

Economics

General Certificate of Secondary Education **1985/03**

Paper 3 (Higher Tier)

Mark Scheme for June 2010

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All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

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Question	Expected Answer	Mark	Rationale / Further Guidance
1 (a)	<p>There is scarcity of resources in Country A. Explain what is meant by scarcity.</p> <p>Target: to explain scarcity 2 marks for correct explanation, ie not enough resources to satisfy all human wants. 1 mark for some understanding, eg not enough resources / limited resources / resources running out / there is an opportunity cost</p>	[2]	
(b) (i)	<p>Explain what is meant by opportunity cost.</p> <p>Target: to explain opportunity cost. 2 marks for correct explanation, ie the next best alternative which has been given up. 1 mark for some understanding shown, eg through an example.</p>	[2]	
(ii)	<p>Using Fig. 1 calculate the opportunity cost of producing an extra 50 million capital goods. Show your working.</p> <p>Target: to calculate opportunity cost. $50\text{m} \times 1000\text{m}/500\text{m} = 100\text{m}$ consumer goods (1 mark for method, 1 mark for consumer goods specified) (2 marks if millions (m) omitted).</p>	[3]	
(c)	<p>Are combinations X, Y and Z in Fig.1 equally efficient combinations for Country A to produce? Explain your answer.</p> <p>Target: to interpret a production possibility curve. 1 mark for recognising Z is less efficient 1 mark for explanation/not on the PPC, 1 mark for recognising X and Y are equally efficient 1 mark for explanation/they are both on PPC.</p>	[4]	Use ticks

Question	Expected Answer	Mark	Rationale / Further Guidance
(d) (i)	<p>Explain what is meant by productivity.</p> <p>Target: to explain productivity 2 marks for a correct explanation, eg output per worker (accept per person). 1 mark for output or production only, or a reference to efficiency.</p>	[2]	
(ii)	<p>How will a rise in productivity in Country A affect its production possibility curve?</p> <p>Target: to identify the effect of a rise in productivity on the PPC. It will shift outwards/to the right.</p>	[1]	Accept 'it will rise' or 'it will increase.'
(e)	<p>A rise in productivity is one way in which an economy can achieve economic growth. Explain two other ways in which a country could achieve economic growth.</p> <p>Target: to explain means of economic growth. 1 mark for each method identified plus 1 mark for explanation. Methods include investment in capital, introducing new technology, discovery of new resources, immigration of labour, education and training, policies to raise demand, measures to increase incentives, e.g. reduced direct taxes, etc. Reward any reasonable suggestions.</p>	[4]	Use ticks

Question	Expected Answer	Mark	Rationale / Further Guidance						
(f)	<p>'The costs of economic growth are greater than the benefits.' Do you agree with this statement? Give reasons for your answer. Target: to evaluate the costs and benefits of growth. Level 2 (5–6 marks) Makes a judgement based on reasoned argument. Costs may include various forms of pollution, environmental damage, depletion of non-renewable resources, more global warming, congestion, possible inflation. Benefits include more goods & services and higher living standards, more employment, more public & merit goods, improved health, literacy, life expectancy, etc.</p> <p>Level 1 (1–4 marks) Costs and/or benefits of growth are analysed.</p>	[6+2]	<p>Both sides of argument must be present for L2</p> <p>Annotate answer with level. Mark should match number of ticks.</p> <p>Put 0, 1 or 2 ticks next to the +2 at bottom of script & add QWC mark. E.g. if you gave top of L2 6 marks, then 2 ticks for QWC, enter 8 (out of 8) in total.</p>						
<table><tr><td>Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.</td><td>2</td></tr><tr><td>Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.</td><td>1</td></tr><tr><td>Candidate fails to reach the threshold standard in all respects.</td><td>0</td></tr></table>		Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2	Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1	Candidate fails to reach the threshold standard in all respects.	0	of their written	
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Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1								
Candidate fails to reach the threshold standard in all respects.	0								
Total 25 marks									

Question	Expected Answer	Mark	Rationale / Further Guidance
2 (a)	<p>The report states that a typical UK Family's household food bill rose by 15% in a Year. The official rate of inflation for the same year, however, was less than 3%. Discuss whether both of these figures could be correct.</p> <p>Target: to interpret price change and inflation figures. Level 2 (3-5 marks) A judgement is given based on sound reasoned argument. Candidates should judge that food takes a relatively small proportion of total spending (and may mention other areas eg housing and transport). They could consider what has happened to other prices, eg consumer durables prices may have fallen at the same time. Reward those who question the reliability of the source for 15% figure. Reward those who point out there are different measures of general inflation.</p> <p>Level 1 (1-2 marks) A basic argument is presented.</p>	[5]	Use ticks. 3 or more ticks must be a L2 answer.
(b) (i)	<p>The demand for food is relatively price inelastic. Explain what is meant by price inelastic demand.</p> <p>Target: to explain price inelastic demand. 1 mark for some understanding shown or a statement that demand does not change. 2 marks for accurate explanation, ie demand changes at a lesser rate (not amount) than price; or not very responsive to a change in price.</p>	[5]	
(ii)	<p>State one reason why the demand for food is price inelastic.</p> <p>Target: to identify a reason for an inelastic demand. 1 mark for stating it is a necessity / essential, or has no substitute.</p>	[1]	

Question	Expected Answer	Mark	Rationale / Further Guidance
(c)	<p>Explain the demand and supply factors that could cause the price of food to <u>rise</u> over time.</p> <p>Use diagrams to illustrate your answer. Target: to explain, using diagrams, factors which cause prices to change in specific markets.</p> <p>Level 3 (9-12 marks) Accept answers with regard to food in general or specific types of food. A range of demand and supply factors are explained with reasoned argument and applied well to the rise in prices in the food markets. Two diagrams are essential, to illustrate a rise in demand and a fall in supply. These should be accurate, fully labelled and clearly explained. Award 10 marks for minimum 2 demand & 2 supply factors applied and analysed well. Award 12 marks for minimum 3 demand & 3 supply factors applied and analysed well.</p> <p>Level 2 (5-8 marks) Demand and/or supply factors are explained in the context, and 2 essentially correct diagram(s) are used: Max. 8 marks where only the demand or supply factors are considered. Max. 6 marks where diagrams substantially incomplete.</p> <p>Level 1 (1-4 marks) Some factors affecting the price of food are identified. Where D & S curves are reversed on diagrams or diagrams are incomplete, candidates are unlikely to progress beyond L1.</p>	[12+2]	<p>Demand factors include World population, real incomes (especially rises in large developing countries like China and India), demand for alternative uses particularly biofuels, expectations about future prices (speculation), price and availability of substitute foods, price of complements, changes in tastes & preferences including advertising, etc.</p> <p>Supply factors include costs of production, especially land and labour costs; availability of land and other pressures on it, e.g. housing; removal of subsidies; indirect taxes; changes of nature such as droughts, diseases, floods. References to the inelastic nature of demand or supply are not required but should be rewarded when in relevant context.</p> <p>Note: improved technology on S side and lower interest rates on demand side do not really apply to this question of rising food prices.</p> <p>Use ticks for correct diagrams, and for identification of factors but ticks do not have to match marks.</p> <p>Annotate answer with level.</p> <p>Put 0, 1 or 2 ticks next to the +2 at bottom of script & add QWC mark. E.g. if you gave top of L2 8 marks, then 2 ticks for QWC, enter 10 (out of 14) in total.</p>

Question	Expected Answer	Mark	Rationale / Further Guidance						
	<table><tr><td>Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.</td><td>2</td></tr><tr><td>Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.</td><td>1</td></tr><tr><td>Candidate fails to reach the threshold standard in all respects.</td><td>0</td></tr></table>	Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2	Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1	Candidate fails to reach the threshold standard in all respects.	0	of their written	
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Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1								
Candidate fails to reach the threshold standard in all respects.	0								
Total 21 marks									

Question	Expected Answer	Mark	Rationale / Further Guidance
3 (a)	<p>Using Fig.3, calculate the income tax paid by a person who earns £30,035.</p> <p>Show your working.</p> <p>Target: to calculate income tax due.</p> <p>Taxable income = £30,035 - £6,035 = £ 24,000. (2 marks, 1 for method).</p> <p>Tax = £24,000 x 20% = £4800. (2 marks, 1 for method).</p> <p>If candidate simply calculates 20% of £30,035 (£6007) give 1 mark for method</p>	[4]	
(b)	<p>There are large differences in the incomes of families in the UK.</p> <p>Explain how the government could reduce these differences by using taxes and government spending.</p> <p>Target: to explain how the government can redistribute incomes using taxation and government spending.</p> <p>Use a flexible mark scheme with 1 mark for each method identified with further marks for development. Eg higher income tax (1), progressive taxes (1) take higher rates from higher incomes (1), higher income tax allowances (1), more inheritance tax (1), less VAT on necessities (1), etc.</p> <p>Benefits to lower income groups (1), such as tax credits (1), job seekers allowance (1).</p> <p>Spending on merit goods e.g. health and education (1), which is a larger % of income of lower income groups (1).</p> <p>Education & training which raise earning potential (1).</p> <p>Max 4 marks for a list.</p>	[6]	Use ticks. Max.4 for list / identification so must be explanation for 5 or 6 marks.

Question	Expected Answer	Mark	Rationale / Further Guidance
(c)	<p>Should taxes be used to control the external costs caused by road traffic? Give reasons for your answer.</p> <p>Level 3 (5-6 marks) Candidate makes a judgement backed by reasoned argument. Candidate can give arguments both for and against taxes and suggest alternatives. Social costs exceed private costs so taxes should be used to raise private costs so 'the polluter pays'. Taxation could cause hardship, e.g. poor drivers in rural areas. Award answers which justify alternatives to taxes, e.g. provision of public transport.</p> <p>Level 2 (3-4 marks) Analyses how taxes can control external costs.</p> <p>Level 1 (1-2 marks) Demonstrates knowledge of external costs, possibly with an example, or states taxes are unfair as people need cars to go to work.</p>	[6]	Annotate answer with ticks and level. Mark should match number of ticks.

Question	Expected Answer	Mark	Rationale / Further Guidance
(d)	<p>The government wishes to raise more revenue from tax to finance extra government spending, this could come from either income tax or VAT.</p> <p>Which of these two taxes would you recommend is increased? Give reasons for your answer.</p> <p>Target: to evaluate changes in income tax and VAT.</p> <p>Level 3 (5-8 marks) Candidate makes a judgement backed by reasoned argument. Candidate can give arguments both for and against each of the taxes. Both taxes must be considered for a level 3 mark.</p> <p>For income tax rise: based on the ability to pay. Equity argument, candidates may refer to the data / its progressive nature. Against income tax rise: it has disincentive effects with regard to work and savings. It may discourage effort and enterprise. It may encourage tax exiles, encourage tax evasion. For VAT rise: it is 'hidden' in the prices, not as noticeable. It does not harm incentives. A wider tax base. Against VAT rise: it is unfair, regressive. However, it is not currently applied to many necessities candidates could refer to the data. It could encourage black markets / smuggling. May be inflationary. Reward other relevant arguments based on qualities of taxes.</p> <p>Level 2 (3-4 marks) Arguments for or against either tax are given.</p> <p>Level 1 (1-2 marks) Demonstrates some understanding of these taxes in the</p>	[8]	<p>Annotate answer with ticks and level. Mark should match number of ticks.</p> <p>NB Which tax would raise more revenue is irrelevant in this context.</p>
Total 24 marks			

Question	Expected Answer	Mark	Rationale / Further Guidance
4 (a)	<p>Using information in Fig. 4, calculate each of the following. Show your working.</p> <p>NB 1 mark for correct method for each part. Accept 'deficit' in lieu of minus sign (or loss) for (i) and (iii). If candidate has neither minus sign nor deficit for (i) then 2 marks, but error carried forward to (iii) not penalised twice (own figure rule for (iii)). (i), (ii), (iii):</p> <p>(i) The UK balance of trade in goods.</p> <p>Target: to calculate the balance of trade in goods. $\text{£}294182\text{m} - \text{£}207856\text{m} = \text{£}86326\text{m}$ deficit.</p> <p>(ii) The UK balance of trade in services.</p> <p>Target: to calculate the balance of trade in services. $\text{£}138424\text{m} - \text{£}99974\text{m} = \text{£}38450\text{m}$ (surplus).</p> <p>(iii) The UK current account balance. $-\text{£}86326\text{m} + \text{£}38450\text{m} = \text{£}47876\text{m}$ deficit.</p>	<p>[3]</p> <p>[3]</p> <p>[3]</p>	<p>Where millions (m) are missing but otherwise correct do not penalise.</p>

Question	Expected Answer	Mark	Rationale / Further Guidance
(b)	<p>Would UK consumers and holiday makers benefit if the UK adopted the euro as its currency?</p> <p>Give reasons for your answer.</p> <p>Target: to evaluate the effects of adopting the euro on specific groups.</p> <p>Level 2 (4-6 marks) Effects of adopting the euro are discussed with reference to the two specific groups. Holiday makers will no longer have the transaction costs of changing money, depending upon their destination (eurozone v other destinations), and price comparisons will be made easier in the eurozone. Consumers have greater price transparency. They should gain from greater competition between firms (as the currency barrier to trade is removed), eg lower prices, more choice. Accept any valid arguments against the euro affecting these groups, eg prices might be rounded up, changeover costs could be passed on.</p> <p>Level 1 (1-3 marks) 1 or 2 effects of adopting the euro are identified with regard to these groups.</p>	[6]	<p>Use ticks. Only more than 3 ticks when it is a L2 answer.</p> <p>NB This is not a general question about effects on UK economy as a whole. Accept relevant discussion re foreign holiday makers coming to UK.</p>

Question	Expected Answer	Mark	Rationale / Further Guidance
(c) (i)	<p> April 2007 £1 = 1.41 euros April 2008 £1 = 1.23 euros The table below shows the value of the pound (£) against the euro for two years. </p> <p> Explain what happened to the value of the pound against the euro between April 2007 and April 2008. </p> <p> Target: to interpret exchange rate data. 1 mark for identifying the fall + 1 mark for development or reference to the extent of the fall i.e. 18 cents. </p>	[2]	Use ticks.

Question	Expected Answer	Mark	Rationale / Further Guidance
(ii)	<p>Discuss the effect to which the UK economy might be affected by the change in the value of the £ against the euro shown in the table. In your answer you could refer to any economic issues, including:</p> <ul style="list-style-type: none"> • the balance of payments • economic growth • employment • inflation <p>Target: to analyse and evaluate the effect of a change in the exchange rate Level 4 (9-12 marks) Candidate makes a judgement on the effects on the economy based on reasoned arguments. Exports will be cheaper abroad (in eurozone) and more will be sold. Exports revenues may rise (discussion of elasticities possible but not required). Imports will be dearer and less will be bought. Payments for imports may fall. There should thus be an improvement in the balance of payments. More exports sold will encourage economic growth and employment. More home produced goods demanded in place of the dearer imports will also encourage growth and employment. The dearer imports add to inflation. There may also be cost-push effects through dearer imported materials, components and fuels. Reward those who point out that exchange rates against other currencies not known from the data.</p>	[12]	<p>NB If the data is misinterpreted as a rise in the value of the £, then award up to 8 marks for analysis which is correct in that context.</p> <p>Where there is discussion of both strong and weak £, award marks for discussion of weaker pound.</p> <p>Use ticks which must match marks. Annotate level in answer.</p>

	<p>Level 3 (5-8 marks) Some effects of the change in the exchange rate are analysed.</p> <p>Level 2 (3-4 marks) Some effects on the economy are applied.</p> <p>Level 1 (1-2 marks)</p> <ul style="list-style-type: none">• Some effects on the economy are identified.		
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Total 29 marks

Assessment Objectives					Total Mark	Marks for Grades Targeted					Subject Content
Questions	1 Knowledge and Understanding	2 Application	3 Analysis	4 Evaluation		A*	A	B	C	D	
1 *a	2				2				1	1	1b
1 *b i	2				2				1	1	1b
ii		3			3			3			1b
c		3			3			3			1b
*d i	2				2				1	1	2i
* ii		1			1					1	2i
*e	4				4				2	2	3ci
*f			3	3	6+2				3	3	3ci
					25						
2 a			2	3	5	2	3				3ciii
2 b i	2				2			2			2d
ii		1			1			1			2d
c	4	4	4		12+2	2	6	4			2e
					22						
3 a	2	2			4		3	1			3b
*b	4	2			6				3	3	3b
c	2		2	2	6		4	2			3d
d		2	2	4	8	2	3	3			3b
					24						
4 *a i	1	2			3				2	1	4c
* ii	1	2			3				2	1	4c

1985/03

Mark Scheme

June 2010

* iii	1	2			3				2	1	4c
* b			3	3	6				3	3	4b
c i		2			2			2			4d
c ii	2	2	4	4	12	4	4	4			4d
					29						
	29	28	20	19		10	23	25	20	18	96
					96+4						

* Questions common to papers 1 & 3

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