



**General Certificate of Education (A-level)**  
**June 2012**

**Economics**

**ECON3**

**(Specification 2140)**

**Unit 3: Business Economics and the  
Distribution of Income**

**Final**

***Mark Scheme***

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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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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 students' 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

June 2012

ECON3

#### Mark Scheme

#### General Instructions

Marks awarded to students 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 student to score full marks in a variety of ways. Where the student'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 student's answer does not deserve credit, then no marks should be given.

Occasionally, a student 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 **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the student might include in the answer.
- (ii) **A levels approach.** This approach is used for parts **03** and **06** of the data response questions and the second part of each essay question. 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 student. 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 (eg 13 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.

**FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**
**AQA ADVANCED LEVEL (A2) ECONOMICS  
LEVELS OF RESPONSE MARK SCHEME**

<b>A2 LEVELS OF RESPONSE</b>	<b>AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology</b>	<b>AO2 APPLICATION of theories, concepts and terminology</b>	<b>AO3 ANALYSIS of economic problems and issues</b>	<b>AO4 EVALUATION of economic arguments and evidence, making informed judgments</b>
<b>Level 5</b> 22-25 marks (mid-point 24)  <b>Good analysis and good evaluation</b>	Good throughout the answer with few errors and weaknesses	Good application to issues  Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning  Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
<b>Level 4</b> 17-21 marks (mid-point 19)  <b>Good analysis but limited evaluation</b>  <b>OR</b>  <b>Reasonable analysis and reasonable evaluation</b>	Good throughout the answer with few errors and weaknesses      Good throughout much of the answer with few errors and weaknesses	Good application to issues  Where appropriate, good use of data to support answer    Some good application to issues  Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning  Good awareness of the inter-relatedness of economic issues    Largely relevant and well organised with reasonable logic and coherence  Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view    Reasonable, showing an appreciation of alternative points of view
<b>Level 3</b> 10-16 marks (mid-point 13)  <b>Reasonable answer, including some correct analysis but very limited evaluation</b>	Satisfactory but some weaknesses shown	Reasonable application to issues  Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present  Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
<b>Level 2</b> 4-9 marks (mid-point 7)  <b>Weak with some understanding</b>	Limited and some errors are made	Partial application to issues with some errors  Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development  Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
<b>Level 1</b> 0-3 marks (mid-point 2)  <b>Very weak</b>	Weak with a number of errors	Little, if any, application to issues  Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

### 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 student to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the student.
- K** Where the student demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the student's response to the question. This should also be used where the student quotes relevant examples.
- Ap** Where the student demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- An** Where the student demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the student **EVALUATES** and makes judgements about the significance of various issues and arguments.

### Synoptic Assessment

All questions in this unit are synoptic. Therefore, students 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.

Students 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.

### QUALITY OF WRITTEN COMMUNICATION

**Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.**

Students will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for **QWC**.

However, examiners should take into account **QWC** when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional **QWC**) or down (for very poor **QWC**) by 1 mark (and no more).

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

- 01** Using **Extract A**, calculate to one decimal place the percentage of world CO<sub>2</sub> emissions generated by the UK **and** identify **one other** significant feature of the data shown. (5 marks)

**The calculation:**Correct answer is **1.7 (or 1.706485)**

For a correct answer (working need not be shown). Do <b>not</b> penalise a candidate who answers to two or more correct decimal places.	<b>3 marks</b>
Any answer between 1.0 and 2.0 inclusive, irrespective of decimal places.	<b>1 mark</b>
For showing a correct method but arriving at a wrong answer ie $\frac{\text{any number}}{\text{any number}} \times 100 = \text{wrong answer}$	<b>1 mark</b>

**Identifying one significant feature**

For identifying a significant feature and providing one piece of supporting data <b>with</b> the unit of measurement correctly shown.	<b>3 marks (1+2)</b>
For identifying a significant feature but using data <b>without</b> the appropriate unit of measurement shown.	<b>2 marks</b>
For identifying a significant feature without supporting data.	<b>1 mark</b>
For simply providing one item of data with or without the unit shown.	<b>0 marks</b>

**Significant features include:**

- China is top of total emissions table (6500 million tonnes)
- measuring 'per head' instead of 'total' emissions moves Qatar to the top of the table (at 55.5 tonnes per head)
- in either table the rank order of USA, Russia, UK does not alter (2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>)
- US per capita emissions (19 tonnes per head) are over twice those of the UK (9 tonnes per head).

**MAXIMUM FOR PART 01: 5 MARKS**

- 02** Explain what is meant by 'property rights' (**Extract B**, line 20) **and** analyse how an absence of property rights can worsen the environmental market failures of **both** pollution **and** the rapid depletion of natural resources. (10 marks)

Explanation	
For a relevant definition/description of property rights, eg a legally recognised right of ownership over a resource; or a definition of market failure.	Up to 2 marks
For explaining how property rights can be lacking, eg on common land, on the high seas, in the atmosphere.	Up to 2 marks

**Maximum of 4 marks for the explanation**

Analysis	
Award up to 5 marks for each of the two 'market failures'.	
Award 1 mark for each logical link in the chain of reasoning.	
Examples include:	
Pollution is an example of a negative externality (1 mark). One failure is the pollution of a communal resource such as a piece of land, a lake or the atmosphere (1 mark) for any one example). Fresh air is a resource essential to life (1 mark) however the atmosphere can also be polluted by human activity (1 mark). Because nobody owns the atmosphere (1 mark) the costs of pollution are external to the polluter (1 mark) and it is possible for an economic agent to pass these costs on to the wider community (1 mark).	Up to 5 marks
Another failure is the <b>depletion</b> of a communal resource, eg water reserves, fish stocks, wildlife, open spaces, and property rights incentivise conservation.	Up to 5 marks
Make appropriate use of diagrams, eg an externality diagram.	Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks

**Maximum of 6 marks if only the analysis attempted.**

**Maximum of 8 marks if only the explanation and one of the two market failures (pollution, depletion) analysed.**

**MAXIMUM FOR PART 02: 10 MARKS**

<b>03</b>	<p>‘Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel’ (<b>Extract B</b>, lines 29-30).</p> <p>Using the data and your economic knowledge, evaluate the possible impact on UK businesses of policies to reduce pollution and climate change. (25 marks)</p>
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In this part of the question, students 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 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

To reach **Level 4**, the answer must evaluate the impact of policies on firms.

<b>Level 5</b>	<b>Good analysis and good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis but limited evaluation OR Reasonable analysis and reasonable evaluation</b>	<b>17-21 marks (mid-point 19)</b>
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

**Issues and areas for discussion include:**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>definitions/descriptions of <ul style="list-style-type: none"> <li>permit trading, quotas, environmental taxes.</li> </ul> </li> </ul>
<b>Developing the response to the question</b> <b>Application</b>	<ul style="list-style-type: none"> <li>relevant use of theory</li> <li>evidence from the data, eg reference to <ul style="list-style-type: none"> <li>Russian experience (<b>Extract B</b>, lines 1-5)</li> <li>British policy (<b>Extract B</b>, lines 29-32)</li> </ul> </li> </ul>
<b>Developing the response to the question</b> <b>Analysis</b>	<ul style="list-style-type: none"> <li>effects of emissions trading and alternatives, specifically on UK businesses (firms) in terms of: <ul style="list-style-type: none"> <li>costs</li> <li>revenues</li> <li>profits</li> </ul> </li> <li>being ‘carbon neutral’ as a business objective</li> <li>rationale for government intervention</li> <li>internalising externalities</li> <li>command-and-control versus market-based solutions</li> <li>“polluter pays” ideas</li> <li>the need for international action</li> <li>permit trading in theory and practice</li> <li>alternatives and their implications, eg <ul style="list-style-type: none"> <li>physical quotas on emissions</li> <li>environmental taxes</li> </ul> </li> <li>the demand for carbon and the supply of carbon.</li> </ul>



<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• weaknesses of carbon trading</li> <li>• efficacy/appropriateness of 'offsets'</li> <li>• the 'smokescreen' argument (mentioned in data)</li> <li>• lack of political will</li> <li>• distortions, eg lenient treatment of favoured businesses/industries (mentioned in data)</li> <li>• pollution permits and alternatives compared and contrasted</li> <li>• possible conflicts between policies, eg environmental improvement versus growth and employment</li> <li>• other alternative policies, eg use of green technology</li> </ul> <p><i>Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• relevant use of evidence and examples not contained in the data</li> <li>• relevant diagrams</li> <li>• an overall judgement on the issues raised.</li> </ul>

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

No penalty for not discussing both pollution and climate change.

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

**MAXIMUM FOR PART 03: 25 MARKS**

## 2 THE EUROPEAN UNION CONTEXT

**Total for this Context: 40 marks**

- 04** Using **Extract C**, calculate to one decimal place the typical annual pay of a teacher in 1980 as a percentage of the typical annual pay of a teacher in 2009 **and** identify **one other** significant feature of the data. (5 marks)

### The calculation

Correct answer is **18.6 (or 18.571429)**

For a correct answer (working need not be shown). Do <b>not</b> penalise a candidate who answers to two or more correct decimal places.	<b>3 marks</b>
Any answer between 18.0 and 19.0 inclusive, irrespective of decimal places	<b>1 mark</b>
For showing a correct method but arriving at a wrong answer i.e. $\frac{\text{any number}}{\text{any number}} \times 100 = \text{wrong answer}$	<b>1 mark</b>

### Identifying one significant feature

For identifying a significant feature and providing one piece of supporting data <b>with</b> the unit of measurement correctly shown.	<b>3 marks (1+2)</b>
For identifying a significant feature but using data <b>without</b> the appropriate unit of measurement shown.	<b>2 marks</b>
For identifying a significant feature without supporting data.	<b>1 mark</b>
For simply providing one item of data with or without the unit shown.	<b>1 mark</b>

### Significant features include:

- there is a wide range of minimum wage payments, eg €1360 in the UK and €250 in Poland
- some small countries (eg Luxembourg, Ireland) come higher in the minimum wage table than large countries (UK, France, Spain). (Data: name the countries which are higher/lower.)
- the wages of an office cleaner have increased x3 over the period shown, while those of a CEO have increased x 58
- in 2009 the country could employ 140 teachers for the price of a CEO.

**MAXIMUM FOR PART 04: 5 MARKS**

- 05** Explain the distinction between absolute poverty and relative poverty (**Extract D**, lines 1-2) **and** analyse **two** causes of poverty. (10 marks)

<b>Explanation</b>	
For a relevant distinction eg absolute: in terms of a lack of access to basics/or in terms of an absolute poverty line (eg dollar a day); relative: lack of life chances or income in terms of a national average, or a percentage based poverty line.	<b>Up to 4 marks</b>

**Maximum of 4 marks for the explanation**

<b>Analysis</b>  <b>Award up to 5 marks for each of two causes.</b>  <b>Award 1 mark for each logical link in the chain of reasoning.</b>  <b>Examples of causes include:</b>	
Significant shortages of <u>education and training</u> (1 mark) because of a lack of teachers/schools (1 mark) will reduce life chances (1 mark) and provide a 'vicious circle' of low wages (1 mark) leading to low taxation receipts (1 mark) and low investment in education (1 mark) leading to a less-qualified population (1 mark).	
Other possible causes, eg ownership of land and/or other assets, eg housing; imperfect factor mobility; social structure/discrimination; ineffective use of taxes/transfer payments; government pricing policies, subsidies, taxes, population growth, age distribution, etc unemployment, number of adults/children in household, low wages.	
Make appropriate use of diagrams, eg supply of and demand for labour.	<b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks</b>

**Maximum of 6 marks if only the analysis is attempted.**

**Maximum of 8 marks if only the explanation and one cause is analysed.**

**If more than two distinct causes are explained, award marks for the best two.**

**MAXIMUM FOR PART 05: 10 MARKS**

<b>06</b>	<p>‘Addressing unfairness in the UK tends to focus on policies to redistribute income after it has been earned....On the other hand, much EU policy is aimed at reducing the unequal distribution of income at source....’ (<b>Extract D</b>, lines 25-28).</p> <p>Using the data and your economic knowledge, evaluate the view that a fair distribution of income can better be achieved by policies which aim to redistribute income after it is earned rather than by policies which tackle supply-side obstacles in the economy.</p> <p style="text-align: right;">(25 marks)</p>
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In this part of the question, students 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 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

<b>Level 5</b>	<b>Good analysis <u>and</u> good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation</b>	<b>17-21 marks (mid-point 19)</b>
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

**Issues and areas for discussion include:**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>definition of income</li> <li>examples of minimum entitlements (eg minimum wage, universal benefits)</li> <li>examples of ‘hindrances’, eg poor education, health, life chances; ‘postcode lotteries.’</li> </ul>
<b>Developing the response to the question Application</b>	<ul style="list-style-type: none"> <li>use of theory</li> <li>discussion based on information from the data related to fairness, eg distribution facts and figures (Extract D, lines 7-12)</li> </ul>
<b>Developing the response to the question Analysis</b>	<ul style="list-style-type: none"> <li>policies aimed at re-distribution, examples, effects, eg <ul style="list-style-type: none"> <li>progressive/ proportional/ regressive taxes</li> <li>universal benefits</li> <li>EU social policies.</li> </ul> </li> <li>role of other policies, examples, effects, eg <ul style="list-style-type: none"> <li>minimum wage</li> <li>anti-discrimination laws.</li> </ul> </li> <li>policies aimed at ‘obstacles’, examples, effects eg <ul style="list-style-type: none"> <li>access to education/training</li> <li>social housing</li> <li>health care</li> <li>EU cohesion policies, eg skills training, business advice</li> </ul> </li> </ul>

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• what is fairness?</li> <li>• conflict between policies, eg                         <ul style="list-style-type: none"> <li>◦ income tax: redistributive or disincentive?</li> <li>◦ supply side/demand side</li> </ul> </li> <li>• ‘trickle down’ arguments</li> <li>• idea of ‘multiples’ in public sector; appropriateness for private sector?</li> <li>• maximum wage idea</li> <li>• difficulty of defining ‘fairness’</li> <li>• is it a question of either/or? Can different types of policies complement each other?</li> </ul> <p><i>Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• relevant use of evidence and examples not contained in the data</li> <li>• diagrams</li> <li>• an overall judgement on the issues raised.</li> </ul>

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

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

**MAXIMUM FOR PART 06: 25 MARKS**

## SECTION B

### Essay 1

**Total for this Essay: 40 marks**

‘Bigger is better....Small is beautiful.....Size does not matter’.

**07** Explain how a firm can experience diminishing returns in the short run **and** economies of scale in the long run. *(15 marks)*

For relevant definitions/descriptions/distinctions, eg

- short run/long run
- examples of fixed/variable factors
- economies of scale.

**Up to 2 marks per point defined or explained**

**to a maximum of 4 marks**

**Award up to 8 marks for each reason identified and explained.**

**Award 1 mark for each logical link in the chain of reasoning.**

**Examples include:**

Short run, for example, successive units of a variable factor **(1 mark)** are applied to a fixed factor **(1 mark)** as optimum capacity limits **(1 mark)** are approached first marginal returns **(1 mark)** then average returns diminish **(1 mark)**. Eventually total returns diminish **(1 mark)**. Returns are related to costs **(1 mark)**. Productive efficiency maximised at the point of maximum average physical product **(1 mark)** or minimum average cost **(1 mark)**.

**Up to 8 marks**

Long run, explanation of long run returns/relationship to internal economies of scale. Relationship between long run and short run.

**Up to 8 marks**

**but award a maximum of 5 marks if this part of the answer is confined to a description of types of economies of scale.**

Use of diagrams to help support explanations.

**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks**

**This question lends itself to a complex diagram, for which 4 marks may be awarded. For example, one ‘envelope curve’ diagram might show both SR and LR**

**Maximum of 10 marks if ONLY short run (diminishing returns) OR long run (economies of scale) is discussed.**

**MAXIMUM FOR PART 07: 15 MARKS**

<b>08</b>	Discuss whether large firms in the UK today are necessarily more efficient than small firms. (25 marks)
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In this part of the question, students 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 15 marks**.

<b>Level 5</b>	<b>Good analysis <u>and</u> good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation</b>	<b>17-21 marks (mid-point 19)</b>
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

#### Issues and areas for discussion include

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• definitions of 'large' and 'small' firms</li> <li>• problems of comparison, eg capital intensive and labour intensive firms</li> <li>• definitions of efficiency.</li> </ul>
<b>Developing the response to the question</b>  <b>Application/ Analysis</b>	<ul style="list-style-type: none"> <li>• discussion of efficiency</li> <li>• advantages of large firms <ul style="list-style-type: none"> <li>◦ internal economies of scale <ul style="list-style-type: none"> <li>▪ types</li> <li>▪ effects on costs</li> </ul> </li> </ul> </li> <li>• external economies <ul style="list-style-type: none"> <li>◦ effects on large and small firms</li> </ul> </li> <li>• disadvantages of large firms <ul style="list-style-type: none"> <li>◦ diseconomies of scale</li> <li>◦ X inefficiency (note, this is not actually in the specification)</li> <li>◦ divorce of ownership and control <ul style="list-style-type: none"> <li>▪ less clear objectives</li> </ul> </li> </ul> </li> <li>• size and market structure</li> <li>• advantages of small firms <ul style="list-style-type: none"> <li>◦ impact of technology</li> <li>◦ divisibilities of capital.</li> </ul> </li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• significance of large firms, eg <ul style="list-style-type: none"> <li>◦ output</li> <li>◦ market share</li> <li>◦ efficiency, dynamic, static</li> </ul> </li> <li>• significance of small firms, eg <ul style="list-style-type: none"> <li>◦ employment</li> <li>◦ entrepreneurship and innovation</li> <li>◦ niche markets</li> <li>◦ personal service</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>• effects of changes in markets and technology, eg                             <ul style="list-style-type: none"> <li>○ divisibilities</li> <li>○ internet trading</li> <li>○ mass production versus mass customisation; dozens of markets of millions versus millions of markets of dozens.</li> </ul> </li> </ul> <p><i>Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• diagrams</li> <li>• an overall judgement on the issues raised</li> </ul>

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

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

**MAXIMUM FOR PART 08: 25 MARKS**



## Essay 2

**Total for this Essay: 40 marks**

An oligopolistic firm is trying to decide on the selling price and output of its product, and is also considering colluding with other firms in the industry.

**09** Explain why oligopolistic firms are affected by both interdependence and uncertainty when selling their product. *(15 marks)*

For relevant definitions/descriptions, eg:

- oligopoly
- cartel
- collusion.

**Up to 2 marks per point defined or explained to a maximum of 4 marks**

**Award up to 8 marks for each of two reasons identified and explained.**

**Award 1 mark for each logical link in the chain of reasoning.**

**Examples include:**

Interdependence refers to the idea that when making price and output decisions oligopolists have to consider not only how customers might react **(1 mark)** but also how rival companies might react **(1 mark)**; if a firm raises price, other firms might not follow suit **(1 mark)**; if it reduces price it might spark a price-cutting war **(1 mark)** this interdependence gives an elastic demand curve **(1 mark)** for price increases **(1 mark)** and an inelastic curve for price reductions **(1 mark)** and can lead to price stickiness **(1 mark)** and a kinked demand curve **(1 mark)**.

**Up to 8 marks**

**Uncertainty** identified and explained, effects on total revenue; price seeking behaviour; price leadership, game theory, collusion.

**Up to 8 marks**

Any other relevant issue, eg the presence of externalities which might result in an inefficient equilibrium.

**Up to 8 marks**

Use of diagrams to help support explanations.  
(Game theory matrix counts as a diagram for **2 marks**)

**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) eg a kinked demand diagram with just an AR curve on it to a total of 4 marks**

**This question lends itself to a complex diagram for which up to 4 marks can be awarded, eg a kinked demand curve (including cost curves and a discontinuous MR curve)**

**Maximum of 10 marks if either interdependence or uncertainty is not discussed.**

**MAXIMUM FOR PART 09: 15 MARKS**

**10** Evaluate policies which a UK government could use to control the activities of oligopolists. *(25 marks)*

In this part of the question, students 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 15 marks**.

<b>Level 5</b>	<b>Good analysis <u>and</u> good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis <u>but</u> limited evaluation</b> <b>OR</b> <b>Reasonable analysis <u>and</u> reasonable evaluation</b>	<b>17-21 marks (mid-point 19)</b>
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

**Issues and areas for discussion include:**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>reasons why oligopolists might be considered to need regulation, eg <ul style="list-style-type: none"> <li>complex monopoly</li> <li>anti-competitive practices</li> <li>allocative inefficiency.</li> </ul> </li> </ul>
<b>Developing the response to the question</b>  <b>Application / Analysis</b>	<ul style="list-style-type: none"> <li>policy options, advantages and disadvantages, eg <ul style="list-style-type: none"> <li>ending oligopoly, breaking up larger firms into smaller ones</li> <li>amending oligopoly <ul style="list-style-type: none"> <li>policing collusive activities, fining colluding companies (the EU approach)</li> <li>use of criminal law (the US approach)</li> <li>administrative means for investigating monopolies and mergers (the traditional UK approach)</li> <li>preventing potential monopolies becoming actual monopolies by restricting merger activity among oligopolies</li> <li>regulation</li> <li>privatisation/nationalisation</li> <li>removal of barriers</li> </ul> </li> </ul> </li> <li>consequences of policy options, eg for <ul style="list-style-type: none"> <li>research and development</li> <li>consumer and producer surplus</li> <li>productive and allocative efficiency</li> <li>dynamic, static efficiency</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ barriers to entry</li> <li>○ scale economies</li> <li>○ national/international competitiveness</li> <li>○ employment.</li> </ul>
<b>Evaluation</b>	<p>Consideration of</p> <ul style="list-style-type: none"> <li>○ effectiveness of different types of policy</li> <li>○ effectiveness of individual policies</li> <li>○ intended and unintended consequences</li> <li>○ the option of allowing market forces to work without government intervention (the IBM/Microsoft argument).</li> <li>○ market vs govt failure</li> <li>○ contestability of market.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>• diagrams</li> <li>• an overall judgement on the issues raised.</li> </ul>

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

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

**MAXIMUM FOR PART 10: 25 MARKS**

**Essay 3**

**Total for this Essay: 40 marks**

- |           |  |
|-----------|--|
| <b>11</b> | Explain the main principles that would be involved in a cost-benefit analysis (CBA).<br>(15 marks) |
|-----------|--|

General definition/description of costs, benefits (internal, external); idea of net social product (the difference between social benefits and social costs).	<b>Up to 2 marks per point defined or explained to a maximum of 4 marks</b>
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**Award 1 mark for each logical link in the chain of reasoning, up to 15 marks.**

**Examples include:**

It is necessary to identify **(1 mark)** and assign monetary values **(1 mark)** to all costs and benefits **(1 mark)**. CBA puts monetary values on costs and benefits which are not always easy to identify **(1 mark)** and not usually monetised in the case of externalities **(1 mark)**. An example such as time lost when traffic is held up **(1 mark)**. Techniques include shadow pricing **(1 mark)**.

Other principles, eg assigning a present value to future cost/ benefit flows; calculating the likelihood of various risks; assessing distribution of costs and benefits.

A full explanation of **shadow pricing** can be rewarded as a distinct 'principle'.

Use of diagrams to help support explanations.	<b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks</b>
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**MAXIMUM FOR PART 11: 15 MARKS**

- 12** In December 2010, the *Federation of Small Businesses* estimated that UK industry had lost at least £1 billion due to the disruption caused by one week's heavy snow. It was suggested that both product markets and labour markets would benefit from investment in snow-clearing equipment.
- Evaluate the advantages **and** disadvantages of using CBA when deciding whether or not to invest in snow-clearing equipment. (25 marks)

In this part of the question, students 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 15 marks**.

**To reach Level 4, the answer must be in the context of the snow-clearing scenario.**

<b>Level 5</b>	<b>Good analysis <u>and</u> good evaluation</b>	<b>22-25 marks (mid-point 24)</b>
<b>Level 4</b>	<b>Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation</b>	<b>17-21 marks (mid-point 19)</b>
<b>Level 3</b>	<b>Reasonable answer, including some correct analysis but very limited evaluation</b>	<b>10-16 marks (mid-point 13)</b>
<b>Level 2</b>	<b>Weak with some understanding</b>	<b>4-9 marks (mid-point 7)</b>
<b>Level 1</b>	<b>Very weak</b>	<b>0-3 marks (mid-point 2)</b>

**Issues and areas for discussion include:**

<b>Introduction</b>	<ul style="list-style-type: none"> <li>identifying general ways in which such CBA provides useful information, eg in terms of product markets, labour markets.</li> </ul>
<b>Developing the response to the question</b>  <b>Application/ Analysis</b>	<ul style="list-style-type: none"> <li>general advantages of using CBA, eg <ul style="list-style-type: none"> <li>puts more information in front of decision makers</li> <li>encourages transparency about the claims that are made and the basis upon which they are made</li> </ul> </li> <li>general disadvantages of using CBA, eg <ul style="list-style-type: none"> <li>collects too much information</li> <li>clouds the issue</li> <li>'false objectivity.'</li> </ul> </li> <li>suggestions of possible specific arguments that a CBA could reveal in favour of the investment, eg in terms of <ul style="list-style-type: none"> <li>prices</li> <li>output</li> <li>profits</li> <li>earnings</li> <li>employment.</li> </ul> </li> <li>Suggestions of possible specific arguments against that a CBA could reveal, eg in terms of <ul style="list-style-type: none"> <li>costs</li> <li>taxes</li> <li>government budgets/priorities</li> <li>possible waste of resources (unpredictability of the weather).</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>possible specific effects that CBA could reveal in terms of                             <ul style="list-style-type: none"> <li>product markets</li> <li>internal costs and benefits of the investment</li> <li>external costs and benefits</li> <li>labour markets</li> </ul> </li> <li>possible criticisms of such findings:                             <ul style="list-style-type: none"> <li>'interventionist' view, eg the process of discounting makes environmental costs look smaller than they actually are</li> <li>'free market' view, eg CBA is 'wishy-washy' and can be used in an anti-business way or to prevent progress</li> <li>it is necessary to look at distribution effects, eg costs and benefits might balance; but one group in society might be paying all the costs, and another receiving all the benefits</li> <li>difficulties of assigning money values to non-monetary items</li> <li>difficulties of setting appropriate discount rate.</li> </ul> </li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>problems that would still remain after CBA, eg who pays for the investment? Taxpayer? Companies? Consumers?</li> <li>assessment of the risks in making long-term predictions</li> <li>possibility of bias, eg depending on who commissions the CBA</li> <li>argument along the lines that CBA does not necessarily make a decision (this is not the job of the economist) it merely puts more information on the table for the use of the decision-maker (e.g. the responsible politician). Hopefully this makes decisions more transparent and decision-makers more accountable</li> <li>overall assessment of whether the advantages of using CBA outweigh the disadvantages.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
<b>Also give credit for</b>	<ul style="list-style-type: none"> <li>diagrams</li> <li>an overall judgement on the issues raised</li> </ul>

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

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

**MAXIMUM FOR PART 12: 25 MARKS**