GCE

Economics

H460/03: Themes in economics

Advanced GCE

Mark Scheme for June 2019

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

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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Annotations

Annotation	Meaning
BP	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
✓	Tick
✗	Cross
CON	Confused (replaces the question mark)
BOD	Benefit of doubt
KU	AO1 – Knowledge and understanding
APP	AO2 – Apply knowledge and understanding
AN	AO3 - Analyse
EVAL	AO4 - Evaluation
^	Omission
NAQ	Not answered question
SEEN	Noted but no credit given
TV	Too vague
OFR	Own figure rule
REP	Repetition

Subject–specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide ‘correct’ answers. The Mark Scheme can only provide ‘best guesses’ about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

Levels of response / Level descriptors	Knowledge and understanding/ Application	Analysis	Evaluation
Strong	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
Reasonable	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
Limited	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Multiple Choice Questions	Answer
1	D
2	B
3	D
4	C
5	A
6	C
7	A
8	B
9	B
10	D
11	D
12	D
13	B
14	D
15	B

Multiple Choice Questions	Answer
16	B
17	C
18	C
19	D
20	B
21	B
22	A
23	C
24	B
25	C
26	B
27	A
28	A
29	A
30	D

Q	Key	Rationale		AO	Quantitative skills
1	D	A	There is still room to cut nominal interest rates significantly to impact the real economy	AO2	/
		B	There is still room to cut nominal interest rates significantly to impact the real economy		
		C	There is still room to cut nominal interest rates significantly to impact the real economy		
		D	**Correct**: when interest rates are near zero traditional monetary policy becomes ineffective as a policy tool as interest rates cannot be cut significantly further to stimulate aggregate demand		
2	B	A	Statement 2 is a positive statement	AO2	
		B	**Correct**: Statement 1 is a normative statement because a value judgement has been made that GDP per capita is the measure of economic development – this is subjective as other economists may conclude Norway is more economically developed than Qatar because they weight GDP per capita as being less important than, for example, healthcare and education. Statement 2 is a positive statement as it is possible to objectively compare the unemployment rate in Qatar with the unemployment rate in Norway and therefore test whether the statement is factually correct.		
		C	Statement 1 is a normative statement and statement 2 is a positive statement		
		D	Statement 1 is a normative statement		
3	D	A	The theory of comparative advantage demonstrates there is still an incentive for trade between two countries even when one country has the absolute advantage in the production of all goods and services	AO1	
		B	This is the theory of comparative advantage		
		C	Heckscher-Ohlin theory underpins the theory of comparative advantage as it explains why some countries can produce goods at a lower opportunity cost than other countries		
		D	**Correct**: comparative advantage ignores transportation costs.		
4	C	A	The welfare loss is the divergence between MSC and MSB between the market equilibrium quantity and the social optimum.	AO3	/

Q	Key	Rationale	AO	Quantitative skills
		B The welfare loss is the divergence between MSC and MSB between the market equilibrium quantity and the social optimum. C **Correct**: The welfare loss is the divergence between MSC and MSB between the market equilibrium quantity and the social optimum. D The welfare loss is the divergence between MSC and MSB between the market equilibrium quantity and the social optimum.		
5	A	A **Correct**: interest is the reward for capital B Profit is the reward for enterprise C Rent is the reward for land D Wages are the reward for labour	AO1	
6	C	A This is the multiplier effect B This is demand-pull inflation C **Correct**: accelerator theory states that capital investment will increase as a result of expected increases in demand so that productive capacity can meet the demands of increased output D This illustrates the principle of opportunity cost, where a short run sacrifice in material standards of living can contribute to long run economic growth by expanding the economy's productive capacity	AO1	
7	A	A **Correct**: the Harrod-Domar model demonstrates that a high savings ratio is essential in enabling the high levels of investment required to achieve high rates of economic growth B This is a theory of international trade which suggests countries will specialise in the production of goods which intensively use the factors of production they have high factor endowments of C This suggests that a devaluation of the currency will only improve the current account if the sum of the price elasticities of demand for exports and imports is greater than one	AO1	

Q	Key	Rationale		AO	Quantitative skills
		D	This explains why the terms of trade of developing countries are declining over time because of the relative price falls in the primary sector		
8	B	A	This is the change in consumer surplus: (5 x 10 / 2) – (7 x 16 / 2) = - £31	AO3	/
		B	**Correct**: (3 x 10 / 2) – (5 x 16 / 2) = -£25		
		C	This is the change in producer surplus from moving from point B to point A		
		D	This is the change in consumer surplus from moving from point B to point A		
9	B	A	This would increase productivity, lowering unit labour costs	AO1	
		B	**Correct**: If individuals are less likely to be fired for poor performance productivity is likely to be lower, resulting in high unit labour costs		
		C	Low costs of living are associated with low wages, meaning unit labour costs will be low		
		D	Low tax rates generally reduce wage costs for firms, meaning unit labour costs will be low		
10	D	A	The interest rate is not considered in the quantity theory of money	AO1	
		B	Money supply is variable in the quantity theory of money		
		C	The price level is variable in the quantity theory of money		
		D	**Correct**: the velocity of money is held constant in the quantity theory of money		
11	D	A	Firms are too small to be able to be productively or allocatively efficient	AO2	
		B	In the natural monopoly case firms are unlikely to be operating productively efficiently as average costs are falling until a very large level of output		
		C	In this case a firm would be charging a price above the allocatively efficient price and will be producing beyond the productively efficient level of output		

Q	Key	Rationale		AO	Quantitative skills
		D	**Correct**: in a perfectly contestable market the threat of entry forces firms to behave productively and allocatively efficiently.		
12	D	A	These diagrams illustrate short run economic growth – output is rising but the productive capacity isn't	AO1	*I*
		B	The diagram on the right illustrates short run growth		
		C	The diagram on the left illustrates short run growth		
		D	**Correct**: in both cases the productive capacity of the economy is increasing, meaning long run economic growth has occurred		
13	B	A	Imports are likely to become relatively cheaper, as when inflation is high the price of domestic goods is likely to be rising at a faster rate than the price of imports	AO1	
		B	**Correct**: Inflation creates uncertainty, which deters investment and could harm economic growth		
		C	This is a benefit of inflation, as it enables firms to decrease real wages despite nominal wages being sticky downwards		
		D	High inflation erodes the value of money, decreasing the real value of debt		
14	D	A	This will be the outcome if collusion is successful, where firms' joint welfare is maximised.	AO3	*I*
		B	This may be a short run outcome in which firm Z choses to break the collusive agreement before firm Y responds.		
		C	This may be a short run outcome in which firm Y choses to break the collusive agreement before firm Z responds.		
		D	**Correct**: If collusion breaks down then both firms will revert to the Nash equilibrium, pricing low in order to avoid being outcompeted.		
15	B	A	A maximum price imposed above the market equilibrium would not change the price in the market	AO1	*I*
		B	**Correct**: A minimum price at P_1 would prevent firms selling below this price, regardless of whether there was excess supply		

Q	Key	Rationale	AO	Quantitative skills
		C This would cause the supply curve to shift to the right, lowering the equilibrium price D This would cause the supply curve to shift to the left, raising the equilibrium price rather than causing disequilibrium		
16	B	A This is a contribution from the Keynesian economics B **Correct**: Austrian economics argues traditional economic models have failed to predict and explain what we observe in the real world C This is a neoclassical view D This trade-off is illustrated by the Phillips Curve	AO1	
17	C	A This comprises changes in ownership of assets, the most significant of which occurs as a result of migration B This is not a component of the balance of payments C **Correct**: This is part of the income item of the current account D This is concerned with international borrowing/lending	AO2	
18	C	A % change in income / % change in quantity demanded B Reverses new and old quantity demand and income: (52,000 – 46,000 / 46,000 x 100) / (20,000 – 24,000 / 20,000 x 100) C **Correct:** % change in QD / % change in income = (46,000 – 52,000 / 52,000 x 100) / (24,000 – 20,000 / 20,000 x 100) = -0.58 D Reverses new and old quantity demanded: (52,000 – 46,000 / 46,000 x 100) / (24,000 – 20,000 / 20,000 x 100) = 1.73	AO2	/

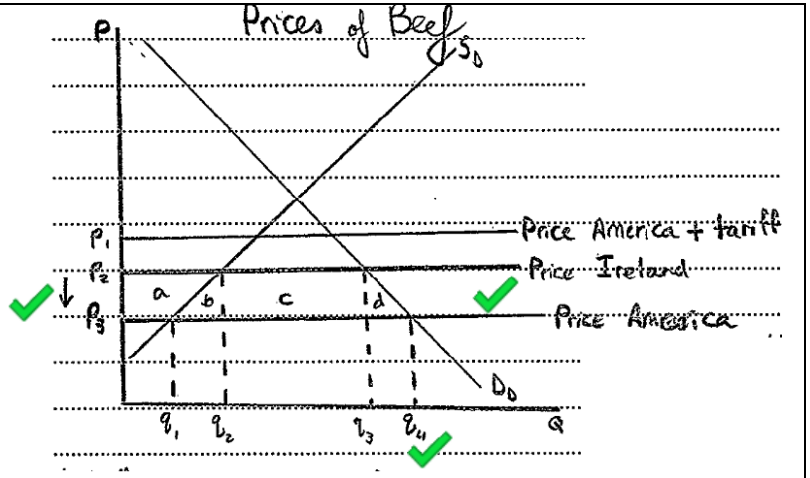
Q	Key	Rationale	AO	Quantitative skills
19	D	A This is a determinant of wage elasticity of demand B This is a determinant of wage elasticity of demand C This would cause the quantity of labour supplied to respond less than proportionally to a change in the wage rate D **Correct**: labour supply will be wage elastic when workers can easily enter a profession when the wage rate rises as a result of not having to undertake lengthy training	AO1	
20	B	A Remittances are part of the current account so the position of the financial account is not relevant B **Correct**: when emigration is high this makes it more likely that citizens working abroad will send income home, representing an injection into the circular flow C This makes it more likely that remittances will make a negative contribution to GDP, as immigrants may send money back to their country of origin D A low rate of unemployment does not directly impact upon income from remittances	AO3	
21	B	A This incorrectly specifies population as 43.42 million in 2016, therefore calculating population in 2015 to be 42.99 million: $13,158 - $13,602 = - $444 B **Correct**: 2016 GDP per capita = $571.3bn / 43.42m x 1.01 = $571.3 / 43.8542 x 1000 = $13,027. 2015 GDP per capita = $571.3bn / 0.977 / 43.42m = $584.75 / 43.42 x 1000 = $13,467. Change in GDP = $13,027 - $13,467 = - $440 C Decreases rather than increases 2015 population by 1% so calculates 2016 population to be 42.99 million: $13,289 - $13,467 = - $178 D Decreases rather than increases 2016 GDP by 2.3% so calculates 2015 GDP to be $558.16bn: $13,027 - $12,855 = $172	AO3	/
22	A	A **Correct** – a sales volume maximising firm will continue to produce output until only a normal profit is being made B This is the shutdown price	AO1	

Q	Key	Rationale	AO	Quantitative skills
		C This is the profit maximising level of output D This is the revenue maximising level of output		
23	C	A This is likely to reduce a balance of payments deficit but would not directly impact upon the fiscal position B This is likely to reduce a balance of payments deficit but would not directly impact upon the fiscal position C **Correct** – this represents government borrowing. The government can use the funds generated from the sale of the bonds to finance the deficit D Increasing the money is a method of financing a budget deficit	AO1	
24	B	A Whilst the economic growth rate was highest in Ireland in 2016 this followed a period of exceptionally high growth in 2015, suggesting there is a question mark over the sustainability of growth. There is a risk of deflation and the unemployment rate is high. B **Correct**: Malta has significantly higher growth than the UK, whilst the unemployment rate is relatively similar and inflation is the same. C Inflation is well above target with very high unemployment. D The growth rate is less than half of that seen in Malta, which has similar inflation and only slightly lower unemployment.	AO3	*I*
25	C	A This is a monopoly case in which firms are making supernormal profit. Barriers to entry will mean firms are unable to enter the market to compete. B This is an oligopoly case in which firms are making a supernormal profit. Barriers to entry will mean firms are unable to enter the market to compete. C **Correct** – this is a monopolistic competition case where a loss is being made, which would cause firms to leave the market and the industry supply curve to shift to the left.	AO3	*I*

Q	Key	Rationale	AO	Quantitative skills
		D This is a perfect competition case in which firms are making a supernormal profit. This would incentivise firms to enter the market, causing the industry supply curve to shift to the right.		
26	B	A This is the marginal utility of consuming the fifth lettuce B **Correct** – Total Utility of consuming the fourth lettuce – Total Utility of consuming the third lettuce = 28 – 23 = 5 C This is the marginal utility of consuming the third lettuce D This is the average utility of consuming four lettuces	AO2	/
27	A	A **Correct** – The ILO measure is calculated from the Labour Force Survey, which only surveys a sample of the population and uses extrapolated data to estimate the rate of unemployment B This would be a reason why the claimant count might overestimate the level of unemployment C An individual who is economically inactive would not be classed as being unemployed using the ILO measure because they would not declare themselves as actively seeking work D Some economists would argue underemployment is a reason why unemployment statistics underestimate the level of unemployment	AO1	
28	A	A **Correct** – reducing the size of inheritance payments will reduce the amount of wealth passed between generations, reducing wealth inequality. As income can be earned from wealth, reduced wealth inequality will also reduce income inequality in the long run B Wealth inequality reflects the stock of assets – the distribution of this will be more equal if large stocks are not passed onto future generations C Both are impacted by a reduction in inheritance payments D Whilst income inequality is unlikely to be impacted in the short run there will be a long run impact, as wealth can generate income	AO1	

Q	Key	Rationale	AO	Quantitative skills
29	A	A **Correct** – quantity demanded becomes more responsive to a change in price as there as a contraction along the demand curve B Demand becomes more price inelastic as there is an extension along the demand curve (ie. as the price falls) C Price elasticity of demand varies along a straight line demand curve D Unit elastic demand refers to a unique point on the demand curve where quantity demanded responds directly proportionally to a change in price	AO1	
30	D	A Weighted average of import prices / weighted average of export prices B Calculates an average of export and import prices without weighting them and calculates terms of trade as import prices / export prices C Calculates an average of export and import prices without weighting them D **Correct:** Terms of trade = weighted average of export prices / weighted average of import prices = (22 x 0.25 + 5 x 0.25 + 2 x 0.3 + 0.5 x 0.2) / (7 x 0.1 + 2 x 0.7 + 1 x 0.2) = 7.45 / 2.3 = 3.24	AO3	/

Question			Answer	Marks	Guidance
31			**Using Fig. 1.1 and the information in Extract 1, explain whether the UK's balance of payments is likely to be harmed as a result of the UK leaving the European Single Market.** • EU is a crucial trading partner (1) • Tariffs imposed on UK exports to EU mean exports will fall (1) • Large proportion of UK exports go to non-EU countries (1) • Importance of EU as a trading partner is declining over time/increasingly more trade is taking place with non-EU countries (1) • Free trade deals with non-EU countries could increase exports (1) • Imports from EU may fall (1)	**2** AO2 x 2	Simply saying that 44% of UK exports go to the EU should not be credited – there needs to be some recognition that this is a significant volume.

32			**Explain, using an appropriate diagram and the information in Extract 1, the impact on the UK of a free trade deal that would enable US firms to export beef to the UK tariff-free.** *Award up to 3 marks for diagram:* • US supply at a price below Irish supply (1) • Original and new price of beef clearly labelled (1) • Increase in imports/reduction in domestic production/increase in consumption clearly illustrated (1) *Award up to 3 marks for associated explanation:* • Consumer surplus increases (1) by A + B + C + D (1) • Domestic production decreases from Q_2 to Q_1 (1) causing rising unemployment (1) • Producer surplus decreases (1) by A (1) • Net welfare gain of B + C + D (1) • Imports increase (1) from (Q_3 – Q_2) to (Q_4 – Q_1) (1), increasing the current account deficit (1) and decreasing AD (1)	**6** AO1 x 3 AO2 x 1 AO3 x 2	 An explanation based on an inaccurate diagram **can be awarded up to a total of 3 marks** as follows: • A reduction in the market price (1) • Consumer surplus increases (1) • Domestic production falls (1) causing rising unemployment (1) • Producer surplus falls (1) • Increase in beef imports (1) increases current account deficit (1) and decreases AD (1) Macro labels/explanations of the tariff diagram – *e.g. Price level falls* - should not be credited.

33			**Using Fig. 1.2, explain what happened to the value of the pound following the UK's vote to leave the European Union.** • The value of the pound depreciated/decreased/fell (1) • From 1.26/1.27/1.28 euros per pound in June 2016 to 1.12 euros per pound in August/September 2017 (1)	**2** (AO2 x 2)	No credit should be awarded to candidates commenting on the exchange rate throughout the period shown in Fig 1.2 rather than focusing on the period following the vote to leave the EU. Accept any correct use of data with an end point from July 2016 to September 2017.
34			**Using Fig. 2.1, explain what has happened to migration in the UK between 2000 and 2016.** *Award two marks for an explanation of what has happened to net migration over the period:* • Net migration increased between 2000 and 2016 (2) • Immigration has increased faster than emigration (2) *Award one mark for a statement about what has happened to immigration or emigration over the period:* • The level of immigration and/or emigration has increased (1) *OR* • The level of immigration was higher than the level of emigration throughout the period (1) *OR* • Migration has increased (1)	**2** (AO2 x 2)	No credit should be given for a description of the data year by year.

35			**Evaluate the impact on the UK labour market and wider economy of the UK ending the free movement of labour with EU countries.** **Level 3 (11–15 marks)** **Good** knowledge and understanding of the impact of changing immigration policy on the labour market and wider economy. **Good - strong** analysis of the impact of changing immigration policy on the labour market and wider economy**. Good analysis** will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Strong** analysis will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good - strong** evaluation of the extent to which changing immigration policy will benefit/harm the labour market and wider economy, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.*	**15** (AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6)	***Guidance:*** • *Whilst most candidates will start their answers with the negative impact of the end of free movement of labour, the reverse approach is equally valid – the benefits of ending free movement of labour can be credited as analysis if presented first.* • *A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation.* • *Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation.* • *Arguments for and against the benefits of free movement of labour that are not focused on the **ending** of free movement should not be credited – NAQ.* **Knowledge & Understanding:** Knowledge & Understanding marks should be awarded for recognition of the costs or benefits of ending the free movement of labour that are mentioned in the case study: ○ 2007 expansion of EU meant immigration into the UK from low wage countries spiralled out of control. ○ High levels of immigration puts pressure on public services, pushes house prices up and depresses wages and employment opportunities for low skilled workers. ○ UK can take control of its borders. ○ EU immigrants are younger that native population, are more likely to work and pay taxes than claim benefits and in doing so addressing the problems an ageing population could cause the economy. ○ Healthcare and construction rely on immigrants to fill skills shortages – immigration increases labour market flexibility.

			Level 2 (6–10 marks) **Good** knowledge and understanding of the impact of changing immigration policy on the labour market and wider economy. **Reasonable** analysis of the impact of changing immigration policy on the labour market or and wider economy. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable** evaluation of the extent to which changing immigration policy will benefit/harm the labour market or wider economy. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 1 (1–5 marks)** **Limited – reasonable** knowledge and understanding of the impact of changing immigration policy on the labour market or wider economy. **Limited** analysis of the impact of changing immigration policy on the labour market or and wider economy**.** There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. **Limited** evaluation of the extent to which changing immigration policy will benefit/harm the labour market or wider economy or **no** evaluation. *The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be*		***Analysis and Evaluation requires candidates to go beyond what is given in the case study.*** **Analysis may include:** • Labour supply decreases/becomes more inelastic, pushing wages up and increasing costs of production. • International price competitiveness falls with higher labour costs. • Less attractive place for FDI when labour costs are higher/less skilled labour force. • Productive capacity falls as a result of a smaller labour force (LRAS shifts left). • Dependency ratio increases with an ageing population. • Budget deficit may increase as a result of falling tax revenue. • Reduction in remittances as a result of less immigrant workers will improve the current account. • AD falls as a result of less consumption from immigrants, harming growth and unemployment. **Evaluation may include:** • Wages/employment for low skilled workers increases, reducing poverty/inequality. • Higher domestic employment reduces government spending on benefits/reduces budget deficit/allows spending elsewhere. • AD increases as a result of higher wages, improving material standards of living. • Reduction in emigration means less human capital flight. • Demand for housing will fall, decreasing prices. • Less pressure on public services can reduce the budget deficit/allow spending elsewhere. • Reduces the number of people who have access to welfare benefits may reduce government spending. • Skills shortages may reduce if a points based immigration system replaces free movement.

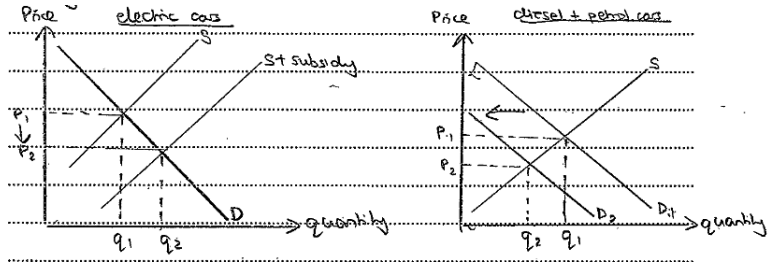
			clear. **0 marks** No response worthy of credit.		• The government can offset the effects of skills shortages caused by falling immigration by instigating supply side policy.

36			**Evaluate, using the information in Extract 3, the extent to which the Paris Accord and tradable pollution permit schemes will be effective in solving environmental market failure.** **Level 3 (11–15 marks)** **Good** knowledge and understanding of the Paris Accord and tradable pollution permit schemes. **Good** – **strong** analysis of how the Paris Accord and tradable pollution permit schemes will be effective in solving environmental market failure**. Good analysis** will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Strong** analysis will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good - strong** evaluation of the extent to which the Paris Accord and tradable pollution permit schemes will be effective in solving environmental market failure, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.* **Level 2 (6–10 marks)** **Good** knowledge and understanding of the Paris Accord and tradable pollution permit schemes.	**15** (AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6)	***Guidance:*** • *A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation.* • *Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation.* • *The analysis must be based on the advantages of the Paris Accord and tradable permits scheme, not other policies.* • *Analysis of alternative policy solutions should not be credited unless the candidate is using this to directly answer the question on the effectiveness of tradable permits or the Paris Accord.* **Knowledge & Understanding:** Knowledge & Understanding marks should be awarded for arguments for and against the Paris Accord and tradable permits that are mentioned in the case study: ○ 195 countries have committed to take action. ○ Each country has made their own voluntary pledges to reduce emissions. ○ Nicaragua didn't sign up to the agreement. ○ US withdrew from agreement. ○ Provides a loose fitting framework that got the backing of some of the world's biggest polluters. ○ The ETS is the EU's tradable permits scheme. ***Analysis and Evaluation requires candidates to go beyond what is given in the case study.*** **Analysis may include:** • Multilateral agreements will reduce pollution more effectively than unilateral action, which is needed to solve the global problem of climate change. • Global agreements (such as the Paris Accord) are

			Reasonable analysis of how the Paris Accord and/or tradable pollution permit schemes will be effective in solving environmental market failure. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable** evaluation of the extent to which the Paris Accord and/or tradable pollution permit schemes will be effective in solving environmental market failure. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 1 (1–5 marks)** **Limited – reasonable** knowledge and understanding of the Paris Accord or tradable pollution permit schemes. **Limited** analysis of how the Paris Accord or tradable pollution permit schemes will be effective in solving environmental market failure. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. **Limited** evaluation of the extent to which the Paris Accord or tradable pollution permit schemes will be effective in solving environmental market failure or **no** evaluation. *The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.* **0 marks** no response or no response worthy of credit.		needed to reduce climate change as countries do not fear a loss in international competitiveness. • Paris Accord sees a country commit to a target but then have the flexibility to implement a policy that is most appropriate for its economy to meet this target. • Accord raised awareness of the need to tackle climate change on a global scale, which could prompt a change in behaviour of economic agents. • Permits can reduce production and/or provide a financial incentive for firms to go green. • Permits cap the level of pollution. • Number of permits can be reduced each year to reduce pollution over time. • Polluter pays principle holds with permits. • Revenue raised from permits can provide funds for the government to reduce market failure. **Evaluation may include:** • Looseness of agreement means some countries may not take significant enough action to reduce pollution. • The US is such a significant contributor to global pollution that their withdrawal from the agreement could counteract the policies put in place by other countries. • The US withdrawing could incentivise other countries to leave in order to remain competitive. • Pollution is not easy to measure. • A permits system is expensive to police, which may incur an opportunity cost. • There may be problems in the allocation of permits that lead to the development of monopoly power. • Optimal level of pollution is unknown, making it difficult to know the number of permits to allocate. • Costs of permits may be passed onto consumers in the form of higher prices. • Depends upon relative cost of permits to going green – firms may decide to continue polluting as it is cheaper to

					do so. • Firms may relocate to countries which do not have a permits scheme or are not signed up to the Paris Accord. • Paris Accord may be better than tradable permits because it has far broader international agreement.

37			**Evaluate, using appropriate diagrams, the impact of subsidising electric car production on the market for traditional petrol cars.** **Level 2 (5–8 marks)** **Good** knowledge and understanding of a subsidy. **Good** – **strong** analysis of how subsidising electric cars will impact the market for traditional petrol cars. **Good analysis** will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Strong analysis** will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Reasonable – strong** evaluation of the extent to which subsidising electric cars will impact the market for traditional petrol cars. **Good evaluation** will weigh up both sides/comparing alternatives but without reaching a supported judgment. **Strong evaluation** should include a supported judgment. **Level 1 (1–4 marks)** **Limited – reasonable** knowledge and understanding of of a subsidy. **Limited – reasonable** analysis of how subsidising electric cars will impact the market for traditional petrol cars. **Limited analysis** will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. **Reasonable analysis** will have correct analysis largely in the form of single links. These address the	**8** AO1 x 1 AO2 x 1 AO3 x 2 AO4 x 4	***Guidance:*** • *For Knowledge & Understanding to be Good, there must be **both** an accurate diagram and application to the car industry* • *An explanation of the impact on the electric or traditional car market without a diagram is Limited analysis.* • *An explanation of the impact on the electric and traditional car market without a diagram is Reasonable analysis.* • *An explanation of the impact on the electric or traditional car market with a diagram is Reasonable analysis.* • *An explanation of the impact on the electric and traditional car market with one diagram is Good analysis.* • *An explanation of the impact on the electric and traditional car market with two diagrams is Strong analysis.* • *Evaluation cannot go beyond Reasonable if only the electric or traditional car market is considered.* • *Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation.*

			question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Limited evaluation** of the extent to which subsidising electric cars will impact the market for traditional petrol cars or **no** evaluation. **0 marks** no response or no response worthy of credit.		**Analysis may include:**  • Subsidies reduce costs of production, shift supply right, reduce price and increase quantity of electric cars. • Demand for the substitute – traditional cars – will fall. Price and quantity falls. **Evaluation may include:** • Subsidies are expensive – opportunity cost/increase in tax/rising borrowing. • PED inelastic for electric cars, meaning demand doesn't rise. • XED inelastic/weak substitutes – demand for traditional cars will not fall by much. • Firms may keep the subsidy as profit or use it for other means and not lower prices. • Firms become inefficient as a result of the subsidy, meaning prices don't fall. • Electric cars are still too expensive for most consumers, even with a subsidy.

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative skills)
SECTION A TOTAL	**16**	**6**	**8**		**30**	**(12)**
31		2 (2)			**2**	**(2)**
32	3 (3)	1 (1)	2		**6**	**(4)**
33		2 (2)			**2**	**(2)**
34		2 (2)			**2**	**(2)**
35	2	3	4	6	**15**	
36	2	3	4	6	**15**	
37	1 (1)	1 (1)	2 (2)	4 (4)	**8**	**(8)**
SECTION B TOTAL	**8**	**14**	**12**	**16**	**50**	**(18)**
PAPER TOTAL	**24**	**20**	**20**	**16**	**80**	**(30)**

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