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A level

# Economics

ECON3/Unit 3

Business Economics and the Distribution of Income

Mark scheme

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2140

June 2015

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Version 1.0 Final

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Mark schemes are prepared by the Lead Assessment Writer 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 associates 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 associate understands and applies it in the same correct way. As preparation for standardisation each associate 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, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

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.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk)

June 2015

ECON3

**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.

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**

<b>A2 LEVELS OF RESPONSE</b>	<b>AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology</b>	<b>AO2 APPLICATION of theories, concepts and terminology</b>	<b>AO3 ANALYSIS of economic problems and issues</b>	<b>AO4 EVALUATION of economic arguments and evidence, making supportive judgements</b>
<b>Level 5</b> 22-25 marks (mid-point 24)  <b>Good analysis and good evaluation</b>	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
<b>Level 4</b> 17-21 marks (mid-point 19)  <b>Good analysis but limited evaluation</b>  <b>OR</b>  <b>Reasonable analysis and reasonable evaluation</b>	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
<b>Level 3</b> 10-16 marks (mid-point 13)  <b>Reasonable answer, including some correct analysis but very limited evaluation</b>	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)
<b>Level 2</b> 4-9 marks (mid-point 7)  <b>Weak with some understanding</b>	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
<b>Level 1</b> 0-3 marks (mid-point 2)  <b>Very weak</b>	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

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### 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 the changes in electricity costs and prices between 2010 and 2012.

**[5 marks]**

**Identifying two significant points of comparison. Use the following scheme for each comparison.**

For identifying a significant point of comparison ( <b>1 mark</b> ) and providing relevant and accurate supporting data ( <b>1 mark</b> ) with units, % or per cent, ( <b>1 mark</b> ). One piece of data in each case is sufficient.	<b>Up to 3 marks</b>
For a 'trawl' through the numbers or for simply providing an item of data seemingly chosen at random with no comparison made or no clear significance.	<b>0 mark</b>

**Points of comparison include**

- All prices have risen, for example Centrica by 29%, while some companies have had falling costs, eg npower costs are down 2.05%
- Scottish Power's costs have fallen by 13.32% (the largest fall), while its prices have risen by 25.9%
- SSE's prices have risen the least, at 20.0%, while its costs have had the second highest increase, at 10.15%.

Note: students are asked to compare costs and prices; they can do this for a single firm or across firms.

**MAXIMUM FOR PART 01: 5 MARKS**

**02** Explain what is meant by ‘supernormal profits’ (**Extract B**, line 21) and analyse the likely effects on an electricity company of a one-off windfall tax that would take a percentage of its supernormal profits.

**[10 marks]**

**Explanation**

For a relevant explanation of supernormal profit eg in terms of profit in excess of normal profit (**2 marks**) which is the minimum return required to keep an enterprise in its current use (**2 marks**).

**Up to 4 marks**

**Maximum of 4 marks for the explanation**

**Analysis of effects**

**Award one mark for each step in a logical chain of reasoning.**

**For Example**

- If firms are colluding closely, then the industry can be analysed as a (complex) monopoly (**1 mark**). If the business is profit maximising then  $MC = MR$  (**1 mark**); a percentage tax rate takes a proportion of total profit (**1 mark**) which is the difference between TC and TR. The rational business decision is to continue at the same level of output and price (**1 mark**) because a proportion of a maximised profit is better than a proportion of a less than maximum profit (**1 mark**). The tax therefore has no immediate or short run effect on the equilibrium position of the firm (**1 mark**), instead it acts as a revenue-raiser for the government (**1 mark**); however in the longer term the firm might react with decisions about such matters as investment or expansion (**1 mark**).
- Other considerations, eg the special circumstance of companies that, in effect, sell electricity to themselves (a form of ‘transfer pricing’) and/or have to estimate demand in advance, and have a product that cannot be stored.
- Analysis in terms of supply and demand curves might be used to illustrate the effects of a tax. While this might not be appropriate to an imperfect market, which is the context of the data, the question does not specify the type of market. Also, it could (conceivably) be argued that in a global context, energy supply might be structured monopolistically but behave competitively, eg by price taking. While this might be more credible in the case of supermarkets, we will accept an argument that the tax will shift supply to the left and further raise prices, and mark the subsequent logical chain of reasoning on its quality.

**Up to 8 marks for the analysis**

For making appropriate use of diagrams, eg profits diagram for a monopolist; S & D analysis (see notes above).

**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 02: 10 MARKS**

**03** ‘Critics of the Big Six might argue that electricity companies should not have been privatised as they can never behave or perform like supermarkets.’ (**Extract C**, lines 15–16).

Using the data and your knowledge of economics, assess the arguments for and against the UK electricity industry being brought back into public ownership.

**[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**.

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

Candidates can approach the question with a focus on the UK government or government in general. Either approach can gain full marks.

Issues and areas for discussion include

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Definitions/descriptions of, eg               <ul style="list-style-type: none"> <li>○ Privatisation</li> <li>○ Public ownership</li> <li>○ Regulation</li> <li>○ Nationalisation/re-nationalisation.</li> </ul> </li> </ul>
<b>Developing the response to the question (application)</b>	<ul style="list-style-type: none"> <li>• Comments from own economic knowledge or based on the data, eg               <ul style="list-style-type: none"> <li>○ Further comments on <b>Extract A</b>, (apparent disconnect between costs and prices)</li> <li>○ Profit margins, the structure of the privatised industry, role of small firms (<b>Extract B</b>)</li> <li>○ Labour costs (<b>Extract C</b>)</li> </ul> </li> <li>• Prompts in the question, eg dominant large scale multinationals, profit margins, blurred lines between wholesale and retail markets.</li> </ul>



<p><b>Developing the response to the question (analysis)</b></p>	<ul style="list-style-type: none"> <li>• Arguments for re-nationalisation, eg <ul style="list-style-type: none"> <li>○ Complicated structure of the industry</li> <li>○ Low price elasticities of demand (few alternatives for the consumer)</li> <li>○ Asymmetric information</li> <li>○ Natural monopoly</li> <li>○ Economies of scale</li> <li>○ Profits for infrastructure instead of shareholder value</li> <li>○ 'Commanding heights'/national security arguments</li> <li>○ A need for regulation</li> <li>○ Arguably a greater chance of energy conservation, insulation, etc (privatised concerns may have a vested interest in selling more energy).</li> </ul> </li> <li>• Arguments against re-nationalisation eg <ul style="list-style-type: none"> <li>○ Efficiency</li> <li>○ Competition</li> <li>○ No guarantee of lower prices</li> <li>○ Encouragement of new entrants</li> <li>○ Cost implications</li> <li>○ Burden on taxpayers.</li> </ul> </li> </ul>
<p><b>Evaluation</b></p>	<ul style="list-style-type: none"> <li>• 'Rip-off Britain'; monopoly versus competition</li> <li>• Market-based policies versus government intervention</li> <li>• Market failure versus government failure</li> <li>• Price transparency versus price opaqueness (asymmetric information)</li> <li>• Role of price elasticity of demand for an essential service (special case of older customers)</li> <li>• Profit margins; validity of comparisons with supermarkets</li> <li>• Better evaluative answers will move beyond general and basic arguments for and against privatisation, and will look at the specifics of the electricity industry. Some prompts are given in the final paragraph; some or all of these could be addressed.</li> </ul> <p><i>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.</i></p>
<p><b>Also give credit for</b></p>	<ul style="list-style-type: none"> <li>• Relevant diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 03: 25 MARKS**

**MAXIMUM FOR PART 03: 25 MARKS**

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

- 04** In 2010, there were 6.91 million households in England who lived in rented accommodation.
- Using **Extract D**, calculate to the nearest half million, the total number of households in England in 2010, **and** identify **one** significant point of comparison between the different housing tenures over the period shown.

**[5 marks]****The calculation**

For the correct answer 21.5 million The 'unit' (million) <b>must</b> be shown.	<b>3 marks</b>
For the correct answer <b>without</b> a unit shown.	<b>2 marks</b>
Any other answer between 21 and 22 million (inclusive) irrespective of decimal places, <b>with</b> unit shown.	<b>2 marks</b>
Any other answer between 21 and 22 million (inclusive) irrespective of decimal places, <b>without</b> unit shown.	<b>1 mark</b>
For showing the correct method but arriving at an incorrect answer ie $6.91/32 \times 100 =$ incorrect answer	<b>1 mark</b>

**Identifying one significant point of comparison**

For identifying a significant comparison ( <b>1 mark</b> ) and providing relevant and accurate supporting data ( <b>1 mark</b> ) with 'units' (% or per cent) ( <b>1 mark</b> ). One piece of data in each case is sufficient.	<b>Up to 3 marks</b>
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	<b>0 marks</b>

**Significant points of comparisons include:**

- Houses with mortgages being repaid fall from 43% to 29% while houses owned outright rise from 27% to 34%
- Social rented falls from 20% to 17% while private rented rises from 10% to 20%
- Total owner occupied falls from 70% to 63% while total rented rises from 30% to 37%

Notes: For maximum marks the comparison should cover the whole period 2000 to 2020.

For avoidance of doubt: we are regarding owner occupied paid-for houses and houses with mortgages as two types of "tenure", so comparisons between these are acceptable.

**MAXIMUM FOR PART 04: 5 MARKS**

<b>05</b>	Explain what is meant by the term ‘externalities’ ( <b>Extract E</b> , line 12) <b>and</b> analyse how housing can create <b>both</b> positive <b>and</b> negative externalities.	<b>[10 marks]</b>
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<b>Explanation</b>  For defining/describing externality, eg an external effect of production or consumption that spills over ( <b>2 marks</b> ) into a neighbourhood or community ( <b>2 marks</b> ); they can be positive, a benefit, ( <b>2 marks</b> ), or <b>negative, a cost</b> ( <b>2 marks</b> ).	<b>Up to 4 marks</b>
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<b>Analysis of positive and negative externalities</b>	
<b>Award 1 mark for each step in a logical chain of reasoning.</b>	
<b>For example</b>	
<ul style="list-style-type: none"> <li>• Positive: good housing gives benefits to the householder (<b>1 mark</b>) in terms of quality of life (<b>1 mark</b>), but also improves the neighbourhood (<b>1 mark</b>), and so benefits people other than the householder (<b>1 mark</b>); if one person improves their house, then its market value will rise (<b>1 mark</b>); but the neighbourhood’s general prices might also increase (<b>1 mark</b>).</li> <li>• Positive: Building houses on derelict land improves a whole district</li> <li>• Negative: bad housing leads to poor health, crime, social disorder, strain on NHS</li> <li>• Negative: building in the countryside on greenfield sites reduces amenity for others.</li> <li>• Reward some reference to how government might provide good housing e.g. subsidies, social housing.</li> </ul>	
<b>Up to 8 marks for the analysis</b>	
Make appropriate use of diagrams, eg MPC, MSC, MPB, MSB	<b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks</b>

**A maximum of 8 marks for the whole question if either positive or negative externalities are not considered at all.**

**MAXIMUM FOR PART 05: 10 MARKS**

**06** 'In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth.' (**Extract F**, lines 17–20).

Should government intervene in the UK housing market, for example using subsidies, or leave the provision of housing to market forces? Using the data and your knowledge of economics, justify your answer

**[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**.

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

**Issues and areas for discussion include**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Description of 'market forces' in housing</li> <li>• Tenures</li> <li>• Subsidies</li> <li>• Intervention methods.</li> </ul>
<b>Developing the response to the question (application)</b>	<ul style="list-style-type: none"> <li>• Comments from own economic knowledge or based on the data, eg             <ul style="list-style-type: none"> <li>○ Supply and demand theory</li> <li>○ Relationship between new houses (the flow) and existing houses (the stock). The flow is small in relation to the stock; therefore house building has little immediate effect on prices.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>• Data hints that the distinction between social and private housing is muddled (<b>Extract E</b>). Students might mention the bedroom tax (as a ‘withdrawal of subsidy’) in a relevant way</li> <li>• Further discussion of <b>Extract D</b>, eg’             <ul style="list-style-type: none"> <li>○ Rise in homes owned outright, with fall in mortgages, indicates possible validity of the quote about Germany</li> <li>○ Fall in social housing, together with fall in mortgages and rise in private renting, indicates right to buy has led to a rentier class rather than a nation of individual owner occupiers.</li> </ul> </li> <li>• Tenure and types of housing, <b>Extract E</b></li> <li>• Houses and equality, <b>Extract F</b>.</li> </ul>
<b>Developing the response to the question (analysis)</b>	<ul style="list-style-type: none"> <li>• Basic reasons why governments of developed countries are involved in provision of housing.</li> <li>• Arguments for intervention, eg             <ul style="list-style-type: none"> <li>○ market failure</li> <li>○ externalities</li> <li>○ need for price stabilisation</li> <li>○ imperfect information</li> <li>○ mobility of labour</li> <li>○ income and wealth distribution.</li> </ul> </li> <li>• Arguments against, eg             <ul style="list-style-type: none"> <li>○ rationing/signalling</li> <li>○ consumer choice</li> <li>○ opportunity costs (pressure on government budgets)</li> <li>○ efficiency</li> <li>○ problems with government failure, eg poor town and country planning.</li> </ul> </li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• Market failure versus government failure</li> <li>• Consequences of government involvement (eg costs to the taxpayer) versus consequences of non–involvement (eg costs to the consumer and to society)</li> <li>• Unintended consequences (eg Help to Buy being used by private landlords rather than first time buyers)</li> <li>• Discussion of the clear distinction between the flow of newly built houses and the stock of existing houses</li> <li>• Alternatives to house building/‘predict and provide’, the argument that supply of houses creates its own demand; alternatives (eg town centre living)</li> <li>• Critical assessment of the movement from council houses towards private renting, and from directly subsidised rents to the use of housing benefits.</li> </ul> <p><i>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.</i></p>

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<b>Also give credit for</b>	<ul style="list-style-type: none"><li>• Diagrams</li><li>• An overall judgement on the issues raised.</li></ul>
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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** 'The internet has benefited small firms and has helped to make some markets more competitive'. Explain why this might be the case.

**[15 marks]**

<p><b>For relevant definitions</b>, eg small firm, competitive market, perfect competition (take a list of 'features' of perfect competition as a definition/ explanation).</p>	<p><b>Up to 2 marks per point defined or explained to a maximum of 4 marks</b></p>
<p><b>For explanation – award 1 mark for each link in a logical chain of reasoning to a maximum of 15 marks.</b></p>	
<p><b>Examples include</b></p> <ul style="list-style-type: none"> <li>The size of firms can be measured in various ways, eg capital employed, number of employees, market share <b>(1 mark)</b>. Due to economies of scale <b>(1 mark)</b> and other factors the perfect competition model no longer fits many market settings where forms of imperfect competition are the norm <b>(1 mark)</b>. The internet has helped some small businesses, in terms of 'entry barriers <b>(1 mark)</b> for example a toy shop no longer needs to pay up front to be located in a high street with high rents and low footfall <b>(1 mark)</b> but can be on a virtual market place at low cost <b>(1 mark)</b> and 'visited by thousands of potential customers <b>(1 mark)</b>. It can also be argued that the internet supports other aspects of competition, such as 'perfect knowledge' <b>(1 mark)</b>. Small firms can also 'piggy back' on the economies of scale created by large operators like Amazon <b>(1 mark)</b>.</li> <li>Other lines of argument; the most successful are likely to focus on aspects of the 'assumptions' of competition models and the possible impact of the internet on each.</li> <li>Question refers to "some markets" and so credit relevant points relating to situations where the internet does not make some markets more competitive, but in fact makes them less competitive. Amazon for example might be quoted as a dominant firm; alternatively as a company providing a 'platform' for smaller 'partners'.</li> </ul>	
<p><b>Use of diagrams to support explanations, eg</b> Perfect competition, perhaps showing costs being lowered due to internet; ease of entry (supply curve shifts right).</p>	<p><b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.</b></p>
<p>Relevant real world examples and/or relevant reference to the UK and/or other economies.</p>	<p><b>1 mark per reference to a maximum of 2 marks</b></p>

**MAXIMUM FOR PART 07: 15 MARKS**

**08** Critically assess the proposition that perfect competition will always result in an efficient allocation of resources, no matter what good or service is being produced and consumed.

**[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**.

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

**Issues and areas for discussion include**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Definitions of, eg             <ul style="list-style-type: none"> <li>○ perfect competition</li> <li>○ resource allocation</li> <li>○ efficiency</li> </ul> </li> </ul>
<b>Developing the response to the question</b>  <b>Application/ Analysis</b>	<b>Application</b> <ul style="list-style-type: none"> <li>• consequences of the assumptions of perfect competition             <ul style="list-style-type: none"> <li>○ price taking behaviour</li> </ul> </li> <li>• short run equilibrium, incentives to expand or contract</li> <li>• long run equilibrium, price = MC; MC=MR; AC=AR</li> <li>• productive and allocative efficiency</li> </ul> <b>Analysis</b> <ul style="list-style-type: none"> <li>• Market success: consumer and producer surplus</li> <li>• Market failures: dominant firms; externalities; lack of public goods/ services; merit goods</li> <li>• Lack of economies of scale.</li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• Do firms and consumers really have perfect knowledge, eg of marginal costs and benefits?</li> <li>• Asymmetric information</li> </ul>



	<ul style="list-style-type: none"> <li>• Are decisions really made on the margin?</li> <li>• Monopoly and monopsony</li> <li>• Merit and demerit goods</li> <li>• Externalities/social optimum</li> <li>• Non–monetary considerations</li> <li>• Static/dynamic efficiency</li> <li>• Economies/ diseconomies of scale</li> <li>• Is perfect competition a value laden concept (note the word ‘perfect’)?</li> <li>• Can all goods and services (eg roads, health) be treated as consumer goods, when they have significant spill–over effects?</li> <li>• Situations where the supplier needs to be ‘de-centralised’ and close to the consumer, to cater for consumer preference, choice, etc.: e.g. few would argue that the government should run our supermarkets.</li> <li>• Situations where some degree of ‘centralised’ command &amp; control and/ or coordination and/ or strategic forward planning is necessary: e.g. should competing companies be running our railways?</li> </ul> <p><i>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.</i></p>
<p><b>Also give credit for</b></p>	<ul style="list-style-type: none"> <li>• Diagrams</li> <li>• An overall judgement on the issues raised</li> <li>• Examples.</li> </ul>

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 8: 25 MARKS**

**Essay 2**

**Total for this Essay: 40 marks**

<p><b>09</b></p>	<p>Explain how the determination of prices and output by oligopolists is affected not only by the reactions of their customers, but also by their interdependence with other producers.</p>	<p><b>[15 marks]</b></p>
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<p><b>For relevant definitions</b>, eg oligopoly, interdependence, uncertainty, cartel.</p>	<p><b>Up to 2 marks per point defined or explained to a maximum of 4 marks</b></p>
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<p><b>For explanation</b> of the pricing and/or output strategy of an oligopolist (full marks can be obtained by discussing one in depth).</p> <p><b>Award 1 mark for each step in a logical chain of reasoning, up to 15 marks.</b></p>
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<p><b>Examples include</b></p> <ul style="list-style-type: none"> <li>• Oligopolists are not price makers like monopolists <b>(1 mark)</b> nor price takers like perfect competitors <b>(1 mark)</b> instead they can be described as price seekers <b>(1 mark)</b>. This is because their price elasticity of demand is less predictable <b>(1 mark)</b>, and it is possible for total revenue <b>(1 mark)</b> to be reduced <b>(1 mark)</b> by a reduction <b>(1 mark)</b> or increase <b>(1 mark)</b> in price. It depends on whether rivals react to a price cut by reducing theirs <b>(1 mark)</b> or to a price increase by leaving theirs where it is <b>(1 mark)</b> and this interdependence <b>(1 mark)</b> can be shown using a kinked demand curve <b>(1 mark)</b>. The stress of uncertainty can be reduced by collusion <b>(1 mark)</b> which is illegal <b>(1 mark)</b>. Or firms might use non-price competition <b>(1 mark)</b> and product differentiation <b>(1 mark)</b> to attempt to boost revenue while keeping published prices constant <b>(1 mark)</b>.</li> <li>• Continuation of discussion, eg branding, product differentiation.</li> <li>• Other relevant discussion, eg price discrimination</li> </ul>
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<p>Use of diagrams to support the explanation, eg kinked demand curve. Regard a game theory matrix as a type of diagram.</p>	<p><b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.</b></p>
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<p>Relevant real world examples and/or relevant reference to the UK and/or other economies.</p>	<p><b>1 mark per reference to a maximum of 2 marks</b></p>
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**MAXIMUM FOR PART 09 15 MARKS**

**10** The European Commission prevents mobile phone networks from colluding on ‘roaming charges’ when consumers travel around Europe. Meanwhile, the EU has forced mobile phone manufacturers to cooperate in making a single design of phone charger.

Evaluate the view that governments should never intervene to influence how oligopolists collude or cooperate on such issues as fixing prices, varying output, conducting research, developing products, or carrying out any other aspect of their business.

**[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**.

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

**Issues and areas for discussion include**

<b>Introduction</b>	Basic definitions/descriptions of oligopoly behaviour, eg collusion, cartels; policy responses, eg anti-monopoly policy. A basic distinction between collusion and cooperation.
<b>Developing the response to the question</b>  <b>Application/ Analysis</b>	<b>Application</b> <ul style="list-style-type: none"> <li>• Students might approach the information in the stem from the angle of perfect versus imperfect competition or price taking versus price making, or product differentiation.</li> <li>• They could also use a structure-conduct-performance (SCP) approach</li> <li>• The concept of ‘public interest’</li> </ul>

	<p><b>Analysis</b></p> <p>A sensible approach is to distinguish between ‘collusion’ and ‘cooperation’ and consider how each would affect issues such as</p> <ul style="list-style-type: none"> <li>• Productive efficiency</li> <li>• Allocative efficiency</li> <li>• Public interest</li> <li>• Economic welfare</li> <li>• Consumer/producer surplus</li> </ul> <p>Discussion of various issues listed in the stem; various approaches (one discussed in depth, or several in less depth) can earn full marks.</p> <ul style="list-style-type: none"> <li>• Fixing prices</li> <li>• Jointly deciding on output</li> <li>• Research</li> <li>• Developing new products             <ul style="list-style-type: none"> <li>• Use of the phone charger case as an example of ‘cooperation’. An industry wide ‘standard’ product that                 <ul style="list-style-type: none"> <li>○ Creates internal and external economies of scale</li> <li>○ Reduces waste</li> <li>○ Potentially reduces prices to consumers and increases convenience</li> </ul> </li> </ul> </li> <li>• Use of the roaming charges case as an example of ‘collusion’ among suppliers to             <ul style="list-style-type: none"> <li>○ make pricing opaque,</li> <li>○ create asymmetric information</li> <li>○ divorce prices from genuine costs</li> <li>○ turn consumer surplus into producer surplus</li> </ul> </li> <li>• Policy responses to the above, and/or other examples provided by the student, including             <ul style="list-style-type: none"> <li>○ Cooperation case: subsidies, technical advice, legislation</li> <li>○ Collusion case: investigation, regulation, legal means.</li> </ul> </li> </ul>
<p><b>Evaluation</b></p>	<ul style="list-style-type: none"> <li>• Discussion of the word ‘never’ in the stem</li> <li>• Identification of ‘other aspects’ that might or might not attract government intervention</li> <li>• Case-by-case intervention versus blanket intervention</li> <li>• General discussion of free market versus governmental approaches; market failure versus government failure</li> <li>• Strengths and weaknesses of various policy options.</li> </ul> <p><i>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.</i></p>
<p><b>Also give credit for</b></p>	<ul style="list-style-type: none"> <li>• Diagrams</li> <li>• An overall judgement on the issues raised</li> <li>• Examples.</li> </ul>

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 10: 25 MARKS**

## Essay 3

Total for this Essay: 40 marks

**11** 'Nurses, who benefit society, earn comparatively little, while some bankers, whose work may cause harm, can earn millions. This is not fair'.

How does economic theory explain such differences in pay?

[15 marks]

For relevant definitions eg differentials, fairness, earnings/wages.	Up to 2 marks per point defined or explained to a maximum of 4 marks
<p>For explanation of differentials.</p> <p>Award 1 mark for each step in a logical chain of reasoning up to 15 marks.</p>	
<p>Examples include</p> <ul style="list-style-type: none"> <li>Economic theory considers a perfect labour market (1 mark). There is a supply of labour (1 mark) from the employees (1 mark), and a demand for labour (1 mark) from the employers (1 mark). There is an absence of monopoly (1 mark), so no place for trade unions or collective bargaining (1 mark); and an absence of monopsony (1 mark) so no place for employer's associations (1 mark). Wages are the 'price' of labour. (1 mark) The supply of nurses is relatively larger than the supply of high-level bankers, (1 mark) and their demand is weaker; (1 mark) nurses are demanded by a cash-strapped public service; (1 mark) bankers are demanded by investors with billions at their disposal (1 mark).</li> <li>Consideration of the relative price elasticities of supply and demand</li> <li>Importance of such factors as aptitude, length of training, qualifications, working conditions, non-monetary considerations, 'incentives', the bonus culture</li> <li>Influence of Marginal Revenue Product on the demand for labour</li> <li>Accept generic points/ examples other than nurses and bankers</li> <li>Accept differentials based on whether the worker is employed in the public or private sector.</li> </ul>	
Use of diagrams to help support explanations, eg supply of and demand for skilled and unskilled labour	Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.
Relevant real world examples and/or relevant reference to the UK and/or other economies.	1 mark per reference to a maximum of 2 marks

MAXIMUM FOR PART 11: 15 MARKS

<b>12</b>	<p>'Government should be concerned about incentives and disincentives to work. They should not be concerned with fairness in the treatment of various income groups'.</p> <p>Assess the case for and against governments intervening in labour markets to achieve a fairer distribution of income.</p> <p style="text-align: right;"><b>[25 marks]</b></p>
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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**.

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

**Issues and areas for discussion include**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Definitions, examples: <ul style="list-style-type: none"> <li>○ Incentives</li> <li>○ Disincentives</li> <li>○ Labour market</li> </ul> </li> </ul>
<b>Developing the response to the question</b>  <b>Application/Analysis</b>	<p><b>Application</b></p> <ul style="list-style-type: none"> <li>• Ways of assessing 'fairness'</li> <li>• Equity and equality</li> <li>• Equity and efficiency</li> <li>• Ways of intervening in labour markets, eg <ul style="list-style-type: none"> <li>○ Incomes policies</li> <li>○ Minimum and maximum wage rates</li> <li>○ Progressive, proportional, regressive taxation</li> <li>○ Anti-discrimination legislation</li> <li>○ Supply side policies <ul style="list-style-type: none"> <li>○ 'Thatcherite'</li> <li>○ 'Third Way'</li> </ul> </li> <li>○ Measures for occupational and geographical mobility</li> </ul> </li> </ul> <p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• Fairness in terms of <ul style="list-style-type: none"> <li>○ Income distribution</li> <li>○ Wealth distribution</li> </ul> </li> <li>• Relationships between income and wealth</li> <li>• Horizontal and vertical equity</li> </ul>

	<ul style="list-style-type: none"> <li>• Taxes and benefits</li> <li>• Reasons for taxation             <ul style="list-style-type: none"> <li>○ Allocation (revenue raising)</li> <li>○ Stabilisation (macro objectives)</li> <li>○ Distribution (Progressive/ proportional/ regressive taxation).</li> </ul> </li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• Difficulties of defining fairness</li> <li>• Are economists qualified to assess justice and fairness</li> <li>• Are unequal societies necessarily unfair (is fairness the same thing as equality?)</li> <li>• Is unfairness economically functional or dysfunctional (drip-down versus ‘all in this together’)</li> <li>• Possibility of labour market failure, and government failure in labour markets</li> <li>• Relative efficiency of different types of intervention.</li> </ul>
	<p><i>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.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• Diagrams</li> <li>• An overall judgement on the issues raised</li> <li>• Examples.</li> </ul>

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

**MAXIMUM FOR PART 12: 25 MARKS**