

Version 1.0



General Certificate of Education

June 2010

Economics

ECON1

Markets and Market Failure

Mark Scheme

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June 2010**ECON1****Advance Subsidiary Economics Unit 1****Section A: Objective Test (ECON1/1)**

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1.	C	9.	D	17.	A
2.	C	10.	C	18.	B
3.	A	11.	A	19.	A
4.	D	12.	C	20.	D
5.	D	13.	D	21.	A
6.	B	14.	A	22.	C
7.	B	15.	B	23.	B
8.	B	16.	C	24.	D
				25.	A

Section B: Data Response (ECON1/2)**THE LEVELS MARK SCHEME FOR AS****Level Descriptions**

In parts **04** and **08** of the data-response questions, approximately half the marks are available to award to candidates who demonstrate that they can evaluate economic arguments and evidence, and make informed judgements. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 13 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. It is not necessary for the answer to identify a wide range of issues to score the top mark. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

Level 1: A very weak answer

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. There might be some evidence of organisation in the answer but generally it fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.

0 to 6 marks*Mid-Point 4 marks***Level 2: A poor answer but some understanding is shown**

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused and analysis will therefore be very limited. There may be some attempt to present alternative points of view but any attempt at evaluation is limited or superficial. There is some logic and coherence in the organisation of the answer. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

7 to 11 marks*Mid-Point 9 marks***Level 3: An adequate answer with some correct analysis but very limited evaluation**

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated and there is some evidence that the candidate can analyse issues. There will be some attempt to present alternative points of view and to evaluate the issues, arguments and/or data. 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. There is some evidence of the correct use of relevant economic terminology.

12 to 16 marks*Mid-Point 14 marks***Level 4: Good analysis but limited evaluation**

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Some appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

17 to 21 marks*Mid-Point 19 marks***Level 5: Good analysis and evaluation**

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. A clear final judgement is made. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

22 to 25 marks*Mid-Point 24 marks*

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARKING 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.

EITHER

0 1	Define the term 'economies of scale' (Extract C , line 10).	<i>(5 marks)</i>
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For an acceptable definition (eg falling average costs as the size or output of a firm increases. Also allow for output increasing at a faster rate than inputs or factors of production.)	5 marks
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If the definition is incomplete, marks may be broken down, for example as follows:

Falling average costs/costs per unit	4 marks
Falling costs	2 marks
The benefits of being big or expanding	2 marks
Providing an example, eg technical economy of scale (1 example only)	2 marks
For an accurate diagram (axes and curves must be labelled)	2 marks

This mark scheme does not allow examiners to award 1 or 3 marks for a point. Examiners must award 0, 2 or 4 for each point made by the candidate.

MAXIMUM FOR PART 0 1: 5 MARKS

02 Using **Extract A**, identify **two** significant points of comparison between the average prices of new and used cars over the period shown by the data. **(8 marks)**

Award up to 4 marks each for each point made:

Identifies a valid point of comparison Makes accurate use of the data to support the point of comparison Unit of measurement given accurately	4 marks
Identifies a valid point of comparison Makes use of the data to support the point of comparison However, no unit of measurement is given and/or the unit of measurement is used/applied inaccurately	3 marks
Identifies a point of comparison No use of correct data to support the comparison identified	2 marks

If a candidate identifies more than two points of comparison, reward the best two.

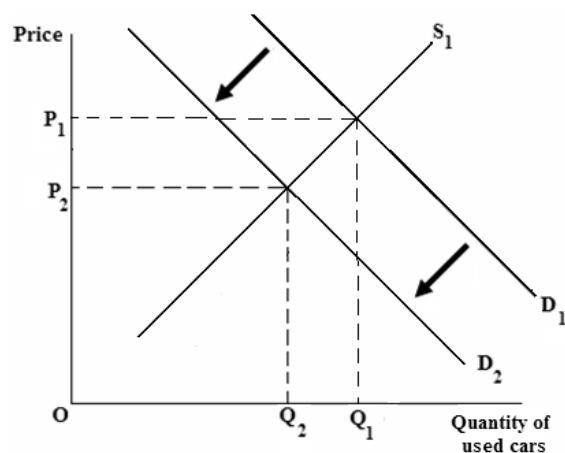
The valid points include:

- The price of new cars rose over the whole period (from an index of approx. 100 in January 1996 to an index of approx. 105 late in 2008), whereas the price of used cars fell from an index of approx. 125 to an index of approx. 82 late in 2008.
- Over the period, the price of used cars fell at a faster rate than the rate at which the price of new cars rose (by approx. -35% compared to +5%).
- The prices of both new and used cars rose between the beginning of 1996 and early 1998 (new cars from an index of approx. 100 to an index of approx. 105, and used cars from an index of approx. 125 to an index of approx. 133).
- The price of used cars peaked in 1998 at an index of approx 133, whereas the price of new cars peaked in 1998 and/or late in 2008 at an index of approx. 105.
- Up to 2005, there were fluctuations in the price of used cars, but not in the price of new cars, eg in 2001 the price index for used cars fluctuated between a high of approx. 118 and a low of approx. 113, whereas the price index for new cars was stable at an index of approx. 95.
- Over the whole period from mid 2001 onward, the price of used cars fell back from an index of approx. 118 to 80 as the price of new cars rose from an index of 95 to an index of 105.

MAXIMUM FOR PART 02: 8 MARKS

- 03** With the help of a demand and supply diagram and the information in **Extract B**, explain the reasons for the falling prices of used cars in 2008. (12 marks)

The anticipated response for the diagram:



Breakdown of the marks for the diagram:

Axes labelled (price and quantity or P and Q will do (£ is allowed), but not price level or output)	1 mark
Original demand and supply curves correctly labelled	1 mark
Co-ordinates drawn in at the initial equilibrium and labels	1 mark
Leftward shift of the demand curve	2 marks
Co-ordinates drawn in at the new equilibrium and labels	1 mark
Any other relevant feature of the diagram	1 mark per feature up to a max of 2 marks

Up to 6 marks for the diagram

The anticipated written response:

define demand and/or supply	Up to 2 marks per definition Max of 2 marks for definitions
For each of the following explanations, award 2 marks for each logical link in the chain of reasoning. Do not award 1 mark only.	
explain why the demand curve for used cars shifts leftward because of big discounts available on new models (2 marks) so people expect to pay even less for used cars (2 marks)	Up to 4 marks
explain why the demand curve for used cars shifts leftward because of a lack of readily available finance (2 marks) explain how a lack of readily available finance affects demand (2 marks)	Up to 4 marks
explain the adjustment to the new equilibrium price	Up to 4 marks
explain any other relevant point	Up to 4 marks per point

Up to a MAXIMUM of 8 marks for a written explanation

MAXIMUM FOR PART 03: 12 MARKS

04 Using the data and your economic knowledge, evaluate the economic case **for** and **against** government intervention in car markets. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

A maximum of **21 marks** should be awarded if there is no **explicit** reference to the data.

Level 5	<i>Good analysis and evaluation</i>	22 to 25 marks <i>Mid-Point 24 marks</i>
Level 4	<i>Good analysis but limited evaluation</i>	17 to 21 marks <i>Mid-Point 19 marks</i>
Level 3	<i>An adequate answer with some correct analysis but very limited evaluation</i>	12 to 16 marks <i>Mid-Point 14 marks</i>
Level 2	<i>A poor answer but some understanding is shown</i>	7 to 11 marks <i>Mid-Point 9 marks</i>
Level 1	<i>A very weak answer</i>	0 to 6 marks <i>Mid-Point 4 marks</i>

Issues and areas for discussion include:

Introduction	<ul style="list-style-type: none"> • Explaining the meaning of government intervention; • Giving examples of government intervention, e.g. taxes, subsidies, regulation.
Analysis	<ul style="list-style-type: none"> • The use of subsidies, for example those granted to producers of electric cars; giving drivers of electric cars access to free parking etc.; taxing producers of petrol/diesel fuelled cars; imposing extra taxes on drivers of petrol/diesel fuelled cars; using regulation, e.g. requiring car manufacturers to switch to the production of electric cars; • An electric car as a merit good / a petrol-fuelled car as a demerit good; and the externalities generated by electric / petrol-fuelled cars;
Evaluation	<ul style="list-style-type: none"> • Asking whether there are sufficient incentives in the market for the market alone to switch away from petrol-fuelled cars to electric-powered cars • Discussing short-run versus long-run considerations; • Debating the effectiveness of different types of intervention • Contrasting intervention to help producers with intervention to influence consumer behaviour • Discussing relevant macroeconomic issues • Discussing recent evidence, eg the case for and against the car scrappage subsidy • Discussing whether intervention: <ul style="list-style-type: none"> ➤ is likely to correct or reduce any perceived market failure, eg the negative externalities produced by petrol/diesel fuelled cars; ➤ might lead to government failure; ➤ might increase or reduce economic efficiency; ➤ might increase or reduce economic welfare.

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

MAXIMUM FOR PART 0 4: 25 MARKS

OR

27

05	Define the term 'positive externality' (Extract E , line 4).	<i>(5 marks)</i>
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For an acceptable definition (eg benefits received by a third party; beneficial spin-off effect(s); social benefit greater than private benefit)	5 marks
Also, award marks for an acceptable definition of a pure consumption positive externality, a pure production positive externality (private cost greater than social cost), or a mixed consumption/production positive externality.	

If the definition is incomplete, marks may be broken down, for example as follows:

Accurate definition of an externality, without reference to a positive externality:	2 marks
Defining a positive externality as an external benefit:	2 marks
Providing an example of a positive externality (accept merit good)	2 marks
For an accurate diagram:	2 marks

Do not award marks for an answer which defines a positive externality as a benefit to society as a whole.

This mark scheme does not allow examiners to award 1, 3 or 4 marks for a point. Examiners must award 0 or 2 marks for each point made by the candidate.

MAXIMUM FOR PART 05: 5 MARKS

0 6 Using **Extract D**, identify **two** significant points of comparison between the percentages of men and women participating in selected physical activities in the UK in 2002. *(8 marks)*

Award up to 4 marks each for each point made:

Identifies a valid point of comparison Makes accurate use of the data to support the point of comparison Unit of measurement given accurately (%)	4 marks
Identifies a valid point of comparison Makes use of the data to support the point of comparison However, no unit of measurement is given and/or the unit of measurement is used/applied inaccurately	3 marks
Identifies a point of comparison No use of correct data to support the comparison identified	2 marks

If a candidate identifies more than two points of comparison, reward the best two.

The valid points include:

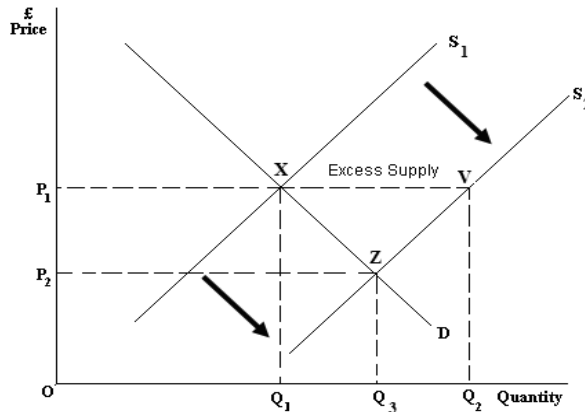
- The biggest *absolute* difference was between 15% of men participated in snooker etc., compared to 4% of women, ie 11%
- The smallest *absolute* difference was 1% as shown in the figures for badminton, bowls, tenpin bowling and skittles
- The biggest *relative* difference was in football, where ten times as many men played football compared to women
- A greater percentage of men participated in all the listed sports except 'keeping fit and yoga' and swimming, for which the respective differences were 9% and 3%
- Walking was by far the most popular physical activity for both men and women at 36% and 34% respectively
- The only sport in which there is no difference was tennis, where 2% of both men and women participated

MAXIMUM FOR PART 0 6: 8 MARKS

07 'Supermarkets, petrol stations, office buildings, houses and blocks of flats now stand where children used to play' (**Extract E**, lines 8-10).

With the help of a supply and demand diagram, explain how the sale of school playing-fields may affect house prices. (12 marks)

The anticipated response for the diagram for the building of houses and flats:



Breakdown of the marks for the diagram:

Axes labelled (price and quantity or P and Q will do (£ is allowed but do not allow price level or output)	1 mark
Original demand and supply curves correctly labelled	1 mark
Co-ordinates drawn in at the initial equilibrium and labels	1 mark
Rightward shift of the supply curve	2 marks
Co-ordinates drawn in at the new equilibrium and labels	1 mark
Any other relevant feature of the diagram	1 mark per feature up to a maximum of 2 marks
Reward in a similar way a diagram based on the argument that the building of an office block or similar building may make it less desirable to live near the previous open space, leading to the demand curve shifting to the left. Likewise the town where the playing fields were located may become a less attractive place to live in, shifting the demand curve for housing to the left. Alternatively, supermarkets, petrol stations and office buildings may create extra jobs which would shift the demand curve for housing to the right.	

Candidates who draw a diagram which is inconsistent with their written explanation can only be awarded 3 marks for axes, supply and demand curve and initial equilibrium.

Up to 6 marks for the diagram

The anticipated written response:

define demand or supply:	Up to 2 marks per definition Max of 2 marks for definitions
For each of the following explanations, award 2 marks for each logical link in the chain of reasoning. Do not award 1 mark only.	
As more land becomes available (2 marks) houses can be built on the land increasing supply (2 marks) leading to a fall in house prices (2 marks)	Up to 6 marks

As more supermarkets, petrol stations and office blocks are built, this can increase the number of jobs (2 marks) which will increase the demand for houses (2 marks) so house prices go up (2 marks)	Up to 6 marks
Explain the adjustment to the new equilibrium price	Up to 4 marks
Explain any other relevant point, eg the effect on the prices of houses adjacent to the former playing-field, type of housing, elasticity, fall in the cost of land	Up to 6 marks per point

Maximum of 8 marks for a written explanation

MAXIMUM FOR PART 07: 12 MARKS

08 Using the data and your economic knowledge, evaluate different economic policies that could be used to encourage schoolchildren to undertake more exercise.
(25 marks)

Candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

Maximum of **13 marks** if only one relevant economic policy is considered.

A maximum of **21 marks** should be awarded if there is no **explicit** reference to the data.

Maximum of **7 marks** if a good general answer is provided but there is no economic analysis.

Level 5	<i>Good analysis and evaluation</i>	22 to 25 marks <i>Mid-Point 24 marks</i>
Level 4	<i>Good analysis but limited evaluation</i>	17 to 21 marks <i>Mid-Point 19 marks</i>
Level 3	<i>An adequate answer with some correct analysis but very limited evaluation</i>	12 to 16 marks <i>Mid-Point 14 marks</i>
Level 2	<i>A poor answer but some understanding is shown</i>	7 to 11 marks <i>Mid-Point 9 marks</i>
Level 1	<i>A very weak answer</i>	0 to 6 marks <i>Mid-Point 4 marks</i>

Issues and areas for discussion include:

Introduction	<ul style="list-style-type: none"> Identifying relevant policies; Stating that sport and/or exercise may be said to be a merit good; Defining a merit good (positive externalities generated in consumption and/or long term private benefits received in consumption exceeding short term private benefits).
Analysis	<ul style="list-style-type: none"> Why the generation of positive externalities leads to under-consumption (the information problem); why ignoring or playing down long-term benefits leads to under-consumption; distributional issues (the better-off have access to sports facilities etc., but low-income people may lack access); two or more policies to correct/reduce the alleged market failure; the possibility that market failure will be replaced by government failure.
Evaluation	<ul style="list-style-type: none"> Contrasting the advantages and disadvantages of interventionist and non-interventionist policies Comparing 'carrot' and 'stick' policies Comparing subsidy (and/or taxation) with regulation Considering short-term versus long-term effects of different policies Considering who decides on and implements the different policies (central government, local government, schools, government agencies) Discussing whether one or more of the analysed policies will be successful Discussing the extent to which one or more of the analysed policies may be successful Discussing whether some but not other policies may be successful Introducing opportunity cost issues Discussing whether unintended consequences may be unleashed Discussing the role of parents as decision makers

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

MAXIMUM FOR PART 0 8: 25 MARKS