



# **General Certificate of Education**

# **Economics**

## **ECN5: Business Economics and Distribution of Income**

## **Mark Scheme**

*2007 examination - June series*

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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## Advanced Level Economics

June 2007

ECN5

### MARK SCHEME

#### General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker must identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is also shown on page 5. The level chosen should be the one which **best fits** the answer provided by the candidate. It is not intended that the answer should satisfy every statement in the level description.

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## APPLYING THE 'LEVELS' MARK SCHEME

### Levels of Response Mark Band Descriptors

**Level 1:**

Few, if any, relevant issues recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar are likely to be poor. There is very little use of specialist vocabulary.

**0 to 6 marks** (*Mid-Point: 3 marks*)

**Level 2:**

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

**7 to 12 marks** (*Mid-Point: 10 marks*)

**Level 3:**

A few issues recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of issues, arguments and evidence is limited and superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.

**13 to 20 marks** (*Mid-Point: 17 marks*)

**Level 4:**

Several relevant issues identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary which is used with facility.

**21 to 26 marks** (*Mid-Point: 24 marks*)

**Level 5:**

Several relevant issues identified. Good understanding of economic concepts and principles demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.

**27 to 30 marks** (*Mid-Point: 29 marks*)

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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.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

## QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

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

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

## Synoptic Assessment

All questions in this unit are synoptic. Therefore candidates 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.

They 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.

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**Section A****Total for this question: 50 marks**

1(a) Using **Extract A**, compare **two** ways in which the composition of the wealth of UK residents aged 50 to 65 changes as their wealth increases. *(4 marks)*

**Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference(s) to the data). The valid points include:**

- The state pension, which accounted for nearly 90% of the wealth of the poorest decile group, continuously falls to less than 10% of wealth of the richest decile group
- Private pensions, which accounted for less than 10% of the wealth of the poorest decile group, rises to between 30% and 40% of wealth of the richest decile group
- But private pensions fell as a proportion of total wealth for the richest decile group, compared to at least two of the decile groups immediately below the richest decile group
- Housing, which accounted for less than 5% of the wealth of the poorest decile group, rose to peak at about 30% of the wealth of the fourth and fifth decile groups
- But housing then fell in the higher income decile groups, to around 20% of wealth for the richest decile group
- Any other valid point, e.g. comparisons of two of the types of wealth

A maximum of **1 mark** may be awarded if the candidate simply trawls through the data, with no attempt at comparison, or if only one point of comparison is made.

A maximum of **2 marks** may be awarded if no use is made of statistics.

A maximum of **3 marks** may be awarded where there is evidence of an overview being taken, even though part of the answer gives an impression of a trawl through the data.

**MAXIMUM FOR PART (a) 4 MARKS**

1(b) **Extract B** identifies two factors that promote wealth inequality.

Explain the difference between wealth and income **and** explain **one** factor which causes wealth inequality. (6 marks)

**For answers to the first part of the question, award the following marks to candidates who:**

provide an acceptable definition of wealth, e.g. wealth as a *stock* of accumulated assets: **1 mark**

provide an acceptable definition of income, e.g. income as a *flow* of output or wealth, or as money received over a period: **1 mark**

(**1 mark** for solely stating that wealth is a stock and income is a flow, though a **further mark** can be earned for providing accurate examples of **both** wealth and income.)

**Maximum of 2 marks for explaining the difference between wealth and income**

**For answers to the second part of the question:**

**Up to 5 marks** are available for explanation of the role of saving OR the role of home ownership. (No marks for simply stating the role of saving or home ownership.) In a similar way, **up to 5 marks** are available for explanation of a factor not mentioned in the preamble of the question. e.g. the role of inheritance. (In this case, 1 mark is available for identification of the factor.) If more than one factor is explained, award marks only for the best explanation.

**For the role of saving, award up to 3 marks for each of the following:**

- an explanation how saving adds to the wealth of older age groups
- an explanation how old people's wealth may fall compared to relatively younger people, as they run down stocks of previously accumulated wealth to finance old age

**For the role of housing, award up to 3 marks for each of the following:**

- an explanation of how home ownership or lack of ownership affects the distribution of wealth between rich and poor
- an explanation of why the value of the property owned by the better off has generally risen faster than the value of other forms of wealth which form a larger fraction of the assets owned by the poor, e.g. claims on the state pension (which are a form of non-marketable wealth).

Reward any other valid explanation with respect to the chosen factor

**MAXIMUM FOR PART (b) 6 MARKS**

1(c) 'Society may come to the view that too much inequality is unacceptable or undesirable' (Extract C, lines 3-4).

Analyse how the existence of inequality can cause economic problems, such as market failure. (10 marks)

Most candidates will probably accept without question that income and/or wealth inequalities are a form of market failure. However, some centres teach their students that market failure should be defined in a narrower way, i.e. solely in terms of market inefficiency and not in terms of alleged inequity resulting from the operation of markets. If this is the only argument the candidate makes, a good statement of the argument can reach Level 2. However, this argument on its own is not sufficient to reach Level 3. This is because inequalities in the distribution of income and wealth are clearly a part of the market failures listed in the Module 1 specification, and the Module 5 specification then states that, for the Unit 5 examination, candidates are clearly expected to extend and develop the models of market failure introduced in Module 1. The words *such as* in the question may be significant: award marks for relevant analysis of economic problems *other than* market failure.

**Issues and areas for analysis include:**

- The meaning of market failure
- The links between inequality and inequity
- How market forces operating in labour markets may lead to inequality
- Relevant use of the concepts of vertical and horizontal equity
- Linking an unequal distribution of income to under-consumption of merit goods such as education
- Linking an unequal distribution of income to over-consumption of demerit goods such as tobacco
- Linking an unequal distribution of income to inequitable consumption externalities, e.g. the poor living in polluted neighbourhoods
- Inequality linked to poverty, eg its effect on poverty

**LEVEL 1**

At the bottom of the range, the candidate does not attempt any analysis, and goes no further than providing a general purpose definition of market failure. At the top of the range, the candidate goes further by linking income inequality to an economic problem such as market failure, but without any analysis. **1 to 3 marks**

**LEVEL 2**

At the bottom of the range, the candidate provides a basic analysis of how inequality may lead to an economic problem. At the top of the range, **one** problem is analysed **and a second** economic problem is identified. **4 to 7 marks**

**LEVEL 3**

At the bottom of the range, the candidate analyses **two** economic problems. At the top of the range, very good analysis is provided of **at least two** economic problems. **8 to 10 marks**

**MAXIMUM FOR PART (c) 10 MARKS**

1(d) Using the data and your economic knowledge, evaluate the view that the most effective way to reduce poverty is to increase significantly the state pension. *(30 marks)*

It is expected that candidates will provide a definition of poverty, before explaining how increasing the state old age pension can reduce poverty. There must be evidence of evaluation for candidates to score **19 marks** or above, and evaluation requires reference to methods of reducing poverty other than by raising the state pension. Each argument introduced into the answer may be evaluated in turn, and/or the candidate may give some overall assessment of the issues.

To score **24 marks** or more, candidates must make reference to the data. References to Extract B should be most useful. Evaluation could include commenting on the relative merits of increasing private and state pensions, and arguing that increasing pensions has no effect on the poverty of the unemployed or low-paid families where parents are of working age. Candidates may also argue that effective policies to reduce absolute and relative poverty are not necessarily the same.

For sound analysis of methods of reducing poverty, without a mention of state pensions, award a **maximum of 17 marks**

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- Different types of poverty (e.g. absolute and relative) and their causes
- How raising state pensions can reduce poverty suffered by old people
- How raising private pensions can reduce poverty suffered by old people
- Comparison of the relative merits of using state and private pensions to reduce poverty
- Discussion of the effect of paying for higher pensions through taxation
- Discussion of the effect of paying for higher pensions through funded contributions during people's working lives
- Other relevant policies to reduce the poverty suffered by old people, e.g. raising retirement age while enforcing policies to discourage ageist employment policies; policies to promote economic growth
- Recognising and explaining that raising pensions has little or no effect on reducing poverty that is caused by factors unrelated to age
- Who pays for the state pension

Other equally valid points may be discussed and should be given due credit.

**Also give credit for:**

- an overall judgement of the issues raised
- use of diagrams
- relevant reference to the real world

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (d) 30 MARKS  
TOTAL FOR THIS QUESTION: 50 MARKS**

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**Section B**
**Total for this question: 50 marks**

2 (a) Explain how the equilibrium level of output is determined in perfect competition, **both** for the whole market **and** for **one** firm within the market. *(20 marks)*

**For candidates who:**

explain the meaning of perfect competition:

**1 mark per condition or characteristic, up to a maximum of 3 marks**

state the equilibrium output for the whole market (equating supply and demand):

**1 mark**

state the equilibrium output for a firm in terms of profit-maximisation and/or equating MR and MC:

**1 mark**

explain how for the whole market, the equilibrium level of output is determined:

**up to 6 marks**

explain how for one firm, the short-run equilibrium level of output is determined:

**up to 6 marks**

explain how for one firm, the long-run equilibrium level of output is determined:

**up to 6 marks**

The conditions of perfect competition are:

- a large number of buyers and sellers
- each with perfect information
- each able to buy/sell as much as it wishes at the ruling price
- but each unable to influence the ruling price
- homogeneous product
- no entry or exit barriers in the long run

Diagrams are not required but good answers are likely to include relevant diagrams.

**Up to 3 marks per diagram, up to a maximum of 9 marks for diagrams**

**Maximum of 12 marks for a candidate who explains the determination of equilibrium output *only* for the whole market *or* for one firm within the market**

**MAXIMUM FOR PART (a) 20 MARKS**

2 (b) In recent years, British Telecom, the supermarket industry and 50 private schools have been investigated by the competition authorities for limiting competition.

Evaluate different ways in which governments could make markets more competitive.

(30 marks)

There needs to be evidence of evaluation if a candidate is to be awarded **19 marks** or more. Since the question assumes that making markets more competitive is desirable, most of or all the marks awarded for evaluation should be for comparing the advantages and disadvantages of different ways of making markets more competitive. Two ways explained and then evaluated in depth, or three or more ways explained and evaluated in less depth can reach Level 5. However, an answer restricted to a list of ways with no accompanying explanation and evaluation, should be restricted to low Level 2. An answer that is strong on explanation but in which evaluation is thin or unconvincing, should be placed in Level 3. Rather better evaluation should reach Level 4, while good evaluation should reach Level 5, subject to the advice already given.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- Explanation of the meaning of competitive markets
- Ways to make markets more price competitive e.g. through removing or reducing entry barriers
- Ways to make markets more quality competitive, by promoting R&D and design
- The role of competition policy in making markets more competitive
- The impact of different forms of competition policy e.g. breaking up monopolies versus promoting market contestability
- Ways other than through the use of competition policy (e.g. privatisation) for improving competitiveness
- Ways of improving different forms of economic efficiency

Other equally valid points may be discussed and should be given due credit.

**Also give credit for:**

- an overall judgement of the issues raised
- use of diagrams
- reference to real world markets and use of evidence

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (b) 30 MARKS**

**TOTAL FOR THIS QUESTION: 50 MARKS**

**Total for this question: 50 marks**

3 (a) Explain how interdependence **and** uncertainty affect the behaviour of firms in oligopolistic markets. (20 marks)

The question does not distinguish between *competitive* oligopolistic markets, i.e. markets dominated by relatively few firms in which the firms do not collude, and *collusive* oligopolists, e.g. members of a cartel. While it is possible to earn full marks solely by explaining features of competitive oligopolistic markets, the best answers may explain collusion, for example by explaining that competitive oligopolists may respond to interdependence and uncertainty by colluding. Marks can also be awarded, as per the mark scheme, if candidates assume that the firms have already formed a cartel. Marks should be awarded for the relevant use of:

- (i) the theory of the kinked demand curve to explain how oligopolists are affected by interdependence;
- (ii) the theory of the kinked demand curve to explain how oligopolists are affected by uncertainty;
- (iii) game theory to explain how oligopolists are affected by interdependence;
- (iv) game theory to explain how oligopolists are affected by uncertainty;

**For candidates who:**

- define an oligopoly in terms of market structure e.g. using a concentration ratio: **2 marks**
- define an oligopoly in terms of market conduct or behaviour (such a definition will probably mention interdependence): **up to 4 marks**
- distinguish between competitive and collusive oligopoly **up to 3 marks**
- provide a very basic explanation of one of points (i) to (iv): **2 marks per point**

**OR**

- provide a developed explanation of one of points (i) to (iv): **up to 6 marks per point**

Reward in a similar way, explanation of any other relevant point or argument, e.g. relating to pricing policies, price leadership, predatory pricing, market contestability

Candidates who explain the kinked demand theory without explicitly distinguishing between interdependence and uncertainty can earn **up to 6 marks** for the explanation.

Likewise, candidates who explain game theory without explicitly distinguishing between interdependence and uncertainty can earn **up to 6 marks** for the explanation.

Diagrams are not required but good answers are likely to include relevant diagrams.

**Up to 3 marks per diagram, up to a maximum of 9 marks for diagrams**

**Maximum of 6 marks for a candidate who explains only *causes* rather than *effects***

**MAXIMUM FOR PART (a) 20 MARKS**

3 (b) Evaluate the view that **only** producers, and **not** consumers, benefit when oligopolistic firms collude to try to reduce the uncertainty they experience. *(30 marks)*

There needs to be evidence of evaluation if a candidate is to be awarded **19 marks** or more. For this question, evaluation could be in terms of arguing that different forms of collusion have different outcomes. For example, colluding to rig the market, to restrict choice and to increase the price to a monopoly level are in the producers' interest but against the consumers' interest. However, if collusion involves setting industry-wide product standards (e.g. firms such as Sony and Toshiba agreeing a single standard for DVD recording technology), consumers as well as producers can benefit.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- how collusion reduces uncertainty (avoid double marking, if this has already been fully discussed and credited in the answer to part (a))
- how cartels restrict output and raise prices charged
- any other relevant way in which producers benefit
- the theory of joint profit maximisation
- how consumers suffer from the high prices charged by the colluding producers
- how consumers suffer if collusion leads to productive and/or dynamic inefficiency
- how consumers may also benefit if some of the benefits producers enjoy are passed on to consumers, e.g. collusion *may* lead to greater dynamic efficiency
- how consumers as well as producers may benefit from collusion that sets agreed standards, or prevents the firms poaching workers from each other
- how because of cheating and/or the fear of government intervention, collusion is unlikely completely to eradicate uncertainty
- consumers may sometimes benefit from the results of collusion

Other equally valid points may be discussed and should be given due credit.

**Also give credit for:**

- an overall judgement of the issues raised
- use of diagrams
- reference to real world examples of collusion

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (b) 30 MARKS  
TOTAL FOR THIS QUESTION: 50 MARKS**

**Total for this question: 50 marks**

4 (a) Explain how the equilibrium wage rate in a labour market is determined **both** by the marginal productivity of labour **and** by influences upon the supply of labour. (20 marks)

**For candidates who:**

define the equilibrium wage rate in a labour market: **2 marks**

**For candidates who for the demand for labour:**

explain the meaning of the marginal physical product or productivity of labour: **up to 2 marks**

**OR**

explain the meaning of the marginal revenue product or productivity of labour (including explanation of the physical productivity of labour): **up to 4 marks in total**

explain marginal productivity in terms of the law of diminishing returns (also known as the law of diminishing marginal productivity and the law of variable proportions): **up to 4 marks**

go on to explain how the marginal productivity of labour affects the demand for labour: **up to 4 further marks**

**Maximum of 12 marks for the demand for labour**

**For candidates who for the supply of labour:**

define the supply of labour **2 marks**

identify an influence upon the supply of labour: **1 mark (up to a maximum of 6 marks)**

explain an identified influence: **up to a further 3 marks per influence**

**Maximum of 12 marks for the supply of labour**

**For candidates who:**

bring demand and supply conditions together to explain the equilibrium wage rate: **up to 6 marks**

explain how demand and/or supply conditions are different in perfectly competitive and monopsony labour markets: **up to 6 marks**

Diagrams are not required but good answers are likely to include relevant diagrams.

**Up to 3 marks per diagram, up to a maximum of 9 marks for diagrams**

**Maximum of 12 marks for a candidate who explains *only* the influence of demand or supply**

**Maximum of 14 marks for a candidate who does not bring demand and supply together to explain the equilibrium wage rate**

**MAXIMUM FOR PART (a) 20 MARKS**

4 (b) Do you agree that if a trade union persuades employers to increase wage rates in a labour market, employment must inevitably fall in that labour market? Justify your answer.

(30 marks)

There needs to be evidence of evaluation if a candidate is to be awarded **19 marks** or more. For this question, evaluation could be in terms of considering that the effect on employment depends on the competitiveness of the labour market. Good answers may compare the outcomes in perfectly competitive and monopsony labour markets. Evaluation can also centre on discussing the implications of the word *inevitably* in the question.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

**Issues and areas for discussion include:**

- how trade unions may force employers to pay higher wage rates
- the effect(s) of paying a higher wage rate may depend on the rate at which it is set
- the effect(s) depend on the wage elasticity of demand for labour and the wage elasticity of supply of labour
- the effect of the higher wage in a previously perfectly competitive labour market
- the effect of the higher wage in a monopsony labour market
- relevant comparison of different market conditions

Other equally valid points may be discussed and should be given due credit.

**Also give credit for:**

- an overall judgement of the issues raised
- use of diagrams
- reference to real world labour markets

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART (b) 30 MARKS**

**TOTAL FOR THIS QUESTION: 50 MARKS**