



General Certificate of Education

Economics

ECON3: Business Economics and the Distribution of Income

Mark Scheme

2010 examination - January 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 Unit 3

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 questions and part (a) of the essay questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.
- (ii) **A levels approach.** This approach is used for part (c) of the data response questions and part (b) of the essay questions. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. 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. Then think in terms of awarding the mid-point mark which has been identified for that level (e.g. 14 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

THE LEVELS MARK SCHEME FOR A2

Level Descriptions

In part (c) of the data response questions and part (b) of the essay questions, 40% of 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 15 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. 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. Descriptions and explanations lack clarity. 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. There might be some evidence of organisation in the answer but generally it fails to answer the question. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

0 to 6 marks

Mid-Point 4 marks

Level 2: A poor answer but some understanding is shown

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. Descriptions and explanations are sometimes hard to follow. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. There is some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. There is some limited 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 specialist vocabulary 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

A few issues are 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 the issues, arguments and evidence is limited or superficial. There is 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. There is some use of specialist vocabulary which is applied appropriately.

12 to 16 marks

Mid-Point 14 marks

Level 4: Good analysis but limited evaluation

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate demonstrates some ability to synthesise the arguments presented and come to some relevant conclusions although these might not always be based on evidence presented. 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. A wide range of specialist vocabulary is used with facility.

17 to 21 marks

Mid-Point 19 marks

Level 5: Good analysis and evaluation

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate demonstrates the ability to synthesise the arguments presented and come to conclusions which are based on the evidence presented. 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. A wide range of specialist vocabulary is used with facility.

22 to 25 marks

Mid-Point 24 marks

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.

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.

1 THE GLOBAL CONTEXT**Total for this question: 40 marks**

- 1 (a)** Using **Extract A**, identify **two** significant points of comparison between the number of children living in poverty before and after housing costs over the period shown.
(5 marks)

Award **1 mark** for each valid point made and **2 marks** for the supporting reference to the data, up to a maximum of **5 marks**. Points might include:

- After housing costs are accounted for, there are more children living in poverty (or housing costs make the child poverty problem worse)
- Generally speaking, the two graphs tend to move together (more or less in parallel)
- Both graphs are rising together at the end of the period
- Between 1996 and 2000 (approximately) the 'after' line fluctuates, while the 'before' line is level
- Both lines show poverty lower at the end than at the start
- The decline mainly happened between 98/99 and 04/05
- The gap narrows over the whole period

Award a maximum of **1 mark** for each supporting reference to the data if the unit (millions) is not used.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of two points of comparison (one good point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

MAXIMUM FOR PART (a): 5 MARKS

- 1 (b)** Distinguish between absolute and relative poverty **and**, using the data to help you, explain why this distinction is useful when investigating poverty in the UK and in less developed countries. *(10 marks)*

For candidates who:

- define absolute poverty, in terms of some sort of poverty line or threshold (e.g. living on a dollar a day).
- define relative poverty, in terms of comparison to some sort of average
- attempt to 'distinguish', over and above providing two separate definitions, e.g. by saying that relative poverty is an average, and like any average an individual's position can look different depending on the position of others; whereas an absolute measure is the same for the individual whatever the position of others in the group.

Up to 3 marks per definition or overview to a maximum of 6 marks (including diagrams)

Explain different circumstances and the appropriateness of different definitions in different circumstances, e.g. by saying that

- in less developed countries the circumstances are such that survival is an issue in a way in which it is not in richer countries; this makes an absolute measure more relevant than a relative one
- in richer countries unequal 'living standards' might be dysfunctional but are not normally an immediate matter of life or death; however they are a matter of long term 'life chances'
- any definition of 'poverty' (absolute or relative) is bound to be arbitrary, e.g. terms like 'severe deprivation' can mean different things to different people
- absolute poverty indicates a lack of access to basic needs, while relative poverty indicates inequality. It is possible for a country to have no absolute poverty, but there will still be relative poverty if there is inequality
- we would not expect people in more developed countries to be poor enough to be regarded as being in 'absolute' poverty in terms of, say, less than \$2.50 a day
- the data indicates that in the UK there is a mixture of measures being used in order to discuss child poverty: relative (the 60% figure), and absolute (school attendance, health)

Up to **4 marks** for each of the points made (**1 mark** for identification and **3 marks** for analysis) up to a maximum of **8 marks**.

Up to **2 marks** per diagram (**1 mark** for labelling, **1 mark** for correct information shown) to a maximum of **3 marks**.

MAXIMUM FOR PART (b): 10 MARKS

1(c) Evaluate whether the UK government should attempt to eliminate poverty, and child poverty in particular, **or** leave the issue to market forces. (25 marks)

There are hints in the data concerning the 'long run', to which candidates can respond, and an argument can be constructed around the long run returns to investment in children in terms of long term negative externalities which are avoided by eradicating child poverty. On the other hand, other groups could make a case for government targeting, e.g. senior citizens could argue that having spent a lifetime paying taxes they are entitled to be the beneficiaries of anti-poverty policies, and could make a case that such expenditure, e.g. on home heating, saves on costs in other parts of the government budget, e.g. the NHS.

The issues identified below are intended to provide an indication of some of the areas that might be discussed. They are not necessarily the only valid approach. Candidates can only be expected to consider a few of these and/or other relevant issues in the time available.

There must be evidence of evaluation to score more than 15 marks.

To achieve **Level 4**, at least **two** issues should be presented and evaluated. (One of these issues could be the actual policies used)

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to in order that a concluding judgement can be made by the candidate.

Issues and areas for discussion include

- Arguments for/ against tackling general poverty, e.g.
 - Families without children are equally deserving
 - There are other groups beside children, e.g. the elderly, the disabled, who could benefit from poverty alleviation
- However
 - Such a wide target might be unachievable
 - Costs and opportunity costs might be too great
- Arguments for / against targeting child poverty, e.g.
 - It provides objectives which are more easily measurable
 - It is less costly than targeting general poverty
 - It gives time for the policies to work instead of looking for quick results (the opposite of short termism)
 - ... this also enables governments to work towards a change in culture (e.g. welfare to work)
 - Children are more vulnerable than adults, so spending targeted at, e.g. infant mortality, have larger returns than those aimed at adults
 - There are spin-off benefits in the long run, e.g. a healthier and better educated workforce
 - There are reduced external costs in the long run, e.g. fewer costs associated with unemployment, sickness, crime etc.

- However
 - It is too narrow a target
 - It could be an 'easier' target for politicians
 - Arguments for/against tackling general poverty, eg other groups (eg older people) are just as 'deserving' as children, general poverty is dysfunctional and undermines the economy for all groups, including children

- Arguments for / against 'market forces', e.g.
 - Government failure
 - 'Trickle-down' ideas

- However
 - Market failure
 - 'Trickle down might not happen'

- Evaluation could come from, for instance:
 - an argument that it is not a simple matter of either / or, and there could be a role for both markets and government in tackling both child poverty and general poverty.
 - the point that in extreme cases of global poverty, individual governments might not have sufficient power to make any difference, and that concerted international action might be required.

Also give credit for:

- Relevant use of evidence and examples not contained in the data
- Diagrams
- An overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (c): 25 MARKS

2 THE EUROPEAN UNION CONTEXT

Total for this question: 40 marks

2 (a) Using **Extract D**, identify **two** main features of the market for motor vehicles in the EU.
(5 marks)

Award **1 mark** for each valid point made and **2 marks** for the supporting reference to the data, up to a maximum of **5 marks**. Points might include:

- There is a relatively small number of producers supplying the EU market, which implies oligopoly
- We are not told how many manufacturers come from Japan, Korea, and 'Others' (but the market shares probably suggest that they do not have many)
- Major manufacturers are based in a small number of countries
- Several manufacturers have roughly equal market share (9.4 to 13.8 per cent (with VW the largest, at 18.3 per cent))
- The 2/ 3 firm concentration ratio indicates a high degree of concentration

Award a maximum of **1 mark** for each supporting reference to the data if the unit (per cent) is not used.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of two features (one good point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

MAXIMUM FOR PART (a): 5 MARKS

2 (b) Explain the concept of ‘minimum efficient scale’ (**Extract E**, line 30) **and** analyse its implications for the structure of, **and** barriers to entry to, the motor-manufacturing industry. (10 marks)

For candidates who:

- Explain what happens on the LRAC curve where falling LRAC becomes constant LRAC
- Explain what is meant by ‘minimum efficient scale’ (e.g. this is the lowest level of output capacity where LRAC is minimised, or where economies of scale are exhausted)

Up to 3 marks per explanation to a maximum of 6 marks (including diagrams)

Analyse implications, e.g. by saying that

- as output is increased through increasing the size of plant or industry, there are economies of scale. These economies are managerial, technical, marketing, etc.
- In the table MES indicates that
 - the UK is too small a market to accommodate a major UK-only manufacturer efficiently
 - 4 or 5 manufacturers could supply the EU market efficiently.
- in effect MES at a high level of output is a barrier to entry (e.g. because of capital set-up costs) – this point is not essential for full marks to be earned
- the higher the level of output where MES kicks in, the less room there is for efficient competition (this is stated in the data, but is worth rewarding if it is used to support the analysis here)
- however, anti competitive practices such as collusion, cartels and a wish for market share, or market dominance, might also help explain the number of firms
- mass production creates indivisibilities which move the MES curve to the right
- unlike, say, computers/ ICT where capital equipment has become more divisible (mainframe to PC to laptop), and smaller firms can compete, in the car industry due to the technological complexity of modern cars and the need to match world standards of technology, the MES point has moved to the right
- car firms need to be large to supply affordable mass production cars to the technical standards that consumers now demand

Up to **4 marks** for each of the points made (**1 mark** for identification and **3 marks** for analysis) up to a maximum of **8 marks**.

Up to **2 marks** per diagram (**1 mark** for labelling, **1 mark** for correct information shown) to a maximum of **3 marks**.

Do not insist on both structure and barriers for full marks. No mark cap in this instance but award appropriately a candidate who makes a clear link with barriers to entry.

MAXIMUM FOR PART (b): 10 MARKS

2 (c) 'When oligopolists collude, the results can be anti-competitive and against the consumer interest' (**Extract E**, lines 27-28).

Evaluate policies that could be used to deal with this problem. (25 marks)

There must be evidence of evaluation to score more than 15 marks.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to in order that a concluding judgement can be made by the candidate.

The issues identified below are intended to provide an indication of some of the areas that might be discussed. They are not necessarily the only valid approach. Candidates can only be expected to consider a few of these and/or other relevant issues in the time available.

Issues and areas for discussion include:

- Definition of 'consumer interest'
- Definitions of 'oligopolists' and 'anti-competitive'
- Collusion
 - can be against the consumer interest, e.g. if it involves secret deals over market share, price fixing, etc.
 - is usually against both UK and EU law, and might result in fines or even imprisonment for the managers of the firms involved.
 - needs to be distinguished from 'collaboration'
- Government/ EU intervention, eg legislation, taxation, commission of enquiry, subsidising new competitors
 - Arguments for intervention, e.g.
 - to reduce barriers to entry, restrictive practices (created by firms)
 - to tackle trade barriers (created by national governments)
 - Arguments against intervention, e.g.
 - 'markets know best',
 - government failure
- Evaluation could come from, for instance:
 - Evaluation of the arguments above
 - assessing the effectiveness of various policies, e.g. comparing the traditional British administrative approach (commissions, enquiries, recommendations) with the newer, European approach (the use of investigators and legal sanctions)
 - suggesting that whether intervention is necessary depends on the behaviour of firms, and that if market forces are automatically creating competition then intervention is unnecessary.
 - arguing that EU intervention is necessary to modify the behaviour of national governments as opposed to firms (as in the case of the VW law)
 - ...or that protectionism is not necessarily a bad thing, e.g. if it protects employment).
 - distinction between collaboration and collusion

Also **give credit for:**

- Relevant use of evidence and examples not contained in the data
- Diagrams
- An overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (c): 25 MARKS

SECTION B
3**Total for this question: 40 marks**

3 (a) The *British Airports Authority* (BAA), a private-sector monopolist which operates Heathrow Airport, says it needs to build a third runway. Critics say that this would cause air and noise pollution and add to global warming.

Explain why, even if this runway were profitable, an economist could argue that it would be a case of market failure. (15 marks)

For candidates who:

Define or explain 'profit' and 'market failure' and make it clear that they realise that commercial success and market failure can co-exist (equally, a commercial failure can show that a market is working successfully, by eliminating firms that are inefficient or outdated).

Up to 4 marks

Explain that profitability can be created by, e.g.

- Use of the runway by customer airlines (paying fees to BAA)
- More passengers passing through Heathrow (using airport shops and services)
- Internal costs being accounted for (but not necessarily external costs)

Explain that market failure can exist in terms of, e.g.

- Negative externalities (external costs) of pollution
 - Social costs exceeding social benefits
 - Market forces leading to a sub-optimal level of output
 - Monopoly forcing up prices
- Up to 4 marks per feature explained
(1 mark for identification and up to 3 marks for the explanation)**

Use of supporting diagram(s) showing, e.g.

- externalities (**up to 4 marks**)
- monopoly (**up to 4 marks**)

Up to 8 marks for diagrams**MAXIMUM FOR PART (a): 15 MARKS**

3 (b) A government is considering subsidising a series of high-speed rail lines in order to reduce short-haul air flights.

To what extent might cost benefit analysis be a useful method of evaluating this proposal? (25 marks)

An effective answer to the question requires recognition that the existence of negative externalities means that prices do not fully reflect the costs of production hence the role of taxes and subsidies. The nature of CBA, and an outline of its various elements is a sensible starting point. Better answers will stick to the cases mentioned in the question rather than digressing towards other cases such as Concorde or a Severn barrage.

There must be evidence of evaluation to score more than 15 marks.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to in order that a concluding judgement can be made by the candidate.

The issues identified below are intended to provide an indication of some of the areas that might be discussed. They are not necessarily the only valid approach. Candidates can only be expected to consider a few of these and/or other relevant issues in the time available.

Issues and areas for discussion include:

- Subsidies
 - Definition of subsidy
 - Explanation of effect of subsidy
- Costs and benefits
 - Definitions of costs, benefits,
 - Positive and negative externalities
- CBA
 - Steps involved in CBA
 - Problems with selected aspects of CBA
 - Advantages of CBA as a whole
 - Disadvantages of CBA
- Evaluation could come from, for instance:
 - assessing the usefulness of individual aspects of CBA, e.g.
 - assigning shadow prices,
 - discounting for the time value of money
 - or an overall judgement on CBA as a whole methodology.

Also give credit for

- Reference to the UK and/ or other economies
- Diagrams
- An overall judgement of the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 25 MARKS

4 (a) *Home Farm* is one of many small firms producing lettuces and attempting to maximise profits.

Explain the circumstances in which *Home Farm* might make supernormal profits in the short run, but only normal profits in the long run. (15 marks)

For candidates who:

Define or explain normal profit, supernormal profit, and profit maximising behaviour, and who make it clear that they understand the role of profit in the short and long run theory of the perfectly competitive firm. **Up to 4 marks**

Explain the conditions for a 'perfect market' and analyse how the profit maximising level of output can be identified, e.g. by referring to:

- Home Farm being one of many, small firms
 - Lettuces possibly being an homogenous product/ having no brand name
 - Other conditions that would need to be fulfilled, e.g. freedom of entry and exit, perfect knowledge
 - Whether the firm sells to one large customer or to many smaller ones
 - Short-run equilibrium
 - Long-run equilibrium
 - The possibility of a contestable market **Up to 4 marks per feature explained**
- (1 mark for identification and up to 3 marks for the explanation)**

Use of supporting diagram(s) showing, e.g.

- Short run (**up to 4 marks**)
- Long run (**up to 4 marks**)

Up to 8 marks for diagrams

MAXIMUM FOR PART (a): 15 MARKS

4 (b) Evaluate the argument that managers controlling large companies might follow policies which do **not** necessarily maximise the profits of the owners. (25 marks)

Candidates might trawl through a list of alternative theories of the firm. While this is relevant and should be credited, a more incisive and effective answer to the question is likely to start from a discussion of ‘ownership’ and ‘control’, with the traditional idea being that shareholders ‘own’, ‘take risks’ and receive ‘profits’ as their factor reward, while directors, representing shareholders, ‘control’ and managers may carry out day-to-day decisions, receiving ‘wages’ (salaries) as their factor reward. This can be developed into an argument that in modern large corporations, managers have usurped directors and become ‘divorced’ from owners.

There must be evidence of evaluation to score more than 15 marks.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to in order that a concluding judgement can be made by the candidate.

The issues identified below are intended to provide an indication of some of the areas that might be discussed. They are not necessarily the only valid approach. Candidates can only be expected to consider a few of these and/or other relevant issues in the time available.

Issues and areas for discussion include:

- The factor of production ‘enterprise’ in theory
- Explanation of the role of profit maximisation as an objective
- Enterprise in large companies: the location of risk-taking, ownership, control, decision making
- Lack of information might make it difficult in practice to track marginal values
- The divorce of ownership and control
- Alternatives to profit maximising, e.g.
 - Revenue maximisation (likely to be of interest to the marketing/ sales managers)
 - Output maximisation/ cost minimisation (likely to be of interest to the production management)
 - Maximisation of managerial utility/ power/ status
 - Social/ environmental/ community involvement/ ‘ethical’ issues (and their contribution to the bottom line)
 - Satisficing behaviour
 - Above alternatives might be short run behaviour, and not inconsistent with profit maximisation in the long run
- Evaluation could come from, for instance:
 - arguing that managers do not necessarily maximise profits all the time
 - but managers who do not provide ‘shareholder value’ will not survive in the long run
 - neither will firms that do not give due weight to profitability

Also give credit for

- Reference to the UK and/ or other economies
- Diagrams
- An overall judgement of the issues raised.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 25 MARKS

- 5 (a)** Explain why a television journalist working on the BBC's *Newsnight* current-affairs programme would usually be paid a much higher wage rate than a reporter on a local newspaper. (15 marks)

For candidates who:

Define 'wage rate' in terms of a kind of 'price', mention the relevance of the supply and demand of labour, or refer to the features of a labour market, e.g. derived demand; or refer to the 'marginal revenue product' of a factor in general terms and explain how the MRP of a factor determines the quantity demanded by an employer **Up to 4 marks**

Explain how the potential **supply** of suitable *Newsnight* journalists is less than that of local reporters, due to, for example,

- Natural ability/ suitability
- Training, skills

Explain how the effective **demand** for *Newsnight* journalists is greater/ stronger than that of local reporters due to, for example,

- The BBC is a more specialised labour market
- The BBC has greater resources than the local newspaper industry
- The *Newsnight* presenter is more vital to the programme than the average reporter is to the newspaper (without the presenter there might be no programme; the reporter is more easily replaced);
- In theoretical terms the marginal revenue product of the *Newsnight* journalist is greater than that of the local reporter (marks awarded here for **specific** use of MRP in addition to **general** marks allowed above)

Discuss other possible factors, e.g. mention the relevance of

- price (wage) elasticity of supply and price (wage) elasticity of demand
- non-price or non-market mechanism factors (e.g. the *Newsnight* presenter might be represented by a powerful agent, while the local reporter might be in a relatively weak trade union)

Up to 4 marks per feature explained
(1 mark for identification and up to 3 marks for the explanation)

Use of supporting diagram(s) showing, e.g.

- MRP (**up to 4 marks**)
- S & D (**up to 4 marks**)

Up to 8 marks for diagrams

MAXIMUM FOR PART (a): 15 MARKS

5 (b) Evaluate the view that the best way to narrow wage differentials is to increase the National Minimum Wage (NMW). *(25 marks)*

There must be evidence of evaluation to score more than 15 marks.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to in order that a concluding judgement can be made by the candidate.

The issues identified below are intended to provide an indication of some of the areas that might be discussed. They are not necessarily the only valid approach. Candidates can only be expected to consider a few of these and/or other relevant issues in the time available.

Issues and areas for discussion include:

- The meaning of ‘to narrow wage differentials’
- The nature of labour markets (perfect/ imperfect)
- The nature, impact and success of the national minimum wage
- The capping of wages (market forces versus government failure arguments can be used here)
- The implications of other policies, e.g.
 - Progressive taxation
 - Provision of universal public services
- Specific arguments for and against
 - The narrowing of wage differentials
 - A more equal distribution of income
- General arguments about the role of government/ consequences of leaving wage determination to market forces
- Evaluation could come from, for instance:
 - discussion of progressive versus regressive taxation, the impact of transfer payments (the ‘social wage’) etc.
 - assessing the success or otherwise of various policies such as the current minimum wage
 - the desirability of alternative policies
 - a more general discussion about income distribution and the issue of equality versus inequality (bonuses paid to senior banking executives, ‘rewards for failure’ during the credit crunch, and possible government policy responses could feature in the discussion).

Also give credit for

- Reference to the UK and/ or other economies
- Diagrams
- An overall judgement of the issues raised

There must be evidence of evaluation to score more than **15 marks**.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 25 MARKS