



GCE A LEVEL MARKING SCHEME

SUMMER 2017

**A LEVEL (NEW)
ECONOMICS - COMPONENT 1
A520U10-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2017 examination. It was finalised after detailed discussion at the examiners' conference by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking 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 business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

GCE ECONOMICS
SUMMER 2017 MARK SCHEME
SECTION A

1	AO2	D
2	AO2	B
3	AO2	C
4	AO2	B
5	AO2	C
6	AO2	C
7	AO2	D
8	AO2	E
9	AO1	C
10	AO1	B
11	AO1	D
12	AO2	A
13	AO2	B
14	AO1	E
15	AO1	D
16	AO2	D
17	AO1	E
18	AO2	A
19	AO2	E
20	AO2	B

SECTION B

Question		Total
<p>21</p>	<p>Explain using a demand and supply diagram, why in theory a rise in demand for music downloads will have no effect on their equilibrium price.</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a correct diagram showing a perfectly elastic supply curve with demand increasing but no impact on price.</p> <div data-bbox="603 568 1007 770" data-label="Figure"> </div> <p>Award 1 mark for a partially correct diagram (e.g. argues that supply can increase easily in response to a rise in demand thus shifting supply so that there is no effect on price).</p> <div data-bbox="336 952 683 1207" data-label="Figure"> </div> <p>AO3: 2 marks</p> <p>Award 2 marks for clear analysis that the supply of downloads is perfectly elastic because of constant marginal costs/no capacity constraints so diminishing returns are avoided.</p> <p>Award 1 mark for limited analysis of the conditions of supply without clear economic analysis, e.g. there is no limit on the output of music downloads, so we can't run out of capacity.</p>	<p>4</p> <p>AO1: 2</p> <p>AO3: 2</p>

Question		Total
22	<p>Suppose a firm is initially selling 500 units of good X at a price of £3 per unit. Cross price elasticity of demand between good X and good Y is +1.5. If the price of good Y falls from £20 to £16, calculate the expected new level of revenue that the firm will receive from the sales of X after the price of Y is cut, assuming that the price of X remains the same.</p> <p>Award 2 marks for the correct answer.</p> <p>Working: % change in the price of Y = -20%. XED = +1.5. Therefore the demand for X will fall by 30%. 500 – 30% = 350 350 x £3 = £1050.</p> <p>Award 1 mark for some correct working applied appropriately to the context: e.g. Uses correct approach but calculates % changes wrong. Uses –ve instead of +ve XED but otherwise correct. 1 for OFR</p>	<p>2</p> <p>AO2: 2</p>

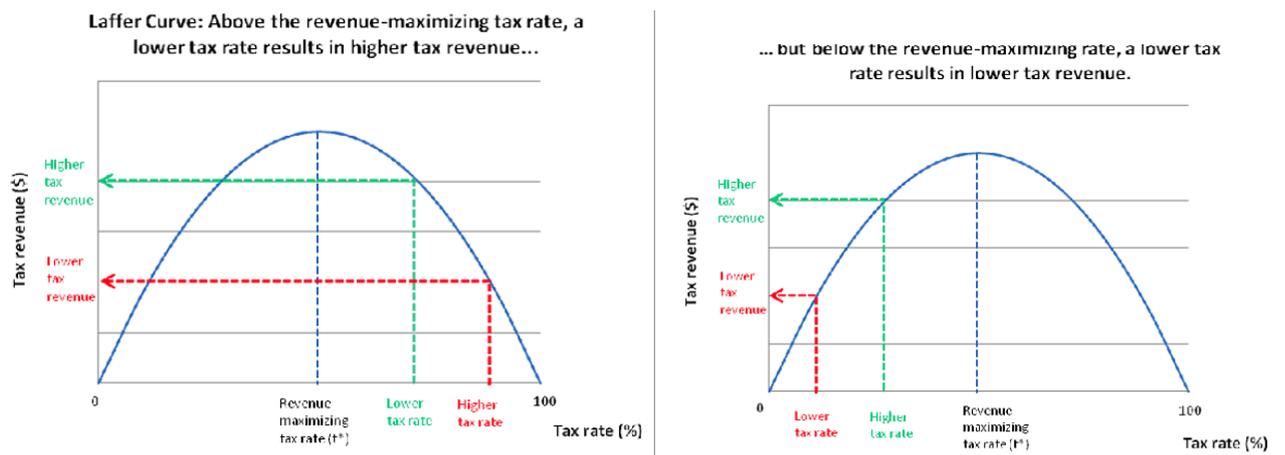
Question		Total
23	<p>Between 2001 and 2015 the UK's GDP rose from £1.034tn to £1.809tn. Over the same period, the Consumer Prices Index (CPI) rose from 72.25 to 100.25. What was the approximate change (rounded to the nearest whole %) in the UK's real GDP over the period?</p> <p>AO1: Award 1 mark if correct approach is used.</p> <p>AO2: Award 1 mark for correct calculation.</p> <p>There are three ways of calculating this correctly:</p> <p>1) Divide the GDP by the index of that year to put it into a common base: $\text{£}1.034/72.25 = \text{£}0.0143\text{tn}$. $1.809/100.25 = \text{£}0.018\text{tn}$.</p> <p>Difference is $\text{£}0.0037\text{tn}$</p> <p>Divide this by the rebased GDP of $\text{£}0.0143\text{tn}$ and multiply by 100 gives: 26.1%</p> <p>2) Rebase the current GDP into 2001 prices: This is $\text{£}1.809 \times 72.25/100.25 = \text{£}1.304\text{tn}$</p> <p>Therefore the change is $1.304 - 1.034 = \text{£}0.2697\text{tn}$</p> <p>As a percentage this is $0.2697/1.034 \times 100 = \textbf{26.1\%}$</p> <p>3) Rebase the 2001 GDP into 2015 prices:</p> <p>This is $\text{£}1.034\text{tn} \times 100.25/72.25 = \text{£}1.4347\text{tn}$</p> <p>Therefore the difference is $\text{£}1.809 - \text{£}1.4347 = \text{£}0.37428\text{tn}$ Which as a percentage of the new rebased 2001 figure is $0.37428/1.4347 \times 100 = \textbf{26.1\%}$</p> <p>All of these are correct and worth 2 marks.</p> <p>Award 1 mark for:</p> <p>74.9% change in GDP. 38.7% change in prices. Thus real GDP changes by 36.2%</p>	<p>2</p> <p>AO1: 1</p> <p>AO2: 1</p>

<p>24 (a)</p>	<p>Adapt the diagrams to show the impact of a significant fall in industry demand on the firm's price, output and profit</p> <p>Diagram is correctly adapted to show:</p> <p>AO1: 1 mark</p> <p>Award 1 mark for a fall in firm's price/AR/MR as a result of a fall in demand.</p> <p>AO2: 2 marks</p> <p>Award 1 mark for understanding that output will now be at $MC=MR_2$</p> <p>Award 1 mark for the area of loss correctly drawn at the candidate's equilibrium output.</p> <div data-bbox="395 817 1189 1220" data-label="Figure"> </div>	<p>3</p> <p>AO1: 1</p> <p>AO2: 2</p>
<p>24 (b)</p>	<p>Explain what will happen in this industry in the long run.</p> <p>Award 1 mark for each of the following elements:</p> <p>Some firms will leave the industry as they are making losses/sub-normal profit.</p> <p>The industry supply curve shifts to the left causing the price to rise (allow if only shown on diagram).</p> <p>Price will continue to rise until all firms are making normal profits because there is no further incentive to leave.</p>	<p>3</p> <p>AO3: 3</p>

25	With the aid of a diagram discuss the case for cutting the top rate of tax from 45% to 40%. [8]		
Band	A01	A03	A04
	2 marks	2 marks	4 marks
	<i>Has the Laffer curve (or AD/AS diagram) been accurately drawn and used?</i>	<i>Has a sound analysis of either the costs or benefits of a tax cut been developed?</i>	<i>Have effective counter-arguments been explained?</i>
2	<p>2 marks Good understanding.</p> <p>Laffer curve is accurately drawn and is actually used – points on both axes are used to illustrate the reduction in tax either increasing or reducing the overall tax yield.</p> <p>Or</p> <p>A really well developed AD/AS diagram is used and fully understood in terms of the demand and supply side effects of a tax cut.</p>	<p>2 marks Good analysis.</p> <p>At least one point has been well-developed on one side of the debate with a clear link as to why tax revenue will either rise or fall.</p>	<p>3-4 marks Good evaluation.</p> <p>At least one point has been well-developed on the other side of the debate with a clear link as to why tax revenue will either rise or fall.</p> <p>Or</p> <p>Evaluative points unrelated to tax revenue are made (widening income inequality etc) and these points are well-developed in terms of why they are good or bad.</p>
	<p>1 mark Limited understanding.</p> <p>An accurate Laffer curve is drawn but unused.</p> <p>Or</p> <p>A Laffer curve with significant labelling errors is drawn but is used well to support the analysis.</p> <p>Or</p> <p>An AD/AS diagram is used, but shows understanding of only demand or supply side effects.</p>	<p>1 mark Limited analysis.</p> <p>Points are made, but none of them link convincingly to tax revenue (although the points in themselves have some development).</p>	<p>1-2 marks Limited evaluation.</p> <p>Points are made but lack development (either in terms of how they affect tax revenue or in terms of why they are otherwise good or bad).</p>
0	<p>0 marks No understanding shown.</p>	<p>0 marks No valid analysis.</p>	<p>0 marks No valid evaluation.</p>

Indicative content:

AO1: See grid



AO3/AO4 (reversible – so points on one side can be treated as evaluation of the other).

For the cut:

The cut to 45p resulted in an increase in the overall tax revenue. This could be because the cut in the top tax rate meant that there was less incentive to avoid/evade tax or that fewer people decide to relocate abroad etc. (not live on benefits!).

Analysis might look at the impact in terms of income and substitution effects (lower tax rates create incentive to work harder, resulting in greater tax revenue, but a reduced need to do so, maybe resulting in lower tax revenue).

Higher tax revenue as a result of the tax cut will enable the government to spend more on health, education etc.

The cut may increase AD, stimulating short run growth.

The cut may create an incentive to enterprise and hard work, meaning that potential growth will increase in the longer term as well as increasing the tax base i.e. AS shifts to right.

Against the cut

The cut from 50% to 45% may have reduced the top rate sufficiently so that a further reduction will simply result in a reduction in tax revenue.

The cut benefits top income earners having a regressive effect on the tax system overall an effect which will be more pronounced if tax revenue falls and spending cuts are implemented as a result.

Effects on AD/AS may be relatively limited – affects only a relatively small number of people many of whom have a low marginal propensity to consume. Additionally, there is some suggestion that higher taxes on top income earners may incentivise them to work harder to maintain their post-tax income (income and substitution effects again). The relative strengths of the substitution and income effects are introduced.

26	With reference to the quantity theory of money and the above, assess the possible inflationary effects on the UK economy of the changes in the rate of growth of the money supply shown. [8]		
Band	A02	A03	A04
	2 marks	2 marks	4 marks
	<i>Has the data been well used?</i>	<i>Has the quantity theory been well explained?</i>	<i>Has the strength of the relationship been fully discussed?</i>
2	<p>2 marks</p> <p>Good application. The graph is used thoughtfully and forms a central part of the answer.</p>	<p>2 marks</p> <p>Good analysis. The quantity theory has been well used showing a clear line of reasoning to explain how the growth in money supply might lead to inflation under certain circumstances.</p>	<p>3-4 marks</p> <p>Good evaluation. Strong well developed evaluation, probably covering both theoretical and practical reasons that the money supply growth might not be inflationary.</p>
1	<p>1 mark</p> <p>Limited application. The graph is used occasionally, but is really just of peripheral importance.</p>	<p>1 mark</p> <p>Limited analysis. Some explanation of the quantity theory is present, explaining why rising money supply might trigger rising inflation, but without an understanding of the assumptions of the model.</p>	<p>1-2 marks</p> <p>Limited evaluation. Evaluation is present but points tend to be underdeveloped, lacking the depth for a top band answer.</p>
0	<p>0 marks</p> <p>No valid application.</p>	<p>0 marks</p> <p>No valid analysis.</p>	<p>0 marks</p> <p>No valid evaluation.</p>

Indicative content:**AO2:**

Money supply is growing more quickly now than it was back in 2010-11 suggesting that there is a greater inflationary threat (6% vs 2-3%).

Recent trend seems to be upwards, heading above 6% in early 2016. This is likely to be far greater than the UK's potential growth, suggesting an inflationary threat.

Money supply growth has been steady at 5% and over since 2012, suggesting that it is not just a temporary phenomenon.

AO3:

Other things being equal, the quantity theory suggests that an increase in M with V and $T/Q/Y$ unchanged (or T only able to change slowly) will create inflationary pressure.

Rising money supply, should lead to higher AD either directly or indirectly, or may be symptomatic of rising AD itself, which could again create inflationary pressure.

AO4:

But V and $T/Q/Y$ are unlikely to be constant:

V may fall as a result of bank weakness or low confidence levels reducing the inflationary impact of a rise in the money supply.

$T/Q/Y$ may be able to expand (a) because of supply side improvements or (b) because of spare capacity in the economy (which may well exist in the UK with unemployment still high).

There may be deflationary pressures occurring elsewhere in the system – e.g. continually falling oil prices which will negate inflationary effects of rising money supply.

Inflationary expectations are likely to be very low in the UK as a result of recent deflationary pressures in the economy.

UK inflation in recent years has been very subdued despite money supply growth of 4%-5% per year.

Answers which rely entirely on an AD/AS approach without reference to the quantity theory of money max 2 marks.

Question		Total
27	<p>Calculate the change in Brazil's terms of trade between April 2015 and January 2016.</p> <p>AO1: Award 1 mark for understanding of the formula for terms of trade.</p> <p>AO2: Award 1 mark for correct calculation which shows the terms of trade in both April 2015 and January 2016:</p> <p>April 2015: $124.44/123.38 = 100.86$</p> <p>January 2016: $107.45/111.87 = 96.05$</p> <p>Calculating the percentage change in the index between the two periods is not necessary for full marks.</p>	<p>2</p> <p>AO1: 1</p> <p>AO2: 1</p>

28	Discuss how likely it is that a country meeting any two out of the three criteria above is manipulating its currency unfairly. [8]			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	2 marks
	<i>How good is the understanding of currency manipulation?</i>	<i>How well have the criteria been applied?</i>	<i>How strong is the analysis of how the criteria might show unfair currency manipulation?</i>	<i>Have effective counter-arguments been explained?</i>
2	<p>2 marks</p> <p>A good understanding of currency manipulation showing an awareness of what this means and how it might be done.</p>	<p>2 marks</p> <p>Good application of the criteria to unfair currency manipulation.</p> <p>Answers may show clearly how the criteria selected might or might not show currency manipulation, and may make reference to some of the countries that the US has named.</p>	<p>2 marks</p> <p>Good analysis of the link between currency manipulation and the criteria showing a clear line of reasoning.</p> <p>Answer explains how the third criteria is likely to lead to the other two.</p>	<p>2 marks</p> <p>Good evaluation of the scenario, probably suggesting that meeting two of the criteria is not enough in itself to prove currency manipulation or criticising individual criteria in depth.</p>
1	<p>1 mark</p> <p>A limited understanding of currency manipulation showing partial understanding of what it is and how it might be done.</p>	<p>1 mark</p> <p>Limited application of the criteria to currency manipulation. Answer probably does not make reference to any of the countries and does not apply the criteria well.</p>	<p>1 mark</p> <p>Limited analysis of the link between currency manipulation and the criteria.</p> <p>Answer explains some of the criteria but the depth of analysis and chain of reasoning is insufficient for band 2.</p>	<p>1 mark</p> <p>Limited evaluation of the scenario, suggesting that the criteria are insufficient but lacking depth of supporting evidence for the statement.</p>
0	<p>0 marks</p> <p>No understanding shown.</p>	<p>0 marks</p> <p>No valid application.</p>	<p>0 marks</p> <p>No valid analysis.</p>	<p>0 marks.</p> <p>No valid evaluation.</p>

Indicative content

AO1

Currency manipulation involves holding a currency below its free market level, generally by selling domestic currency on forex markets to buy foreign currency creating excess supply and holding down the exchange rate.

AO2

Effective use of the criteria:

Criterion 3: Persistent one sided selling of currency fits the definition of currency manipulation very closely, the key being 'one sided'. Countries that intervene to stabilise their currencies in either direction are excluded, suggesting that a deliberate policy of targeted selling is being carried out.

Criteria 2 and 3: These work together to show that the currency is being manipulated unfairly because the effect is a significant trade surplus for the offending country. Hence the numerical criteria are designed to give a sense that the surplus is large and unfair.

A trade surplus should cause the exchange rate to rise. If it doesn't do so, this could be evidence of currency manipulation, although other things can prevent a currency from rising other than central bank intervention.

Countries:

Germany can't manipulate its currency because it isn't the one determining its value. China has openly admitted to intervening in currency markets, but generally claiming to be avoiding destabilising flows of hot money.

AO3

Good analysis of the link.

Answer links the criteria together, arguing that persistent one-sided intervention will push down the exchange rate as surplus domestic currency floods the market. Good answers may use a diagram to illustrate this. Hence the currency is prevented from reaching its free market level.

The effect of this is to make export prices more competitive and drive up import prices therefore resulting in an unfair trade surplus.

AO4

Evaluation might focus on:

- (1) Meeting criteria 1 and 2 does not necessarily imply currency manipulation at all. The country may have a strong supply side and simply be very competitive in global markets (Germany?).
- (2) Countries can sell currency to prevent excessive appreciation of their currency, stabilising the exchange rate. This might not amount to currency manipulation in the way that the US suggests (e.g. Switzerland).
- (3) Might centre on the word 'unfair'. Arguably the US has weakened the dollar through its programme of QE and therefore countries are doing no more than redressing the balance.
- (4) Alternatively the issue might be more that the dollar is overvalued with financial account inflows into the US banking, equity and property markets causing a trade deficit.
- (5) Countries may be have a fixed exchange rate system meaning that intervention in currency markets is necessary.