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# **GCE AS MARKING SCHEME**

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**SUMMER 2019**

**ECONOMICS - COMPONENT 1  
B520U10-1**

## **INTRODUCTION**

The marking scheme which follow were those used by WJEC for the 2019 examination in AS/A ECONOMICS. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were 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' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

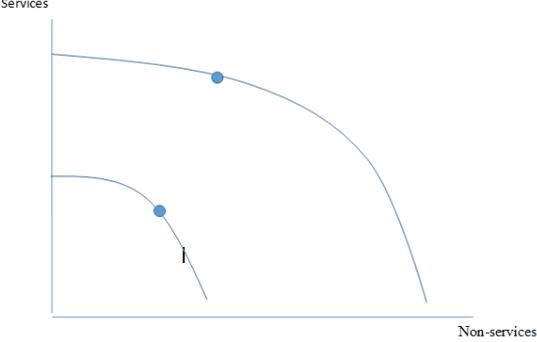
## **GENERAL MARKING GUIDANCE**

### **Positive Marking**

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate 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 candidates' 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. Candidates' 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.

|                           |  |                |
|---------------------------|--|----------------|
| <b>Question 1 (a)</b>     | <b>Using 1948 real GDP as a base, calculate the index number for real GDP in 2013</b>  | <b>Total 2</b> |
|                           | <p><b>AO1: 1 mark</b></p> <p>Understanding of index numbers is shown through correct answer expressed as index number.</p> <p>464.3<br/>(allow 464-465)</p> <p><b>AO2: 1 mark</b></p> <p>GDP has risen from around £280 billion to £1.3 trillion.</p> <p><math>(1.3-0.28)/0.28 \times 100 = 364.3\%</math></p> <p>Or <math>1.3/0.28 = 4.643</math> times</p> <p>Award <b>2</b> marks for correct answer.</p> |                |
| <b>Question 1 (b) (i)</b> | <b>Adapt the PPF diagram below to show the UK economy's position in 2013.</b>  | <b>Total 2</b> |
|                           | <p><b>AO2: 2 marks</b></p> <p>Award <b>1</b> mark for a shift outwards in the PPF.<br/>Award <b>1</b> mark for a significant shift in the balance of the UK economy towards the service sector.</p>   |                |

|                            |   |                |
|----------------------------|---|----------------|
| <b>Question 1 (b) (ii)</b> | <b>Outline reasons for the changes that you have made to the diagram.</b>   | <b>Total 2</b> |
|                            | <p><b>AO1: 2 marks</b></p> <p>Award 1 mark for each valid reason:</p> <ul style="list-style-type: none"> <li>• PPF shifts out because real GDP is much higher</li> <li>• The economy has clearly shifted towards the service sector</li> </ul>  |                |
| <b>Question 1 (c)</b>      | <b>With reference to the concept of income elasticity of demand, explain one possible reason for the change in the pattern of output shown in Chart 1.</b>  | <b>Total 2</b> |
|                            | <p><b>AO2: 1 mark</b></p> <p>Award 1 mark for correct application of the data to the concept:</p> <ul style="list-style-type: none"> <li>• Higher income elasticity of demand indicated by the change in pattern in the data as households consume greater amounts of services compared to goods (ie not just goods but increasing amounts of services)</li> <li>• Services are likely to have a higher income elasticity of demand because they include areas such as leisure and communications</li> <li>• The relative rise in the service sector could be due to external factors, eg UK financial centre internationally</li> </ul> <p><b>AO3: 1 mark</b></p> <p>Award 1 mark for correct development of reasoning:</p> <ul style="list-style-type: none"> <li>• Explanation that services have risen as a proportion of GDP because they have a higher income elasticity of demand than goods.</li> </ul> <p>Reference to income elasticity of demand required (not just increasing incomes).</p> |                |

|                       |  |                |
|-----------------------|--|----------------|
| <b>Question 2 (a)</b> | <b>With reference to economic theory, explain one possible reason that the labour market is becoming increasingly specialised.</b>   | <b>Total 2</b> |
|                       | <p><b>AO1: 1 mark</b></p> <p>Award <b>1</b> mark for understanding of specialisation – that individuals have more specific skills sets that are used to carry out narrower jobs/specific output.</p> <p><b>AO3: 1 mark</b></p> <p>Award <b>1</b> mark for developed explanation of this trend:</p> <p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• Better educated workers (coming from rising university entry) are able to carry out more specialised/complex tasks</li> <li>• Increased competition in a global marketplace is forcing firms to become more efficient and greater specialisation can be a way in which productivity can be increased</li> <li>• General drive for increased profits by businesses, again linked to productivity</li> <li>• Innovation within the economy is creating more new jobs as old jobs die out</li> </ul> <p>Allow any plausible explanation that is clearly linked to increased specialisation.</p> |                |
| <b>Question 2 (b)</b> | <b>Outline why an economy with a highly specialised workforce will require an efficient means of exchange.</b>   | <b>Total 2</b> |
|                       | <p><b>AO1: 2 marks</b></p> <p>Award <b>1</b> mark for limited understanding.</p> <p>Award <b>2</b> marks for good understanding.</p> <p><b>Indicative content:</b></p> <p>Understanding of ‘means of exchange’ (a system through which the output of one worker/firm can be traded/swapped for those of others).</p> <p>Understanding that highly specialised workers will be unable to meet all their own needs and that the more specialised they become, the more that this will be true. Therefore, for an economy to be increasingly specialised, it must be easy for individuals to trade/swap their specialised services for those of others.</p> <p>In order for trade/swap, a form of money or barter system is thus created as a medium of exchange.</p>   |                |

| <b>3. Discuss the extent to which the RNLI can be described as a private good? [6]</b> |  |   |   |
|--|--|---|---|
| <b>Band</b>  | <b>AO1</b>   | <b>AO2</b>  | <b>AO4</b>  |
|  | 2 marks  | 2 marks   | 2 marks   |
| <b>2</b>   | <p><b>2 marks</b><br/>Good understanding.</p> <p>At least two of the characteristics of a private good are identified and understood.</p>              | <p><b>2 marks</b><br/>Good application.</p> <p>RNLI is applied to two private good characteristics effectively or one done well in depth.</p> | <p><b>2 marks</b><br/>Good evaluation.</p> <p>A good attempt to consider the issue with a counter argument and judgment on whether the RNLI can be considered a private good.</p> |
| <b>1</b>   | <p><b>1 mark</b><br/>Limited understanding.</p> <p>Understanding of only one characteristic is shown (lists of characteristics will be in band 1).</p> | <p><b>1 mark</b><br/>Limited application.</p> <p>RNLI is applied to private or public good characteristic effectively.</p>                    | <p><b>1 mark</b><br/>Limited evaluation.</p> <p>Some attempt is made to qualify, but answer lacks development.</p>  |
| <b>0</b>   | <p><b>0 marks</b><br/>No understanding demonstrated.</p>   | <p><b>0 marks</b><br/>RNLI is not used effectively.</p>   | <p><b>0 marks</b><br/>One-sided answer or evaluation is not appropriate.</p>  |

**Indicative content:**

**AO1**

A **private good** is defined in economics as "an item that yields positive benefits to people" that is:

excludable, ie its owners can exercise private property rights, preventing those who have not paid for it from using the good or consuming its benefits

diminishable/rivalrous, ie consumption by one prevents that of another.

Also, public goods are often considered as non-rejectable, so credit rejectable here, users could decide to not use or turn down the offer of help.

**AO2/4**

In principle, sea-rescue services are excludable – we could only rescue people that had paid/taken out insurance. In reality, this would be very difficult to enforce – how would we know whether drowning people had insurance? How could we make people pay?

Sea-rescue services are probably likely to be diminishable – if the RNLI is saving one person, then they can't save another. In reality, however, sea-rescue services tend not to be used much (although the data mentions the 30,000 rescues, which might suggest some competition).

The fact that these services are not supplied through the market suggests that they might be difficult to make a profit out of, suggesting that anyone can benefit from using it and the free-rider problem.

Can users reject being saved? They maybe injured and unable to make the choice.

|                            |   |                |
|----------------------------|---|----------------|
| <b>Question 4 (a) (i)</b>  | <b>Outline what is meant by a price elasticity of demand figure of -0.4.</b>  | <b>Total 2</b> |
|                            | <p><b>AO1: 2 marks</b></p> <p>Award 1 mark for understanding of PED in terms of responsiveness of demand changes when price changes.</p> <p>Award 1 mark for understanding that PED of -0.4 is inelastic so smaller than proportional change in demand compared to price.</p>   |                |
| <b>Question 4 (a) (ii)</b> | <b>Calculate the impact on the expenditure on home care services of the median disabled elderly household in France of an increase in hourly prices to 27€ per hour.</b>  | <b>Total 4</b> |
|                            | <p><b>AO2: 4 marks</b></p> <p>Award 1 mark for correct calculation of percentage change in price<br/> <math>(27-22.5)/22.5 \times 100\% = 20\%</math></p> <p>Award 1 mark for correct calculation of % change in quantity<br/> <math>(20\% \times -0.4) = -8\%</math></p> <p>Award 1 mark for correct calculation of new quantity<br/> 15.5 hours minus 8% = 14.26 hours</p> <p>Award 1 mark for correct calculation of new expenditure<br/> <math>14.26 \times 27 = \text{€}385</math> per month</p> |                |

**4 (b) Discuss how useful this elasticity data might be to a private sector firm providing home care services in France. [8]**

| Band     | AO2  | AO3  | AO4  |
|----------|--|--|--|
|          | 2 marks  | 3 marks  | 3 marks  |
| <b>3</b> |  | <p><b>3 marks</b><br/>Excellent analysis.</p> <p>Clear explanation of the benefits with a well-developed chain of reasoning linked back to business decisions and/or the benefit for the business.</p>         | <p><b>3 marks</b><br/>Excellent evaluation.</p> <p>Clear judgement of how useful the data will be in this case with a well-developed point on each side.</p> <p>Likely to include an overall judgment.</p> |
| <b>2</b> | <p><b>2 marks</b><br/>Good application.</p> <p>Makes effective use of the data for the home care market specifically.</p>                        | <p><b>2 marks</b><br/>Good analysis.</p> <p>Explanation of the benefits is made, with reference to proportionality.</p> <p>Answer commonly link to total revenue without depth.</p>                            | <p><b>2 marks</b><br/>Good evaluation.</p> <p>A well-developed point is made on each side (or one point is qualified in depth)</p>   |
| <b>1</b> | <p><b>1 mark</b><br/>Limited application.</p> <p>Makes reference to the data, often with one reference to the home care market specifically.</p> | <p><b>1 mark</b><br/>Limited analysis.</p> <p>Some explanation of benefits is made, but development is very limited.</p> <p>Answers commonly link to changes in demand/ total revenue without development.</p> | <p><b>1 mark</b><br/>Limited evaluation.</p> <p>Some attempt to qualify is made, but the qualification/counter-argument is not developed.</p>  |
| <b>0</b> | <p><b>0 marks</b><br/>Points are wholly generic.</p>   | <p><b>0 marks</b><br/>Answer only asserts points.</p>  | <p><b>0 marks</b><br/>One-sided answer.</p>  |

**Indicative content:**

**AO2**

- The data is for the market as a whole, not for a single firm within it – for a single firm, PED is likely to be far higher.
- Although PED may be inelastic, ethics/regulation may limit how much use the firm can make of the information in practice in this case.
- Similarly, prices may be set by local government.
- Use of the -0.4 figure directly or use of PED data from previous question to support argument.

**AO3**

- Clear explanation of how inelasticity can impact on the firm's revenue (rising for a price increase or falling for a price cut), therefore impacting on the firm's pricing decisions and therefore being useful for that reason. Diagrams might be used here to illustrate the idea and should be credited fully if well-used.
- May have wider implications for the business in terms of the extent to which they need to focus on costs, worry about competition, and so on.

**AO4**

May use AO2 points here (so therefore well-applied points can get both AO2 and AO4).

Also:

- Historic research, market may have changed
- Likely to be regional variations – data is for the whole of France
- Likely to be variations by segment – rich vs poor, etc.
- Accuracy of the data – how was it collected
- Other data could be useful, such as XED and YED

Allow any other relevant point in each AO.

|                           |   |                    |
|---------------------------|---|--------------------|
| <b>Question<br/>5 (a)</b> | <b>Describe the trends in rough sleeping in the UK between 2011 and 2016 shown in the chart.</b>  | <b>Total<br/>3</b> |
|                           | <p><b>AO2: 3 marks</b></p> <p>Award <b>1</b> mark for each correct use of the information:</p> <ul style="list-style-type: none"> <li>• Direct use of information from the x axis: (eg rough sleeping rose by about 20% in 2011)</li> <li>• Understanding that rough sleeping has risen every year</li> <li>• Understanding that it rises by more in some years than others</li> <li>• Understanding that chart shows percentages, not absolute numbers</li> </ul> <p>Allow any other relevant correct point.</p> |                    |

| <b>5 (b) Using the data, discuss whether the rent controls proposed by Jeremy Corbyn are likely to solve the problems of homelessness in the UK. [9]</b> |   |   |  |
|--|---|---|--|
| <b>Band</b>  | <b>AO2</b>  | <b>AO3</b>  | <b>AO4</b>   |
|  | 2 marks   | 3 marks   | 4 marks  |
|  | <i>Is the answer clearly in the context of homelessness?</i>  | <i>Has one side of the case been effectively argued?</i>  | <i>Has the other side been argued and a judgement made?</i>  |
| <b>3</b>   |   | <p><b>3 marks</b><br/>Excellent analysis.</p> <p>Excellent analysis with strong line of reasoning, explaining how the question of homelessness might be reduced/worsened by a maximum rent.</p> <p>It is likely that a diagram has been used to support the analysis.</p> | <p><b>4 marks</b><br/>Excellent evaluation</p> <p>Clear judgement of the extent to which rent controls will be in solving the problems of homelessness. At least one developed point has been made on each side of the discussion.</p> <p>Likely to include an overall judgment.</p> |
| <b>2</b>   | <p><b>2 marks</b><br/>Good application.</p> <p>Makes effective use of the data on housing and homelessness.</p>                                 | <p><b>2 marks</b><br/>Good analysis.</p> <p>Clear explanation of how homelessness might be reduced/worsened by a maximum rent.</p>  | <p><b>2-3 marks</b><br/>Good evaluation.</p> <p>A well-developed point is made on each side of the discussion).</p>  |
| <b>1</b>   | <p><b>1 mark</b><br/>Limited application.</p> <p>Makes limited use of the data, often with limited use of data on housing and homelessness.</p> | <p><b>1 mark</b><br/>Limited analysis</p> <p>Some explanation of how homelessness might be reduced/worsened by a maximum rent but development is limited.</p>   | <p><b>1 mark</b><br/>Limited evaluation.</p> <p>Some attempt to qualify is made, but the qualification/counter-argument is not developed.</p>  |
| <b>0</b>   | <p><b>0 marks</b><br/>Points are wholly generic.</p>  | <p><b>0 marks</b><br/>Answer only asserts points.</p>   | <p><b>0 marks</b><br/>One-sided answer.</p>  |

**Indicative content:**

**AO2**

- Housing costs are now 50% of an under-30-year-old's take home pay/£750/month.
- Article argues that rent controls will cut supply.
- Shelter argues that they will benefit the wrong people.

**AO3**

Will solve

- Rent controls will reduce the cost of accommodation, therefore meaning that those who were unable to rent before will now be able to afford it.
- Use of diagram and reference to increased consumer surplus.

Will not solve

- Fall in supply – landlords may sell properties to private home-buyers.
- Reduced investment by suppliers due to fall in producer surplus.
- Many homeless people could not afford the reduced rents anyway, therefore will not help to solve that problem.
- Use of diagram to show excess demand and reduced producer surplus.
- Rough sleeping is a more complex problem than simple affordability.

**AO4**

Likely to use AO3 points to oppose one another and come to an overall judgement.

| Question<br>6 | Use an AD/AS diagram to outline and illustrate why UK inflation increased over the year to its September 2017 level.   | Total<br>4 |
|---------------|--|------------|
|               | <p><b>AO1: 2 marks</b></p> <p>Award 2 marks for good understanding:<br/>Accurate AD/AS diagram is drawn correctly.</p> <p>Award 1 mark for limited understanding:<br/>Diagram has errors (such as double shift) or is not used directly.</p> <p><b>AO2: 2 marks</b></p> <p>Award 2 marks for good application:<br/>Case is well linked to the diagram.</p> <p>Award 1 mark for limited application:<br/>Some reference to the text is made, but link to diagram is not developed.</p> <p><b>Indicative content:</b></p> <p><b>AO1:</b><br/>Some version of the diagram below. LRAS not required. SRAS can be labelled as AS.</p> <div data-bbox="347 1021 1013 1637" data-label="Figure"> </div> <p><b>AO2:</b><br/>Rising transport and food prices increase firms' costs, therefore shifting SRAS vertically and driving up inflation.</p> |            |

**7. Using the data below and appropriate economic analysis, consider the extent to which interest rates appear to have been an effective tool for controlling inflation in Australia over the period shown. [8]**

| Band     | AO1  | AO2   | AO3   | AO4   |
|----------|--|---|---|---|
|          | 2 marks  | 2 marks   | 2 marks   | 2 marks   |
| <b>2</b> | <p><b>2 marks</b><br/>Good understanding.</p> <p>The concepts of interest rates and inflation are both clearly understood.</p> | <p><b>2 marks</b><br/>Good application.</p> <p>Effective use is made of the charts, making specific reference to time periods (at least two).</p>           | <p><b>2 marks</b><br/>Good analysis.</p> <p>Clear explanation of how interest rates in principle should be able to control inflation.</p> <p>Answers in this band often refer to more than one channel of the monetary policy transmission mechanism.</p> | <p><b>2 marks</b><br/>Good evaluation.</p> <p>A well-developed counterargument is made, suggesting why the AO3 analysis might not be true.</p>                      |
| <b>1</b> | <p><b>1 mark</b><br/>Limited understanding.</p> <p>Either the concept of interest rates or inflation are understood.</p>       | <p><b>1 mark</b><br/>Limited application.</p> <p>Charts are used indirectly with general trends identified.</p> <p>Or one time period used effectively.</p> | <p><b>1 mark</b><br/>Limited analysis.</p> <p>Some explanation of how interest rates should be able to control inflation.</p> <p>Answers in this band often refer to one channel of the monetary policy transmission mechanism.</p>                       | <p><b>1 mark</b><br/>Limited evaluation.</p> <p>Some attempt to qualify is made (not just use of data), but the qualification/counterargument is not developed.</p> |
| <b>0</b> | <p><b>0 marks</b><br/>Understanding is too weak to credit.</p>   | <p><b>0 marks</b><br/>Points are wholly generic.</p>  | <p><b>0 marks</b><br/>Answer only asserts points.</p>   | <p><b>0 marks</b><br/>One-sided answer.</p>   |

## **Indicative content:**

### **AO1**

Understanding will be shown in passing. A definition is not required.

Interest rates refer to the cost of borrowing money.

Inflation is the rate of change of prices (not the price level).

### **AO2**

Periods exist where given lags, interest rate changes appear to impact inflation:

Increased rates in 2010 appear to link up with a slow-down in inflation.

Rate cuts after 2012 line up with an uptick in inflation in 2013-14.

Generally, the link is pretty weak, though – for large periods of time, inflation appears to have a life of its own and the data can be used to make this point.

### **AO3**

Interest rate changes have an impact on inflation via domestic and international channels:

Consumption will be affected by the cost of borrowing, opportunity cost of savings and asset prices. Investment will be influenced too.

The exchange rate will be affected via capital flows which will impact on both X and M and on import prices.

The key to good analysis, though, is an explanation as to **why** prices will rise more or less slowly – what is causing firms to increase or not to increase prices?

### **AO4**

Clearly, Australian inflation is influenced by a wide range of other factors apart from interest rates. Good answers will come up with possible other factors such as:

QE

Global demand

Commodity prices

Wage settlements and so on

Answer is reversible.

| Question<br>8 | Using a diagram, outline why the peso appreciated in July 2017.  | Total<br>4 |
|---------------|--|------------|
|               | <p><b>AO1: 2 marks</b></p> <p>Award <b>2</b> marks for a diagram showing a rise in the demand for pesos, with a clear new equilibrium shown and a reference in the text.</p> <p>Award <b>1</b> mark for a diagram that is accurate but unused or one that is used but has very significant labelling errors.</p> <p><b>AO2: 2 marks</b></p> <p>Award up to <b>2</b> marks per developed applied idea (but allow 2 x 1) supporting the shift in demand.</p> <p><b>Indicative content:</b></p> <p>Allow fall in supply if well justified (holders of pesos now less willing to sell, etc).</p> <p>As a result of growing confidence, investors are more likely to buy pesos.</p> <p>NAFTA continuing will mean that the Mexican economy continues to succeed.</p> <p>NAFTA continuing will allow Mexican exports to the US to continue/will prevent a sudden fall.</p> <div data-bbox="371 1220 837 1668" data-label="Figure"> <p>The Market for Pesos</p> <p>Dollar / Pesos exchange rate</p> <p>S</p> <p>D2</p> <p>D</p> <p>Quantity of Pesos</p> </div> |            |