GCE AS MARKING SCHEME

SUMMER 2022

AS
ECONOMICS - UNIT 1
2520U10-1

INTRODUCTION

This marking scheme was used by WJEC for the 2022 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.

WJEC GCE AS ECONOMICS – UNIT 1

SUMMER 2022 MARK SCHEME

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 learner 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.

SECTION A

Question	Answer	Assessment Objective
1.	D	AO2
2.	A	AO1
3	E	AO1
4.	D	AO2
5.	C	AO2
6.	B	AO2
7.	B	AO2
8.	A	AO2
9.	C	AO2
10.	D	AO1
11.	B	AO2
12.	B	AO1
13.	C	AO2
14.	A	AO1
15.	C	AO2

SECTION B

Q.16 (a)	**Using an example from the data, describe the concept of opportunity cost. [2]**
	AO1 1 mark Opportunity cost is the value of the next best alternative foregone. If the Government chooses to do one thing it forgoes the benefits of doing another. **AO2 1 mark** An example would be the decision that the Government must make. Increase taxes or provide fewer services or encourage people to work for longer.

Q.16 (b)	**Using the data, consider whether the population changes will lead to an outward shift in Wales' production possibility frontier (PPF). [8]**			
Band	**AO1**	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**	**2 marks**
	Does the answer demonstrate good understanding of PPFs?	*Is the answer contextualised to the country of Wales?*	*Is economic theory applied to why an ageing population may shift the PPF outwards*	*Is economic theory applied to explain why it may not?*
2	**2 marks** Good understanding of PPFs <u>and</u> labour as a resource	**2 marks** Good application Candidate uses examples from the data or uses own knowledge appropriately	**2 marks** Good analysis Candidates uses economic theory effectively to explain the relationship between an ageing population and an outward shift	**2 marks** Good evaluation There is at least one good point of evaluation (appropriate depth). Candidates do not reach Band 2 if they have a range of throwaway evaluation
1	**1 mark** Understanding of PPF or labour as a resource (but not both)	**1 mark** Limited application	**1 mark** Limited analysis	**1 mark** Limited evaluation
0	**0 marks** No understanding	**0 marks** No application	**0 marks** No analysis	**0 marks** No evaluation

Indicative content:

AO1

A PPF shows the maximum productive potential of a country when all factors of production are fully utilised. People (or a population) are a resource. They are labour.

AO2

Any appropriate example taken from the data and/or own knowledge can be credited here.

AO3

Any increase in the population should shift the PPF outwards because there are now more people in the country and therefore more labour. This means that the potential output for the economy should increase, shifting the PPF outwards.

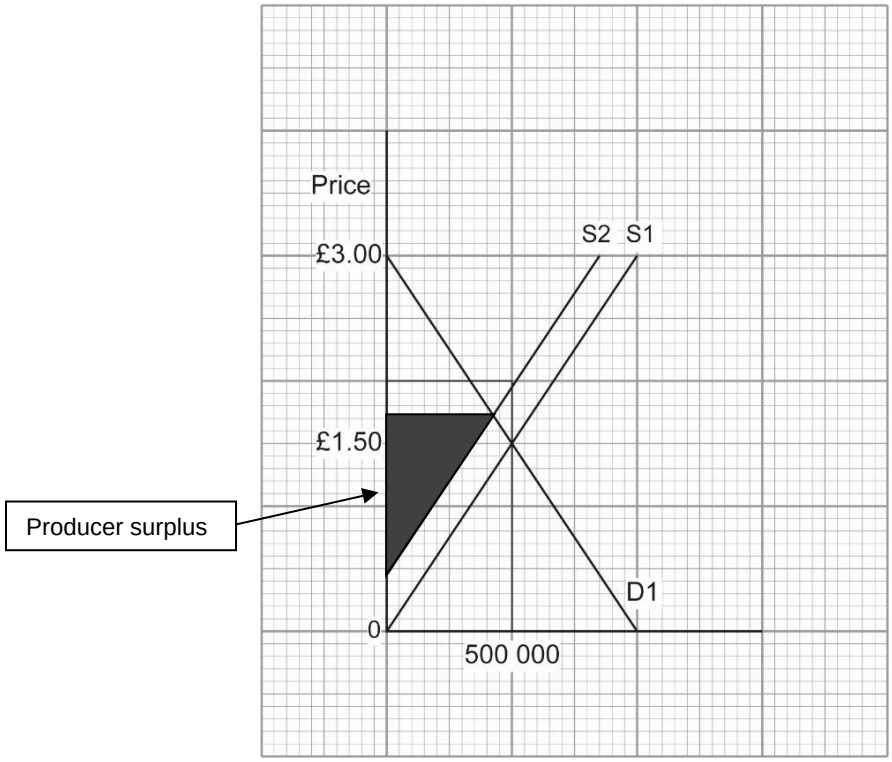
Alternatively, older people, even if they themselves are not able to work, can support family members with childcare that enables them to be able to enter/re-enter the labour force, therefore increasing the quantity of labour and shifting the PPF outwards.

AO4

On the other hand, we are told that old people cannot work long hours and are frequently in hospital. Therefore, it is unlikely that they will add to the country's overall production. The fact that the number of working age people is declining suggests that the PPF may even shift inwards.

Alternatively, increasing taxes because of ageing population meaning increased care costs, might mean less incentive to work, resulting in an inward shift of the PPF.

Q.17 (a)	**Calculate the consumer surplus in the UK vanilla ice cream market before the change. [1]**
	AO2 1 mark 3 - 1.5 = 1.5 1.5 x $\frac{500\,000}{2}$ = £375 000 [1]

(b) (i)	**Adapt the diagram above to reflect the 50p per unit increase in the production costs for vanilla ice cream. [2]**
	AO2 2 marks  • Supply curve shifts inwards/left [1] • The vertical distance between S1 and S2 is 50p [1] **NB candidates do not need to have labelled the new equilibrium quantity and price to be awarded full marks.**
(ii)	**On the diagram, shade in the producer surplus in the UK vanilla ice cream market after the change. [1]**
	AO1 1 mark Correct area has been shaded [1] **NB Credit can be given for shading the correct area (i.e., the area above the appropriate supply curve and below the new equilibrium price, even if the diagram has been adapted incorrectly in Q17 (b) (i).**

Q.17 (c)	**Consider whether vanilla pods and vanilla ice cream should be considered complementary goods.** **[6]**		
Band	**AO1**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**
	Does the answer demonstrate good understanding of complementary goods?	*Is economic theory applied to analyse why they might be complements*	*Is economic theory applied to explain why they are not complements?*
2	**2 marks** Good understanding of XED and a complementary relationship	**2 marks** Good analysis Candidates uses economic theory effectively to explain why the two goods might be considered complements	**2 marks** Good evaluation There is at least one good point of evaluation (appropriate depth) Candidates do not reach Band 2 if they have a range of throwaway evaluation
1	**1 mark** Understanding of XED or explanation of complementary relationship (but not both)	**1 mark** Limited level of analysis	**1 mark** Limited evaluation
0	**0 marks** No understanding	**0 marks** No analysis	**0 marks** No evaluation

Indicative content:

AO1

Complementary goods are goods that work in conjunction with each other/are in joint demand. That is to say that you cannot receive the full utility of one good if you do not buy the other good.
They will have a negative XED coefficient.

AO3 (they are complements)

The data shows that as the price of one good (vanilla pods) increases, the quantity of vanilla ice cream that is sold decreases. (This is because the price of vanilla ice cream has had to increase too). Therefore, the XED formula will give a negative coefficient, which is usually seen as an indicator for complements.

AO4 (they are not complements)

However, vanilla pods and vanilla ice cream are not complements. Consumers would not buy vanilla pods and vanilla ice cream together. The utility that consumers gain from vanilla ice cream does not increase if they also buy a vanilla pod. The fact that there is a negative XED relationship does not mean that there is a complementary relationship.

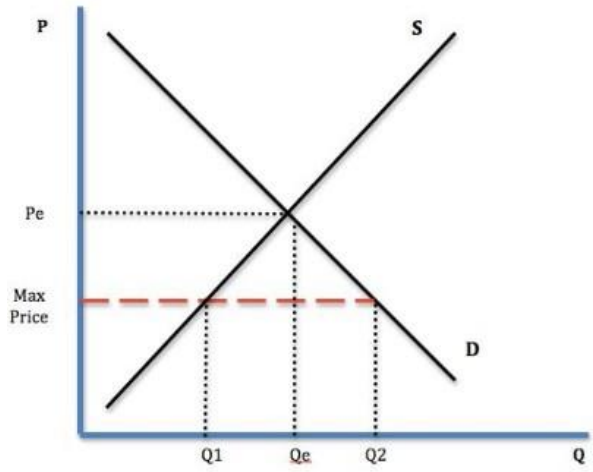
Q.18 (a)	**Explain why volatile prices can lead to market failure.** **[2]**
	AO1 1 mark Good understanding of market failure ***OR*** that volatile prices create uncertainty/low confidence for producers/consumers. **AO3 1 mark** Good explanation of the link between volatile prices and market failure. **Indicative content:** **AO1** Market failure is an inefficient allocation of resources within a market [1] ***OR*** Volatile prices create uncertainty/low confidence for producers/consumers [1] **AO3** Volatile prices mean that producers/consumers do not know how much to produce/demand (this is because the signalling function of the price mechanism is not working efficiently). As a result, producers may produce too little or too much at any given time – not leading to the socially optimum level of resource allocation.

Q18 (b)	**Using a maximum-price diagram, discuss the effects on consumers and firms of introducing a maximum-price of $67 per barrel of oil. [10]**		
Band	**AO1**	**AO3**	**AO4**
	2 marks	**4 marks**	**4 marks**
	Is the diagram drawn correctly?	*Does the answer use economic theory well to explain the effects on firms and consumers?*	*Does the answer use economic theory well to evaluate the arguments made in AO3?*
3		**4 marks** Excellent analysis Candidate effectively uses economic theory to explain how consumers and firms are affected	**4 marks** Excellent evaluation An excellent range and depth of evaluation which considers both economic agents
2	**2 marks** Correct diagram	**2-3 marks** Good analysis For Band 2 there is no requirement for students to consider BOTH economic agents although a range of analysis should be credited	**2-3 marks** Good evaluation More than one evaluative point is NOT necessary for Band 2, but a range of evaluative points should certainly be credited where appropriate.
1	**1 mark** Up to two minor errors with the diagram but shows understanding	**1 mark** Limited analysis Perhaps answer only relates to consumers or firms	**1 mark** Limited evaluation Perhaps evaluation only relates to consumers or firms
0	**0 marks** Understanding is not evident due to the number of errors OR No diagram	**0 marks** No analysis	**0 marks** No evaluation

Indicative content

AO1

Correct diagram



AO3

Consumers and firms both see a lower price. This is good for consumers because it means that their purchasing power increases, and their standard of living may increase (oil can be used for heating and cooking appliances).

Oil-consuming firms will benefit because their costs of production will fall. This means that they can reduce prices and will potentially see an increase in sales and revenue, or they can maintain prices and increase their profit margin.

Firms that produce oil will experience a lower revenue then they would have if the market price had been above $67. This will decrease the firms' producer surplus and profits. It may lead to less investment, or even to firms leaving the market if they are making a loss.

AO4

This policy is likely to create shortages. Since $67 a barrel is below the market equilibrium in June 2018, quantity demanded will exceed quantity supplied at this time and producers will not be willing to meet demand.

Consumers may have to queue to get hold of oil. They may not be able to buy oil at all. This will reduce living standards (oil can be used for heating and cooking appliances) and they may not be able to get to work.

The price is low, but consumers see a reduction in consumer surplus due to the shortage.

Firms that use oil may not be able to get hold of the oil that they need for production. This may delay production for those firms.

There may be a black market that develops for the sale of oil, which could lead to poor quality oil on sale or vastly inflated prices – well above the world price.

Consideration of the significance of the effects, e.g.,

- The market price of oil would have been above $67 for most of this period, so the effects are likely to be significant.
- However, this three-month period may have been unrepresentative of normal oil prices given the trade row.
- The size of the shortage of oil will depend on the PED and PES of oil. PED is likely to be inelastic, but PES may be more elastic (if, for example, Saudi Arabia was able to effect a 'large increase in oil production').
- Oil is a necessity and therefore low-income households are likely to benefit more than high- income households because it represents a larger % of their income.

NB

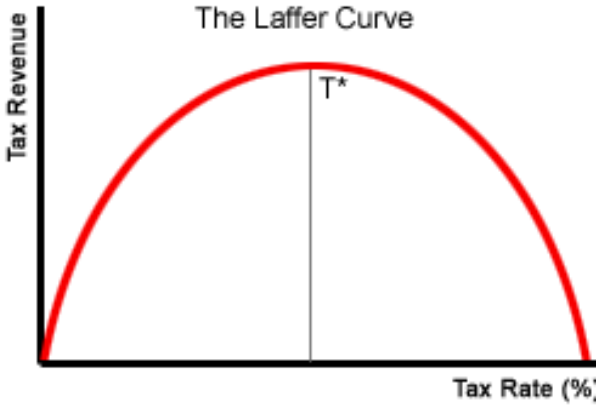
- **For 'firms', candidates may consider the effects on oil-producing firms or oil-consuming firms.**

- **Candidates may either:**
  - **Consider the positive effects on consumers and firms (benefits) as analysis for AO3 marks, and then the negative effects on consumers and firms (costs) as evaluation for AO4 marks; or**
  - **Consider the effects on consumers and firms (positive or negative) as analysis for AO3 marks, and then assess the significance of these effects as evaluation for AO4 marks.**

Q19	**Using a Laffer curve diagram, and with reference to the data, explain how decreasing the corporation tax rate could increase tax revenue for the UK Government. [8]**			
Band	**AO1**	**AO1**	**AO2**	**AO3**
	2 marks	**2 marks**	**2 marks**	**2 marks**
	Is the diagram correct?	*Does the candidate demonstrate a good understanding of key concepts?*	*Is the answer well applied to the context of the UK*	*Has economic theory been used to explain how a decrease in corporation tax can lead to an increase in tax revenue?*
2	**2 marks** Correct diagram	**2 marks** Good understanding Candidate demonstrates a good understanding of the terms tax rate and tax revenue.	**2 marks** Good application	**2 marks** Good analysis Candidate effectively uses economic theory to explain how changes to tax revenue can occur.
1	**1 mark** Up to two minor errors with the diagram but shows understanding	**1 mark** Limited understanding	**1 mark** Limited application	**1 mark** Limited analysis
0	**0 marks** Understanding is not evident due to the number of errors OR No diagram	**0 marks** No understanding	**0 marks** No or incorrect application	**0 marks** No evaluation offered.

Indicative content:

AO1



AO2 (application to the UK)

In 2017 the UK has a higher rate of corporation tax at 19% than other countries in Europe such as Ireland and Switzerland.

A lower corporation tax rate might mean that Amazon UK Services pay more that £4.6 m in corporation tax in the UK.

A lower corporation tax rate might mean that the UK Government raises more in corporation tax revenue than the £56 bn it did in 2016/17.

AO3 (Analysis)

If the UK government reduces the corporation tax rate this should incentivise more businesses to invest in the UK. If they do so, there will be a greater volume of businesses to tax (a larger tax base) and the amount of revenue collected could increase. The same argument could be made in terms of companies that out-source work abroad now moving their production back to the UK.

If the UK government reduces corporation tax this could lead to more multinationals based in the UK to stop avoiding tax and pay their 'fair' share. This would increase the tax revenue for the government.

NB
A simple description of the Laffer Curve cannot gain AO3 marks, as it is not analysis. For example, 'The Laffer Curve suggests that when tax rates are raised above an optimum rate, tax revenue can fall.' would earn no AO3 marks as it is only showing knowledge. However, such a description is likely to contribute to AO1 marks for demonstrating a good understanding of key concepts.