AQA

ASSESSMENT and
QUALIFICATIONS
ALLIANCE

General Certificate of Education

Economics ECN5

Unit 5 Business Economics and the
Distribution of Income

Mark Scheme

2007 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.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

Advanced Level Economics

January 2007 **ECN5**

MARK SCHEME

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 question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker must identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is also shown on page 5. 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.

APPLYING THE 'LEVELS' MARK SCHEME
Levels of Response Mark Band Descriptors

Level 1:
Few, if any, relevant issues recognised. 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. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar are likely to be poor. There is very little use of specialist vocabulary. **0 to 6 marks** *(Mid-Point: 3 marks)*

Level 2:
A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. 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 12 marks** *(Mid-Point: 10 marks)*

Level 3:
A few issues 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 issues, arguments and evidence is limited and superficial. 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 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. Some use of specialist vocabulary which is applied appropriately.**13 to 20 marks** *(Mid-Point: 17 marks)*

Level 4:
Several relevant issues identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary which is used with facility. **21 to 26 marks** *(Mid-Point: 24 marks)*

Level 5:
Several relevant issues identified. Good understanding of economic concepts and principles demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision. **27 to 30 marks** *(Mid-Point: 29 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.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication whenever candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

   (i)   use of appropriate format and style of writing to organise relevant information clearly and coherently;
   (ii)   use of specialist vocabulary, where appropriate;
   (iii)   legibility of handwriting;
   (iv)   accuracy of spelling, punctuation and grammar.

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.

Section A

1   **Total for this question: 50 marks**

> 1(a) For the period 2001- 06, compare the actual and forecast changes in the worldwide sales of console software and mobile phone games that are shown in **Extract A**.   *(4 marks)*

The expected answer is a comparison of sales of console software and mobile phone games over the whole period 2001-2006, or over selected years in the period. However some candidates may interpret the question slightly differently, as asking for a comparison of actual sales (in 2001) with forecast sales (2002-2006) for both goods. Both approaches can earn full marks, provided both goods are compared, and there is sufficient development of points of comparison.

Award up to 2 marks each for each valid point made (one mark for identification and one mark for supporting reference(s) to the data):

The changes include:

- Actual sales of mobile phone games were zero in 2001 whilst console software sales were just under $10 billion

- Console software sales were forecast to fall over the period whilst mobile phone games were forecast to rise over the period

- Despite the overall forecast fall, console software sales were forecast to rise in 2002 (i.e. there was expected to be some volatility in sales, but there was a forecast continuous rise in sales of mobile phone games (i.e. no volatility)

- Actual and forecast sales of mobile phone games were below those of console software throughout the period

- The forecasted gap narrowed over the period between sales of the two goods

A maximum of **2 marks** if there is no use of statistics or if a candidate confines the comparison to just one indicator.

If the candidate simply trawls through the data, award a maximum of **2 marks**.

A maximum of **3 marks** may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

MAXIMUM FOR PART (a) 4 MARKS

1 (b) Explain why sales of computer game hardware and software may **not** be affected by recessions (**Extract B**, line 1). *(6 marks)*

Possible reasons include:

- The power of a new product cycle;

- There have been no recessions in recent years, merely a slow down in rates of growth;

- Recent recessions have been short and mild;

- Recession in particular activities or regions have been offset by growth elsewhere in the economy;

- Computer games may have zero or negative income elasticities of demand, in the latter case being an inferior good;

- Income elasticity of demand may be close to zero because computer games are addictive;

- The effect of children joining the market at the same time that a generation of adult game players emerges;

- Children may not be affected by recessions;

- Unemployment increases the quantity of leisure time available for playing games.

For candidates who:

- define a recession **1 mark**

- state a reason why sales of computer game hardware and/or software may not be affected by recessions: **1 mark**

- explain the reason: **Up to a further 4 marks**

Two possible reasons must be stated/explained for full marks, unless the candidate takes issue with the question and argues plausibly that sales may be affected by recession, for which point up to 2 marks can be awarded.

MAXIMUM FOR PART (b) 6 MARKS

1 (c) Using **Extract C**, analyse the ways in which firms compete in the market for computer game hardware. *(10 marks)*

Extract C mentions or implies a number of different forms of "competition". Some of these are actually anti-competitive in the sense that they actually reduce competition, though candidates should not be penalised for failing to recognise this. Candidates may also analyse methods of competition (such as advertising and through establishing a brand image) that are not mentioned in Extract C. However, if the answer lacks any implicit or explicit reference to Extract C, Levels 2 and 3 cannot be reached. The Extract mentions the concept of a "tipping point". Although good answers may show an understanding of tipping points, the concept is not in the specification, so full marks can be earned without this technical term. An answer that analyses competition in the computer game *software* market (rather than the *hardware* market) should be restricted to a maximum of 7 marks. The use of relevant and accurate diagrams should be rewarded.

Issues and areas for analysis include:

- Ways (or methods) in which firms may compete

- Price competition

- Non-price competition

- Establishing barriers to entry.

- Relevant use of game theory or a theoretical model of oligopoly

- The impact of the development of new technology

- Particular games can only be played on one make of console

- Exploiting the complementary good (joint demand) relationship

- Relating competition to firms' objectives such as maximising profit or market share

LEVEL 1
At the bottom of the range, the candidate who does not attempt any analysis. At the top of the range, the candidate who makes a very basic analysis of one method of competition, whether or not there is any reference to Extract C. **1 to 3 marks**

LEVEL 2
At the bottom of the range, the candidate who develops the analysis of one method of competition, or who makes a very basic analysis of two or more methods of competition, and makes some use of the Extract. At the top of the range, the candidate analyses in some depth two or more reasons, with few mistakes. **4 to 7 marks**

LEVEL 3
At the bottom of the range, the candidate who provides good analysis of two or more forms of competition, but the answer is somewhat narrow and is not fully related to the computer game market. At the top of the range, the candidate provides a confident and full analysis of two or more forms of competition, with good use of the information in the Extract. The answer shows a very sound understanding of forms of competition in the computer game market. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

1 (d) Assess whether a market where there are many manufacturers of computer game hardware would give greater benefits to consumers than the existing market where there are only three dominant producers. *(30 marks)*

Extracts B and C indicate that the computer game *hardware* market is a competitive oligopoly, dominated by 3 or 4 firms. The preamble to the Extracts states that a large number of small firms already design and develop the software (computer games). In this part of the market, the issue is not the number of firms, but their relationship with the console manufacturers who might be exercising market power at the expense of the developers. Discussion of this issue should be rewarded, but since the question refers only to *hardware* manufacturers, full marks can be earned by answers which don't address this issue.

Explanation/analysis is needed to reach Level 3, and some evaluation, building on the analysis, is required to score **19 marks or more**.

Candidates may evaluate by: arguing that a larger number of firms could lead to more choice and lower prices, but this could be countered by losing the benefits of economies of scale and dynamic efficiency; by considering whether, in this market, efficiency and welfare gains resulting from greater competition justify reduced concentration and/or break up of monopoly power.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

Issues and areas for discussion include:

- The computer game *hardware* market as a competitive oligopoly
- Relevant application of oligopoly and/or monopoly theory
- Different possible approaches to the problem of monopoly and monopoly power
- Justifications of large size and lack of competition, such as economies of scale and dynamic efficiency arguments
- The benefits of competition
- Producer sovereignty versus consumer sovereignty arguments
- Relevant use of other efficiency concepts e.g. productive and allocative efficiency
- Policy ineffectiveness resulting from the fact that the hardware manufacturers are overseas companies

Also give credit for:

- relevant use of data and/or candidate's knowledge
- relevant use of evidence
- overall assessment

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (d) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

Section B

2   **Total for this question: 50 marks**

> 2 (a) Explain the possible advantages of privatisation.   *(20 marks)*

The advantages of privatisation include:

- revenue raising;

- reducing government borrowing;

- promoting competition;

- reducing monopoly abuse;

- promoting efficiency;

- creating an enterprise culture;.

For candidates who:

provide a basic definition of privatisation: **1 mark**

develop the definition e.g. in terms of sale of assets, contractualisation etc.:   **Up to 3 further marks**

provide an example of privatisation (excluding rail privatisation):
                                    1 mark for each example, up to a maximum of two marks

                   Maximum of 4 marks for definition and a maximum of 2 marks for examples

identify an advantage of privatisation: **1 mark**
explain the advantage: **Up to a further 4 marks**

provide relevant examples of the advantage: **1 mark per example, up to a maximum of 2 marks**

                                     MAXIMUM FOR PART (a) 20 MARKS

2 (b) In the 1990s, the UK railway industry was privatised and split into a company owning the rail track and a number of companies providing train services in different parts of the country.

Evaluate the economic case for taking privatised industries, such as the railways, back into public ownership. *(30 marks)*

Explanation/analysis is needed to reach Level 3, and some evaluation, building on the analysis, is required to score **19 marks or more**. The privatisation of the UK railway industry acts as a prompt for candidates, but the words *'such as'* in the question mean that candidates can discuss conditions in other previously state-owned, and later privatised, industries and then earn high marks provided they evaluate the issues that focus on whether the industries should revert to public ownership.

The candidate could evaluate by: arguing, with evidence, that some privatisations have been successful but others have been unsuccessful; by considering the extent to which state-owned industries are efficient and promote the public interest in other countries e.g. French railways; by arguing that even if there is a case for renationalisation, it might be too costly and difficult to organise.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

Issues and areas for discussion include:

- The advantages of privatisation (perhaps drawing on the earlier answer to part (a))

- The disadvantages of privatisation

- Arguments in favour of public ownership (e.g. controlling the commanding heights of the economy, long-termism rather than short-termism etc.)

- Ways in which the performance of industries or firms improved following privatisation

- Ways in which the performance of industries or firms deteriorated following privatisation

- Economic efficiency arguments

- Economic welfare arguments

- Distribution arguments

- Government failure and market failure issues

Also give credit for:

- relevant use of the candidate's knowledge

- relevant use of evidence

- overall assessment

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5
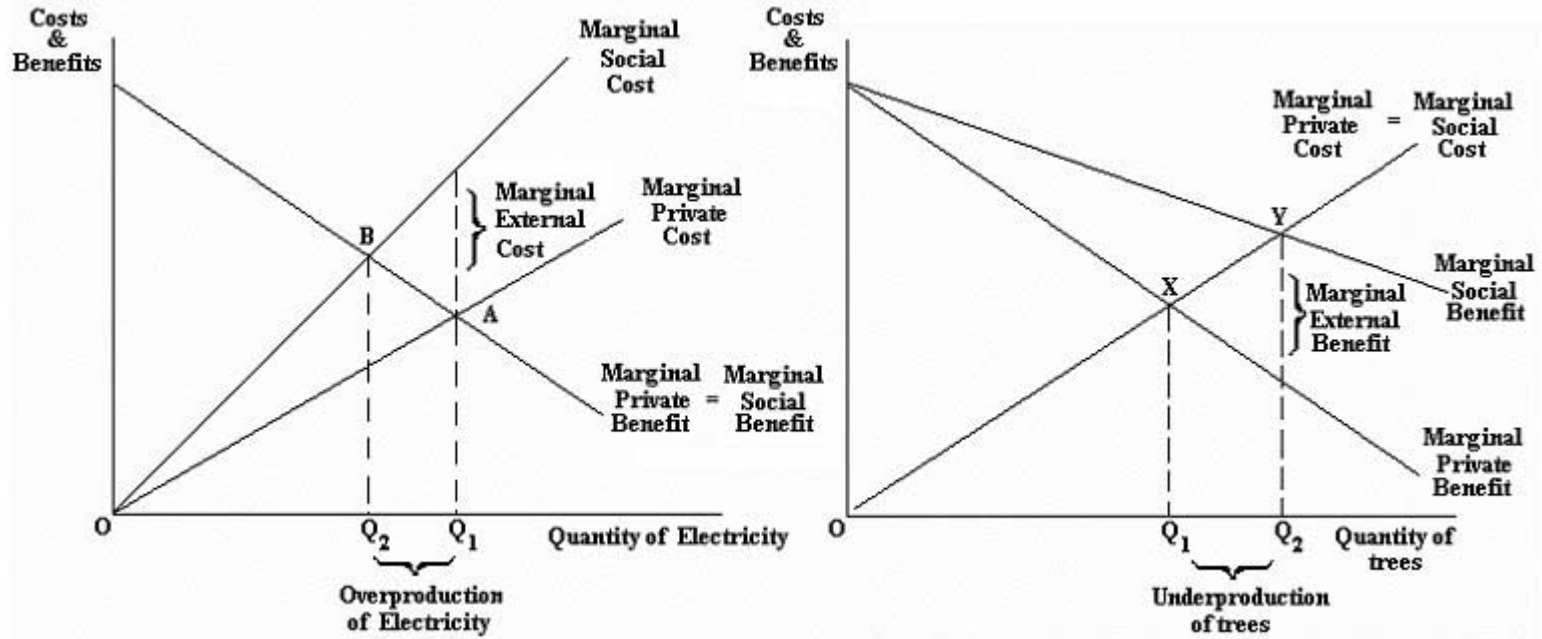
MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

3   **Total for this question: 50 marks**

3 (a) Using appropriate diagrams, explain how positive **and** negative externalities may result in market failure. *(20 marks)*

The most likely diagrams candidates will use are variations of:

(i) The generation of negative externalities   (ii) The generation of external benefits

For candidates who:

define market failure:	**up to 3 marks**
define a negative externality:	**up to 3 marks**
define a positive externality:	**up to 3 marks**
provide examples of externalities:	**1 mark per example**

Maximum of 6 marks in total for definitions and examples

explain how a positive or a negative externality leads to market failure: **Up to 7 marks**

develop the explanation to cover the opposite type of externality: **Up to 3 marks**

draw an appropriate diagram to show a positive or a negative externality: **Up to 4 marks**
(up to 2 marks for location of curves; up to 2 marks for correct labelling)

Maximum of 8 marks for diagrams
Maximum of 14 marks if there is no appropriate diagram
Maximum of 12 marks if the explanation is restricted to negative externalities or positive externalities

MAXIMUM FOR PART (a) 20 MARKS

3 (b) Evaluate the view that government intervention to correct market failure inevitably results in government failure. (*30 marks*)

Explanation/analysis is needed to reach Level 3, and some evaluation, building on the analysis, is required to score **19 marks or more**.

The candidate could evaluate by: discussing the implications of the word *'inevitably'* in the question; arguing that different conclusions can be reached for trivial and less trivial examples of market failure; arguing that even when market failure occurs, markets nevertheless function better when not subject to government intervention.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

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Issues and areas for discussion include:

- The different types and examples of market failure

- Types of government intervention

- How intervention may correct or reduce market failure

- The meaning of government failure

- How attempts to correct market failure may cause government failure

- Distinction between different outcomes

- Application of efficiency and welfare criteria

Also give credit for:

- relevant use of the candidate's knowledge

- relevant use of evidence

- overall assessment

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

4   **Total for this question: 50 marks**

> 4 (a) Explain the causes of absolute **and** relative poverty in the United Kingdom.   (*20 marks*)

As the specification requires candidates to understand the difference between relative and absolute poverty, the causes of both must be explained for an answer to earn full marks. However, answers are likely to focus on relative poverty as absolute poverty is not significant in the UK. Absolute poverty occurs when income is below a critical level that enables people to consume essential goods. By contrast, a household suffers relative poverty if its income is below a specified proportion of average income for all households (e.g. less than a third of average income). Four of the main causes of relative poverty in the UK are old age, unemployment, the effects of the tax and benefits systems on those in work, and low wages for those in work. By contrast, the people who are affected by absolute poverty have fallen through the state safety net, failing, for whatever reason, to claim state welfare benefits.

For candidates who:

provide a very basic definition of absolute poverty: **1 mark**
develop the definition: **up to a further 3 marks**

provide a very basic definition of relative poverty: **1 mark**
develop the definition: **up to a further 3 marks**

                                 Maximum of 6 marks for definitions

state a cause of absolute poverty: **1 mark**
explain the identified cause: **Up to a further 3 marks per cause**

state a cause of relative poverty: **1 mark**
explain the identified cause: **Up to a further 3 marks per cause**

explain any other relevant point e.g. the difference between poverty in the UK and poverty
in many developing countries; the use of evidence: **2 marks per point up to
a maximum of 6 marks for extra points**

Maximum of 12 marks for an answer that does not consider the causes of both relative and absolute poverty

                                      MAXIMUM FOR PART (a) 20 MARKS

4 (b) Evaluate the view that the most effective way to reduce poverty is to redistribute **both** income **and** wealth from the rich to the poor.   (*30 marks*)

Relative poverty can be reduced by using progressive taxation and welfare benefits or transfers to reduce inequalities in the distribution of income. However, if in the drive to reduce inequality, these changes worsen labour market incentives, competitiveness and economic growth, causing the economy to stagnate or to decline, more people may end up *absolutely* poor even though *relative* poverty is successfully reduced. People on low incomes may end up receiving a larger share of a shrinking cake. Reward answers that argue the converse, namely that the best way to reduce absolute poverty is to use pro-free market supply side policies that simultaneously increase relative poverty.

Explanation/analysis is needed to reach Level 3, and some evaluation, building on the analysis, is required to score **19 marks or more**.

The candidate could evaluate by: arguing that it is true by definition that redistribution reduces *relative* poverty, but it does not follow that absolute poverty must also fall; showing awareness of the possibility that different arguments may be relevant for income and wealth; discussing trade-offs occurring over time.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

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Issues and areas for discussion include:

▪ Understanding of the difference between income and wealth, and of the linkages between the two

• How policies that redistribute income may reduce poverty

• How policies that redistribute wealth may reduce poverty

• The different effects of redistribution on relative and absolute poverty

• Consideration of alternative policies e.g. policies to promote economic growth and full employment

• Efficiency arguments

• Effect of policies on incentives and disincentives

Also give credit for:

• relevant use of the candidate's knowledge

• relevant use of evidence

• overall assessment

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS