**General Certificate of Education
June 2011**

ECONOMICS   ECON3

Unit 3:   Business Economics and the
            Distribution of Income

Final

Mark Scheme

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

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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 **01**, **02**, **04** and **05** of the data-response questions (**Section A**) and the first part of each essay question (**Section B**) 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 parts **03** and **06** of the data-response questions (**Section A**) and the second part of each essay question (**Section B**). 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 (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.

THE LEVELS MARK SCHEME FOR A2

**LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**

A2 LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgments
Level 5 22-25 marks (mid-point 24) **Good analysis <u>and</u> good evaluation**	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
Level 4 17-21 marks (mid-point 19) **Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	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
Level 3 10-16 marks (mid-point 13) **Reasonable answer, including some correct analysis but very limited evaluation**	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)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	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
Level 1 0-3 marks (mid-point 2) **Very weak**	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

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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.

An   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.

Candidates 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.

Candidates 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).

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

> **01** Using **Extract A**, identify **two** significant points of comparison between the world price
> index for gold and the world price index for silver over the period shown.   *(5 marks)*

Award 1 mark for each significant point of comparison made and up to 2 marks for the supporting reference to the data ('significant' such as peaks/troughs, major changes/trends over a period of time).

Significant points of comparison might include:

- gold index has increased (100 to 300); the silver index has increased more than gold (100 to 400)

- from 2001 onwards silver index rises faster than gold index (the columns diverge, gold index 70 to 300; silver index 100 to 400)

- from 1995 silver index rises then falls, reaching 100 again in 2001; gold index falls then rises, reaching 100 again in between 2001 and 2003

- the silver index never drops below the base; gold index falls to approx. 70.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data with no attempt at identifying two significant features.

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 one significant point (one good point is included with data) together with the other part of the answer giving the impression of a few statistics chosen at random.

No marks for a comment to the effect that silver has a higher price than gold (these are index numbers not actual prices).

A maximum of **4 marks** if nowhere in the answer does the candidate make it clear that they are dealing with index numbers as opposed to actual prices. This cap is removed if, for example, any one of the supporting references to the data mentions the word 'index' (even if an error or omission is made elsewhere – using 'positive' marking).

                                        MAXIMUM FOR QUESTION 01: 5 MARKS

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> **02** Explain the term 'price taker' **and** analyse the likely effects of an increase in the world demand for scrap metals on the output **and** profits of a scrap metal dealer (**Extract B**, lines 1–4). *(10 marks)*

For candidates who:

Explain 'price taker', eg

- in terms of a firm which is small in relation to the industry (**1 mark**) so by its own actions cannot affect market price (**1 mark**) and from its point of view faces a horizontal (perfectly elastic) (**1 mark**) demand curve (**1 mark**). **Up to 4 marks**

For a horizontal demand curve diagram **Up to 2 marks**

Analyse the effects as required, for example:

- an argument to the effect that because of, for example, Chinese manufacturing development, the world demand for steel has risen, increasing the world price of steel (**1 mark**) and hence the world price of scrap iron and steel (**1 mark**) enabling the firm to increase its output (**1 mark**) and make a supernormal profit (**1 mark**).

- more firms enter the market shifting the world supply of scrap steel to the right and reducing the world price

- eventually the world market is in long-run equilibrium with firms earning normal profits on their individual outputs and world output at a higher level than before

- the increased entry tending to lower price, might be counteracted by continuing increases in world demand (eg due to demand from China).

Reward each step in a logical chain of reasoning up to 8 marks

Maximum 8 marks for analysis

A maximum of **6 marks** for the analysis if there is not a reference to **both** output **and** profits.

Make use of a suitable diagram or diagrams in the analysis, eg a perfect competition SR/LR equilibrium diagram **Up to 2 marks for a diagram**
(1 mark for labelling, 1 mark for correct information shown)
to a maximum of 4 marks for diagrams

MAXIMUM FOR QUESTION 02: 10 MARKS

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03 'The UK's strong reliance on landfill indicates the existence of widespread environmental market failure' (**Extract B**, lines 16-17).

Using the data and your economic knowledge, evaluate alternative methods of correcting market failure arising from waste disposal. *(25 marks)*

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

A maximum of **21 marks** if there is no explicit use of the data.

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

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 and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:
- meaning of environmental market failure
- reasons why landfill exemplifies market failure, eg missing markets for recycled products, negative externalities, local/national decisions favouring landfill over its alternatives

Developing a response to the question:
- general policies, eg:
  - market-based policies
  - command-and-control policies
- specific methods/ strategies, eg reduction, re-use, recovery, recycling, disposal (alternative methods of, eg landfill, incineration)
- specific policies (some but not all mentioned in the data) aimed at supporting these methods/ strategies, eg:
  - landfill tax (polluter pays/market based)
  - fines for dumping (command-and-control)
  - subsidies for favoured recycling schemes
  - targets for re-cycling
  - subsidies/ carrot and stick approaches

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- the alternative of non-intervention/allowing markets to work (the extract mentions market forces and price signals in scrap metals and suggests that a market for 'mined' recyclables from landfill could emerge in due course).

Evaluation:

- comment on scarce/ finite resources and the possibility of re-cycling in the case of metals, so that they become, in a sense, 'renewable'
- role of government/ legal sanctions
- market failure versus government failure
- the need for international/global action
- pros and cons of particular policies, eg composting, incineration.

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the arguments for and against, and/or give economic reasons for justifying a particular course of action.

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
FOR FURTHER CLARIFICATION**

MAXIMUM FOR QUESTION 03: 25 MARKS

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CONTEXT 2   **Total for this Context: 40 marks**

04   Using **Extract C**, identify **two** significant points of comparison between the index of number of flights and the index of passenger numbers over the period shown. *(5 marks)*

Award 1 mark for each significant point of comparison made and up to 2 marks for the supporting reference to the data ('significant' such as highs/lows, major changes/trends over a period of time).

Significant points of comparison might include:

- both flights (index 100 to 115) and passengers (index 100 to 126) are higher in 2008 than they were in 2001

- flights take a dip in 2003 (index 100 to 96) while passengers remain approximately level (at 100 and 101)

- flights remain level (at index 115) in the final year while passengers reduce (from 129 to 126)

- steady growth in both flights (index 96 to 115 and passengers (101 to 129) between 2003 and 2007

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data with no attempt at identifying two significant points of comparison.

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 one significant point (one good point is included with data) together with the other part of the answer giving the impression of a few statistics chosen at random.

A maximum of **4 marks** if nowhere in the answer does the candidate make it clear that they are dealing with index numbers as opposed to actual quantities. This cap is removed if, for example, any one of the supporting references to the data mentions the word 'index' (even if an error or omission is made elsewhere – using 'positive' marking).

MAXIMUM FOR QUESTION 04: 5 MARKS

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05 Explain the term 'public ownership' (**Extract D**, line 2) **and** analyse **two** economic reasons that could be used to support public ownership of industries such as airlines.

(10 marks)

For candidates who:

Explain 'public ownership', eg:

- in terms of a business or organisation that is owned by the state/taxpayer/the community (**up to 2 marks**).

- and might take the form of eg a nationalised industry, government department, majority shareholding, public corporation, public/private partnership (**up to 2 marks**).

- examples: BBC, Royal Mail, etc. (**2 x 1 mark = 2 marks**).   **up to 4 marks**

Analyse **two** reasons, in terms of airline or another appropriate example, eg:

- airlines tend to be monopolistic (**1 mark**) and could therefore exploit monopoly power with lower output (**1 mark**) and raised prices (**1 mark**) and public ownership is one way of dealing with monopoly (**1 mark**).
- air travel underpins other aspects of a modern economy (transport, aerospace etc) and is therefore too important for strategic economic reasons to be left to the private sector
- 'commanding heights arguments' or their modern variant : 'too big to fail'
- airlines are 'flag carriers' and important businesses in terms of national prestige/ image building; they support a great deal of employment, both directly and indirectly.
- aircraft pass over sovereign territories so there are issues of international coordination and security matters, and these are better dealt with by government than by the private sector
- efficiency, including allocative, productive, dynamic. **However, do not treat each type of efficiency as a separate reason.**

Reward each step in a logical chain of reasoning
Up to 4 marks per reason analysed
(1 mark for identification and up to 3 marks for analysis)

Maximum for analysis 8 marks

Note: if the candidate identifies more than two reasons, award the marks based upon the best two explanations.

Make use of a suitable diagram in the analysis   **Up to 2 marks for a diagram**
(1 mark for labelling, 1 mark for correct information shown)
to a maximum of 4 marks for diagrams

MAXIMUM FOR QUESTION 05: 10 MARKS

06	Using the data and your economic knowledge, evaluate the view that mergers, such as the one proposed between *British Airways* and *Iberia Airlines*, are usually 'good for consumers as well as the companies involved' (**Extract D**, lines 22-23). *(25 marks)*

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

A maximum of **21 marks** if there is no explicit use of the data

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

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 and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:
- basic meaning of merger
- different types of merger (data refers to 'horizontal')
- possible motives for merger: market share, growth, economies of scale, efficiency gains, monopoly power

Developing a response to the question:
- Reasons why mergers might be good for customers/ passengers, eg:
  - Lower prices, due to eg economies of scale, aircraft working closer to capacity
  - Wider range of product/ services
  - Synergies, more integrated services (data refers to intra-EU, and EU-America services)
- Reasons why they might be bad
  - Higher prices, due to eg reduced competition
  - Less choice
  - Loss of consumer surplus
- Reasons why mergers might be good for producers/ airlines, eg:
  - Economies of scale, lower costs, greater efficiency
  - Rationalisation
  - Less competition, higher profits
  - Long run, dynamic efficiency, greater market power

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- Reasons why they might be bad, eg:
  - Might attract attention of regulators (EU Commission mentioned in data)
  - Monopoly, inertia, loss of efficiency

Evaluation:

- costs versus benefits of merger
- discussion of government role in regulating mergers
- complications arising from transnational conglomerates, eg difficulties of communication, diseconomies of management.
- short-run versus long-run perspectives.

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the benefits and costs, and/or give economic reasons for justifying a judgement on, for example whether benefits generally outweigh costs.

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
FOR FURTHER CLARIFICATION**

MAXIMUM FOR QUESTION 06: 25 MARKS

SECTION B

ESSAY 1   **Total for this Essay: 40 marks**

07	Explain how a firm's costs of production may be affected by diminishing returns in the short run and economies of scale in the long run. *(15 marks)*

For candidates who:

Explain the difference between the short run and long run, eg in terms of a fixed factor of production in the short run (**up to 2 marks**) and variable productive capacity in the long run (**up to 2 marks**); **or** define terms: diminishing returns (**up to 2 marks**), economies of scale (**up to 2 marks**).   **Up to 4 marks**

Explain the relationship between diminishing returns and short run costs, and returns to scale and long run costs (explanation can refer to marginal or average values) eg:

- diminishing returns operate in the short run as successive units of a variable factor (**1 mark**) are combined with a fixed factor (**1 mark**); example given of a fixed factor (**1 mark**) and variable factor (**1 mark**); eventually average/marginal physical output falls (**1 mark**) and average/marginal costs rise (**1 mark**).

- if a production unit operates at a level of output well below capacity then efficiency is low, average costs will be high; as more units of variable factors are used average costs will fall as productive capacity is approached.

- in the long run all factors are variable and the LRAC curve can be falling, horizontal or rising, depending on increasing returns to scale, constant returns to scale, or decreasing returns to scale

- types of scale economies/diseconomies/indivisibilities etc.

- reward a direct discussion of the quote, regarding certainty. For example, if diminishing returns never set in, we could feed the world out of one farmer's field (factors are not perfectly substitutable); in the long run we are looking into the future, which is inherently unpredictable, so scale economies are less certain.

Reward each step in a logical chain of reasoning up to 15 marks

A maximum of **10 marks** for explaining the relationship if reference to either the diminishing returns (short run) or returns to scale (long run) is omitted from this explanation.

Make relevant use of supporting diagram(s)   **Up to 2 marks per diagram**
(1 mark for labelling, 1 mark for correct information shown)

**A more complex diagram, eg showing short- and long-run together,
can be awarded up to 3 marks**

Maximum of 6 marks for diagrams

MAXIMUM FOR QUESTION 07: 15 MARKS

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08	Evaluate the view that firms will always try to minimise their costs and maximise their revenues	*(25 marks)*

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

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

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 and/or other issues in the time available.

Answers which overwhelmingly discuss the objectives of firms as opposed to costs and revenues would not normally get beyond Level 3.

Issues and areas for discussion include:

Introductory:
- the meaning of cost minimisation
- the meaning of revenue maximisation.

Developing a response to the question:
- methods of reducing/ minimising costs
- implications of cost minimisation
- methods of increasing/ maximising revenues
- implications of revenue maximisation
- discussion of whether both can be pursued at once
- profit maximisation/ satisficing
- other possible objectives; the importance of the type of firm, eg small, large
- issues to do with the divorce of ownership and control; different sections/interests within a single firm might have different objectives, eg production process (minimise costs) sales/marketing (maximise total revenue) managers (utility/status/bonuses linked to profits/sales/other indices), shareholders (long-run, short-run perspectives on share prices and dividends).

Evaluation:
- consequences of different types of conduct/ market structure
- explanation that while Total Profit = TR −TC, maximum profit is at MC = MR and can occur in the short run when revenues are not maximised and costs are not minimised
- consideration of short-run and long-run equilibrium

- possibility of satisficing and other types of behaviour
- picking up on the word 'always' in the question.

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the arguments for and against, and/or give economic reasons for justifying a judgement.

Also give credit for
- relevant use of evidence and examples
- diagrams
- an overall judgement on the issues raised.

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5
FOR FURTHER CLARIFICATION

MAXIMUM FOR QUESTION 08: 25 MARKS

ESSAY 2   **Total for this essay: 40 marks**

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09 'On a typical train journey, there could be as many as twenty different fares being paid by passengers travelling between the same two stations.'

Using the concept of price discrimination to help you, explain how and why this might happen.   *(15 marks)*

For candidates who:

Define/explain 'price discrimination' in general terms, eg a producer charging different customers different prices (**up to 2 marks**) which are not fully justified by cost differences (**up to 2 marks**) for the same good or service (**up to 2 marks**).   **Up to 4 marks**

Connecting price discrimination to this example (a train journey), with reference to competition/revenues/costs, eg:

- PD involves at least some customers paying more than they would under perfect competition (**1 mark**) and for PD to work the firm needs some degree of control over price (**1 mark**) a means of separating markets (**1 mark**) eg by characteristics of customers (**1 mark**) avoiding arbitrage/seepage (**1 mark**)

- consideration of the different characteristics/elasticities of different rail passengers (e.g. commuters, off peak). Those with lower PED pay higher prices.

- considerations of different costs created by different passengers (eg 1st Class vs. Standard, commuters vs. leisure travellers)

- PD is closely related to yield management/ relationship between total revenue and price elasticity of demand, with separate elasticities in each market.

- outline of different 'degrees' of PD

- profit maximisation as a motive for PD

- fully reward discussion of reasons other than PD

Reward each step in a logical chain of reasoning up to 15 marks

Make relevant use of supporting diagram(s)   **Up to 2 marks per diagram**
(1 mark for labelling, 1 mark for correct information shown)

A more complex diagram, eg showing industry and firm, can be awarded up to 3 marks in total

Maximum of 6 marks for diagrams

MAXIMUM FOR QUESTION 09: 15 MARKS

10	Is price discrimination always good for producers and bad for consumers? Justify your answer. *(25 marks)*

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

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

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 and/or other issues in the time available.

Issues and areas for discussion include:

Introductory
- further consideration of the 'degrees' of PD, relating to consumer and producer surplus
- discussion of the significance of relatively high fixed costs and peak demand
- examples of PD.

Developing a response to the question
- Reasons why PD may be good for the producer, eg helps the producer to increase
  - total revenue
  - profit/ producer surplus
  - output/ market share
  - protection of a monopoly.

- Reasons why PD may be bad for consumers, eg
  - reduces welfare (transfers consumer surplus to producer)
  - reduces equity: some consumers might feel it unfair that others get cheaper prices
  - 'first degree' (precise phrase need not be used) PD would remove all consumer surplus, therefore increase the cost of living for individuals
  - low prices could be a barrier to entry, or used to eliminate competition.

Evaluation
- However
  - PD might secure a loss-making good or service if high price consumers in effect cross-subsidise others
  - less well-off customers might get access to a product for the first time (eg budget air travel)

- o if profits are re-invested consumers might benefit in the long run
  - o a larger market leads to economies of scale with lower prices than otherwise
- Consideration of word 'always'
- General consideration of costs versus benefits.

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the arguments for and against, and/or give economic reasons for justifying a judgement.

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
FOR FURTHER CLARIFICATION**

MAXIMUM FOR QUESTION 10: 25 MARKS

ESSAY 3   **Total for this Essay: 40 marks**

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11   Explain the causes of inequality in the distribution of income and wealth in the UK.
(15 marks)

For candidates who:

Define or explain inequality, eg in terms of unequal absolute/relative distribution of income (**up to 2 marks**) and wealth (**up to 2 marks**) and/or distinguish between income as a flow concept/reward to a factor (**up to 2 marks**) and wealth as a stock concept/ an accumulation of past savings out of income (**up to 2 marks**).   **Up to 4 marks**

Explain causes, eg

- (Income) differences in earnings between households (**1 mark**) can arise due to eg full-time/part-time work (**1 mark**), male/female earnings (**1 mark**) qualifications and skills required (**1 mark**), the economic significance of the industry (**1 mark**).

- (Income) marginal revenue product and/or labour supply and demand

- (Wealth) differences in wealth between households, eg due to inheritance

- (Income/ wealth) regional differences, eg due to industrial history, locational factors

- (Income/ wealth) influences of the state, public services, taxation and benefits

- (Income/ wealth) unemployment, old age, disability, single parenthood, home ownership, discrimination etc. **Each of these could be developed as an issue on their own, up to 5 marks for each.**

- (Income/ wealth) the argument that wealth begets income and vice versa.

Reward each step in a logical chain of reasoning
Up to 5 marks per issue explained
(1 mark for identification and up to 4 marks for the explanation)

Maximum of **10 marks** for causes if there is no reference to **both** income **and** wealth in this explanation.

Make relevant use of supporting diagram(s)   **Up to 2 marks per diagram**
(1 mark for labelling, up to 1 mark for correct information shown)

**A more complex diagram, eg showing the wages of skilled and unskilled labour,
can be awarded up to 3 marks in total**

Maximum of 6 marks for diagrams

MAXIMUM FOR QUESTION 11: 15 MARKS

12 Evaluate the view that the government should rely less on market forces to determine the distribution of income and wealth in the UK and should increase its intervention to make the UK more equal. *(25 marks)*

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

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

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 and/or other issues in the time available.

Answers which overwhelmingly discuss policies as opposed to the case for and against government intervention, would not normally get beyond Level 3.

Issues and areas for discussion include:

Introductory
- types of government action, eg:
  - fiscal/ taxes, welfare, payments in kind
  - legislative, eg:
    - NMW, anti age/ sex/racial discrimination
- supply side policies: qualifications/life chances
- ad hoc measures, eg 'supertax' on bank bonuses
- general policy options, eg progressive versus regressive taxation
- definitions of income, wealth, market forces.

Developing a response to the question

- consequences of market forces, eg:
  - positive : efficiency, adjustment between emerging and declining industries; incentives, enterprise
  - negative: inequality, poverty
  - winners and losers
  - trickle down
- arguments for government action, eg:
  - imperfect labour markets
  - efficiency arguments, eg supply-side policy
  - demand side policy
  - the government is itself a major employer

- o   equality and aggregate demand.
- arguments against government action, eg:
  - o   government failure
  - o   trade offs between incomes and employment
  - o   costs of intervention, eg burden on the taxpayer/government debt
  - o   savings, incentives.

Evaluation

- efficiency versus equity
- the fairness and justice of reliance on markets (eg costs and benefits might accrue to different people/ groups/ firms)
- relationships between equality and wider economic/ social variables (as hinted in the quotation)
- do market forces widen or reduce inequality?
- market failure and government failure
- greater case for targeting income or wealth?

Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the arguments for and against, and/or give economic reasons for justifying a course of action.

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 FOR FURTHER CLARIFICATION

MAXIMUM FOR QUESTION 12: 25 MARKS

UMS conversion calculator: www.aqa.org.uk/umsconversion