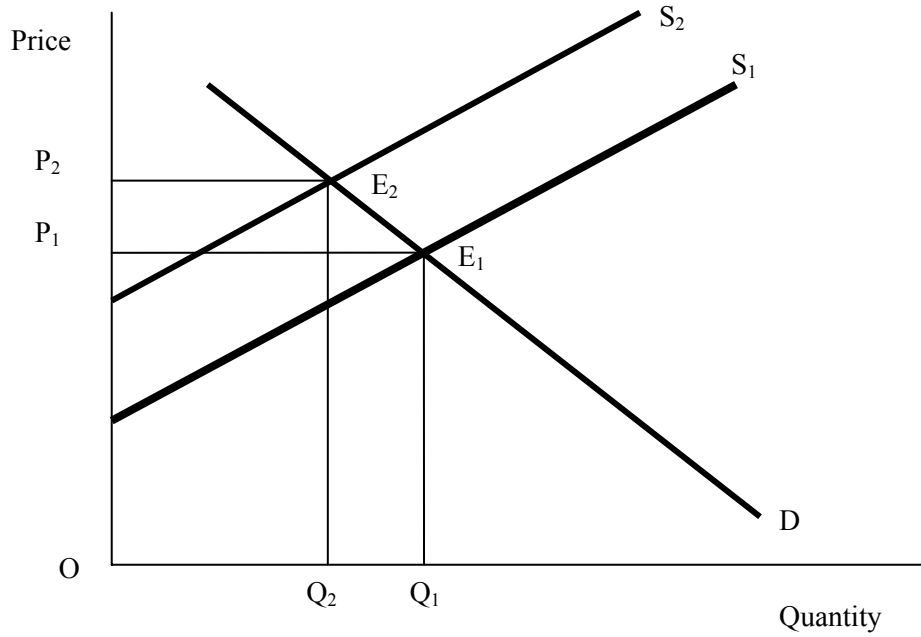
Up to 3 marks

Price elasticity of demand will affect the outcome, e.g. the greater the elasticity, the less the effect on price. Factors affecting PED could be discussed, e.g. the availability of substitutes. The effect also depends on the scale of the problem in relation to the total size of the industry, the availability of imports, etc.

Up to 4 marks

For written explanation

up to 7 marks max.



The market for breakfast cereal

[Anticipated diagram for 2(d)]

MAXIMUM FOR PART (d) 10 MARKS

(e) 'The floods of 2007 may eventually be regarded as a wake-up call to the warming climate's rapidly approaching effects' (**Extract C**, lines 12-13).

Discuss whether it is better for the government to spend money on flood defences **or** on measures to reduce climate change, a major cause of flooding. *(15 marks)*

Relevant points that could be raised include:

- Discussion
 - Flood defences might be necessary due to
 - Private sector decisions (eg on location of industry)
 - Government decisions (eg housing policy on floodplains)
 - Flood defences are a public good
 - Problems involved with climate change policies, eg:
 - Government failure
 - Resistance to environmental taxes
 - Alleged trade-off with economic growth
- Spending money on flood defences occurs after the event
 - But is more time constrained, and
 - Results are more visible, more quickly
- Spending on policies for climate change are
 - Less visible
 - More long term
- Evaluation
 - Role of governments versus markets
 - Might be possible to spend a little now to save more in the future, but
 - Possibility of short-termism
 - Is global warming really a major cause of flooding?
 - Flood defences can make flooding better in certain areas but worse somewhere else
- As always, give credit for sensible use of the data

Maximum of 7 marks if there is no attempt to evaluate.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS

OPTION 3: THE ECONOMICS OF SPORT AND LEISURE**Total for this question: 40 marks**

(a) Define the term 'economic growth' (Extract F , line 3).	<i>(3 marks)</i>
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For an acceptable definition, eg an increase in the (real) gross domestic product of a country, measured over a time period; or an increase in productive capacity **3 marks**

If the definition is incomplete, marks may be broken down, for example as follows:

Increase **1 mark**

GDP/AS/AD **1 mark**

Time period **1 mark**

Any other relevant aspect, eg PPF; actual/potential output/productive capacity **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

(b) Briefly explain one reason why economic growth in India might be expected to increase tourism in London.	<i>(4 marks)</i>
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For stating and elaborating on a plausible reason, for example:

Economic growth leads to higher incomes in India **2 marks**

Higher incomes lead to higher demand for services, including tourism (income elasticity) **2 marks**

Some of this demand will increase tourism in London, partly due to pre-existing links between UK and India **2 marks**

MAXIMUM FOR PART (b) 4 MARKS

(c) **Extract F** claims that there is a close link between investment from overseas into the City of London and tourist visits to London.

Explain why this claim might be true and why, at present, there is only one country (the USA) that appears in both of the tables shown in **Extract F**. *(8 marks)*

Possible approaches:

Level 1

A rudimentary attempt at explaining the issue. For example by a basic statement to the effect that investors in London will want to visit the city, and that the two tables show different things, or that it is 'early days' yet, or that each table only shows 6 countries. Little understanding of the possible economic reasons for the 'paradox' is demonstrated.

1-3 marks
Mid point 2

Level 2

There is an explanation which includes a more sophisticated suggestion of the linkage, e.g. due to linkages between business investment, closer economic and cultural links, and tourism; and a plausible explanation of the paradox, eg America is a rich country that can afford tourism, and the tables are dominated by ordinary tourists rather than tourists with City of London links

4-6 marks
Mid point 5

Level 3

A clear, well organised explanation, with strong evidence that the paradox is understood in economic terms, the data is used as an integral part of the discussion, and there is an appreciation that the tables show a snapshot of a dynamic situation, so that there might be more countries in both tables in future.

7-8 marks
Mid point 8

MAXIMUM FOR PART (c) 8 MARKS

(d) Using a supply and demand diagram to help you, analyse the likely effects on the market for hotel accommodation following an increase in the number of visitors to London. As part of your answer, explain how the changes in the market will be affected by the price elasticity of supply for hotel accommodation. (10 marks)

With diagram questions it is especially necessary to be flexible and to reward unanticipated answers which are economically valid.

Anticipated approach:

Higher visitor numbers will shift the demand curve for hotel accommodation to the right; price rises, quantity supplied extends.

Diagram break-down:

Axes labelled (1)
 S & D curves correct (1)
 Shift in appropriate direction (1)
 Change in price clearly shown and labelled (1)
 Change in quantity clearly shown and labelled (1)

For a relevant diagram (example below)

up to 4 marks max

Anticipated approach to written response:

For describing the diagram: reasons for and direction of shift; change in price and quantity

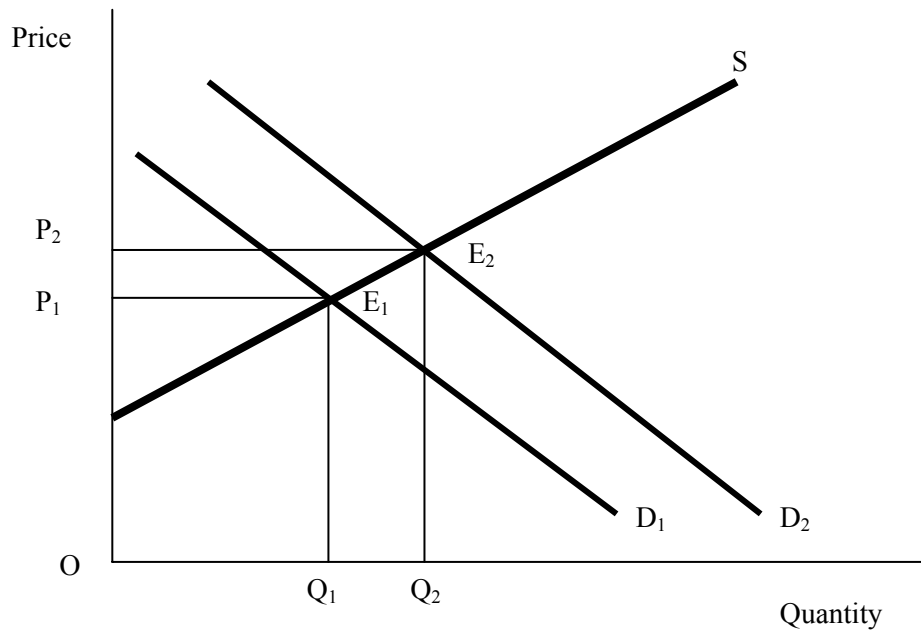
Up to 3 marks

Price elasticity of supply will affect the outcome, eg increasing the effect on price if PES is low. Factors affecting PES could be discussed, eg the time period under consideration.

Up to 4 marks

For written explanation

up to 7 marks max



The market for hotel accommodation

[Anticipated diagram for 3(d)]

MAXIMUM FOR PART (d) 10 MARKS

(e) 'Tourism in London is taking off....The entire sector is worth £15 billion - almost a tenth of London's economy' (**Extract F**, line 1 and lines 5-6).

Discuss whether the government should spend money on projects aimed at boosting tourism **or** on other priorities such as better transport. *(15 marks)*

Relevant points that could be raised include:

- Discussion
 - Tourism is a growth industry
 - Spending money on tourism
 - Has money costs for the taxpayer
 - And opportunity costs
 - But economic returns
 - Such as employment, growth, incomes
 - Positive externalities
 - Negative externalities
 - Costs versus benefits
 - Distributional impact
 - Micro and macro implications
- Other priorities
 - Transport is of direct benefit to Londoners
 - As well as having spin-offs for tourists
- Evaluation
 - How is 'tourism' defined and
 - How is the size of the 'tourist sector' measured?
 - (eg is a visit to a restaurant a tourist activity if the customer is from London/elsewhere in UK/overseas?)
 - Benefits from tourism
 - Employment, growth
 - Costs of tourism
 - Pressure on infrastructure
 - Prices
 - Role of governments versus markets
- As always, give credit for sensible use of the data

Maximum of 7 marks if there is no attempt to evaluate.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (e) 15 MARKS