

GCE AS

WJEC Eduqas GCE AS in ECONOMICS

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SPECIMEN ASSESSMENT MATERIALS

Teaching from 2015



For teaching from 2015
For award from 2016

GCE AS ECONOMICS

SPECIMEN ASSESSMENT
MATERIALS

Contents

	Page
Question Papers	
COMPONENT 1: Introduction to Economic Principles	5
COMPONENT 2: Exploring Economic Issues	17
Mark Schemes	
COMPONENT 1: Introduction to Economic Principles	23
COMPONENT 2: Exploring Economic Issues	43
Mapping grid of assessment objectives	68
Mapping grid of content coverage	69

Candidate Name	Centre Number					Candidate Number				

**AS ECONOMICS****COMPONENT 1****Introduction to Economic Principles****SPECIMEN PAPER****1 hour****ADDITIONAL MATERIALS**

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

Write your name, centre number and learner number in the spaces at the top of this page.

Answer all the questions in the spaces provided.

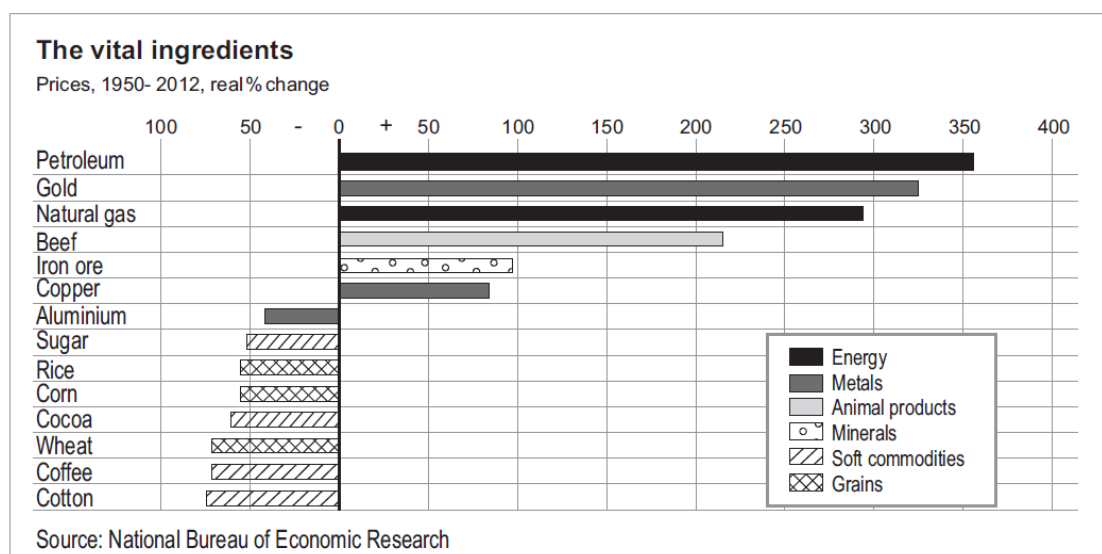
INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

No certificate will be awarded to a learner detected in any unfair practice during the examination.

Answer **all** the questions in the spaces provided.

1. Study the information below and answer the questions that follow.



A recent report on commodity prices has shown that there have been big differences in price changes over the last 60 years.

'In the ground' commodities (such as iron ore, gold and gas), for which supply cannot easily be increased, have increased in price significantly as global population has risen.

In contrast, prices for resources that can be grown have trended downwards. The inflation-adjusted prices of rice, corn and wheat are lower now than they were in 1950. Although the global population is 2.8 times above its 1950 level, global production of grains such as rice, corn and wheat is 3.6 times higher.

With reference to the data and using supply and demand diagrams explain why:

- (a) The prices of 'in the ground' commodities such as iron ore have increased significantly since 1950.

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- (b) The prices of grains such as rice, corn and wheat are lower than they were in 1950. [4]

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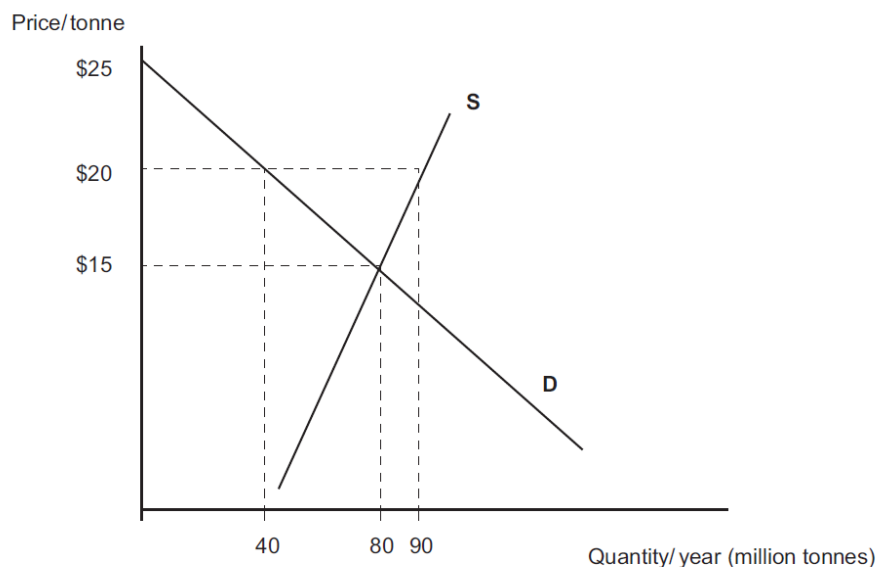
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2. The diagram below illustrates the impact of a government imposing a minimum guaranteed price of \$20/tonne above the free market price of \$15/tonne for an agricultural product:



Using the diagram, calculate:

- (a) The producers' revenue before the guaranteed price was introduced. [1]

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- (b) The cost to the government of buying excess supply at the guaranteed price. [1]

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- (c) The consumer surplus after the guaranteed minimum price was introduced. [1]

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- (d) Total income of producers after the guaranteed price was introduced. [1]

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- 3.** Suppose that a firm knows that price elasticity of demand for its product is -1.5. Currently the firm sells 500 units/week at a price of £5/unit.

If the firm was to cut the price to £4/unit, calculate:

- (a) The probable impact on the firm's sales. [3]

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- (b) The firm's new level of revenue if those sales occur. [1]

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4. Read the data about Wikipedia and answer the question below.

Wikipedia is a collaboratively edited, multilingual, free Internet encyclopedia that is supported by the non-profit Wikimedia Foundation. Worldwide volunteers collaboratively write Wikipedia's 30 million articles in 287 languages, including over 4.4 million in the English Wikipedia. Anyone who can access the site can edit almost any of its articles, which comprise the largest and most popular general reference work available on the Internet.

With reference to the data, discuss the extent to which Wikipedia might be considered to be a public good.

[6]

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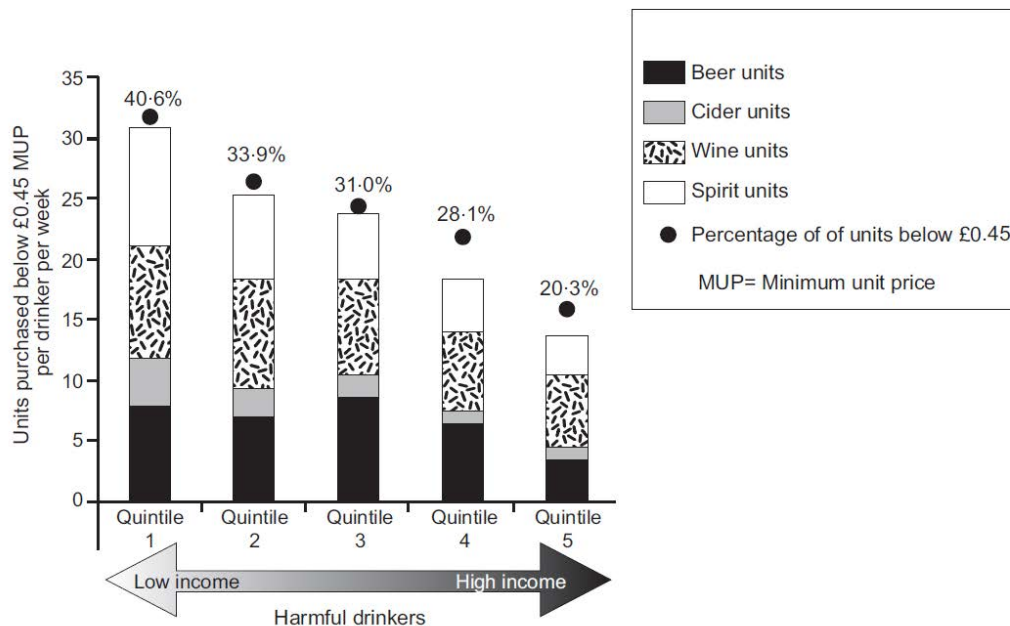
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5. Introducing minimum pricing for alcohol would lead to 860 fewer deaths a year and 29,900 fewer hospital admissions among heavy-drinkers, while having only a slight effect on moderate drinkers, according to research into the policy's impact.

The study, from Sheffield University, predicts that making stronger drinks more expensive, through a price of 45p per unit of alcohol, would impact on those who drink most heavily and are on low incomes. They would reduce their drinking and reap a health benefit, with fewer alcohol-related deaths and illness.



With reference to the data, discuss whether introducing a minimum price of 45p per unit is a good way of trying to correct market failure in the alcohol industry. [8]

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6. The table gives index numbers of GDP in the UK.

	(2010=100)
2008	103.7
2009	98.4
2010	100
2011	101.1
2012	101.4
2013	103.2

Use the data to calculate annual economic growth in:

- (a) between 2012 and 2013 [1]

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- (b) between 2008 and 2009 [1]

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7. UK GDP growth driven by rise in consumer spending in 3rd quarter of 2013

Economic growth in the UK was driven by consumer spending in the third quarter of the year, Office for National Statistics (ONS) figures show.

Consumer spending, which accounts for nearly two-thirds of the UK's economic activity rose by 0.8%, the most since the second quarter of 2010. Unemployment has now fallen by half a million since early 2012.

The ONS figures showed that business investment grew by 1.4% in the July-to-September period, after dropping 2.7% in the previous quarter.

But exports from the UK fell by 2.4% in the third quarter, increasing the trade deficit and while UK economic growth was strong, GDP is still 2.5% below its pre-recession level.

Adapted from: www.bbc.co.uk

- (a) Explain two factors that might have caused consumption to rise in late 2013. [4]

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- (b) With reference to the data, discuss whether a sustained rise in UK consumer spending will be beneficial for the economy. [8]

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8. Bank of England could raise interest rates next spring, says MPC member

Ian McCafferty, a Bank of England policymaker has reinforced expectations that the first rise in interest rates will come as soon as spring 2015, causing the pound to appreciate against other leading currencies.

McCafferty said that wage deals in coming months would be "quite critical" as policymakers watch for inflation risks. The Bank of England itself has gone on record as saying that a rate rise in early 2015 would be consistent with achieving its 2% inflation target.

McCafferty added that the exact timing of an interest rate rise would show how strong the recovery is in terms of how quickly aggregate demand rises; the stronger the recovery, the sooner inflationary pressures will begin to emerge.

Adapted from: www.theguardian.com

- (a) Use a supply and demand diagram to explain how expectations of a rise in interest rates might cause the exchange rate to appreciate. [4]

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- (b) Explain how increasing interest rates in spring 2015 might help the Bank of England to achieve its 2% inflation target. [6]

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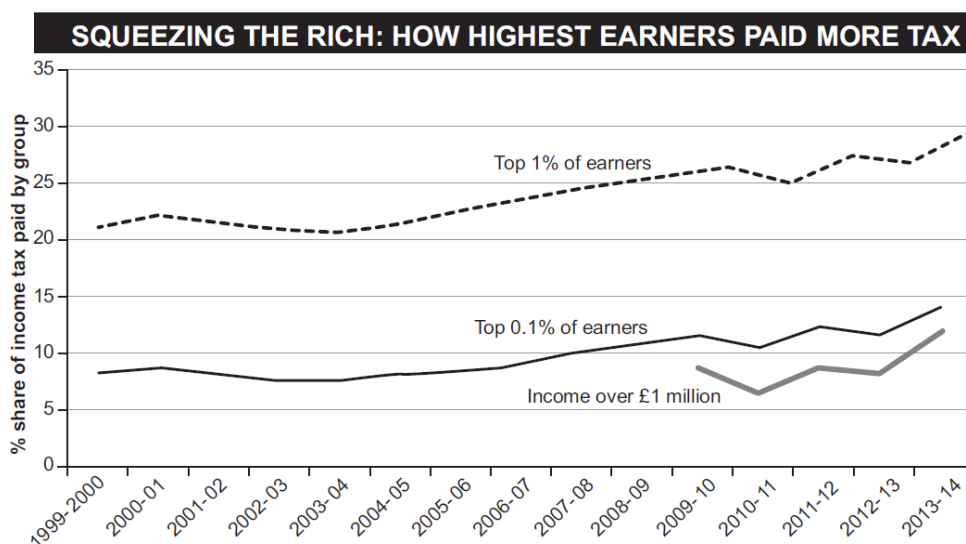
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- 9.** David Cameron hints he wants to cut the top rate of income tax to 40 per cent.



Source: www.dailymail.co.uk

The Prime Minister also disclosed that he had a “little black book of policies” which he would like to introduce if he wins the next general election outright.

Mr Cameron suggested that he wanted to see the top rate of tax cut from 45 per cent to 40 per cent. He said that he was proud of having cut the top rate of tax from 50p to 45p last year.

With reference to the data, discuss whether a cut in the top rate of tax from 45 per cent to 40 per cent would be beneficial for the UK economy. [6]

This image shows a full page of white paper with horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and run across the entire width of the page. There are no margins, text, or other markings present.



AS ECONOMICS

COMPONENT 2

Exploring Economic Issues

SPECIMEN PAPER

2 hours



ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator and a 20-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Answer all the questions.

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

No certificate will be awarded to a learner detected in any unfair practice during the examination.

1. THE UK CAN'T SEEM TO ESCAPE ITS TRADE DEFICIT

Exports have reached record levels, but so have imports – and some economists say the UK economic recovery will only make the gap grow.

Whatever happened to the UK's promised export boom? Well, exports of goods are up to £304.3bn billion in 2013 from £300.5 billion in 2012 and have reached record levels, but goods imports have also exceeded previous highs, rising to £412.6bn in 2013 from £409.2bn in 2012. We continue to import more than we export.

Some economists argue that the trade deficit should be down to zero after the severe recession: a proper recession, that reduces national output and people's incomes usually cuts the import bill dramatically, a situation we can see in Greece and Portugal.

In the UK, however, the Keynesian response to the crisis in the UK started by Labour and partially continued by the coalition government supports employment and public services, but also has the effect of keeping levels of imports high. That's why a significant jump in exports is needed if the trade deficit is to fall.

However, despite a 25 per cent fall in the value of sterling during the recession, the rise in exports was only slight. Our reliance on selling to the EU, which has struggled to grow since 2008, is one reason, as is the large and growing productivity gap between the UK and its leading competitors. The economy's dismal record on investment (see charts) and the recently proposed rise in the national minimum wage are unlikely to help either, especially when faced with competition from low wage economies abroad.

In days gone by, countries might have resorted to protectionist measures such as tariffs and quotas to reduce the deficit, an option not available to the UK because of its membership of the EU. But even if the UK could increase tariffs, most economists think that although protectionist measures such as tariffs can be good in the short run for protected businesses, raise revenue for the government and increase wages levels, they are generally economically damaging in the long run.

Figure 1
GDP per worker, G7 countries

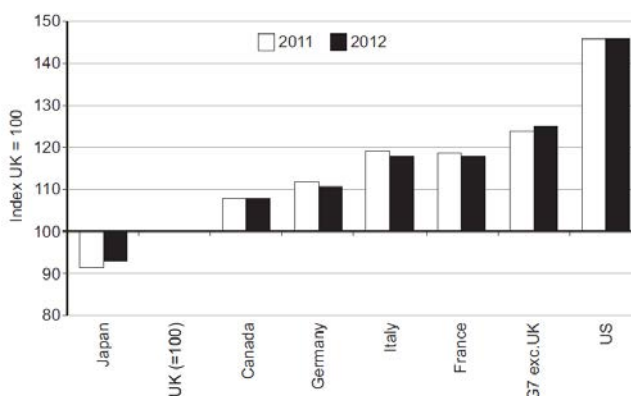
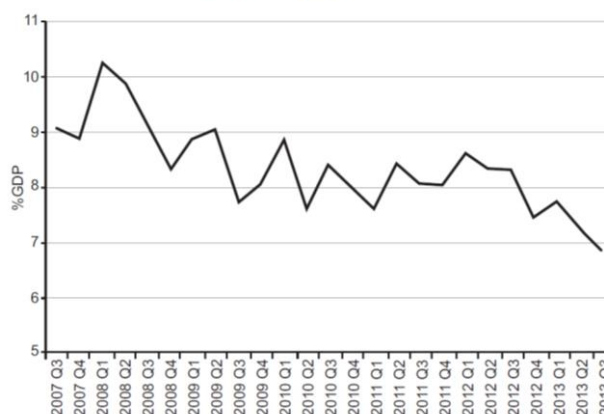


Figure 2
Investment spending by UK Businesses



Part of the UK's response has been to try to improve the supply side performance of the economy, to allow UK firms to become more competitive (see insert on Budget 2013).

Budget 2013

The government is delivering an ambitious programme of supply-side reform to equip the UK to succeed in the global race. The government will:

- Make the UK tax system one of the most competitive in the developed world by reducing corporation tax, so it reaches 20 per cent in April 2015.
- Increase capital spending plans by £3 billion a year from 2015-16.
- Provide £1.6 billion of funding to support 11 key industries. From this fund the government, will create an Aerospace Technology Institute, which will provide a total of £2.1 billion of research and development support over seven years.

However, the UK has had a trade deficit for most of the last 30 years – this is a problem that clearly does not respond quickly to policy changes.

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|-----|------|--|------|
| (a) | (i) | Calculate the change in the UK trade deficit between 2012 and 2013. | [2] |
| | (ii) | Using the data, explain why the UK's trade deficit remains high. | [6] |
| (b) | (i) | Using a supply and demand diagram, explain why the imposition of a tariff might raise wage levels. | [6] |
| | (ii) | Discuss whether an increase in tariffs by the EU is likely to be good for EU economies. | [10] |
| (c) | | Discuss whether a rise in the national minimum wage would be likely to worsen the UK's trade position. | [8] |
| (d) | | With reference to the data and figures 1 and 2, discuss how effective the plans announced in the 2013 Budget are likely to be in eliminating the UK's productivity gap with its major competitors. | [8] |

2. UNPOPULAR TAX RAISES COSTS OF FLYING

Over the last twenty years as incomes have risen and the world has become more accessible thanks to globalisation the demand for air travel has risen significantly. Air fares have become progressively cheaper in relation to wages. At the same time the number of airlines competing for flyers' custom has also risen with the entry to the market of budget airlines such as easyjet and Ryanair. Parts of the world have also now been opened up to travellers i.e. China, Cuba and Eastern Europe. Compared to the early 1990's the number of flights and passengers have soared. Since 1990 passenger numbers in the UK have increased by 113 per cent while the International Civil Aviation Organisation projects that passenger numbers will most likely grow at 4.5 per cent per year until 2030.

Although planes are becoming less noisy, more fuel efficient and less damaging to the environment air travel is the world's fastest growing source of greenhouse gases like carbon dioxide, which cause climate change. Globally the world's 16,000 commercial jet aircraft generate more than 600 million tonnes of carbon dioxide (CO₂), the world's major greenhouse gas, per year. Indeed aviation generates nearly as much CO₂ annually as that from all human activities in Africa. Governments feel obliged to be seen to be taking action to control these 'spill over' effects resulting from air travel. In the UK the government introduced Air Passenger Duty in 1996 when the reduced rate was only £5 in Band A.

Figure 1
NEW AIR PASSENGER DUTY FROM 1 APRIL 2014

Bands (approximate distance in miles for the UK)	Reduced rate (lowest class of travel)		Standard rate (other than the lowest class of travel)		Higher rate	
	From 1 April 2013	From 1 April 2014	From 1 April 2013	From 1 April 2014	From 1 April 2013	From 1 April 2014
Band A (0- 2000 miles)	£13	£13	£26	£26	£52	£52
Band B (2001- 4000 miles)	£67	£69	£134	£138	£268	£276
Band C (4001- 6000 miles)	£83	£85	£166	£170	£332	£340
Band D	£94	£97	£188	£194	£376	£388

Air Passenger Duty is an excise duty which is charged on the carriage of passengers flying from a United Kingdom airport. Imposed on airlines it can be passed on in total or in part to passengers and forms part of the UK government's policy to reduce CO₂ emissions. Aviation currently accounts for around 6 per cent of total UK greenhouse gas emissions. The UK already has the highest Air Passenger Duty in the world and it has been alleged that it has already cost 25,000 UK travel industry jobs. Virgin Atlantic has made the decision not to pass on what it calls an "unfair retrospective" duty increase in 2012 to passengers, according to a letter by CEO Steve Ridgeway. The tax earns £4.0bn per year for the Treasury and some airlines claim that they have had to scrap routes as a result of the tax – particularly British Airways who have cut several flights to the Caribbean.

The government says in its defence of the tax that the airlines pay no VAT on fuel or on ticket sales and thus the tax is not a huge burden on either airlines or passengers. However, a recent study by the accountants PwC claimed that if Air Passenger Duty was abolished 60,000 jobs would be created, GDP would be boosted by 0.46 per cent and net tax revenue would actually rise by £480m. It has also been argued that Air Passenger Duty actually increases emissions because travellers are drawn towards taking connecting flights via other European airports rather than flying direct, so as to avoid the tax.

- (a) Using figure 1, calculate the percentage increase in Band A APD from 1996 to 2014. [2]
- (b) Using the data, and with the aid of a supply and demand diagram, explain why passenger numbers have increased in recent years. [6]
- (c) Comment on the income elasticity of demand for air travel. [4]
- (d) Using examples from the data explain the meaning of
 - (i) government failure [4]
 - (ii) external costs. [4]
- (e) How far do you agree with the view that Air Passenger Duty is the best way to reduce the external costs arising from air travel? Use a diagram to illustrate your answer. [10]
- (f) In recent months the exchange rate of the pound has risen and in January 2014 climbed to \$1.6615 against the US dollar - a two-and-a-half year high. Discuss the effect of this rise in the pound on UK airlines such as British Airways and easyjet. [10]

COMPONENT 1: Introduction to Economic Principles

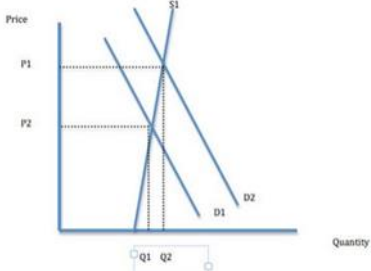
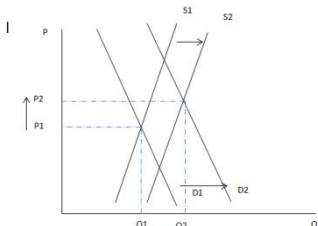
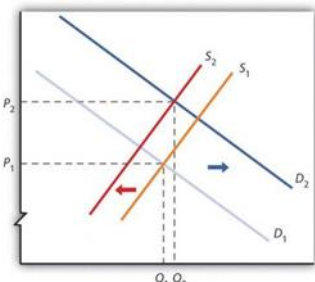
MARK SCHEME

GENERAL MARKING GUIDANCE

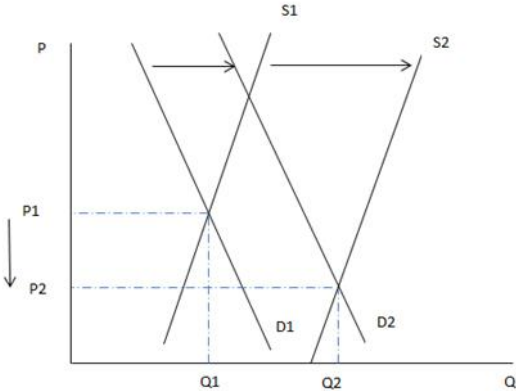
Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of economic concepts, theory, issues and arguments which might be included in learners' answers.

Q.	Mark scheme	Total
1 (a)	<p data-bbox="288 293 1337 360">With reference to the data and using supply and demand diagrams explain why:</p> <p data-bbox="288 394 1190 461">The prices of ‘in the ground’ commodities such as iron ore have increased significantly since 1950.</p> <p data-bbox="288 495 616 528">AO1: 2 marks 1a</p> <p data-bbox="288 562 539 595">Award 2 marks for:</p> <ul data-bbox="341 629 1259 696" style="list-style-type: none"> A diagram showing demand shifting to the right with an unchanged supply curve. All labels are correct. <div data-bbox="603 730 975 999">  <p>A supply and demand diagram. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity'. A single upward-sloping supply curve is labeled S_1. Two downward-sloping demand curves are shown: D_1 (original) and D_2 (shifted to the right). The initial equilibrium is at the intersection of S_1 and D_1, corresponding to price P_1 and quantity Q_1. The new equilibrium is at the intersection of S_1 and D_2, corresponding to price P_2 and quantity Q_2. Dashed lines indicate these equilibrium points on the axes.</p> </div> <ul data-bbox="341 1066 1326 1133" style="list-style-type: none"> A diagram showing demand shifting to the right with supply shifting right to a lower extent. All labels are correct. <div data-bbox="627 1167 946 1391">  <p>A supply and demand diagram. The vertical axis is labeled 'P' and the horizontal axis is labeled 'Q'. Two downward-sloping demand curves are shown: D_1 and D_2 (shifted to the right). Two upward-sloping supply curves are shown: S_1 and S_2 (shifted to the right). The initial equilibrium is at the intersection of D_1 and S_1, corresponding to price P_1 and quantity Q_1. The new equilibrium is at the intersection of D_2 and S_2, corresponding to price P_2 and quantity Q_2. Dashed lines indicate these equilibrium points on the axes.</p> </div> <ul data-bbox="341 1469 1318 1536" style="list-style-type: none"> A diagram showing demand shifting to the right and supply to the left, if the supply shift is appropriately explained. All labels correct. <div data-bbox="635 1592 951 1872">  <p>A supply and demand diagram. The vertical axis is labeled 'P' and the horizontal axis is labeled 'Q'. Two downward-sloping demand curves are shown: D_1 and D_2 (shifted to the right). Two upward-sloping supply curves are shown: S_1 and S_2 (shifted to the left). The initial equilibrium is at the intersection of D_1 and S_1, corresponding to price P_1 and quantity Q_1. The new equilibrium is at the intersection of D_2 and S_2, corresponding to price P_2 and quantity Q_2. Dashed lines indicate these equilibrium points on the axes.</p> </div>	4

	<p>Award 1 mark for:</p> <p>Diagrams that have key features missing, such as failure to label significant features like the new price or new demand curve.</p> <p>Diagrams which fail to shift demand to the right, but instead show supply shifting to the left.</p> <p>Award 0 marks for:</p> <p>Diagrams which fail to shift demand to the right, but instead show supply shifting to the left and have key features missing.</p> <p>Diagrams which fail to mark in any prices or outputs.</p> <p>AO2: 2 marks 1a</p> <p>Award 2 marks for:</p> <p>Answers which explain demand rising in terms of rising population or perhaps rising industrialisation and show an understanding that supply is difficult to increase or argue that some resources are becoming depleted and therefore supply is falling.</p> <p>Award 1 mark for:</p> <p>Answers which do only one of these two things.</p>	
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Q.	Mark scheme	Total
1 (b)	<p>With reference to the data and using supply and demand diagrams explain why:</p> <p>The prices of grains such as rice, corn and wheat are lower than they were in 1950.</p> <p>AO1: 2 marks 1a</p> <p>Award 2 marks for:</p> <p>A diagram showing demand shifting to the right with a supply curve moving to the right by more.</p> <p>All labels are correct.</p>  <p>Award 1 mark for:</p> <p>Diagrams that have key features missing, such as failure to label significant features like the new price or new demand curve.</p> <p>Diagrams which only shift supply to the right.</p> <p>Award 0 marks for:</p> <p>Diagrams which fail to shift demand to the right, but instead show supply shifting to the left and have key features missing.</p> <p>Diagrams which fail to mark in any prices or outputs.</p> <p>AO2: 2 marks 1a</p> <p>Award 2 marks for:</p> <p>Answers which refer well to the data explaining that supply has risen more than demand because supply can be increased fairly easily and whilst population has grown 2.8 times since 1950, supply has risen by 3.6 times.</p> <p>Answers which explain that supply rises more than demand, fail to use the proportions, but instead make good use of the data in the chart.</p> <p>Award 1 mark for:</p> <p>Answers which use the data to explain the increase in supply fail to cover demand.</p> <p>Answers which show an understanding that supply has risen more than demand, but don't use any of the figures from the passage or chart.</p> <p>Award 0 marks for:</p> <p>Answers which fail to explain anything.</p> <p>Answers which have no bearing on the data.</p>	4

Q.	Mark scheme	Total
2	<p>Using the diagram, calculate:</p> <p>(i) The producers' revenue before the guaranteed price was introduced. [1]</p> <p>Award 1 mark for $80\text{m} \times \\$15 = \\1200 (or \$1.2 billion) AO2: 1 mark 1a</p> <p>(ii) The cost to the government of buying excess supply at the guaranteed price. [1]</p> <p>Award 1 mark for $50\text{m} \times £20 = \\1000 (or \$1.0 billion) AO2: 1 mark 1a</p> <p>(iii) The consumer surplus after the guaranteed minimum price was introduced. [1]</p> <p>Award 1 mark $(40\text{m} \times \\$5)/2 = \\100m AO2: 1 mark 1a</p> <p>(iv) Total income of producers after the guaranteed price was introduced. [1]</p> <p>Award 1 mark $(90\text{m} \times \\$20 = \\$1800\text{m})$ (or \$1.8 billion) AO2: 1 mark 1a</p>	4

Q.	Mark scheme	Total
3	<p>Suppose that a firm knows that Price elasticity of demand for its product is -1.5. Currently the firm sells 500 units/week at a price of £5/unit.</p> <p>If the firm was to cut the price to £4/unit, calculate:</p> <p>(a) The probable impact on the firm's sales.</p> <p>AO1: 1 mark 1b</p> <p>Award 1 mark for showing an understanding of PED: Giving the formula, or Using the formula correctly, or Showing an understanding that PED shows the relative impact on demand coming from a change in price.</p> <p>AO2: 2 marks 1a</p> <p>Award 2 marks for correct answer.</p> <p>(Price has fallen from £5 to £4: This is a 20% fall in price. PED is -1.5, therefore demand will rise by 30%). Therefore demand rises to 650 units/week.</p> <p>Award 1 mark for a partially correct solution:</p> <p>Learner works out the percentage change in price correctly, but applies PED incorrectly.</p> <p>Learner calculates the percentage change in price incorrectly, but correctly applies the PED figure.</p> <p>(b) The firm's new level of revenue if those sales occur.</p> <p>AO2: 1 mark 1b</p> <p>Award 1 mark for correct answer.</p> <p>(Revenue is $P \times Q$. Price has fallen to £4, demand has risen to 650 units). Therefore new revenue is £2600.</p>	4

Q.4	With reference to the data, discuss the extent to which Wikipedia might be considered to be a public good. [6]		
Band	AO1 1a	AO2 (1a)	AO4 1ab
	2 marks	2 marks	2 marks
	What are the characteristics of a public good?	Why might Wikipedia show such characteristics?	Why might Wikipedia not in fact be a public good?
2	<p>2 marks</p> <p>Learner understands that public goods are non-excludable and non-diminishable (rivalrous) and shows a clear understanding of each.</p>	<p>2 marks</p> <p>Learner clearly applies both characteristics to Wikipedia, showing why Wikipedia might be: Non-diminishable: Additional users do not impinge on the usage of existing users – we can all see the same entry. Non-excludable: Information services like these are available to anyone with an internet connection.</p>	<p>2 marks</p> <p>Either: Learner evaluates both characteristics in context: Non-excludable: just because Wikipedia is currently free to use doesn't mean that access couldn't at some point in the future be restricted. It would in principle be possible to put up a pay-wall. Non-diminishable; In principle too many users could crash the server. Increased usage might result in increased vandalism of pages because they are open to all to edit.</p> <p>Or: Learner evaluates 1 characteristic very thoroughly.</p>
1	<p>1 mark</p> <p>Learner states that public goods are non-excludable and non-diminishable (rivalrous) but does not show a clear understanding of both.</p>	<p>1 mark</p> <p>Learner only applies 1 characteristic successfully in the context of Wikipedia or makes an attempt at both but is not developed.</p>	<p>1 mark</p> <p>Learner questions 1 of the characteristics in context, but the evaluation isn't fully detailed or 2 characteristics are discussed, but only superficially.</p>
0	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Context of Wikipedia is not used.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

Public goods have 2 key characteristics:

- (i) Non-excludability: Non-payers cannot be prevented from using the service
- (ii) Non-diminishability/rivalry: An additional user does not reduce the total amount of the good or service available.

In the case of Wikipedia:

Excludability:

Information services like these are available to anyone with an internet connection. Therefore non-excludable

But: Just because Wikipedia is currently free to use doesn't mean that access couldn't at some point in the future be restricted. It would in principle be possible to put up a pay-wall.

Diminishability/Rivalry:

Additional users do not impinge on the usage of existing users – we can all see the same entry. Therefore non-diminishable.

But: In principle too many users could crash the server. Increased usage might result in increased vandalism of pages because they are open to all to edit.

Q.5	With reference to the data, discuss whether introducing a minimum price of 45p per unit is a good way of trying to correct market failure in the alcohol industry. [8]			
Band	AO1 1c	AO2 1c	AO3	AO4 1abc
	1 mark	1 mark	2 marks	4 marks
	What is market failure?	What data has been used to support the answer?	Why might a 45p minimum price correct or not correct market failure?	How well judged is the response – to what extent is the policy likely to work?
2	1 mark Demonstrates understanding what is meant by market failure in terms of resources being misallocated/welfare loss being created.	1 mark Data from the graph or passage has been used in support of arguments. For example: <ul style="list-style-type: none"> • 860 fewer deaths a year and 29,900 fewer hospital admissions. • Would impact on those who drink most heavily and are on low incomes. • Use of data from bar chart. 	2 marks Learner makes well-reasoned developments of 1 side of the case making it clear why a minimum price might or might not correct market failure.	3-4 marks Learner makes well-reasoned judgements of at least 1 side of the case, showing good application to the context in their judgements. Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue. Answers in this band are likely to have an overall conclusion as to how successful a minimum price is likely to be, in the context of the case and referring to market failure.
1			1 mark Learner argues 1 side of the case, making some undeveloped points, or perhaps has only 1 point with some development. Superficial development of both sides would also be in this band.	1-2 marks Learner has made well-reasoned developments of both sides of the case, but fails to come to an overall conclusion or does not really qualify their arguments.
0	0 marks Understanding of market failure not demonstrated.	0 marks Data has not been directly used.	0 marks Response not credit worthy or not attempted.	0 marks Response not credit worthy or not attempted.

Indicative content

Yes:

Alcohol is a demerit good with external costs in consumption. Hence it will be over-consumed in the free market, resulting in a welfare loss and therefore a misallocation of resources. Consumption needs to be restricted to return the equilibrium output to the optimum level, an increase in price will achieve this. **But** it may be difficult to estimate the external costs and hence what the optimal price is resulting in the risk of government failure.

Alcohol consumption results in significant external costs in terms of demand for health services, anti-social behaviour and crime. A minimum price will help to internalise these external costs, reducing alcohol consumption and hence reduce the size of the externality in total. Data: 860 fewer deaths a year and 29,900 fewer hospital admissions. **But** this data is only forecast – in reality drinkers may resort to alternatives such as homebrew or black market products.

A minimum price will help to prevent binge drinking which can be fuelled by heavily discounted alcohol. **But** 45p/unit may not be high enough. Policy is well targeted: Data: a price of 45p per unit of alcohol, would impact those who drink most heavily and are on low incomes, but doesn't really affect moderate drinkers.

No:

Policy has the biggest impact on those who are on low incomes, hence may damage their ability to heat their homes etc.

Income inequalities may be increased as a result of the regressive nature of the price increase – generally spending on alcohol already takes a higher percentage of the income of workers from low income groups.

Policy might not work that well (possible inelastic demand, although the research suggests that this is not true for harmful drinkers).

Policy may simply increase the profits of drinks companies and supermarkets, allowing them to increase spending on advertising instead or other non-price related promotions.

Learner may feel that because the policy does not really impact on moderate drinkers, it may not be that effective.

Risk of creating an unregulated black market with possible health impacts; already rising cases of fake Vodka in the UK.

Q.	Mark scheme	Total
6	<p>Use the data to calculate annual economic growth in:</p> <p>(i) 2013 AO2: 1 mark 1a</p> <p>Award 1 mark for $(103.2-101.4)/101.4 \times 100\% = 1.775\%$ (1.7 or 1.78)</p> <p>(ii) 2009 AO2: 1 mark 1a</p> <p>Award 1 mark for $(98.4-103.7)/103.7 \times 100\% = 5.110\%$ (5.1 or 5.11)</p> <p>Working is not required.</p>	2

Q.	Mark scheme	Total
7 (a)	<p>Explain two factors that might have caused consumption to rise in late 2013.</p> <p>AO1: 2 marks 1c</p> <p>Award 1 mark for each factor. Learner shows an understanding of how the factor identified might lead economic agents to increase consumption.</p> <p>AO2: 2 marks 1c</p> <p>Award 1 mark for each factor applied in the context of the UK in late 2013.</p> <p>Possible factors:</p> <p><u>Falling unemployment</u> means more consumers have incomes and may increase the confidence of others.</p> <p><u>Recovery in the housing market</u> meaning that confidence may be boosted, as house prices start to rise there may be wealth effects and the possibility of equity withdrawal.</p> <p><u>Sustained low interest rates</u> mean that mortgage payments stay low, create disincentives to save and incentives to borrow.</p> <p><u>Increases in the personal allowance</u> mean that workers keep a higher proportion of their incomes – disposable income will rise.</p> <p><u>Rising consumer confidence.</u></p> <p><u>Rising GDP</u> itself creates jobs, confidence and may allow wages to begin to rise in real terms.</p> <p><u>Continued QE</u> helps to keep interest rates low.</p> <p>Factors should be plausible given the context.</p>	4

Q.7b	With reference to the data, discuss whether a sustained rise in UK consumer spending will be beneficial for the economy. [8]		
Band	AO2 1b	AO3	AO4 1abc
	2 marks	2 marks	4 marks
	How well has the data been used?	How well explained are the impacts on the key policy objectives?	How well qualified is the answer – to what extent will rising consumer spending be beneficial?
2	<p>2 marks</p> <p>Learner uses the data well to support their points, with at least 2 clearly relevant points identified from the data, or real-world knowledge that is relevant to the situation.</p> <p>Data is developed in context.</p>	<p>2 marks</p> <p>Learner makes well-reasoned developments of 1 side of the case making it clear a rise in consumption might or might not be a good thing.</p> <p>It is likely that there will be at least 2 well-developed ideas for this band.</p>	<p>3-4 marks</p> <p>Learner makes well-reasoned judgements of at least 1 side of the case, showing good application to the context in their judgements.</p> <p>Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue.</p> <p>Answers in this band are likely to have an overall conclusion as to how beneficial a rise in consumption is likely to be in the context of the case.</p>
1	<p>1 mark</p> <p>Learner either makes occasional vague reference to the data throughout their answer without being specific, or only uses 1 piece of information well – hence only 1 piece of data has any meaningful development (more than just e.g. 'X').</p>	<p>1 mark</p> <p>Learner argues 1 side of the case, making some undeveloped points, or has only 1 point with some development.</p> <p>Superficial development of both sides would also be in this band.</p>	<p>1-2 marks</p> <p>Learner makes brief unsupported judgements with limited application to the context.</p> <p>Evaluation may lack balance and unlikely to offer an overall conclusion.</p>
0	<p>0 marks</p> <p>Data has not been directly used.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

Consumer spending, which accounts for nearly two-thirds of the UK's economic activity rose by 0.8%, the most since the second quarter of 2010. Unemployment has now fallen by half a million since early 2012.

The ONS figures showed that business investment grew by 1.4% in the July-to-September period, after dropping 2.7% in the previous quarter.

But exports from the UK fell by 2.4% in the third quarter, increasing the trade deficit and while UK economic growth was strong, GDP is still 2.5% below its pre-recession level.

Beneficial:

Rising consumer spending will be important for economic growth – it forms around 2/3rds of GDP – hence rising consumption will help to sustain growth and therefore jobs.

Unemployment is falling, and continued consumption will help to ensure that it continues to do so; GDP is still well below its 2008 level.

AD/AS diagram to illustrate.

Rising consumption will help to increase firms' profits and therefore stimulate investment and therefore potential growth etc; important after the recent fall in investment in Q2.

Rising consumption will lead to improvements in the government's finances as VAT, income tax and corporation tax yields rise and spending on benefits falls.

But:

Rising consumption may suck in imports and we already have a trade deficit; exports fell in the 3rd quarter.

Rising consumption may start to put upward pressure on inflation (might use a diagram to illustrate this).

Rising consumption may lead to rising household debt, which may store up trouble for the long term.

Rising consumption may imply greater consumerism, environmental issues and so on.

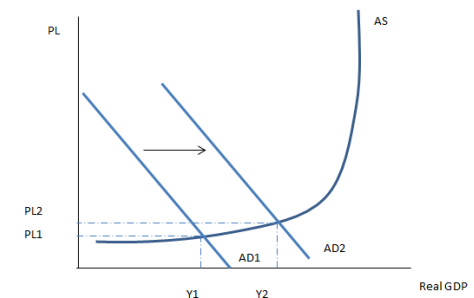
Depends on:


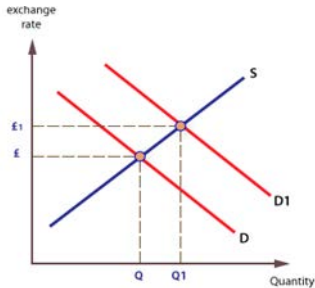
How fast consumption continues to rise – faster than or slower than potential growth.

How it is financed – debt or out of current income.

Output gap looks like it is reasonably significant, hence no immediate issues, but if C continues to grow, it might create problems.

Much will depend on what happens on the supply side – if investment picks up and productivity rises, then it will be much easier to meet the increase in consumption without inflation.



Q.	Mark scheme	Total
8 (a)	<p>Use a supply and demand diagram to explain how expectations of a rise in interest rates might cause the exchange rate to appreciate.</p> <p>AO1: 2 marks 1c</p> <p>Award 2 marks for:</p> <ul style="list-style-type: none"> A diagram showing demand shifting to the right with an unchanged supply curve. All labels are correct. A diagram showing demand shifting to the right and supply to the left. All labels are correct. <div style="display: flex; justify-content: space-around; align-items: flex-start;">   </div> <p>Award 1 mark for:</p> <p>Diagrams that have key features missing, such as failure to label significant features like the new price or new demand curve.</p> <p>Diagrams which only show supply shifting to the left.</p> <p>Award 0 marks for:</p> <p>Diagrams which only show supply shifting to the left and have key features missing.</p> <p>Diagrams which fail to mark in any prices or outputs.</p> <p>AO3: 2 marks</p> <p>Award 2 marks for:</p> <p>Learner clearly explains at least 1 shift with good level of detail as to why the exchange rate will rise.</p> <p>Award 1 mark for:</p> <p>Learner explains the shift clearly but does not fully explain the impact on the exchange rate, or deals with the shift only superficially whilst explaining the increase in the exchange rate.</p> <p>Award 0 marks for:</p> <p>Learner only asserts shifts and appreciation – no detailed explanation.</p>	4

Q.8(b)	Explain how increasing interest rates in spring 2015 might help the Bank of England to achieve its 2% inflation target. [6]	
Band	AO2 1b	AO3
	2 marks	4 marks
	How well has the data been used to support the explanation of how rising interest rates might help to hold down inflation?	How well explained are the links between interest rates and inflation?
2	<p>2 marks</p> <p>Learner displays good application to the context of the situation described, using either key points from the text or their own knowledge to explain how a rise in rates in Spring 2015 might be appropriate:</p> <p>For example: Rapidly recovering economy will make rates rise sooner rather than later because of the need to control AD. Above inflation wage deals will likewise drive up AD and create cost pressures, adding to the need to push up interest rates to control AD.</p>	<p>3-4 marks</p> <p>Learner explains the process through which interest rates affect inflation very clearly, dealing with all of the key channels – demand pressures and import prices. The linkages are well-explained and it is clear why inflation will be cut.</p> <p>Learner deals with probable effects on consumption, investment and export demand as well as the probable impact of a stronger pound in reducing import prices (or explains that the pound will not actually be affected because the markets have already adjusted).</p>
1	<p>1 mark</p> <p>Application is rather generic – although the learner uses the UK economy as a backdrop and the context is of a recovering economy, there is no specific detail about why a rate rise would be particularly appropriate in the case of the UK either from the data or from the learner's own knowledge.</p>	<p>1-2 marks</p> <p>Learner either explains the demand side effects in detail, but ignores the exchange rate effects without explaining why.</p> <p>Or</p> <p>Deals with both AD and import prices in a superficial way, perhaps focusing on the effect on savings and simply asserting that import prices will fall.</p>
0	<p>0 marks</p> <p>Largely theoretical response, not applied to context.</p>	<p>0 marks</p> <p>Impacts on AD and import prices are only asserted.</p>

Indicative content

Increased interest rates will reduce rate of growth of consumption by:

- (i) Increasing mortgage payments for some groups.
- (ii) Reducing the rate of growth of asset prices.
- (iii) Reducing the incentive to borrow.
- (iv) Increasing the incentive to save.

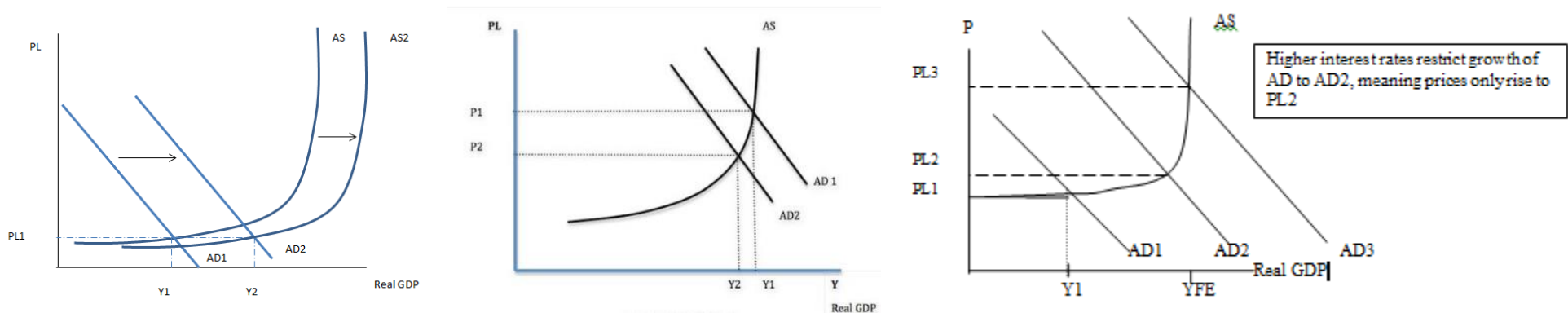
Increased interest rates may reduce the growth/level of investment by:

- (i) Reducing consumption, hence reducing pressure on capacity and reducing likely returns on investment.
- (ii) Increasing the cost of borrowing/opportunity cost of using own funds.

As noted in part (a) £ will become stronger. This will:

- (i) Drive up the price of exports in foreign currency terms, which may reduce demand for them.
- (ii) Push down the price of imported raw materials and finished goods in sterling terms, both directly and indirectly reducing inflation.

As a result of this, inflation will be reduced. Learner might explain this by reference to the wage price spiral (tougher conditions for firms mean that both pay increases will be held down and firms will be reluctant to increase prices) or perhaps with reference to appropriate AD/AS diagrams. Although the intention of the BoE is obviously not to reduce AD, accept diagrams that show AD shifting the left. Better answers use diagrams that show AD rising more slowly or AD matched to the rate of growth of AS.



Q.9	With reference to the data, discuss whether a cut in the top rate of income tax from 45% to 40% would be beneficial for the UK economy.			[6]
Band	AO1 1b	AO2 1b	AO4 1abc	
	2 marks	2 marks	2 marks	
	How well has the learner understood the impacts of a cut in income tax?	How well has the data been used to support the discussion?	How well qualified is the answer? Does it judge the extent to which a fall in the top rate of tax will actually be beneficial?	
2	<p>2 marks</p> <p>Learner shows good understanding of at least 1 side of the debate, showing a good understanding of why a cut in the top rate of income tax might or might not be desirable.</p> <p>Learner will have at least 2 well-developed ideas on either or both sides of the debate.</p>	<p>2 marks</p> <p>Learner uses the data effectively within their answer, reading directly from the graph, making reference to the actual lines and percentages shown.</p> <p>Or</p> <p>No actual numbers are used, but the learner refers directly to the high burden of tax on high income groups and also deals with the idea that this appears to have been rising over time.</p>	<p>2 marks</p> <p>Learner makes good judgements of at least 1 side of the case, showing good application to the context in their judgements.</p> <p>Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue.</p>	
1	<p>1 mark</p> <p>Learner makes only partially developed points on 1 or both sides of the debate. It is never entirely clear what the benefit or problem really is or why the cut in the top rate of tax will achieve this.</p>	<p>1 mark</p> <p>Either: Learner uses the graph but without using the data specifically – ‘rich people pay a lot of tax’, ‘the tax burden has been rising’.</p> <p>Or: Learner ignores the graph and points out that the top rate of tax has already fallen once – there is no need for a further fall.</p> <p>Or: Learner deals only with income tax, not the top rate of tax.</p>	<p>1 mark</p> <p>Learner makes brief judgements, but fails to come to an overall conclusion or does not really qualify their arguments.</p>	
0	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	

Indicative content

Beneficial:

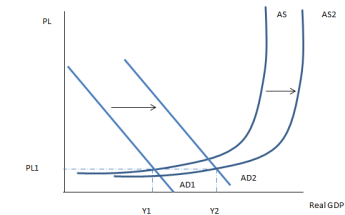
Top rate tax payers may be being driven away – burden of income tax is very high. Hence, cut in rate might lead to increase in revenue. Learner could use Laffer curve to illustrate this. **But, there is no evidence given that high tax rates are cutting yield, therefore it might simply cut tax revenue.**

Cuts in top rate of tax create incentives to entrepreneurs, hence may have positive impacts on aggregate supply. **But, corporation and capital gains tax may be more relevant in this context.**

Cuts in top rate of tax may create incentives for additional effort for top rate tax payers, again having positive impacts on AS. Learner might use AD/AS diagram to illustrate this.

Inappropriate in a global jobs market, will simply lead to ‘brain drain’.

Cut in top rate of tax might increase AD. **But marginal propensity to consume of top rate tax-payers is quite low, meaning that this impact is likely to be relatively limited.**



Not beneficial:

Top rate tax payers contribute most of income tax revenue – cutting tax rates may lead to an increase in the budget deficit, with the usual negative implications of this. **But depends – incentive effects might lead to increases in tax yield – Laffer curve.**

The top rate of tax helps to make the system more progressive – eliminating the top rate of tax, will therefore widen inequalities between rich and poor.

Fairness – high income groups can afford to pay these rates and should bear their share of the burden, might have to increase taxes elsewhere, which isn't fair, ‘bad banker’ style arguments may apply here too.

COMPONENT 2: Exploring Economic Issues

MARK SCHEME

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of economic concepts, theory, issues and arguments which might be included in learners' answers.

Q.	Mark scheme	Total
1 (a) (i)	<p>Calculate the change in the UK trade deficit between 2012 and 2013.</p> <p>AO2: 2 marks 1a</p> <p>Award 2 marks for correct answer, or for calculating both years' deficits correctly, but failing to finally subtract one from the other.</p> <p>Award 1 mark for the correct calculation of any one year.</p> <p>Award 0 marks if learner only understands that trade deficit is M-X or neither year is correct.</p> <p>2013: £304.3bn - £412.6bn= -£108.3bn 2012: £300.5bn - £409.2bn= -£108.7bn</p> <p>Therefore trade deficit fell by £0.4bn (or £400m) between 2012 and 2013.</p>	2

Q.1(a) (ii)	Using the data, explain why the UK's trade deficit remains high.		[6]
Band	AO1 1ab	AO2 1ab	
	4 marks	2 marks	
	Does the learner understand the factors that drive a trade deficit?	Has the case been used well to explain why the UK's deficit remains high?	
2	<p>3-4 marks</p> <p>Learner shows good understanding of the reasons that exports have not risen enough.</p> <p>Learner also shows good understanding of why imports have risen, either as a result of sustained demand/recovery or other appropriate factors.</p> <p>Learner shows a good understanding of what the trade deficit is and why it has remained high – that exports have risen but imports have risen by more.</p> <p>Learner does not have to use factors from the case.</p>	<p>2 marks</p> <p>Learner uses the data effectively to explain why the trade deficit is still high, identifying factors relevant to both imports and exports. Points include:</p> <ul style="list-style-type: none"> • Eurozone crisis • Poor productivity • Low investment • Expansionary policy • Minimum wage. 	
1	<p>1-2 marks</p> <p>Learner shows basic understanding of exports and/or imports. OR Learner demonstrates clear understanding of either exports or imports.</p> <p>Brief reference to the trade deficit.</p>	<p>1 mark</p> <p>Learner only applies their answer to imports or exports, not both, or only superficial use has been made in response to both M and X.</p>	
0	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	

Indicative content

In principle the trade deficit should have fallen as a result of the depreciation of the exchange rate. This should have led to a fall in the price of exports and a rise in the price of imports, which should have caused X to rise and M to fall, hence improving the trade balance.

However, although sterling fell by 25% during the recession, exports have not really responded because of:

Problems in the EU which have meant that even though export prices have fallen, EU consumers have not been able to buy them in sufficient numbers, or have lacked the confidence to do so.

Poor productivity performance which has meant that UK firms have not been able to improve quality or reduce costs and prices as much as might have been hoped.

Low levels of investment meaning that quality may not be adequate or costs of production remain high.

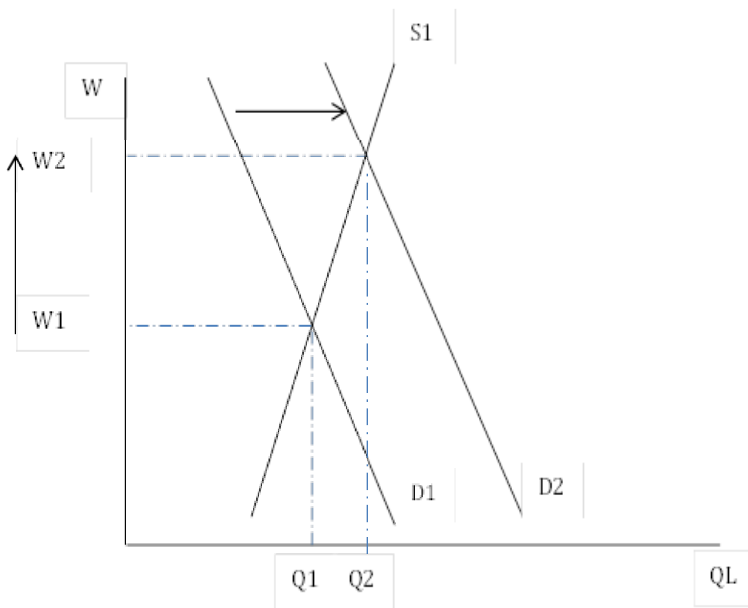
Learner can use high minimum wage level, driving up costs and affecting competitiveness (although article talks about future increase).

Imports remain high for similar reasons, but also:

Article identifies Keynesian policies that have sustained demand plus the economic upturn. These have led to increased consumption which has led to the UK sucking in imports.

UK cannot use its own protectionist measures as a result of EU membership, limiting the UK's ability to restrict imports.

Learner may bring in their own ideas for AO3 – allow anything plausible – competition from Asia etc.

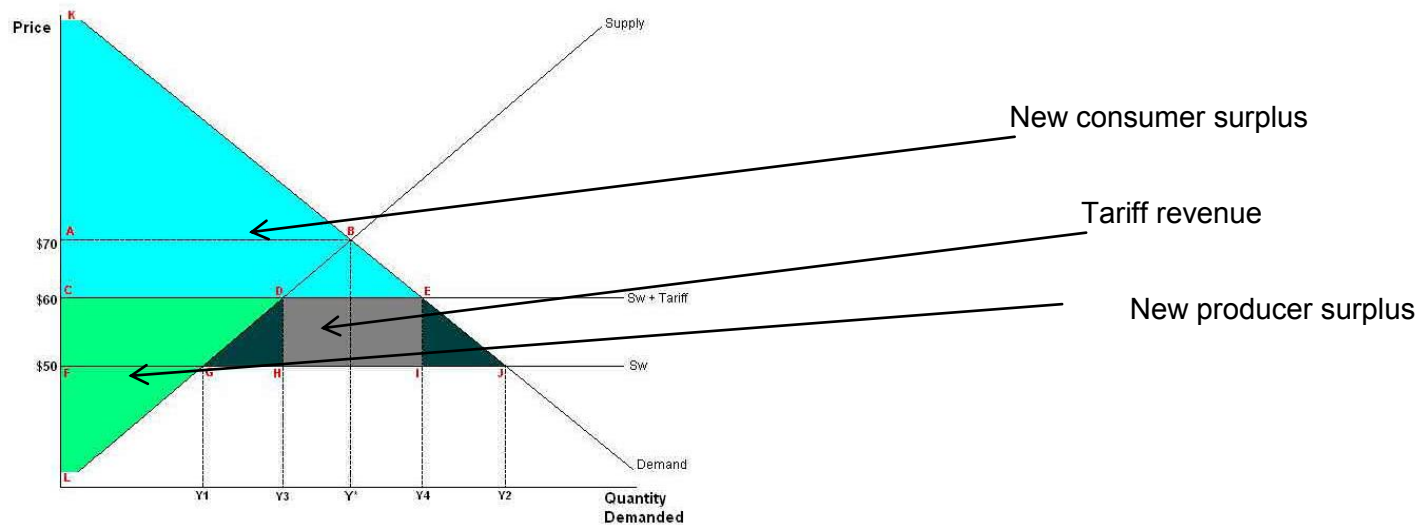
Q.	Mark scheme	Total
1(b) (i)	<p>Using a supply and demand diagram, explain why the imposition of a tariff might raise wage levels.</p> <p>AO1: 2 marks 1ab</p> <p>Award 2 marks for a correct labour market diagram showing an increase in demand for labour without a shift in supply.</p> <p>Award 1 mark for a correct diagram, but with labelling errors – prices instead of wages (price of labour is OK), missing labels and so on.</p> <p>Award 0 marks for diagrams that do not have demand shifting to the right, or which are essentially unlabelled.</p> 	6

AO3: 4 marks

Band 2	<p>3-4 marks</p> <p>Learner explains effectively how a tariff will be likely to make imported goods uncompetitive, increasing the demand for domestic goods and hence increasing the derived demand for UK labour. This is well related to the diagram – links between the context and the diagram are clear. Might argue that UK firms' profits are higher allowing for higher wages.</p>
Band 1	<p>1-2 Marks</p> <p>Learner makes an attempt to link tariffs to wages, but the explanation is not well developed – learner may not show that the tariff will increase the demand for goods and that the demand for labour will depend on this.</p>
Band 0	<p>0 Marks</p> <p>Answer does not explain why wages are rising– learner draws a diagram that shows wages rising, but learner is unable to put the answer into context – it is unclear how an increase in the tariff links to the diagram or how wages might be affected.</p>

Q.1(b) (ii)	Discuss whether an increase in tariffs by the EU is likely to be good for EU economies.			[10]
Band	AO1 1ab	AO3	AO4 1abc	
	2 marks	4 marks	4 marks	
	Has the diagram been drawn correctly?	Has the diagram been used to explain costs or benefits?	Have the arguments been qualified and summed up whether an increase in tariffs is likely to be beneficial for EU economies?	
2	2 marks Learner draws a correct tariff diagram to illustrate the impact on the economy. Diagram is effectively labelled with no serious errors or omissions.	3-4 marks Learner uses the diagram well to analyse the question – diagram is used effectively to illustrate at least 2 key impacts that a tariff might have on the economy – reduced imports, tariff revenue, increased producer surplus/increased producer revenue, reduced consumer surplus. These are not simply identified on the diagram – learner shows understanding of what the diagram means.	3-4 marks Learner makes well-reasoned judgements of both sides of the case, showing good application to the context in their judgements. Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue. Answers in this band are likely to have an overall conclusion as to how beneficial the imposition of tariffs is likely to be to EU economies.	
1	1 mark Learner makes an attempt at the tariff diagram. The diagram is broadly correct in terms of what it is trying to show, but labels are inaccurate in some major respect. Or Learner uses an AD/AS diagram completely accurately (AD shifts right, all labels accurate).	1- 2 marks Learner identifies key features that are relevant for the economy, but only really explains 1 of them effectively – others are simply asserted.	1-2 marks The evaluation is either one-sided or two-sided with limited qualification. The answer is unlikely to have a well-reasoned final conclusion.	
0	0 marks No correct diagram.	0 marks Response not credit worthy or not attempted.	0 marks Response not credit worthy or not attempted.	

Indicative content



Beneficial:

Increased tariffs can help to protect jobs in certain key sectors – this may be particularly important for declining sectors facing severe market disruption. **But** firms relying on imported components may face rising costs and have to shed jobs.

Increased tariffs increase domestic market share, because import prices now rise. **But** there is a risk of retaliation causing job losses in export sectors.

Increased tariffs can raise revenue for EU governments.

Increased tariffs may increase profits for some domestic firms.

May prevent dumping by heavily subsidised overseas firms.

May be necessary to protect strategic/infant/sunset industries.

Not beneficial:

Tariffs can drive up domestic inflation **but** it depends on how many sectors are affected.

Tariffs can drive up the costs of firms further down the production chain hence costing more jobs than are saved.

Tariffs may invite retaliation from abroad, hence causing job losses in export sectors.

Prices will be driven up for consumers, causing a loss of consumer surplus.

Tariffs protect inefficient domestic firms, resulting in a misallocation of resources.

Depends on

Which sectors are protected – in some cases protection may be important for strategic, declining industry, infant industry reasons and so on, hence may be more justifiable under some circumstances than others.

Not all EU economies are the same – may have more impact on some than others.

Q.1(c)	Discuss whether a rise in the national minimum wage would be likely to worsen the UK's trade position.			[8]
Band	AO1 1b	AO3	AO4 1ab	
	2 marks	2 marks	4 marks	
	Does the learner identify relevant factors?	Does the learner explain the factors in terms of the impact on the trade position?	Are the factors qualified/has a conclusion been reached?	
2	<p>2 marks</p> <p>Learner has good understanding of at least 3 ways in which an increase in the minimum wage might or might not affect the UK's trade position.</p>	<p>2 marks</p> <p>Learner develops at least 3 factors explained in AO1 to illustrate clearly the impact (or not) on either imports or exports or both. Answers in this band will explain specifically the impact on imports/exports and hence the trade deficit rather than simply talking generally about the trade deficit.</p> <p>Clear chains of reasoning are present – points are well developed and have substance, but can be on either or both sides of the debate.</p>	<p>3-4 marks</p> <p>Learner makes well-reasoned judgements of both sides of the case, showing good application to the context.</p> <p>Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue.</p>	
1	<p>1 mark</p> <p>Learner understands 1 or 2 ways in which an increase in the minimum wage might affect the UK's trade position. Or Learner makes a larger number of scattered points, but does not really demonstrate clear understanding.</p>	<p>1 mark</p> <p>Learner develops their points to some extent – points made are clearly linked to the concept of the trade deficit, but the range of developed points is limited to only 1 or 2 key impacts, with other points being superficial.</p>	<p>1-2 marks</p> <p>The evaluation is either one-sided or two-sided with little qualification.</p> <p>The answer is unlikely to have a well-reasoned final conclusion.</p>	
0	<p>0 marks</p> <p>No relevant content.</p>	<p>0 marks</p> <p>No reasoned argument present.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	

Indicative content

Yes:

Increase in minimum wage will drive up UK firms' costs, hence making UK firms uncompetitive, especially in the context of low productivity and investment. Also EU markets may be more price sensitive with high unemployment.

Increase in minimum wage may reduce UK firms' profits, reducing funds for investment, damaging competitiveness.

Increase in minimum wage might increase demand in the economy, sucking in more imports.

Increase in minimum wage may lead to disinvestment/fall in FDI again damaging the UK's trade position going forward.

But:

Minimum wage affects only about 1 million workers – not that significant.

UK exports are high value added as a rule.

Minimum wage jobs do not generally compete with imports.

Likely rise in minimum wage is low – not much impact (depends on how much the increase is).

Depends on what is happening elsewhere – minimum wages in the EU? Rising wages in China? Possibility of falling exchange rate offsetting the cost disadvantage. Depends on whether the EU economy starts to recover.

Q.1(d)	With reference to the data and figures 1 and 2, discuss how effective the plans announced in Budget 2013 are likely to be in eliminating the UK's productivity gap with its major competitors.				[8]
Band	AO1 1c	AO2 1c	AO3	AO4 1ab	
	2 marks	2 marks	2 marks	2 marks	
	Does the learner understand productivity?	Does the learner use the data to support their arguments?	Has the learner explained how the factors identified might affect the productivity gap?	Does the learner judge the effectiveness of the budget plans in terms of how likely they are to close the productivity gap?	
2	2 marks Learner understands clearly what is meant by both productivity and the productivity gap. Definitions are not required, but the learner will show a clear understanding that productivity refers to (for example) output/worker.	2 marks Learner uses the data directly to answer the question. The figures on productivity and/or investment are used directly – either specific figures or a very strong description of what the data is saying. The learner clearly understands the size of the productivity gap.	2 marks Learner deals with at least 2 of the 3 issues mentioned as part of the government's budget, and makes a clear line of reasoning as to how the government's policy will in principle raise productivity in each case. Clear chains of reasoning are present – points are well developed and have substance.	2 marks Learner makes well-reasoned judgements of at least 2 of the policies, showing an understanding that the policies shown may not close the productivity gap easily. The evaluation is in context, (for example 'time lags' needs to be explained – why will there be lags). Alternatively judgements might be more limited but the learner may come to a conclusion that is well applied to the issue.	
1	1 mark Learner has limited understanding of productivity, but their understanding is not really sound – at times they mix up productivity with production, or view productivity simply as increasing AS/PPFs.	1 mark There is some data/real-world content used, but points are brief and at most only one of the points has depth. Learner does not make good use of the productivity gap/ investment charts, but does use other pieces of information to support their argument.	1 mark Learner develops their points to some extent – points made are clearly linked to productivity but the range of developed points is limited to only 1 of the bullet points (although other bullets may have been developed superficially).	1 mark Learner only judges 1 of the policies listed in any depth. Other evaluation does not engage with the issue.	
0	0 marks Learner does not understand productivity.	0 marks Answer is entirely theoretical or data use is very lightweight (just eg x).	0 marks No reasoned argument present.	0 marks Not relevant evaluation.	

Indicative content

Cuts in corporation tax should:

Encourage investment (both domestic and FDI) which is likely to be important because investment has been falling steadily as a percentage of GDP in recent years. Investment should increase the efficiency of businesses and the workforce, hence increasing productivity.

However, there is no guarantee that cutting corporation tax will increase investment, let alone productivity. With low confidence and low AD, many firms have been hoarding cash, or alternatively returning it to shareholders through higher dividends or share buy-backs.

Even if investment does rise, there is no guarantee that it will increase productivity, partly because of the risk of malinvestment.

Corporation tax is lower in Ireland than in the UK but Ireland has received significant FDI, suggesting that corporation tax might have an impact.

Corporation tax doesn't matter to some of the largest firms, who see to be avoid paying it in the UK.

Increases in capital spending should:

Encourage FDI, bringing better technology and skills to the UK, helping to raise productivity.

Assist UK firms' productivity directly by allowing more efficient operation of business through better transport and information infrastructure.

Capital spending in health and education may allow firms access to a better, higher skilled workforce, again allowing output/worker to be higher.

But £3bn isn't that significant.

Support for industry and R and D should:

Also encourage investment, particularly into new technology, which can have a very significant impact on productivity.

But much depends:

Productivity gap with the US is very big – will take a long time to come down.

SSPs are notorious in terms of time lags – will be difficult to cut the gap soon.

Other factors are important too – these policies will only form a part of the solution.

Productivity will be rising in other countries too, hence it's not just that productivity needs to rise, it needs to rise faster than it is in other countries for the gap to close.

Bigger with some countries than others – productivity already higher than Japan.

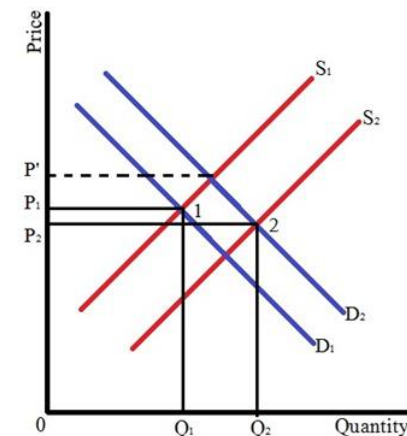
Q.	Mark scheme	Total
2 (a)	<p>Using figure 1 calculate the percentage increase in Band A APD from 1996 to 2014.</p> <p>AO1: 1 mark 1a AO2: 1 mark 1a</p> <p>Award 2 marks for increase in tax/Original tax x 100 = 8/5 x 100 = 160%.</p> <p>Award 1 mark for correct method of calculation/working but the answer is incorrect.</p>	2

Q.2(b)	Using the data and with the aid of a supply and demand diagram explain why passenger numbers have increased in recent years. [6]	
Band	AO1 1c	AO2 1c
	4 marks	2 marks
	How well has the learner drawn and explained an appropriate diagram?	How well has the case study been used to explain the rise in passenger numbers?
2	3-4 marks Learner draws a correct diagram with no serious errors or omissions and shows good understanding of why demand and supply are both rising.	2 marks Learner correctly identifies at least 1 supply factor and at least 1 demand factor increasing the passenger numbers.
1	1-2 marks Either learner only draws a correct diagram with no development. Or Diagram only has one correct shift drawn and explained.	1 mark Learner identifies only supply or demand factors, not both.
0	0 marks Diagram is incorrect.	0 marks Answer does not apply to context – no mention of factors from the data.

Indicative content

Learner explains the rise in demand – rising incomes relative to fares, new destinations to travel to.

Learner explains the rise in supply – more flights/airlines, low cost airlines.



Q.2(c) Comment on the income elasticity of demand for air travel. [4]			
Band	AO1 1a	AO2 1a	AO3
	2 marks	1 mark	1 mark
	How good an understanding of YED is shown?	Has the data been used?	Has the relationship been explained?
2	2 marks Learner shows good understanding of income elasticity of demand – it is clear from a formula or description that they understand that YED shows the responsiveness of demand to a change in income.	1 mark Learner uses the data to show the links between income and air travel. Incomes have risen over the last 20 years and since 1990 passenger numbers have risen by 113%.	1 mark Learner analyses the link effectively, making good use of theory and terminology. Air travel is identified as a normal good and learner understands that YED is positive for such goods.
1	1 mark Learner shows basic understanding of income elasticity of demand. Answers in this band are likely to understand that YED shows the link between income and demand but not show understanding of proportionality.		
0	0 marks Response not credit worthy or not attempted.	0 marks Response not credit worthy or not attempted.	0 marks No developed arguments.

Indicative content

Over the last twenty years as incomes have risen.

Since 1990 passenger numbers in the UK have increased by 113 per cent.

Both income and demand have risen, making income elasticity positive. Hence air travel is a normal good.

Income elasticity shows the responsiveness of demand to a change in income.

$$\text{YED} = \frac{\text{Percentage Change in Quantity demanded}}{\text{Percentage Change in Income}}$$

Q.2(d)(i)	Using examples from the data explain the meaning of government failure. [4]	
Band	AO1 1a	AO2 1a
	2 marks	2 marks
	How good is the understanding of government failure?	How well has the data been used to explain government failure in context?
2	<p>2 marks</p> <p>Good understanding of government failure shown. A clear definition or a good explanation that makes it clear that the learner understands all the elements of government failure.</p>	<p>2 marks</p> <p>Data used clearly and effectively to show how resources have been misallocated as a result of government intervention. For example: Government intervention intended to reduce emissions may actually have increased them – hence consumers are paying more as a result of the tax, but the situation is actually worse than before the intervention (Other possibilities in indicative content below).</p>
1	<p>1 mark</p> <p>Basic understanding of government failure shown. Answers in this band may understand that policies have failed to work or have been counter-productive in some way, but do not show a full understanding of the concept.</p>	<p>1 mark</p> <p>Data used partially developed to suggest that something went wrong, but the answer is not fully developed. Some aspects of band 2 are incorporated, but are not well-developed in the context of government failure – the problems identified are not clearly shown to result in government failure.</p>
0	<p>0 marks</p> <p>Understanding of government failure is extremely limited.</p>	<p>0 marks</p> <p>Data not used in a relevant fashion.</p>

Indicative content

AO1: Government failure

Government failure may be seen as a situation where government intervention in markets results in a misallocation of resources and welfare loss.

Even with good intentions governments seldom get their policy application correct. They can tax, control and regulate but the outcome may be a deepening of the market failure or even worse a new failure may arise.

Government failure may range from the trivial, when intervention is merely ineffective, but where harm is restricted to the cost of resources used up and wasted by the intervention, to cases where intervention produces new and more serious problems that did not exist before. The consequences of this can take many years to reverse.

AO2: Context

APD is designed to reduce emissions but the data suggests that it may have increased them. Learner explains some or all of the following extract. "It has also been argued that Air Passenger Duty actually increases emissions because travellers are drawn towards taking connecting flights via other European airports rather than flying direct, so as to avoid the tax".

Or: The abolition of APD would lead to... "60,000 jobs would be created, GDP would be boosted by 0.46% and net tax revenue would actually rise by £480m".

Alternatively, learners might argue that higher taxes reduce aviation profits, therefore resulting in less innovation; "... planes are becoming less noisy, more fuel efficient and less damaging to the environment."

Q.2(d) (ii)	Using examples from the data explain the meaning of external costs. [4]	
Band	AO1 1a	AO2 1a
	2 marks	2 marks
	How good is the understanding of external costs?	How well has the data been used to explain why there are external costs in this context?
2	<p>2 marks</p> <p>Good understanding of external costs shown. In particular it is clear why the costs are 'external' – that it is clear that they are not paid for as part of the price mechanism.</p>	<p>2 marks</p> <p>Data used clearly and effectively to show why in this case the costs are external to consumers and producers. Learner clearly identifies problems and links these to the concept of external costs.</p>
1	<p>1 mark</p> <p>Basic understanding of external costs shown. Learner may explain that they have an impact on third parties, but not be clear about what this really means.</p>	<p>1 mark</p> <p>Data used partially to suggest that costs are external, but the 'external' part is not made completely clear. Learner may identify problems such as climate change, but not really relate this back fully to the concept of external costs – may not be clear why the problem identified is both a cost and external.</p>
0	<p>0 marks</p> <p>Extremely limited understanding of external costs shown.</p>	<p>0 marks</p> <p>Data not used in a relevant fashion.</p>

Indicative content

AO1

External costs are negative impacts on third parties that are not taken into account by consumers or producers because the consumers and producers do not have to pay for the damage caused. Hence the costs are 'external' to the price mechanism or to producers/consumers.

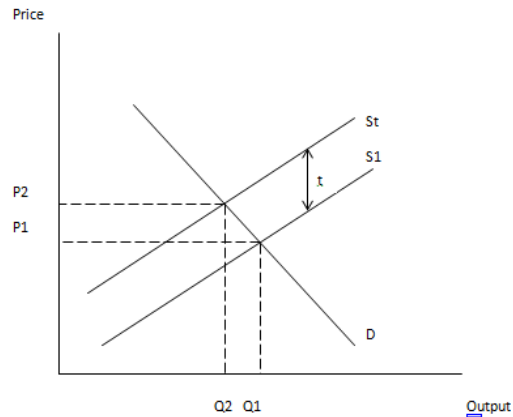
AO2

Learner uses the context to explain what is meant by the term external costs, probably using elements of this section: "air travel is the world's fastest growing source of greenhouse gases like carbon dioxide, which cause climate change. Globally the world's 16,000 commercial jet aircraft generate more than 600 million tonnes of carbon dioxide (CO₂), the world's major greenhouse gas, per year. Indeed aviation generates nearly as much CO₂ annually as that from all human activities in Africa." It is clear that the impacts are not paid for by air passengers and airlines in a free market situation.

Q.2(e) How far do you agree with the view that Air Passenger Duty is the best way to correct market failure in the air travel industry? Use a diagram to illustrate your answer. [10]			
Band	AO1 1c	AO3	AO4 1abc
	2 marks	4 marks	4 marks
	Has the learner drawn the correct diagram?	How well has the learner explained how APD might or might not correct market failure?	How well has the learner qualified and discussed the impact of APD on market failure?
2	<p>2 marks</p> <p>Learner draws a correct diagram to illustrate the impact of APD on demand. Diagram is effectively labelled with no serious errors or omissions.</p> <p>Alternatively learner may draw a well labelled diagram to illustrate an alternate approach. Diagram is effectively labelled with no serious errors or omissions.</p>	<p>3-4 marks</p> <p>Learner explains clearly why market failure either will or won't be corrected. Answer is tied in closely to the concept of market failure and it is clear how the tax will help to correct the misallocation of resources. At least 3 clear lines of argument are present.</p>	<p>3-4 marks</p> <p>Learner makes well-reasoned judgements of both sides of the case, showing good application to the context.</p> <p>Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue.</p> <p>Answers in this band are likely to have an overall conclusion as to how beneficial APD is likely to be in terms of correcting market failure.</p>
1	<p>1 mark</p> <p>Learner makes an attempt at a diagram. The diagram is broadly correct in terms of what it is trying to show, but labels are inaccurate in some major respect.</p>	<p>1-2 marks</p> <p>Learner explains that market failure will be corrected, but answers tend to focus simply on the idea that external costs will be reduced rather than focussing more explicitly on the concept of market failure and resource misallocation.</p> <p>Alternatively, the answer is very narrow and focusses only 1 or 2 main arguments.</p>	<p>1-2 marks</p> <p>The evaluation is either one-sided or two-sided with limited qualification.</p> <p>The answer is unlikely to have a well-reasoned final conclusion.</p>
0	<p>0 marks</p> <p>No correct diagram or an attempt at the diagram showing serious misunderstandings (e.g. supply curve is not shifted and a higher price is simply marked on).</p>	<p>0 marks</p> <p>Learner generally asserts that market failure will be corrected, perhaps by using their diagram to show simply that price is higher and output lower than before.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

Diagram to show the effects of a tax:



AO3

- Learner explains that a tax will decrease quantity demanded and lead to fewer flights because it will raise price. The tax will internalise the externality shifting the supply curve to the left as it is an indirect tax. Price now reflects the full social cost of the flight.
- Resources are now not misallocated, because price is high enough to control demand – firm is now paying the external cost.

Application and Evaluation

- Learner recognises that the demand for flights may be price inelastic and the difficulties of setting a tax equal to marginal external cost, perhaps explained in the context of estimating the costs of global warming.
- Effects reduced because other countries don't have APD and the tax can be avoided by some travellers.
- APD does not consider the number of passengers on the plane.

- Other policies better such as tax per plane not per passenger with the tax related to the size of aircraft and emissions/noise from that type of plane.
- APD seems to be causing passengers to fly via other European hubs, travelling longer distances and increasing external costs.
- Abolition of APD would lead to: 60,000 jobs would be created, GDP would be boosted by 0.46% and net tax revenue would actually rise by £480m.
- Easier to put VAT on fuel or ticket prices.
- Effects of APD depend on the size of the tax imposed.
- Reduce runway capacity/limit the number of flights might be a more appropriate policy, but this would have problems of its own.

Q.2(f)	In recent months the exchange rate of the pound has risen and in January 2014 climbed to \$1.6615 against the US dollar - a two-and-a-half year high. Discuss the effect of this rise in the pound on UK airlines such as British Airways and easyJet. [10]		
Band	AO1 1b	AO3	AO4 1ab
	2 marks	4 marks	4 marks
	Is there a good understanding demonstrated of the impact of a strong currency on import and export prices?	How good is the explanation of the link between the rising exchange and airlines?	How well judged are the arguments in terms of the size and nature of the impact and the factors that it might depend on?
2	<p>2 marks</p> <p>Learner shows a good understanding of what an increase in the value of the £ will do in terms of import and export prices.</p>	<p>3-4 marks</p> <p>Learner explains clearly how the change in the exchange rate will or will not impact on the airlines. Answers will tend to look at demand, revenue and perhaps costs (although this is not essential).</p> <p>At least 2 separate impacts have been explained in some depth.</p>	<p>3-4 marks</p> <p>Learner makes well-reasoned judgements of both sides of the case, showing good application to the context.</p> <p>Alternatively they might judge each side to a more limited extent and come to a conclusion that is well applied to the issue.</p> <p>Answers in this band are likely to have an overall conclusion as to how beneficial APD is likely to be in terms of correcting market failure.</p>
1	<p>1 mark</p> <p>Understanding is more limited – learner perhaps only refers to import or export prices, rather than both.</p> <p>Might only show an understanding of what a strong £ actually means rather than showing an understanding of its implications.</p>	<p>2-3 marks</p> <p>Impact on the airlines is developed, but is perhaps rather narrow, tending to focus only on tourism effects, or chains of argument tend to be relatively short.</p>	<p>1-2 marks</p> <p>The evaluation is either one-sided or two-sided with limited qualification.</p> <p>The answer is unlikely to have a well-reasoned final conclusion.</p>
0	<p>0 marks</p> <p>Misunderstanding of what strong currency means.</p>	<p>0 marks</p> <p>Impacts on airlines are generally asserted rather than explained.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

Airlines benefit:

- Rise in the pound will benefit airlines taking passenger bookings from the UK to destinations (for holidays which will be cheaper in sterling terms). **But** price elasticity of demand may be relatively inelastic for holidays, or they may have been booked some time in advance, meaning that any impact may be in the medium term.
- Airlines carry more imported freight because imports to the UK are cheaper. **Likewise**, impact may take some time – freight costs may be only a small part of the cost of final products, meaning that the impact may be limited.
- Buying planes and fuel may be cheaper as these are priced in dollars which the pound may have risen against, but the rise may only be temporary and often firms buy these things significantly in advance to guard against currency fluctuations.

Alternatively:

- Fewer foreign travellers visit the UK due to the UK being more expensive. Hence demand and revenue may actually fall.
- Fewer UK exports will be carried as freight due to UK exports being more expensive.

But also:

- Internal UK flights will not be affected.
- Airlines may absorb the exchange rate effects (although this might then reduce profits).
- Might have more effect on low cost carriers because PED may be higher.
- Pound has risen only against the dollar, therefore much will depend on how important transatlantic flights are to the airlines. This may vary depending on which airline is being discussed.

MAPPING GRID OF ASSESSMENT OBJECTIVES

Question	ASSESSMENT OBJECTIVES					Quantitative skills marks
	AO1 marks	AO2 marks	AO3 marks	AO4 marks	Total marks	
COMPONENT 1: Introduction to Economic Principles						
1 (a)	2 1a	2 1a	0	0	4	2
1 (b)	2 1a	2 1a	0	0	4	2
2	0	4 1a	0	0	4	4
3	1 1b	3 1ab	0	0	4	3
4	2 1a	2 1a	0	2 1ab	6	0
5	1 1c	1 1c	2	4 1abc	8	1
6	0	2 1a	0	0	2	2
7 (a)	2 1c	2 1c	0	0	4	0
7 (b)	0	2 1b	2	4 1abc	8	0
8 (a)	2 1c	0	2	0	4	2
8 (b)	0	2 1b	4	0	6	0
9	2 1b	2 1b	0	2 1abc	6	0
Total	14	24	10	12	60	16
COMPONENT 2: Exploring Economic Issues						
1 (a) (i)	0	2 1a	0	0	2	2
1 (a) (ii)	4 1ab	2 1ab	0	0	6	2
1 (b) (i)	2 1ab	0	4	0	6	2
1 (b) (ii)	2 1ab	0	4	4 1abc	10	0
1 (c)	2 1b	0	2	4 1ab	8	0
1 (d)	2 1c	2 1c	2	2 1ab	8	0
2 (a)	1 1a	1 1a	0	0	2	1
2 (b)	4 1c	2 1c	0	0	6	2
2 (c)	2 1a	1 1a	1	0	4	0
2 (d)	4 1a	4 1a	0	0	8	0
2 (e)	2 1c	0	4	4 1abc	10	0
2 (f)	2 1b	0	4	4 1ab	10	0
Total	27	14	21	18	80	9
Total marks per series	41	38	31	30	140	25
Total marks as %	29%	27%	22%	21%	100%	18%
AO% range	28-30%	26-28%	21-23%	21-23%	100%	Min 15%

MAPPING GRID OF CONTENT COVERAGE

Specification Content	Component 1	Component 2
Scarcity, choice & opportunity cost		
PPFs		
Specialisation, division of labour & exchange		
Factors influencing demand & supply in product markets	1(a) 1(b)	2(b)
The determination of equilibrium price & output in a freely competitive market	1(a) 1(b)	2(b)
Consumer & producer surplus		
Price, income & cross price elasticities of demand, price elasticity of supply	3	2(c)
Wage determination		1b(i)
Labour market issues		1(c)
How resources are allocated in a free market economy	1(a) 1(b)	2(b)
Understanding market failure	4, 5	2(dii) 2(e)
Why & how governments intervene in markets	2, 5	2(e)
The effects of government intervention	2, 5	2(di) 2(e)
The circular flow of income model		
Components of AD	7(a)	
The AD function		
The AS function		
AD/AS analysis	7(b) 8(b)	
Government policy & objectives	6 7(b) 8(b) 9	1(c)
Fiscal policy	9	1(d)
Monetary policy	8(a) 8(b)	
Exchange rates & exchange rate policy	8(a)	2(f)
Supply side policies		1(d)
Free trade & protectionism		1(ai) 1(aii) 1(bii)