



General Certificate of Education

Economics 5141

ECN3 Markets at Work

Mark Scheme

2006 examination - June 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

Advanced Subsidiary Economics

June 2006

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 4 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 3. 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 4. 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

1

1 (a) Define the term ‘public sector’ (**Extract A**, line 3). *(3 marks)*

For an acceptable definition (eg the part of the economy concerned with the transactions or activities of the government) **3 marks**

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

Notion of government **1 mark**

Notion of sector (part of the economy) **1 mark**

Notion of transactions or activities of government (eg revenue, expenditure, ownership, or employment) **1 mark**

Contrast with private sector **1 mark**

Relevant example **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

1 (b) ‘...the number of single-person households will rise by a third in the next 20 years...’ (**Extract A**, lines 23-24).

Explain whether this is a positive or normative statement. *(4 marks)*

It’s a positive statement **1 mark**

It is a statement based on fact/ an observation of objective reality **1 mark**

It can, in principle, be verified or disproved **1 mark**

..using scientific methods / methods which most reasonable people can agree are valid **1 mark**

Any other sensible comment **1 mark**

ALTERNATIVE

It’s a positive statement **1 mark**

Because it’s not a value judgement **1 mark**

It’s a fact rather than an opinion **1 mark**

It’s objective as opposed to subjective **1 mark**

Any other sensible comment **1 mark**

No marks for saying the statement is normative but award **1 mark** for saying what a normative statement is.

MAXIMUM FOR PART (b) 4 MARKS

1 (c) Using the data and the concept of income elasticity of demand, explain how changes in income levels can affect the London housing market. (8 marks)

For a definition/ description /formula of income elasticity of demand

2 marks

Examples of points for which examiners can give credit:

- It can have an effect, because
 - Mortgages are related to income
 - Income affects demand and hence price
 - There is a **rough** relationship in Extract B between incomes and house prices
 - Houses are a ‘normal good’
- However
 - Residents in one borough might work in another, invalidating any relationship in Extract B
 - Other influences, including other elasticities, distance from central area etc, all have effects.
 - Barking and Dagenham appears to be an anomaly
 - Kensington and Chelsea also appears to be an anomaly
- A sensible direct or indirect reference to income in the data

Up to 4 marks per point made (1) and elaborated (3)

For 6 marks or more, there must be some reference to both income elasticity and the data. Otherwise the maximum is 5 marks.

MAXIMUM FOR PART (c) 8 MARKS

1 (d) Using a supply and demand diagram to help you, analyse the possible effects on the level of household rents in London of the higher house prices shown in the data.

(10 marks)

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

Anticipated approach:

Rents can be regarded as a ‘price’. Mortgages and rents are substitutes. Other things being equal, the demand for rented accommodation shifts to the right, rents rise.

Diagram break-down:

- Axes labelled (1)
- S & D curves correct (1)
- Shift in appropriate direction (1)
- Change in ‘price’ (rent) clearly shown and labelled (1)

For a relevant diagram **up to 4 marks**

Anticipated approach to written response:

For describing the diagram: reasons for and direction of shift; change in price and quantity **up to 3 marks**

For some further analysis, eg consideration of the substitutability (cross elasticity) of mortgages and rents, what if other things are not equal, consideration of time scale, or any other interesting discussion of the case, beyond basic description of the diagram. **up to 3 marks per issue up to 6**

For written explanation **up to 8 marks**

MAXIMUM FOR PART (d) 10 MARKS

- 1 (e) Discuss why the government is likely to be concerned about the difficulties for some house-buyers mentioned in the data, and evaluate policies that could be adopted to deal with these difficulties. (15 marks)

Relevant points that could be raised include:

- Identification of issues explicitly or implicitly raised, eg
 - plight of key workers
 - difficulties for ‘all works of life’
 - special problems of young buyers
 - equality/distribution issues
 - debt
 - mismatch between demand and supply for
 - amount of housing
 - type of housing (eg for single-person households)
- Further issues, eg the knock-on effects on the rest of the housing market (if first-timers are excluded from the lower rungs of the housing ladder, it can freeze up movements on the higher rungs).
- Policy demands arising from above, eg linkages between double-breadwinner families and need for state childcare provision
- Externalities/ market failures arising from any of above
- Macro economic failures from microeconomic dysfunction (eg lack of labour mobility)
- Consideration of possible policies, eg:
 - Price controls
 - Subsidies to landlords
 - Public sector housing
 - Subsidising mortgages
 - Joint tenure schemes
 - Relaxing planning regs
- Consideration of markets versus planning
- Decentralisation out of London

Evaluation is likely to come from a consideration of market forces/ market failure versus government action/ government failure.

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

USE THE LEVELS MARK SCHEME ON PAGES 3 AND 4

MAXIMUM FOR PART (e) 15 MARKS

TOTAL FOR THIS QUESTION: 40 MARKS

OPTION 2: THE ENVIRONMENT

Total for this question: 40 marks

2

2 (a) Define the term ‘sustainable sources’ (**Extract D**, line 20). *(3 marks)*

For an acceptable general definition, eg sources which the present generation can use without prejudicing the quality of life of future generations **3 marks**

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

A notion of inter-generational links or long-run effects **1 mark**

A notion of renewable/ replaceable resources **1 mark**

A mention of recycling **1 mark**

An example of a sustainable source **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

2 (b) ‘...global average temperature has already risen by 0.8 degrees since 1750...’ (**Extract D**, lines 16-17).

Explain whether this is a positive or normative statement. *(4 marks)*

It’s a positive statement **1 mark**

It is a statement based on fact/ an observation of objective reality **1 mark**

It can, in principle, be verified or disproved **1 mark**

..using scientific methods / methods which most reasonable people can agree are valid **1 mark**

Any other sensible comment **1 mark**

ALTERNATIVE

It’s a positive statement **1 mark**

Because it’s not a value judgement **1 mark**

It’s a fact rather than opinion **1 mark**

It’s objective as opposed to subjective **1 mark**

Any other sensible comment **1 mark**

No marks for saying the statement is normative but award **1 mark** for saying what a normative statement is.

MAXIMUM FOR PART (b) 4 MARKS

2 (c) Using the data and the concept of income elasticity of demand, explain how changes in income levels might affect global warming. (8 marks)

For a definition/description/formula of income elasticity of demand

2 marks

Examples of points for which examiners can give credit:

- There is an effect because
 - Growth has environmental externalities
 - Growth is related to income
- However
 - Not all products demanded have spin-off effects on global warming
 - Richer countries might be better at managing and reducing emissions than poorer ones, eg through technology
- A sensible direct or indirect reference to income in the data

Up to 4 marks per point made (1) and elaborated (3)

For 6 marks or more, there must be some reference to both income elasticity and the data. Otherwise the maximum is 5 marks.

MAX. FOR PART (c): 8 MARKS

2 (d) Using a supply and demand diagram to help you, analyse the possible effects of global warming on the price of food. (10 marks)

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

Anticipated approach:

Global warming and its associated disasters are likely to reduce the supply of food. Other things being equal, supply shifts to the left, price rises.

Alternatively, candidates might focus on a particular foodstuff rather than on food as a whole, and might enter into the spirit of ‘benefits’ provided in Extract C, with a hypothetical example (eg Britain acquires the climate of southern Spain, becomes an orange growing area, other things being equal, supply shifts right, price falls. Even if barely plausible, this approach can earn full marks if logically consistent with its own stated assumptions).

Diagram break-down:

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

For a relevant diagram **up to 4 marks**

Anticipated approach to written response:

For describing the diagram: reasons for and direction of shift; change in price and quantity **Up to 3 marks**

For some further analysis, eg consideration of the uncertainty of global environmental predictions, what if other things are not equal, consideration of time scale, or any other interesting discussion of the case, beyond basic description of the diagram. **Up to 3 marks per issue up to 6**

For written explanation **up to 8 marks**

MAXIMUM FOR PART (d) 10 MARKS

2 (e) Discuss which would have the more harmful effects on the UK economy: global warming itself, or government policies aimed at reducing global warming. (15 marks)

Points that could be raised include:

- Possible economic effects of global warming, eg:
 - Failures in particular markets, eg agriculture
 - Market failures in general
 - Costs of disasters
 - Loss of production
 - Loss of infrastructure/ need for infrastructure investment
- Characteristics of and arguments for and against government action, eg:
 - Environmental taxes
 - Command and control measures
- Possible negative consequences of government action, eg:
 - Higher industrial costs
 - Depressed aggregate demand/ recession
 - Unemployment
- Counter arguments, eg:
 - Sustainable industries actually create employment/ income
 - Is it really a problem (eg **Extract C**)?

Evaluation is likely to come from a consideration of market forces/ market failure versus government action/ government failure.

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

USE THE LEVELS MARK SCHEME ON PAGES 3 AND 4

MAXIMUM FOR PART (e) 15 MARKS

TOTAL FOR THIS QUESTION: 40 MARKS

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

3

3 (a) Define the term ‘disposable income’ (**Extract F**, line 19). *(3 marks)*

For an acceptable definition, eg current income available after payment of income/
direct taxes **3 marks**

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

Difference between gross (1) and net (1) income **2 marks**

Reference to tax **1 mark**

A general statement to the effect that disposable income is usually less than gross
income **1 mark**

A mark for recognition that sometimes it’s more than gross income (eg for those on
welfare-to-work benefits). Mention of benefits will suffice **1 mark**

Anticipated special cases:

‘Income net of taxes’: **2 marks**

‘Gross income minus taxes and other living expenses’ : **1 mark** for ‘gross’,
1 mark for ‘tax’

‘Gross income minus living expenses such as electricity bills’ : **1 mark** for
‘gross’

‘Income minus living expenses’: **0 marks**

‘Spending power’: **1 mark**

MAXIMUM FOR PART (a) 3 MARKS

3 (b) ‘The people who buy these expensive seats are just as likely to go to the opera’
(**Extract F**, line 12).

Explain whether this is a positive or normative statement.

(4 marks)

It’s a positive statement **1 mark**

It is a statement based on fact/ an observation of objective reality **1 mark**

It can, in principle, be verified or disproved **1 mark**

..using scientific methods / methods which most reasonable people can agree are valid **1 mark**

Any other sensible comment **1 mark**

ALTERNATIVE

It’s a positive statement **1 mark**

Because it’s not a value judgement **1 mark**

It’s a fact rather than opinion **1 mark**

It’s objective as opposed to subjective **1 mark**

Any other sensible comment **1 mark**

No marks for saying the statement is normative but award **1 mark** for saying what a normative statement is.

MAXIMUM FOR PART (b) 4 MARKS

3 (c) Using the data and the concept of income elasticity of demand, explain how income levels might affect the market for football season tickets. *(8 marks)*

For a definition/ description/formula of income elasticity of demand

2 marks

Examples of points for which examiners can give credit:

- There is an effect, because
 - Watching sport is not a basic of life; it's more of a 'luxury'
 - 'Affordability' is an issue underlying the data
- However
 - There are other important influences on the market, eg habit, loyalty
- A sensible direct or indirect reference to income in the data

Up to 4 marks per point made (1) and elaborated (3)

For 6 marks or more, there must be some reference to both income elasticity and the data. Otherwise the maximum is 5 marks.

MAX. FOR PART (c): 8 MARKS

3 (d) Using a supply and demand diagram to help you, analyse the possible effects of higher football season ticket prices on the price of season tickets for watching rugby union. (10 marks)

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

Anticipated approach:

Association football (soccer) and rugby football are substitutes. Other things being equal, the demand for rugby union season tickets shifts right, price rises.

Diagram break-down:

Axes labelled (1)

S & D curves correct (1)

Shift in appropriate direction (1)

Change in price clearly shown and labelled (1)

For a relevant diagram

up to 4 marks

Anticipated approach to written response:

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

up to 3 marks

For some further analysis, eg consideration of the substitutability (cross elasticity) of soccer and rugby, what if other things are not equal, consideration of time scale, or any other interesting discussion of the case, beyond basic description of the diagram.

**up to 3 marks
per issue up to 6**

For written explanation

up to 8 marks

MAXIMUM FOR PART (d) 10 MARKS

3 (e) Discuss whether the prices for tickets for major sporting events should be purely a matter for market forces, or whether governments should intervene in the market. (15 marks)

Relevant points that could be raised include:

- Arguments for market forces
 - Spectators are buying a product no different to any other product
 - “Markets know best”: prices give an optimal allocation of resources
 - Football clubs and many other sporting organisations are private sector enterprises
 - There is a profit motive
 - Rationing, signalling, incentive functions of price

- Reasons for public sector involvement
 - There are differences between national sports and other commodities, eg:
 - Positive externalities from mass entertainment
 - Social cohesion
 - Employment/ economic activity arguments
 - Multiplier effects
 - Distributional/ equity arguments

- Counter-arguments, eg:
 - Other priorities and demands on the public purse
 - Possibility of government failure

- Types of government intervention (this is NOT required for full marks, as it is not asked for in the question; but give credit if possible methods of intervention are discussed in a relevant way, particularly if this adds to evaluation).
 - Possible examples include:
 - Maximum price controls
 - Subsidies

Evaluation is likely to come from a consideration of market forces/market failure versus government action/government failure.

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

USE THE LEVELS MARK SCHEME ON PAGES 3 AND 4

MAXIMUM FOR PART (e) 15 MARKS

TOTAL FOR THIS QUESTION: 40 MARKS