GCE AS MARKING SCHEME

AUTUMN 2020

AS (NEW)
ECONOMICS - COMPONENT 1
B520U10-1

INTRODUCTION

This marking scheme was used by WJEC for the 2020 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

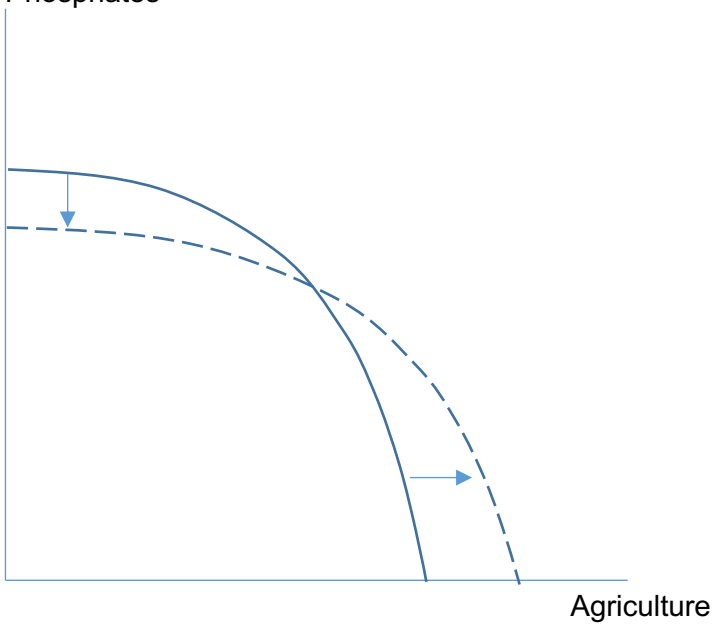
It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

GCE AS ECONOMICS - COMPONENT 1

AUTUMN 2020 MARK SCHEME

1.	**Adapt the PPF diagram to show how the factors in the extract affected Nauru's economy and outline your reasons for the changes you make.**	**Total 4**
	AO1: 2 marks Award **2** marks: The context is used to outline how the changes in both phosphates and agriculture affect the PPF Award **1** mark: The context is used to outline how the changes in one of phosphates and agriculture affect the PPF **AO2: 2 marks** Award **2** marks: Diagram is successfully adapted to show an inward movement of the PPF on the phosphate axis and an outward movement on the agriculture axis Award **1** mark: Diagram successfully demonstrates one of the two elements **Indicative content:** Phosphates  	

2. Using the data outline what is meant by government failure. [4]		
Band	**AO1**	**AO2**
	2 marks	**2 marks**
2	**2 marks** Good understanding Clear understanding of the meaning of government failure is shown	**2 marks** Good application The data is used effectively to support the concept of government failure (looking at both the intent of the policy and the outcome)
1	**1 mark** Limited understanding Some understanding of the meaning of government failure is shown	**1 mark** Limited application The data is used to support the concept of government failure, but its use is underdeveloped
0	**0 marks** No understanding shown	**0 marks** Context is not used

Indicative content:

AO1

A government intervenes to attempt to correct market failure but its policy produces a net welfare loss.

AO2

A policy designed to increase use of renewable fuels in the form of wood-burning (attempting to reduce one market failure) will actually lead to a rise in CO2 emissions and global deforestation thereby creating environmental damage in other areas, resulting in a net welfare loss.

3. (a)	**Calculate the percentage rise in actual productivity between 2005 and 2017?**	**Total 2**
	AO2: 2 marks Productivity has risen from an index number of around 97 to one of around 104 (1 mark) 7/97 x 100 = 7.22% (1 mark) Allow minor plus or minus differences if the correct method has been used	

3. (b)	**Identify <u>two</u> possible causes of the low productivity growth in the UK from 2011 to 2017?**	**Total 2**
	AO1: 2 marks Award **1** mark for each correct possible caused identified **Indicative content:** Low levels of investment Skills shortages UK is a service-based economy and productivity is harder to raise in those activities Poor infrastructure Labour market too inflexible Uncertainty in the economy – financial crisis then Brexit. Increased university fees Allow any plausible factors	

3. (c) To what extent can supply side policies bring about productivity growth in the UK economy? Refer to the data in your answer. [10]				
Band	**AO1**	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**	**4 marks**
3				**3-4 marks** Excellent evaluation A critical evaluation as to the extent to which supply side policies can be effective in increasing levels of productivity with developed lines of argument Top level evaluation will make effective use of the chart
2	**2 marks** Good understanding Clear understanding of SSPs is shown	**2 marks** Good application Learner applies the context of productivity growth in the data to supply side policies	**2 marks** Good analysis Learner offers a well-developed analysis of how supply side policies can increase productivity with a clear link to how output per worker will rise	**2 marks** Good evaluation Developed counter-arguments which show the limitations to the effectiveness of supply side policies in raising productivity are present
1	**1 mark** Limited understanding Some understanding of SSPs is shown	**1 mark** Limited application Learner makes limited reference to the context of productivity growth in the data to supply side policies	**1 mark** Limited analysis Learner offers a limited or only partial analysis of how supply side policies can increase productivity	**1 mark** Limited evaluation The evaluation of the impact of supply side policies on productivity lacks development
0	**0 marks** No understanding of SSPs is shown	**0 marks** No reference is made to the context	**0 marks** Analysis is incorrect or missing	**0 marks** Evaluation is either incorrect or missing

Indicative content:

AO1

Supply side policies are government attempts to increase productivity and shift aggregate supply (AS) to the right.
They involve policies to increase the quantity, quality and efficiency of use of factors of production.

Examples include:

Supply-side Policies	
Free-market oriented	**Interventionist**
Privatisation – sell state owned assets to private sector - improve incentives.	**Public sector investment** in infrastructure - improve transport and reduce costs.
Deregulation – allow new firms to enter market - open monopolies to competition.	**Education** - increase funding to schools and universities - improve labour productivity.
Income tax cuts – greater incentive to work longer hours	**Vocational training**. Gov't schemes to provide new skills to those who lose jobs.
Remove regulations/red tape – make it easier to build new factories and housing.	**Housing supply.** Increase supply of council housing improves geographical mobility.
Flexible labour markets – reduce power of trade unions, min wages and regulations.	**Health spending.** Public spending on health can reduce hours lost to ill-health.
Free-trade agreements – reduce tariff barriers and other obstacles to trade.	
Reduce welfare benefits – increase incentive to get a job.	*www.economicshelp.org*

AO2

Productivity growth has flat-lined over the period in spite of attempts to raise productivity
Governments have consistently failed to hit targets, suggesting that SSPs are less effective than governments might hope.
There have been periods when productivity growth has been quite rapid (2005, 2009-11)

AO3

Reference to **how** these policies can lead to an increase in productivity. In each case there will be a developed line of reasoning which explains the impact on productivity rather than simply a link to LRAS.

For example: An increase in education spending should help to provide firms with better-skilled workers. Hence less training will be required and the workers will be more effective at their jobs, both of which will increase output per worker.

AO4

Less effective in times of low economic growth/recession/uncertainty.
Potential for government failure if policies are badly formulated and applied.
Government have been projecting rises in productivity after supply side reforms but these have had little success.
Real sustained growth in productivity may not come from supply side policies but from technological change i.e. robots and A.I.
Often there are significant delays in terms of the impacts of supply-side policies
The most effective evaluation is often specific to a given supply side policy, looking at the ways in which it might be ineffective or actually counter-productive.

4.	**With reference to the data, discuss the extent to which "even larger tax cuts" would be likely to significantly reduce the US government's budget/fiscal deficit.** **[10]**			
Band	**AO1**	**AO2**	**AO3**	**AO4**
	2 marks	**3 marks**	**2 marks**	**3 marks**
3		**3 marks** Excellent application Developed use of both the chart and text is present		**3 marks** Excellent evaluation Clear judgement as to the circumstances under which tax receipts would be likely to increase or fall, with reasoned supporting argument
2	**2 marks** Good understanding Clear understanding of budget/ fiscal deficit	**2 marks** Good application Developed use of either the chart or the text is present	**2 marks** Good analysis Well-developed line of argument as to how tax cuts could increase tax receipts in the long run. A developed chain of reasoning is present	**2 marks** Good evaluation Well-developed line of argument as to how tax cuts could reduce tax receipts. A developed chain of reasoning is present
1	**1 mark** Limited understanding Some confusion over what a fiscal/budget deficit means	**1 mark** Limited application Some direct reference to either the chart or text has been made	**1 mark** Limited analysis An undeveloped line of argument as to how tax cuts could increase tax revenue in the long run.	**1 mark** Limited evaluation An undeveloped line of argument as to how tax cuts could reduce tax revenue.
0	**0 marks** No understanding shown	**0 marks** Points are wholly generic	**0 marks** Answer only asserts points	**0 marks** No counter-arguments are present

Indicative content:

AO1

The budget/fiscal deficit shows the amount by which a government's spending exceeds its tax revenue in a given time period, generally one year.

AO2

Huge drop in corporate tax income from $400bn to around $275bn. This is a lot of ground to recover.
But economic growth clearly is an important factor – corporate tax drops off a cliff in 2008-10 and recovers strongly as the economy recovers.
The impact on income taxes is less significant – corporation tax receipts fell by 33%, but tax yield overall only fell by 7%
$1.5trillion is a very sizeable cut and should be expected to have a significant impact on growth, but this will depend on how close to capacity the US economy is – data suggests that it is close to capacity.
Some cuts are only temporary
Deficit is huge

AO3

Credit a developed use of the Laffer curve here (or for AO4, but not both).
Cuts in tax rates create incentives to work, incentives for corporations to relocate to the US and these decisions tend to be quite long term ones.
The rise in GDP should therefore offset the cut in the tax rate, resulting in higher tax revenue overall.

AO4

The cuts in income tax are only temporary and therefore are unlikely to have much impact on worker behaviour
There are many other factors in work and location decisions apart from corporate tax rates, which may mean that the effect is simply to allow corporations to pay less tax.
Much depends on where we are on the Laffer curve and how much scope there is for GDP growth
The government has a huge deficit already, suggesting that tax rates are already quite low.
The US budget deficit is immense and any single policy is unlikely to be able to eliminate it.

Allow any other valid application, analysis and evaluative points

Q5 Suppose that a US state government is considering whether to introduce an additional 10% tax on cigarettes or a 10% subsidy on e-cigarettes.

5.	**Using calculations to support your answer, discuss which of the two policies suggested would be most likely to correct the market failures associated with the smoking of conventional cigarettes.**		**[10]**
Band	**AO2**	**AO3**	**AO4**
	4 marks	**2 marks**	**4 marks**
3	**3-4 marks** Excellent application Developed use of both the numerical and qualitative data is present. XED and PED calculations are both well-used.		**3-4 marks** Excellent evaluation Clear judgement as to which policy will be likely to be the best with reasoned supporting argument based on calculations. Both policies have been evaluated.
2	**2 marks** Good application Developed use of either the numerical or qualitative data is present, with a calculation based on XED or PED.	**2 marks** Good analysis Well-developed line of argument as to how one of the policies could correct market failure with clear link back to welfare loss.	**2 marks** Good evaluation Developed counterargument to one of the policies is present
1	**1 mark** Limited application Some attempt is made at calculation, but with significant inaccuracies	**1 mark** Limited analysis Some argument as to how one or both of the policies might correct market failure, but the arguments are not developed.	**1 mark** Limited evaluation Counterarguments are present, but these are not developed.
0	**0 marks** Points are wholly generic	**0 marks** Answer only asserts points	**0 marks** Neither policy is evaluated

Indicative content:

AO2

Qualitative:
Cigarettes are well known to have health problems associated with their use
Most research suggests that E-cigarettes are less harmful
The long-term impacts of vaping, however, are unknown.

Quantitative
A 10% tax on cigarettes (assuming it is passed on fully to the consumer) would result in a 4% drop in cigarette usage and a 22% increase in the use of e-cigarettes)
A 10% subsidy for e-cigarettes (assuming that it is passed on fully to the consumer) would result in a 19% increase in e-cigarette use and a 22% reduction in the use of cigarettes

AO3

Cigarettes contain significant problems in the form of external costs and information asymmetries which contribute to market failure in the form of over-consumption.
Either policy could reduce the use of conventional cigarettes either by internalising the externality or by encouraging the use of an alternative.
As a result, consumption will be reduced to a level closer to the socially optimal level.

AO4

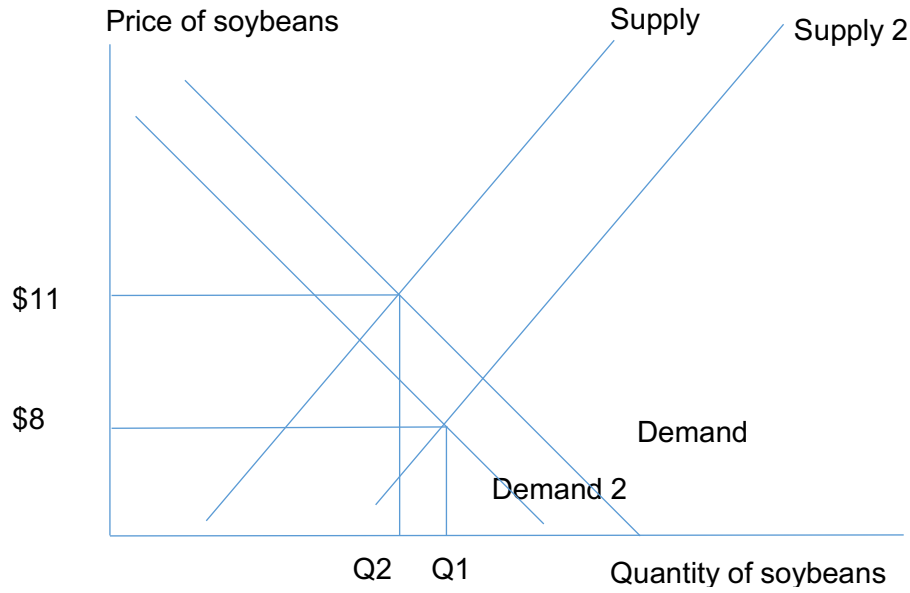
The overall impact of the subsidy appears to be greater, reducing cigarette use by more and increasing e-cigarette use by less.
The figures, however are only for 11-17 year olds, so the impact on other groups is unknown
It is unclear how much of the tax/subsidy would be passed on
Increasing use of e-cigarettes may be more harmful in the longer term because the impacts are unknown
The tax raises revenue that could be used for other anti-smoking initiatives whereas the subsidy will inevitably cost money
If it is a state government, there is a risk that consumers will simply buy across the state border
Elasticity figures are notoriously unreliable and may differ according to the size of the price change

Allow any other valid application, analysis or evaluation.

6.		Total 4
(i)	**AO2: 4 marks** **The tax revenue generated for the government** New level of imports = 50m units (1 mark) Tariff revenue = 50mx£75= £3.75bn (1 mark) Award 2 marks for statement of correct answer	**2**
(ii)	**The increase in domestic producer surplus** Domestic output has increased from 200m to 350m units (1 mark) Producer surplus has risen by £75X(200+150/2)=£20.625bn (1 mark) Award 2 marks for statement of correct answer	**2**

7.	Adapting the supply and demand diagram below and with reference to the data, explain why soybean prices have gone down inside the US. [7]		
Band	**AO1**	**AO2**	**AO3**
	3 marks	**2 marks**	**2 marks**
3	**3 marks** Excellent understanding Diagram is successfully adapted to show both demand and supply shifts with no meaningful errors New lower price (P_2 or \$8) is shown appropriately and overall quantity increases		
2	**2 marks** Good understanding Diagram is successfully adapted to show both demand and supply shifts with no meaningful errors but with quantity not increasing compared to the original.	**2 marks** Good application Both relevant aspects of the context are used	**2 marks** Good analysis Clear explanation as to why prices have fallen
1	**1 mark** Limited understanding Diagram is successfully adapted to show one of the demand and supply shifts **Or** has significant labelling errors	**1 mark** Limited application One relevant aspect of the context is used	**1 mark** Limited analysis Partial explanation as to why prices have fallen
0	**0 marks** Diagram is not adapted successfully	**0 marks** Context is not used effectively	**0 marks** Price fall is not explained

Indicative content:



AO2

The Chinese tariff will restrict demand for soybeans significantly since half of the US output goes there.
The record production will push up supply.

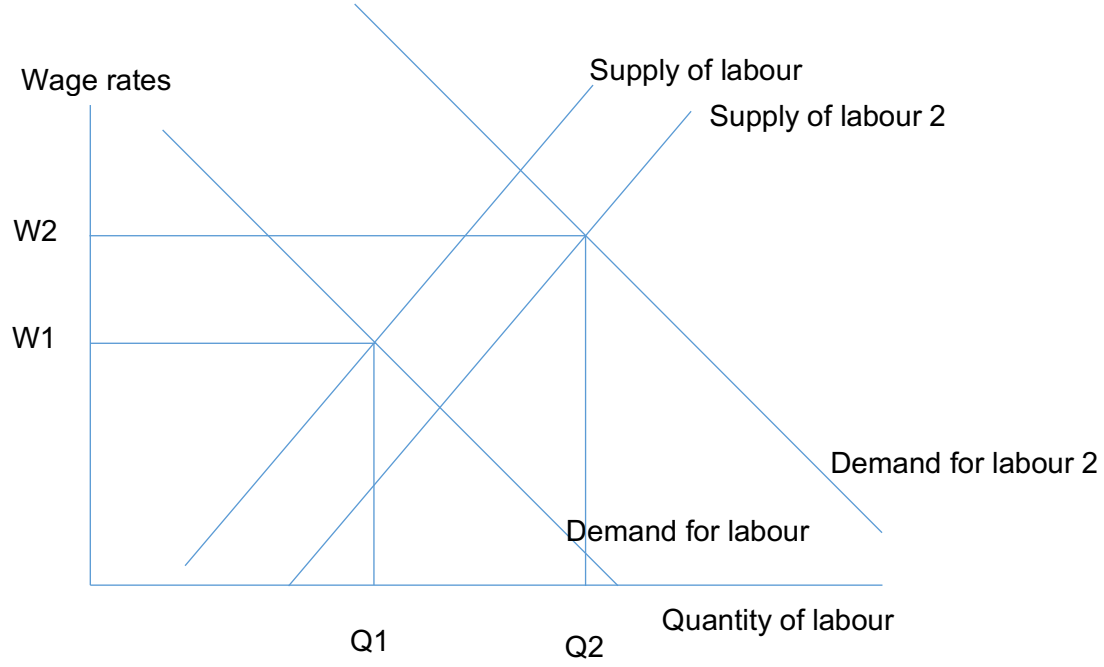
AO3

Demand shifts to the left and supply shifts to the right
At the original price there is now excess supply, forcing prices down until supply and demand are in balance again.

8.	Adapting the diagram below, explain the impact of these changes on wages in the financial sector in Ireland. [7]		
Band	**AO1**	**AO2**	**AO3**
	3 marks	**2 marks**	**2 marks**
3	**3 marks** Excellent understanding Diagram is successfully adapted to show both demand and supply shifts with no meaningful errors, with wages rising in the sector		
2	**2 marks** Good understanding Diagram is successfully adapted to show both demand and supply shifts with no meaningful errors	**2 marks** Good application Both relevant aspects of the context are used	**2 marks** Good analysis Clear explanation as to why wages have risen
1	**1 mark** Limited understanding Diagram is successfully adapted to show one of the demand and supply shifts. **Or** both shifts are correct but the diagram has significant labelling errors.	**1 mark** Limited application One relevant aspect of the context is used	**1 mark** Limited analysis Partial explanation as to why wages have risen
0	**0 marks** Diagram is not adapted successfully	**0 marks** Context is not used effectively	**0 marks** Wage rise is not explained

Indicative content:

AO1:



AO2:

Demand for labour is rising because of the exodus of firms from London relocating in Ireland and therefore needing workers
Supply is also rising because of the influx of US and Australian workers

AO3

Demand and supply of labour have both risen but demand by more than supply
This has created excess demand for labour, driving wages up in the financial sector.

	AO1	AO2	AO3	AO4	Total	QS
Q1	2	2	-	-	4	2
Q2	2	2	-	-	4	-
Q3a	-	2	-	-	2	-
Q3b	2	-	-	-	2	-
Q3c	2	2	2	4	10	3
Q4	2	3	2	3	10	2
Q5	-	4	2	4	10	6
Q6	-	4	-	-	4	-
Q7	3	2	2	-	7	2
Q8	3	2	2	-	7	2
Total	**16**	**23**	**10**	**11**	**60**	**17**