2014 Economics

Higher

Finalised Marking Instructions

Part One: General Marking Principles for Economics Higher

This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this Paper. These principles must be read in conjunction with the specific Marking Instructions for each question.

(a) Marks for each candidate response must always be assigned in line with these general marking principles and the specific Marking Instructions for the relevant question. If a specific candidate response does not seem to be covered by either the principles or detailed Marking Instructions, and you are uncertain how to assess it, you must seek guidance from your Team Leader/Principal Assessor.

(b) Marking should always be positive ie, marks should be awarded for what is correct and not deducted for errors or omissions.

GENERAL MARKING ADVICE: Economics Higher

The marking schemes are written to assist in determining the "minimal acceptable answer" rather than listing every possible correct and incorrect answer. The following notes are offered to support Markers in making judgements on candidates' evidence, and apply to marking both end of unit assessments and course assessments.

Part Two: Marking Instructions for each Question

SECTION A

Item A

Question			Expected Answer(s)	Max Mark	Additional Guidance
	a	**i**	Market has excess supply (1); supply exceeds demand (1).	**1**	
	a	**ii**	The lowest average cost (or cost per unit) (2); the lowest point on the ATC curve (2). The most efficient output level (or most productive) (1).	**2**	Must mention Average Cost
	b	**i**	£1200	**1**	
	b	**ii**	£1500	**1**	
	c		Downward from left to right (could be on a diagram) (1) because fixed costs are divided by more and more units of output (1).	**2**	No need for a diagram
	d	**i**	Short-run	**1**	
	d	**ii**	There are fixed costs (1) which are only present in the short run (1). In the long-run all costs are variable (1).	**2**	

Question			Expected Answer(s)	Max Mark	Additional Guidance
	e		Starting position with correct labels on axes, and demand and supply lines (1); Demand moves rightwards (1); Supply moves leftwards (1); Indication that equilibrium price has increased on diagram (1) (or award if stated in explanation); Correct explanation of the diagram (2).	**6**	Maximum 3 marks if only one curve shifted
	f		With accompanying explanation: • time; • level of stock; • length of time that it takes to plant and grow; • the ease of switching between alternative methods of production; • the number of firms in the market; • the ease of entering the market.	**4**	No marks for seasonality 1 mark for ID 1 mark for development
	g	**i**	higher incomes (1); guaranteed market (1); safeguarding of a way of life (1); protection from imports (1).	**1**	
	g	**ii**	reliable food supplies (1). lower prices due to subsidies (1)	**1**	

Question			Expected Answer(s)	Max Mark	Additional Guidance
	h		Lower farm incomes (1) because of EU trade restrictions restricting demand (1); Lower world prices for farmers (1) because of over-supply due to EU subsidies (1); Reduced wages/standard of living for farm-workers (1), reduced profits/ incentive for re-investment (1); Lower exports (injections) (1), higher unemployment, lower tax revenues for government, lower economic growth, etc. “Dumping”(1) of surpluses into world markets which puts farmers in developing countries out of business.	**3**	Max 1 if only ID points given and no explanations

SECTION A

Item B

Question			Expected Answer(s)	Max Mark	Additional Guidance
	a	**i**	(A continuous period of increasing economic growth) (1) after a recession or a financial crisis (1).	**2**	Max 1 mark for characteristics
	a	**ii**	The price of money – the cost of borrowing (1)/reward for saving (1) – reward to FOP Capital. Reference to MPC (1)	**2**	
	b		• Labour force survey compiled by ONC survey (1) • Different sources of statistics (1) • Claimant count shows numbers receiving JSA – many unemployed don't or can't claim JSA – credit relevant example (1) • So LFS figure is higher (1)	**4**	
	c		Opportunity cost of youth unemployment ie lost potential output, less chance of finding a job, lower future earnings, less skills in the future, dangers of becoming long-term unemployed, dependency on benefits, despondency, social costs. **1 for each point well explained.**	**3**	
	d		Increase public spending, cut taxation, revise benefits system to encourage employment, encourage foreign investment, training and retraining, expansionary monetary policy, help labour mobility. **1 point for each suggestion.**	**3**	Credit any relevant point

Question			Expected Answer(s)	Max Mark	Additional Guidance
	e	**i**	Demand for sterling likely to fall as hot money flows from UK seeking better return (1) supply of sterling rises so sterling likely to fall in value (1) Supply of sterling would rise if hot money flowed out of UK seeking higher returns elsewhere.	**2**	Do not award mark for candidate just stating that the value of sterling will fall.
	e	**ii**	Borrowing cheaper so increased use of credit and/or saving discouraged (1) Increased aggregate demand so prices may rise (1) leading to demand-pull inflation. (1) Credit reference to falling value of sterling which will lead to higher import prices and cost push inflation. (max 3)	**3**	
	f		Interest rates very low so cheaper mortgages so a rise in demand for houses so prices pick up increase in construction activity. Increase in money supply so more mortgages available – increase in construction. Construction requires high levels of investment – interest rates low so building firms encouraged to invest so increase in construction activity. Saving as an investment discouraged so investors may turn to bricks and mortar. Reward knowledge of current economic environment.	**4**	2x2 4x1 1x4

Question			Expected Answer(s)	Max Mark	Additional Guidance
	g		In the long run a firm must cover **all** of its costs (2). Selling price must be greater than ATC (2). Firms will leave the industry if making losses in the long run (2). 1 mark for showing clear understanding of the impact of negative economic conditions on businesses.	**2**	
				(25)	

SECTION B

Question			Expected Answer(s)	Max Mark	Additional Guidance
1	a		Maximum of 5 marks if only 2 questions answered, maximum of 3 marks if only one question answered. Credit a definition of the free market as one with limited government involvement or re-distribution. (1) **What to produce:** Consumers are sovereign and when they spend they vote for certain goods to be produced. Consumers are maximising utility (satisfaction). Producers have to respond to consumer wants, to make a profit. Producers are motivated by profits and will only produce those goods that can be profitably produced. Producers aim to maximise profits. **How to produce:** Therefore producers will combine resources in the most efficient way, and the less efficient will be forced out of business as consumers will select the cheapest products. Producers will aim to minimise costs in order to maximise profits. **For whom to produce:** Goods and services are rationed by the ability to pay – the rich get more. Incomes (in theory) reflect the productivity of individuals, so those who contribute more (under what/how) will be able to acquire more goods.	6	

Question			Expected Answer(s)	Max Mark	Additional Guidance
1	b	i	**free market economy;** Mark 6-4, 5-5 or 4-6. Accept 5 developed points or a larger number of points more succinctly made. Disadvantages of a free market may include: Credit for up to 2 marks each, explanations of: externalities; public goods; merit goods; demerit goods (credit examples); competition problems; unequal income distribution; factor immobility, unemployment, booms and busts, monopoly power etc.	10	
		ii	**centrally planned economy.** Disadvantages of a centrally planned economy may include: Lack of incentives for workers due to redistribution of incomes; Lack of profit-motive may lead to less efficient production; Cumbersome state bureaucracy required to make decisions otherwise taken by market; Individual freedom restricted as unable to become entrepreneurs, set up in business; Individuals are unable to amass property and restricted to consumer goods; Shortages of consumer goods (poor quality); Low standards of living.		

Question			Expected Answer(s)	Max Mark	Additional Guidance
1	**c**		Maximum of 3 marks for diagram. Credit starting position of supply and demand diagram labelled with equilibrium price (1). Horizontal line indicates maximum price below equilibrium (1). Indicate shortage (excess demand) in market at this price (1). Explanation (max 3): Producers will produce less at lower price because the less efficient will not make a profit and will move resources elsewhere (1). Consumers will seek to purchase more at lower price because of the substitution effect, and/or the income effect, and the reduced opportunity cost of purchasing the item (max 2). Resulting gap between demand and supply is one of excess demand or shortage (1). Credit if possibility of a shadow market is mentioned (1).	**6**	
1	**d**		A high rate of employment (or a low rate of unemployment or full employment or about 3% unemployed); Inflation target of 2% (cpi is not required); Sustainable long-term economic growth (accept 2-3% economic growth); Balance of Payments (accept “Trade”) – look for understanding that a long-term balance is an appropriate target. Surplus is not correct as it would be impossible for all nations to have a surplus. Accept clearly stated aims on for example, environmental targets.	**3**	
				(25)	

Question			Expected Answer(s)	Max Mark	Additional Guidance
2	**a**	**i**	Scarcity is the basic economic problem which is caused by limited resources and unlimited wants (1). Limited resources are the factors of production or inputs (1) credit example (1). Unlimited wants (credit justification such as humans striving to improve standards of living or human greed). (max 2)	**3**	
2	**a**	**ii**	Scarcity gives rise to choices. It is impossible for individuals, firms and the government to satisfy all their wants (1). Choices are inevitable result (1). Opportunity cost is the next best alternative foregone as the result of a choice (1). Credit examples of choices for consumers, firms or government (1 each, max 2). The second preference or foregone alternative (not selected) is the opportunity cost (1). Credit an approach using a production possibility frontier with accompanying explanation which could be worth the full 3 marks.	**3**	

Question			Expected Answer(s)	Max Mark	Additional Guidance
2	b		Up to 2 marks per explained comparison/contrast. Many firms v sole supplier; Price taker v price maker; Price at marginal cost v able to exploit consumers with higher price; Normal profit v super/abnormal profit (long-run); Identical unbranded products v unique product; Perfect knowledge/transparency of market v sole firm without alternatives; No significant entry barriers v protection by entry barriers (credit example eg patent, economies of scale); Produce at optimum output v can restrict output. *Comparison without sufficient development* (1 mark only) **Max 5 marks if no comparison.**	10	Do not credit legal definition of monopoly ie A company has 25% of the market.
2	c		Economies of scale: (max 6 marks) Economies of scale are falling long run average costs when a firm increases its output (1). The firm increases its scale of operation (1). Credit internal economies up to a maximum of 5 marks based on 1 mark for each simple explanation, or 2 marks for each more developed/ explained example.	9	No marks for ID

Question			Expected Answer(s)	Max Mark	Additional Guidance
2	c		**(cont)** Examples include: technical, marketing, purchasing, advertising, managerial, research etc. External economies are benefits arising from the industry concentration (1). Credit examples of external to a maximum of 2 marks – college courses, trained pool of labour, improved infrastructure etc. Diseconomies of scale: (max 6 marks): Apply only in the long run and to very large firms (1). Internal examples include: Managerial due to excessive bureaucracy, slow decision-making, poor communication; Lack of innovation due to little competition; Technical – some processes may be unstable due to size or operating at edge of technology (eg deep water drilling for oil). External examples include: Shortages of factors of production pushing up costs for the whole industry.		
				(25)	

Question			Expected Answer(s)	Max Mark	Additional Guidance
3	a		A budget deficit occurs when total spending by government is more than it raises in revenue (1) during one financial year (1). It gives rise to the PSBR (1). **Credit reference to the size or %GDP of the Budget Deficit (1).** National debt is the cumulative total of all the money a country owes ie the accumulation of all deficits less repayments (2). **Credit reference to the size of the National Debt or %GDP (1).**	4	
3	b	i	Reducing government spending – cutting benefits/cutting jobs Increasing rates of direct taxation Increasing rates of indirect taxation/ widen range of goods and services taxed Selling off of state owned assets/ charge for government services eg NHS car parks.	4	No credit for monetary policy No credit for supply policy
3	b	ii	Rising unemployment – jobs lost in public sector Rising inequality Negative multiplier effect Lower standards of living Slower rate of growth Falling disposable incomes Negative Multiplier effect on consumption and investment Incentive to earn reduced Lower Imports Impact on public finances	4	Watch for consequential errors eg monetary policy, supply side policy

Question			Expected Answer(s)	Max Mark	Additional Guidance
3	**c**	**i**	Description of CPI Basket of approximately 600 goods/ services (1) It is calculated monthly (1) Weighting (1) Base year (1) Typical purchases of average family (1) Credit RPI and a comparison between CPI and RPI.	**4**	
3	**c**	**ii**	Real incomes maintained – higher purchasing power – higher standards of living People on fixed incomes less likely to lose out People are more likely to save as real interest rates rise UK firms are more price competitive Encourages FDI Inefficient firms cannot hide behind high prices Better industrial relations – less risk of higher wage claims and industrial disputes, less risk of a wage price spiral Consumer confidence **2 marks for each point well explained.**	**6**	

Question			Expected Answer(s)	Max Mark	Additional Guidance
3	**d**		Government measures to increase output in the economy / aggregate supply (1). Investment grants, R and D incentives, training allowances, labour market reforms, subsidies Lower benefits, higher education spending, lower corporation tax **2 marks for any correct examples.**	**3**	
				(25)	

Question			Expected Answer(s)	Max Mark	Additional Guidance
4	**a**		Mark 3-3, 4-2 or 2-4. **Goods:** Loss of comparative advantage (1) with example (1); Lower wages overseas (1); Globalisation (1) with example (1); Diminishing natural resources such as coal/oil/gas (1). high propensity to import (1) deindustrialisation (1) A high exchange rate **Services:** Continuing comparative advantage (1) with example (1); Specialisation/skills in these areas (1); Barriers to entry such as level of education required (1).	**6**	Max 2 marks for examples
4	**b**		Correct diagram for maximum of 6 marks: Households and firms (1); 3 injections (2); 3 withdrawals (2); consumer spending <u>and</u> incomes (1). Note: 2 injections correct for one mark; and 2 withdrawals correct for one mark. Accurate directional arrows required against items for award of mark. Increased imports are an increase in a withdrawal (leakage) as money leaves the UK circular flow to pay for these imports (1). Equilibrium level of national income reduced (1).	**8**	

Question			Expected Answer(s)	Max Mark	Additional Guidance
4	c		The Financial Account including foreign portfolio transactions, investment flows etc. The Capital/financial Account – foreign transactions in respect of fixed capital. Shares Balancing Item – to account for errors and omissions.	4	
4	d		Accept up to 2 marks for each explanation: infant industry, employment, strategic industry, balance of payments, political disagreements, retaliation, health and safety, protecting a way of life, environmental issues.	7	
				(25)	

Question			Expected Answer(s)	Max Mark	Additional Guidance
5	**a**	**i**	• Low labour costs • Cheap labour • Available/cheap land • Government grants • Improves global reputation • No inbuilt inertia of trade unionism • Large population/market	**6**	Credit any relevant point and explanation 3x2
5	**a**	**ii**	• Globalisation • Erosion of natural resources • Pollution • Profits still go elsewhere – Transfer Pricing • Footloose • Top jobs do not go to locals Credit any valid point and description. Credit examples.	**4**	2x2
5	**b**		Government Aid – technical assistance, educational support, tied aid Liberal trade policies – reducing CAP – opening markets Debt relief **Mark on overall quality of the answer.**	**7**	No id marks for types of aid
5	**c**		Producer is getting maximum output from minimum inputs/the lowest point on ATC curve/no unemployed resources – **up to 2 marks** Definition of a production possibility curve – **up to 2 marks** Correctly drawn pp curve with point on curve identified – **up to 3 marks**	**5**	

Question			Expected Answer(s)	Max Mark	Additional Guidance
5	**d**		Economic efficiency occurs when resources are being used to satisfy as many wants as possible at lowest possible cost (2) Economic efficiency is productive (technical) efficiency + allocative efficiency (2) Credit explanations of allocative efficiency + any relevant development point (1)	**3**	
				(25)	

Question			Expected Answer(s)	Max Mark	Additional Guidance
6	**a**		Price elasticity of demand is a measure of how responsive demand is to a change in price (2). The formula is % change in demand/ % change in price (1).	**2**	
6	**b**		• Degree of necessity – the more necessary the more inelastic • The number and availability of substitutes – the more subs the more elastic • The price in proportion to income – if very cheap then more likely to be inelastic • Income – higher incomes groups less responsive to price changes • Frequency of purchase – less frequent more inelastic • Breadth of definition • Habit forming **2 marks for each valid point and explanation. Credit valid use of examples to explain.**	**8**	
6	**c**		Firms selling products with inelastic demand can raise price and increase revenue – **up to 2 marks for full explanation.** Firms selling products with an elastic demand can raise revenue by lowering price – **up to 2 marks for full explanation.** Reward correct example of each – **1 mark each.** Credit references to impact on profits showing gains and losses from price changes. **Max 2 for each correctly labelled diagram**. **Max 4 marks if only diagrams.**	**6**	

Question			Expected Answer(s)	Max Mark	Additional Guidance
6	d	i	Exports are relatively dearer Exporting firms are less price competitive and may sell less abroad Imports are relatively cheaper UK firms are less price competitive than foreign firms in the UK Imports of raw materials cheaper so UK firms are more price competitive if they use imported raw materials	**9**	
6	d	ii	Foreign imports cheaper/exports dearer – the Trade in Goods deficit worsens Eases inflation pressures as imports cheaper Unemployment in exporting driven business goes up Lower economic growth as exports fall Firms may shut down due to lower competitiveness **Marks can be split as 4-5 or 5-4.**		
				(25)	

[END OF MARKING INSTRUCTIONS]