



GCE A LEVEL MARKING SCHEME

AUTUMN 2021

**A LEVEL
ECONOMICS - COMPONENT 1
A520U10-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2021 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.

EDUQAS GCE A LEVEL ECONOMICS - COMPONENT 1

AUTUMN 2021 MARK SCHEME

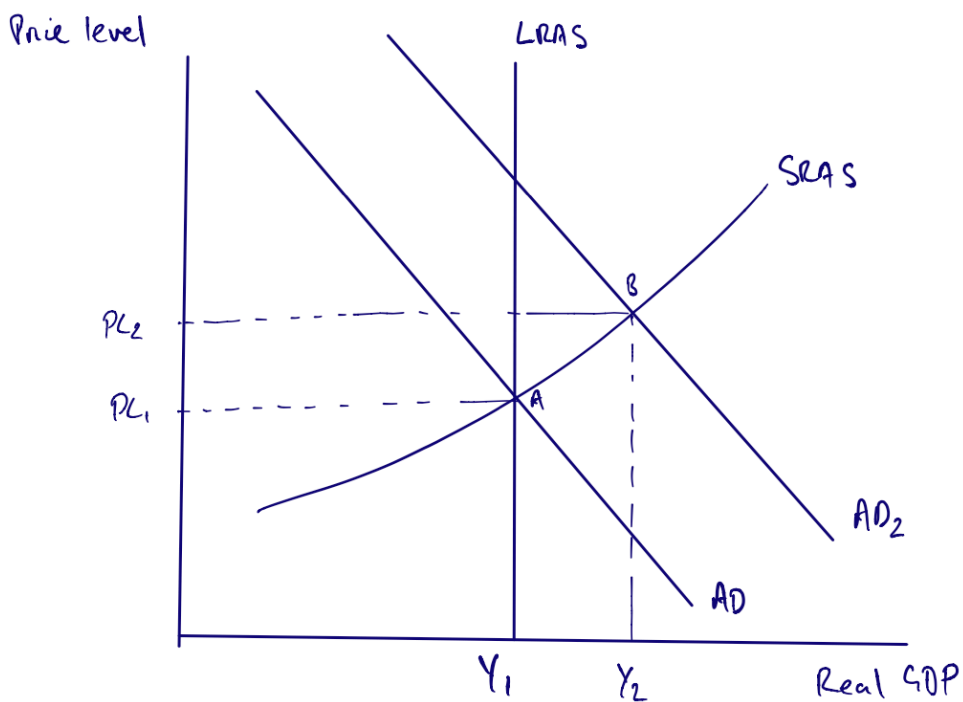
Question	Answer
1.	E
2.	D
3.	B
4.	C
5.	B
6.	A
7.	D
8.	D
9.	A
10.	D
11.	B
12.	A
13.	C
14.	A
15.	C
16.	E
17.	D
18.	D
19.	E
20.	A

21.	Using the diagram explain why the firm maximises profit at output	Total
	<p>AO1: 2 marks</p> <p>Award 2 marks for good knowledge and understanding of the concepts of MC and MR and how when they are equal profits are maximised. Good use of the diagram.</p> <p>Award 1 mark for limited knowledge and understanding of how MC and MR affect profit in a firm. Diagram either not used or used incorrectly.</p> <p>AO3: 1 mark</p> <p>Award 1 mark for analysis of how profit is maximised where $MC=MR$. There is a clear link between explanation and the diagram.</p> <p>Indicative content:</p> <p>At an output less than Q^* $MR>MC$ thus increasing output will add more to revenue than it does to costs thus increasing profit up to Q^*.</p> <p>Beyond Q^* $MC>MR$ thus increasing output adds more to costs than it does to revenue and profit will fall beyond Q^*.</p>	3

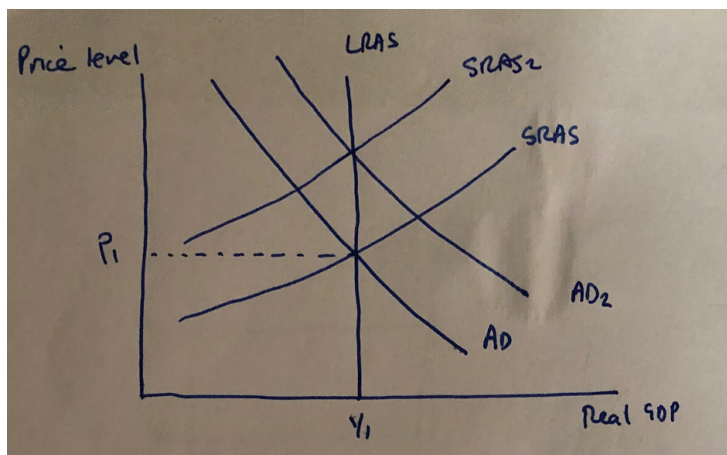
22.	Consider the extent to which such a policy would be beneficial for the economy. Adapt the diagram as part of your answer.			(6)
Band	AO1	AO3	AO4	
	2 marks	2 marks	2 marks	
2	2 marks Good knowledge Good knowledge of how an increase in government spending will increase AD shifting it to the right and that the increase in the price level will lead to a movement along the SRAS. Fully credit simultaneous shifts in LRAS. Adaptation of the diagram	2 marks Good analysis Strong line of argument of how increased government spending affects the economy leading to a rise in the price level and no long term rise in real GDP	2 marks Good evaluation Strong counter-argument explaining the effect of increased infrastructure spending on the LRAS shifting it to the right leading to increased real GDP, or other strong evaluations of the impact of increased infrastructure spending not linked to the diagram.	
	1	1 mark Limited knowledge Some knowledge of the increase in government spending is shown, but with some gaps in knowledge Diagram has significant missing elements	1 mark Limited analysis There is a chain of reasoning, but it is underdeveloped in explaining impact of a rise in government spending	1 mark Limited evaluation Evaluation may be superficial or lacking detail
0	0 marks No valid knowledge	0 marks No valid analysis	0 marks No valid evaluation	

Indicative content:

Increased government spending would shift the AD curve to the right leading to a short term rise in real GDP fall in unemployment below the natural rate, with the price level rising to PL2 as a result of demand pull pressures.

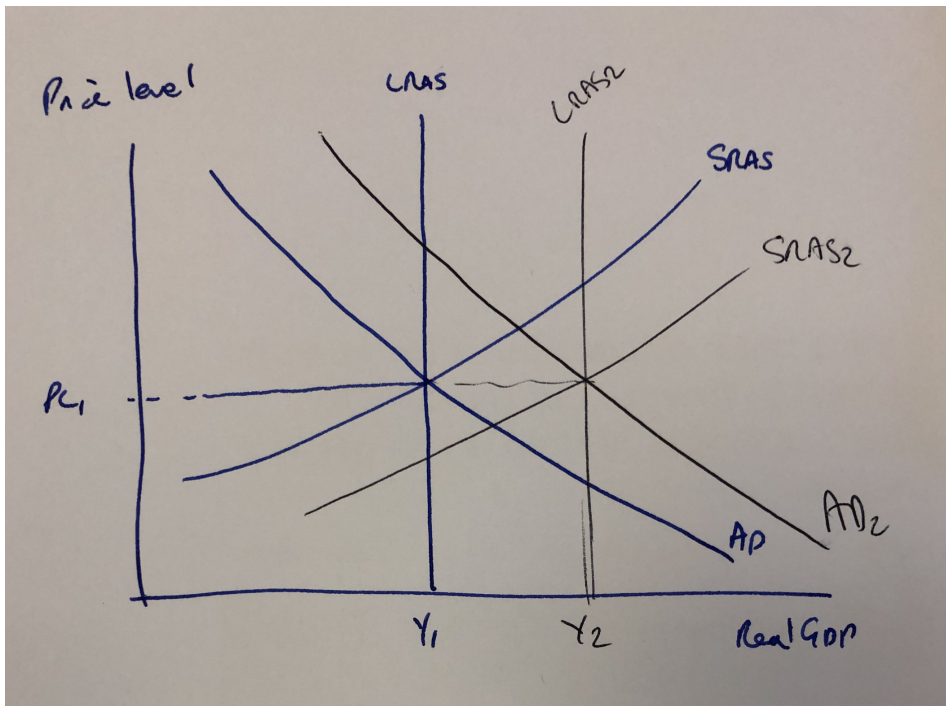


The rise in AD along the SRAS curve could cause a rise in the price level leading to workers demanding a rise in money wages which shifts the SRAS to the left and a further rise in the price level. Unemployment returns to its natural rate at a higher price level.

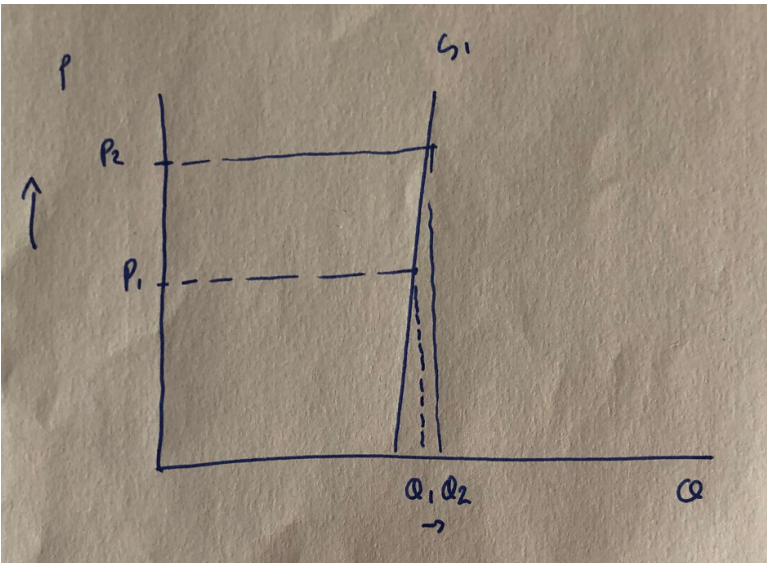


BUT:

Infrastructure spending will increase LRAS as well as AD and thus there will be a rise in real GDP. Improved productivity will put downward pressure on inflation, which may then allow for non-inflationary economic growth.



However, the increase in government spending may have other side effects such as:
Increase in national debt/crowding out/credit downgrade
Risk of malinvestment (hence not actually increasing LRAS)
Increases in tax rates
Allow any other sensible evaluations.

23.	With the aid of a diagram, comment on the likely price elasticity of supply of Saint Emillion wine.	Total
	<p>AO1: 2 marks</p> <p>Award 2 marks for good understanding of price elasticity of supply. Accurate diagram to illustrate the inelastic supply of wine.</p> <p>Award 1 mark for limited understanding of price elasticity of supply. Diagram is inaccurate or missing.</p> <p>AO2: 1 mark</p> <p>Award 1 mark for using the data effectively to support argument that supply is price inelastic.</p> <p>Indicative content:</p> <p>Length of growing season and maturity period make the supply price inelastic as supply cannot change proportionately when there is a change in price.</p> 	3

24.	Explain the shape of this firm's short run total cost curve.	Total
	<p>AO1: 2 marks</p> <p>Award 2 marks for good understanding of the shape of the cost curve determined by fixed costs, increasing and diminishing returns to a factor. Diagram is used effectively.</p> <p>Award 1 mark for limited understanding of the shape of the cost curve. There are gaps in understanding and some confusion. Limited use is made of the diagram.</p> <p>AO3: 2 marks</p> <p>Award 2 marks for good analysis of the shape of the cost curve with strong chains of reasoning. There is a clear link shown between the economic concepts and the shape of the cost curve.</p> <p>Award 1 mark for limited analysis of the shape of the cost curve. The chain of reasoning is unconvincing or lacks detail.</p> <p>Indicative content:</p> <p>The firm incurs some fixed costs (£10 000) when output is 0, for example business rates, rent, insurance etc.</p> <p>TC rises quite slowly initially, as output increases because there are increasing returns to a factor (falling MC) due to division of labour, teamwork and so on.</p> <p>At higher levels of output TC rises more quickly because of decreasing returns to a factor (rising MC) due to the fixed factor of production becoming overused in the short run.</p>	4

25	With reference to the matrix and economic theory, discuss whether or not the countries should engage in free trade. [8]		
Band	AO2	AO3	AO4
	3 marks	2 marks	3 marks
3	<p>3 marks Excellent application</p> <p>Matrix is well used with discussion of both A and B's strategies</p> <p>Clear use of the growth rates is present</p>		<p>3 marks Excellent evaluation</p> <p>Strong counter-argument demonstrating that free trade is not necessarily beneficial/protectionism also has benefits, making good use of economic theory</p>
2	<p>2 marks Good application</p> <p>Matrix is used with discussion of both A and B's strategies</p>	<p>2 marks Good analysis</p> <p>Strong line of argument about why free trade is in principle beneficial</p>	<p>2 marks Good evaluation</p> <p>Strong counter-argument demonstrating that free trade is not necessarily beneficial/protectionism also has benefits. Use of economic theory is more limited</p>
1	<p>1 mark Limited application</p> <p>Some understanding of the matrix is shown but it is incomplete or inaccurate</p>	<p>1 mark Limited analysis</p> <p>There is a chain of reasoning, but it is underdeveloped in explaining the benefits of free trade.</p>	<p>1 mark Limited evaluation</p> <p>Counter-arguments/points on the opposite side are present but are underdeveloped</p>
0	<p>0 marks No valid understanding</p>	<p>0 marks No valid analysis</p>	<p>0 marks No valid evaluation</p>
The grid assumes that the main line is in favour of free trade, but the answer is fully reversible			

Indicative content:

AO2

For A, protectionism is the better option in the short run (Whatever B does, A has higher growth by protecting - if B protects, A has a choice of 1% vs -2%. If B trades freely, A has the choice of 8% by protecting or 5% by trading freely).

For B the story is the same with different numbers (2% vs 1% if A protects and 4% vs 3% if B trades freely).

The Nash equilibrium is therefore protect, protect (not required as part of answer).

However, the grid is a standard prisoner's dilemma - if the game is played repeatedly, free trade is clearly the better option.

Some answers may observe that A is far more affected by how each country behaves, implying that it is either smaller +/- or more open than B.

AO3 (if free trade)

All of the standard lines apply here, but should be centred on growth (although other points may also be credit-worthy):

Genuine free trade will allow countries to specialise in those areas in which they have a comparative advantage, therefore escaping their PPFs and boosting growth (hence the bottom right corner on the matrix)

Free trade will imply competition between a nation's firms and those of other countries, creating supply side pressure to be more efficient. This again puts upward pressure on growth and downward pressure on inflation.

At a micro level, free trade should expand choice for consumers, reduce prices and improve quality, leading to higher living standards.

AO4 (if anti-free trade)

However, free trade comes with job losses in uncompetitive sectors. If these are infant/sunset/strategic industries, then protectionism may have some merit, especially in the case of infant industries, where protectionism may set up longer term growth.

If free trade isn't genuinely free then countries may suffer from dumping, which will unfairly decimate local industries and again, protectionism may be sensible, to avoid long term dependency and slower growth.

Tariffs and other forms of protectionism often create short term benefits for growth (saving jobs and increasing domestic market share - candidates might use the tariff diagram here). Hence the top right and bottom left quadrants of the grid.

For small economies, the revenue gained from tariffs might be used to invest into infrastructure, again promoting growth.

Allow any other sensible point.

The benefits of protectionism and free trade may be used as counters against the other.

26.	With reference to the data above, consider how effective the UK Government's spending on flood defences is in correcting market failure. [8]		
Band	AO2	AO3	AO4
	3 marks	2 marks	3 marks
3	3 marks Excellent application Numerical and textual information are both well used to support the arguments made		3 marks Excellent evaluation Strong counter-argument demonstrating that the UK government's flood defence spending might not correct market failure/might be an example of government failure, making good use of economic theory
	2 marks Good application Numerical and textual information are both used to support the arguments made	2 marks Good analysis Strong line of argument about why the UK government's flood defence spending is in principle effective	2 marks Good evaluation Strong counter-argument demonstrating that the UK government's flood defence spending is not effective in correcting market failure Use of economic theory is more limited
1	1 mark Limited application Data is used to support the arguments made	1 mark Limited analysis There is a chain of reasoning but it is underdeveloped in explaining the efficacy of the UK government's flood defence spending	1 mark Limited evaluation Counter-arguments/points on the opposite side are present but are underdeveloped
	0 marks No valid application	0 marks No valid analysis	0 marks No valid evaluation
The grid assumes that the main line is in favour of government intervention, but the answer is fully reversible			

Indicative content:

AO2

Government spending has increased significantly, almost doubling (approx. £300m to approx. £600m per year) between the time periods given. This mirrors the increase in the number of properties expected to be at significant risk of flooding (just under 1m to just under 2m if global temperatures rise by 4°C, one of the scenarios given by the US EPA.

But inflation has been somewhere in the region of 25% over the period, making the real-terms increase smaller. Likewise, the current level is well below the Environment Agencies own estimates of the required level of spending.

Further criticisms suggest that the structures delivering the expenditure are 'fragmented, inefficient and ineffective' and that the spending is misdirected towards the South of England.

AO3

Flood defences are public goods. Because they are non-excludable, if the government does not supply them, it is extremely unlikely that the market will be able to bridge the gap. In pure theory none will be supplied, but even in the real world, local initiatives will never be sufficient. Therefore, public goods would be under-provided in the absences of government support/provision, meaning that there will be a welfare loss and hence market failure.

AO4

Flood defence spending is still below the recommended level, suggesting that there will still be under-provision. The welfare loss might be smaller, but would still be present.

If spending is inefficient and misdirected, then again, the market failure won't be corrected and there is the danger of government failure. Poor flood defence systems can actually exacerbate flooding in other places.

Alternatively, the 4°C temperature increase is only a forecast - there is some sense that the increased level of spending could be overkill, meaning that the current spend is an appropriate response given uncertainties over future climate trends.

27.	Using the information above and relevant economic theory, discuss the extent to which possessing natural resources such as oil leads to high levels of economic development. (8)		
Band	AO2	AO3	AO4
	3 marks	2 marks	3 marks
3	3 marks Excellent application Information from all columns is well used to support the arguments made		3 marks Excellent evaluation Strong counter-argument making the case that possessing natural resources such as oil might not lead to an increase in economic development, making good use of economic theory
	2 marks Good application Information from is well used to support the arguments made	2 marks Good analysis Strong line of argument about why possessing natural resources such as oil leads to an increase in economic development	2 marks Good evaluation Strong counter-argument making the case that possessing natural resources such as oil might not lead to an increase in economic development. Use of economic theory is more limited
1	1 mark Limited application Some data is used to support the arguments made	1 mark Limited analysis There is a chain of reasoning, but it is underdeveloped in explaining why possessing natural resources such as oil leads to an increase in economic development	1 mark Limited evaluation Counter-arguments/points on the opposite side are present but are under-developed
	0 marks No valid application	0 marks No valid analysis	0 marks No valid evaluation
The grid assumes that the main line is in favour of the link, but the answer is fully reversible			

Indicative content:

AO2

There is some correlation between oil reserves and the HDI - Canada and Qatar both have high reserves per person and have 'very high' levels of development (HDI>0.8). Likewise, Eq Guinea, with the lowest reserves has the lowest level of development.

The link between the HDI and the CPI is far stronger than the link between oil reserves and HDI. Apart from Gabon, the two lists match exactly. This suggests that although oil reserves might be important, governance is probably more so.

Norway with 'low' reserves has 'very high' development. Eq Guinea, also with 'low' reserves has 'medium' development.

Qatar and Venezuela, the two countries with the biggest per capita reserves have very different levels of development. The same is true of the two medium reserves countries (Canada and Iraq).

AO3

Rising oil revenue should mean that governments have more funds. This will reduce budget deficits, allow debt to be paid down and in the long run money can be invested into projects likely to increase economic development such as:

- Infrastructure projects providing reliable power and water to households and allowing businesses to thrive
- Education projects such as universal primary education
- Health projects such as provision of free vaccinations and so on.

Each of these is likely to lead to an increase in living standards and choices, improving the level of economic development.

The contrast between the health systems of Norway and Canada with the probable situation in Equatorial Guinea might be used as supporting evidence.

Oil resources may attract inward foreign investment. Of the right sort, this can provide better paid jobs, lead to development of higher level skills. If investment is made into refining capacity, this will allow value to be added, further boosting growth and government income.

AO4

Proven reserves aren't the same as production - oil in the ground has no impact on development until it is processed.

Resources are no guarantee of development for a variety of reasons. Most important is the role of the state - if funds are misdirected, then the benefits for ordinary citizens are unlikely to be delivered. Other issues with oil wealth include:

- Risk of Dutch disease - inflows of both short and long term capital drive up the exchange rate making other sectors uncompetitive and therefore narrowing the economic base of the economy. Given that the oil sector tends to be capital intensive, jobs lost elsewhere (such as in agriculture) may outweigh those gained in oil production and processing.
- Danger of conflict - attempts to control the oil resources can lead to political and economic instability which can escalate into military conflict with obvious consequences for economic development.

- Price volatility can make it difficult to leverage the income from primary products such as oil because the income base itself is also volatile.
- In the longer term, depletion is an issue which may mean that oil is not a sustainable source of development, providing only the initial impetus; will depend on the level of reserves.
- MNCs may not invest into refining and other downstream activities and may not employ many locals, meaning that the benefits to the wider economy may be minimal.
- Global oil prices have been falling and may continue to do so as alternative, greener energy sources become the norm.

Question	AO1	AO2	AO3	AO4	Total	QS
1.-20.	6	14	-	-	20	14
21.	2	-	1	-	3	2
22.	2	-	2	2	6	2
23.	2	1	-	-	3	1
24.	2	-	2	-	4	2
25.	-	3	2	3	8	4
26.	-	3	2	3	8	4
27	-	3	2	3	8	4
Total	14	24	11	11	60	33
	(12-16)	(20-24)	(10-14)	(10-14)	60	