

# Mark Scheme (Results) Summer 2010

GCE

## GCE ECONOMICS (6EC01) Paper 01

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**NB: candidates may achieve up to 3 explanation marks even if incorrect option is selected.**

**NB: candidates may achieve up to 3 marks for explaining three incorrect options (provided three different reasons are offered and each option key is explicitly rejected).**

Question Number	Answer	Mark
1	<p><b>Answer C (1)</b></p> <ul style="list-style-type: none"> <li>• Definition of production possibility frontier (the maximum output combinations an economy can achieve when all its resources are fully / efficiently employed) (1)</li> <li>• Definition of opportunity cost (the value of the next best alternative foregone) (1)</li> <li>• Diagrammatic analysis or explanation of opportunity cost, e.g. depicting a movement along the production possibility frontier and showing the loss of output for one good and gain of another good (1+1)</li> </ul> <p><b>Rejection marks</b></p> <ul style="list-style-type: none"> <li>• Option A is incorrect since external costs are those costs not taken into account by the price mechanism and are not shown on a production possibility frontier. (1)</li> <li>• Option B or D incorrect since producer surplus / equilibrium price is shown by use of a demand and supply diagram. (1)</li> </ul>	(4)

Question Number	Answer	Mark
2	<p><b>Answer D (1)</b></p> <ul style="list-style-type: none"> <li>• A decrease in the machinery costs means a decrease in production costs for mining gold. (1)</li> <li>• Increase in incentives to produce (1)</li> <li>• Award for a correctly labelled diagram depicting an increase in supply and a fall in market price (1+1) OR identifying that the supply of gold will increase. (1)</li> </ul> <p><b>Rejection marks</b></p> <ul style="list-style-type: none"> <li>• Option A is incorrect since an increase in national income will shift the demand curve outwards / to the right / increase the price of gold. (1)</li> <li>• Option B is incorrect since a decrease in the price of silver will cause a decrease / shift inwards in the demand for gold - a substitute good. (1)</li> </ul>	(4)

	<ul style="list-style-type: none"> <li>• Option C is incorrect since an increase in wages of gold miners will lead to a decrease / inward shift in the supply curve for gold so price increases. (1)</li> </ul>	
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Question Number	Answer	Mark
3	<p>Answer B (1)</p> <ul style="list-style-type: none"> <li>• Definition of consumer surplus (the difference between the price one is prepared to pay for a good and the actual price / market price paid) OR (the area above the equilibrium price and below the demand curve). (1)</li> <li>• Identification of original consumer surplus as £500 / further development using a numerical example(1)</li> <li>• Definition of VAT (a tax placed on the expenditure / a tax set as a percentage of the price of a good) or indirect tax (1)</li> <li>• Explanation that a reduction in VAT will reduce the price of cruise holidays and so lead to an increase in consumer surplus. (1)</li> <li>• Diagrammatic analysis depicting an outward shift in supply curve (either showing the original consumer surplus / the new level of consumer surplus / the change in consumer surplus) (1+1) (accept parallel shift in supply)</li> </ul> <p>Rejection marks</p> <ul style="list-style-type: none"> <li>○ Option A is incorrect since an increase in wages to cruise holiday workers will increase production costs / possibly raise the price of cruise holidays - reducing consumer surplus. (1)</li> <li>○ Option C is incorrect since an increase in price of cruise holidays to £3000 will eliminate Neringa's consumer surplus. (1)</li> <li>○ Option D is incorrect since a decrease in the number of companies in the industry may shift the supply curve inwards and so raise the price of Caribbean cruise holidays (1).</li> </ul>	(4)

Question Number	Answer	Mark
4	<p>Answer C (1)</p> <ul style="list-style-type: none"> <li>• Definition of a subsidy (Government grant to firms to increase production / reduce price of a good) (1)</li> <li>• Unit subsidy × quantity is £3 × 150 = £450 (accept other methods of calculating subsidy) (2)</li> </ul>	

	<ul style="list-style-type: none"> <li>• Annotation of diagram to show subsidy area (but must be labelled)(1)</li> <li>• Award for identifying unit subsidy as the vertical difference between the supply curves OR £3 (1)</li> </ul> <p>Rejection marks</p> <ul style="list-style-type: none"> <li>• Option B is incorrect as this is the consumer subsidy. (1)</li> <li>• Option D is incorrect as this is the total consumer expenditure on the good plus the government subsidy. (1)</li> </ul>	(4)
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Question Number	Answer	Mark
5	<p>Answer C (1)</p> <ul style="list-style-type: none"> <li>• Definition or formula of cross elasticity of demand (the responsiveness in demand for one good due to a change in price of another good or <math>\% \Delta QD \text{ good B} \div \% \Delta P \text{ good A}</math>) (1)</li> <li>• Games console and software games are complementary goods / joint demand. (1)</li> <li>• Complementary goods have a negative cross elasticity of demand. (1)</li> <li>• A fall in price of games consol will cause an increase in the demand for computer software games. (1)</li> </ul> <p>Rejection marks</p> <ul style="list-style-type: none"> <li>• Option A is incorrect since lamb and chicken are substitutes with a positive cross elasticity of demand / a decrease in price of one will cause a decrease in demand for the other. (1)</li> <li>• Option B is incorrect since bus travel and potatoes are likely to be unrelated goods / inferior goods / they have a zero cross elasticity of demand. (1)</li> <li>• Option D is incorrect since leather and beef are in joint supply. (1)</li> </ul>	(4)

Question Number	Answer	Mark
6	<p>Answer D (1)</p> <ul style="list-style-type: none"> <li>• Definition / understanding of tradable pollution permits, e.g. an allowance on the amount of pollution firms may emit which can be bought and sold in the market. (1)</li> <li>• Relevant diagrammatic analysis which shifts the supply curve for carbon permits inwards and so increases its price (1+1) OR written explanation that a decrease in the supply of permits will lead to a rise in price. (1)</li> </ul>	

	<ul style="list-style-type: none"> <li>• Higher price of permits increase the cost of polluting or act as an incentive for firms to reduce their pollution. (1)</li> <li>• A low market price means firms have little incentive to reduce pollution / it might be cheaper to purchase additional permits rather than fund cleaner technology / install clean production methods. (1+1)</li> </ul> <p>Rejection marks</p> <ul style="list-style-type: none"> <li>• Option A is incorrect since an excess supply of pollution permits is likely to lead to a fall in price and so firms have less incentive to reduce pollution emissions. (1)</li> <li>• Option B is incorrect since major polluting industries such as air travel should be included in the carbon trading scheme so that less pollution is emitted. (1)</li> <li>• Option C is incorrect since some firms may deliberately exceed / ignore their carbon permits as there is little chance of paying for it. (1)</li> </ul>	(4)
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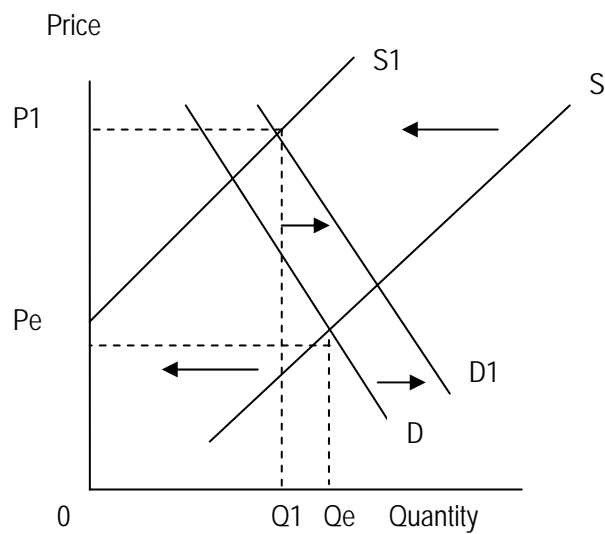
Question Number	Answer	Mark
7	<p>Answer A (1)</p> <ul style="list-style-type: none"> <li>• Explanation of the free rider problem (difficulty in charging people for consuming a good once it is provided) NB: Only award if reference made to the inability for charging consumers. (1)</li> <li>• The free rider problem leads to under-provision of a good and so is market failure. (1)</li> <li>• Definition of public goods (non-excludable and non-rivalry) (1)</li> <li>• Example of a public good, for example, light house, pavements, street lighting, flood defence scheme, national defence and public firework display. (1)</li> </ul> <p>Rejection marks</p> <ul style="list-style-type: none"> <li>• Option B is incorrect since taxation of public goods will lead to a further reduction in their provision / increase market failure. (1)</li> <li>• Option C is incorrect since luxury goods are private goods and so not relevant. (1)</li> <li>• Option D is incorrect since subsidies to goods which yield high external costs will increase market failure / increase the gap between the market equilibrium and social optimum position / examples of goods which yield external costs such as tobacco smoking, alcohol consumption or private motoring. (1)</li> </ul>	(4)

Question Number	Answer	Mark
8	<p>Answer B (1)</p> <ul style="list-style-type: none"> <li>• Definition of market failure (the price mechanism fails to allocate resources efficiently / inefficient allocation of resources / the price mechanism leads to a welfare loss) (1)</li> <li>• Definition of external benefits (benefits external to an exchange / positive third party effects / benefits outside of a transaction / difference between social and private benefits / benefits the price mechanism ignores) (1)</li> <li>• Identification of under-consumption of education / explanation of this e.g. a more productive workforce. (1)</li> <li>• Social benefit exceeds social cost of university education for <math>Q_e</math> students (1)</li> <li>• Identification of welfare gain or loss triangle is ZYX or annotation of diagram (1)</li> <li>• Identification of market equilibrium position <math>MPB=MPC</math> / identification of social optimum equilibrium position <math>MSB=MSC</math> (1+1)</li> </ul> <p>NB: Just identifying market equilibrium at output <math>Q_e</math> and social optimum at output <math>Q_1</math> without reference to <math>MSB/MSB/MPB/MPC</math> then award 1 mark</p> <p>Rejection marks</p> <ul style="list-style-type: none"> <li>• Option A is incorrect since the free market quantity <math>0Q_e</math> is less than the</li> </ul>	(4)

	<p>social optimum number of students 0Q1. (1)</p> <ul style="list-style-type: none"> <li>• Option C is incorrect since the triangle of welfare gain is ZYX. (1)</li> <li>• Option D is incorrect since the marginal external benefit increases / pivots as the quantity of students increase. (1)</li> </ul>	
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Question Number	Answer	Mark
9(a)	<ul style="list-style-type: none"> <li>• Direct reference to food price increase in Figure 1 e.g nominal price rise from 100 to more than 200 / real price rise from 100 to 160. (1)</li> </ul> <p>The increase in price of food caused by:</p> <ul style="list-style-type: none"> <li>• Increase in demand due to global population growth / increase in incomes in developing countries (1+1)</li> </ul> <p>Either of these points may be developed to achieve 2 marks, e.g. reference to positive income elasticity of demand for food / normal good.  <b>NB: 2 marks available for explaining increased demand.</b></p> <ul style="list-style-type: none"> <li>• Decrease in supply due to increased costs of production / e.g. rising fuel prices, farm machinery and animal feed (1+1).</li> </ul> <p><b>NB: 2 marks available for explaining decreased supply.</b></p> <ul style="list-style-type: none"> <li>• Accept a reference to inelasticity of supply and/or demand (1).</li> </ul> <p><b>NB: Award a maximum of 5 marks for explanation / data reference.</b></p>	





(8)

Diagram up to 4 marks:

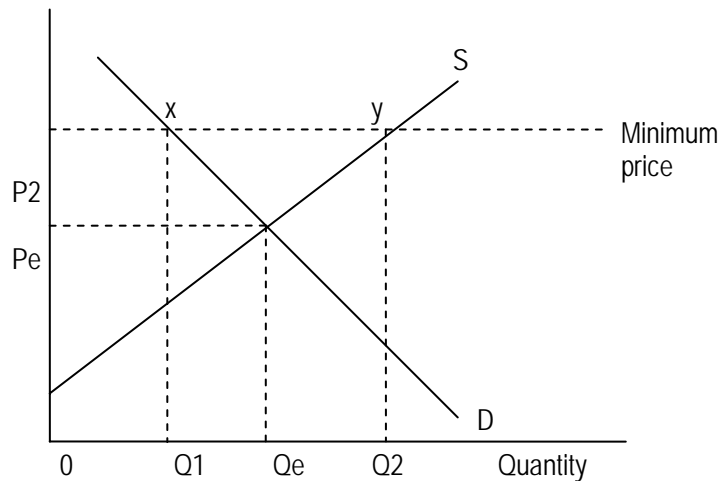
- Original demand & supply diagram with equilibrium price(1)
- Increase in demand curve (1)
- Decrease in supply curve (1)
- New equilibrium price (1)

**NB:** Award a maximum of 2 marks for the diagram if just one curve is correctly shifted.

Question Number	Answer	Mark
9(b)	<p>Award up to 4 marks for KAA</p> <ul style="list-style-type: none"> <li>• Low income households likely to be hit the hardest since: <ul style="list-style-type: none"> <li>➤ Price elasticity of demand is inelastic / basic necessity / so an increase in food price will cause an increase in total spending on food (1+1)</li> <li>➤ They spend a higher proportion of their income on food than other income groups / consequently spend less on other goods. (1+1)</li> <li>➤ The extract refers to a 'shortage of affordable food' / suggesting it is the basics which are rising in price such as bread, potatoes, vegetables, rice and fruit. (1+1)</li> </ul> </li> <li>• Demand for food is income inelastic / the percentage change in spending</li> </ul>	

	<p>on food is less than the percentage change in income (1+1)</p> <p>Evaluation (2 marks)</p> <ul style="list-style-type: none"> <li>• Magnitude of the increase in food prices / significant increase of more than 100%.</li> <li>• Discussion of real income falling.</li> <li>• Discussion of households switching to inferior goods / lower priced alternatives.</li> <li>• Composition / size of household.</li> <li>• It depends on the meaning of 'households on low incomes'.</li> <li>• An increase in price of luxury foods may have little impact on low income households who are unlikely to purchase these types of food.</li> <li>• Government may respond by offering food subsidies / additional welfare payments.</li> </ul>	(6)
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Question Number	Answer	Mark
9(c)	<p>Award up to 4 marks for KAA:</p> <ul style="list-style-type: none"> <li>• Definition / understanding of price elasticity of demand. (1)</li> <li>• Understanding of price inelastic demand (the proportionate change in demand is less than the proportionate change in price). This may be shown by a diagram. (1)</li> <li>• Food likely to be price inelastic in demand as a whole since essential good / necessity. (1)</li> <li>• No substitute for food (1)</li> <li>• Numerical application of price inelastic demand. (1)</li> <li>• Food is price inelastic in demand as spending on it comprises relatively small proportion of total income (1)</li> </ul> <p>Evaluation (2)</p> <ul style="list-style-type: none"> <li>• Depends on type of food / luxury items such as caviar / eating out at restaurants may be price elastic in demand.</li> <li>• Discussion of broad and narrow definition of food (food as a whole is price inelastic in demand).</li> <li>• Comparison of different income groups / depends on whether a developed or developing country.</li> </ul>	(6)
Question Number	Answer	Mark
9(d)	<p>Award up to 6 marks for KAA:</p> <ul style="list-style-type: none"> <li>• Definition of minimum price (e.g. the minimum price below which the price of a good cannot fall / a floor price)(1)</li> </ul> <p>Price</p>	



**Diagram up to 4 marks:**

- Original equilibrium price (1)
- Guaranteed minimum equilibrium price (1)
- Identify excess supply or surplus as XY or Q1Q2(1)
- Area of government expenditure (Q1Q2xy) (1)

- Explanation of the effects of a minimum price e.g. production increases or more incentives to produce / government spending / revenue for farmers increase / demand contracts and supply extends (excess supply - unless already awarded in the diagram) / higher price in market (1+1).
- Consumer surplus falls / could be shown on diagram (1)
- Producer surplus rises / could be shown on diagram (1)
- Reduction in dependency on food imports / use of extract information

**Note:** If no relevant diagram, award up to 4 marks in this section.

**Evaluation (3+3 or 2+2+2 marks)**

- Depends on magnitude of minimum price above free market price.
- Minimum price might have no effect if set below free market price.
- Depends on price elasticities of demand & supply.
- Depends on how long the minimum price scheme is in operation.
- Impact on other countries e.g. dumping of food surpluses.
- Impact of higher food prices on the distribution of income.
- Discussion on perishability and costs of storing food surpluses.
- Discussion of how farmers may use their extra revenue e.g. investment.
- Opportunity cost to government spending on minimum price scheme.
- Discussion on quality of produce falling as farmers concentrate on maximising output.
- Discussion of government failure / misallocation of resources.

**NB:** Do not accept argument on buffer stocks, unless the focus is on the minimum price rather than the maximum price.

(12)

Question Number	Answer	Mark
9(e)(i)	<ul style="list-style-type: none"> <li>• Maximum of 2 marks available for private costs</li> <li>• Definition of private costs: (1+1) Costs internal to an exchange or a transaction / costs which the price mechanism take into account / costs to the consumer or producer directly for a good or service / financial cost or monetary cost to consumers or producer.</li> <li>Identification of an example of private cost e.g. wages, raw materials, rent and purchase of machinery (1).</li> </ul> <p>NB: 'cost to the individual or firm' is not enough for awarding a mark.</p> <p>Maximum of 2 marks available for external costs</p> <ul style="list-style-type: none"> <li>• Definition of external costs (1+1)</li> <li>• Costs external to an exchange or transaction / costs which the price mechanism fail to take into account / negative third party effects / difference between social costs and private costs.</li> <li>• Identification of an example of external costs e.g. pollution, congestion (1)</li> <li>• Diagram showing private, external and social costs (1).</li> </ul>	(4)

Question Number	Answer	Mark
9(e)(ii)	<p>Award up to 6 marks for KAA</p> <p>NB: No marks for definitions of private costs and external costs as these have already been awarded in Q9e(i)</p> <ul style="list-style-type: none"> <li>• Application of private costs of intensive farming / GM farming e.g. research and development costs / labour costs / raw materials / machinery costs (1+1).</li> <li>• Application of external costs e.g. worse quality of food / public health issues / reduction in bio diversity / animal welfare / pesticides in rivers (1+1 marks).</li> </ul>	

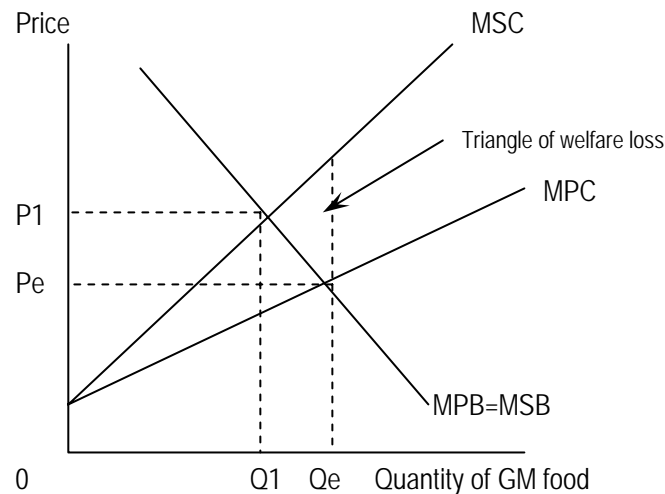


Diagram up to 4 marks:

- Original MB and MPC curves (1)
- MSC curve (accept a parallel shift of the MSC curve) (1)
- Identification of market equilibrium and socially efficient quantity (1)
- Identification of triangle of welfare loss (1)

**NB:** 1 mark available if a demand and supply diagram is shown with supply shifting to the right, or written explanation to this effect.

**NB:** If no relevant diagram, award up to 4 out of 6 marks in this section.

Evaluation (3+3 or 2+2+2)

**NB:** if candidates refer to both positive or negative effects then accept one side for KAA and the other for evaluation.

- Discussions of short run versus long run; GM farming may endanger food production in long run if smaller gene pool / intensive farming may damage soil fertility in long run.
- Discussion of loss of rare varieties of food products.
- Discussion of magnitude of intensive / GM farming. The UK is only half self-sufficient in food production and has acute shortage of farmland / perhaps GM farming has to be on a massive scale to have much impact.
- Discussion of the welfare loss triangle e.g. social costs outweighs social benefits for the marginal output  $Q_e Q_1$ .
- Discussion of various benefits from intensive farming and genetically modified crops. These include:  
Increase food production and so reduce danger of shortage / help protect against climate change / lower prices / increase consumer

	<p>surplus and help low income groups / provide surpluses for people in developing countries / increase farm revenues and stabilise food prices / less pressure on grazing land in developing world.</p> <ul style="list-style-type: none"> <li>• Discussion of imperfect market knowledge / uncertainty over long-term impact of GM farming.</li> <li>• Discussion on whether costs outweigh benefits / cost-benefit analysis may be needed.</li> <li>• Discussion of government regulations on GM farming to protect consumers.</li> <li>• UK only produces 48% of its food so intensive / GM farming may be a necessary evil.</li> <li>• Intensive / GM farming may not have to be undertaken if people are more careful on consuming food they buy rather than throw so much away as mentioned in extract (lines 22 &amp; 23); one-third of all food is thrown away.</li> </ul>	
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Question Number	Answer	Mark
10(a)(i)	<p>Explanation of a decrease in sales up to 6 marks KAA:</p> <ul style="list-style-type: none"> <li>• Total revenue likely to decrease (do not award for stating decrease in demand)(1)</li> <li>• Data reference to Figure 1 e.g. fall in car sales from 2.4 million (2007) to 2.26 million (2008) or 2.16 million (2009). Be prepared to accept reference to falling car sales of 21.8% in the first 3 months of 2009. (1)</li> <li>• This is because price decreases and quantity decreases (1)</li> <li>• Definition of total revenue (total revenue gained by selling a given quantity of cars or price × quantity) (1)</li> </ul>	

	<div style="text-align: center;"> </div> <p><b>Diagram up to 4 marks:</b></p> <ul style="list-style-type: none"> <li>➤ Original demand and supply curves with equilibrium price(1)</li> <li>➤ Decrease in demand curve (1)</li> <li>➤ Original revenue (<math>P_e \times Q_e</math>) OR (<math>P_e \times Q_e</math>)(1)</li> <li>➤ New total revenue (<math>P_1 \times Q_1</math>) OR (<math>P_1 \times Q_1</math>)(1)</li> </ul> <p><b>Note:</b> If no diagram, award up to 4 marks in this section.  <b>Note:</b> If the supply curve as well as demand curve is shifted, award a maximum of 2 marks.</p>	<b>(6)</b>
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Question Number	Answer	Mark
10(a)(ii)	<p>Explanation KAA up to 4 marks</p> <ul style="list-style-type: none"> <li>• Demand for car workers will decrease (1)</li> <li>• Decrease in employment of car workers (1)</li> <li>• Decrease in wage rate of car workers or pay freeze (1)</li> </ul> <p><b>NB:</b> Alternatively this may be shown by diagrammatic analysis of the labour market depicting an inward shift in the demand for labour / lower wages and employment (award 3 marks). Do not double award for both explanation and diagram.</p>	

	<p><b>NB:</b> If two diagrams are shown - one for the car market and one for the car worker labour market which shows a decrease in demand for both (award 4 marks).</p> <ul style="list-style-type: none"> <li>• Labour is a derived demand / demanded not for its own sake but for the goods it produces (1+1).</li> <li>• Data reference e.g. Nissan announced 1200 redundancies / Toyota has halved production shifts / Honda has reduced wages / GM may close its plants (1).</li> <li>• Change in working conditions e.g. shorter working week / flexible hours / sabbaticals / enforced holidays through temporary closure / underemployment (1+1).</li> </ul> <p><b>Evaluation (2 marks)</b></p> <ul style="list-style-type: none"> <li>• Magnitude of decrease in demand - very significant here. It may require retraining to provide new skills for car workers so they can move into different occupations.</li> <li>• Short run and long run implications e.g. Vauxhall may be seeking to hold on to its workforce by offering sabbaticals in anticipation of an upturn in sales.</li> <li>• Discussion on elasticity of demand or supply of labour.</li> <li>• Accept idea of an increase in demand for second hand car sales people or car mechanics.</li> <li>• Accept idea that wage rates may not fall too much due to the national minimum wage / strength of trade unions.</li> </ul> <p>Government grants / loans may reduce impact of job losses.</p>	(6)
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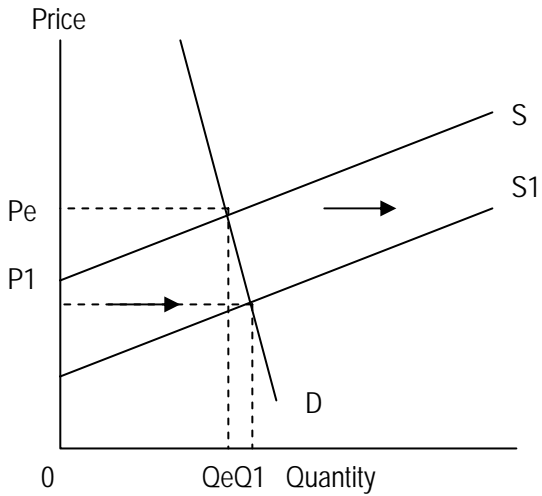
Question Number	Answer	Mark
10(b)	<p>Explanation of KAA up to 6 marks</p> <p>Candidates may refer to both geographical and occupational mobility / immobility of labour.</p>	



	<ul style="list-style-type: none"> <li>• Explanation / understanding of geographical immobility / mobility of labour (difficulty in relocating to other regions to take available work) (1)</li> <li>• Geographical mobility of labour will depend on individual e.g. age / family circumstances / knowledge of available jobs in other localities / house price differentials and rental differentials / removal costs (1+1+1).</li> <li>• Data reference e.g. Magna motor vehicle plants at Luton and Ellesmere Port - areas of high unemployment and so a labour immobility problem (1).</li> <li>• Explanation / understanding of occupational immobility / mobility of labour (difficulty in car workers taking available work in different occupations) (1)</li> <li>• Occupational mobility may be quite low as car work is highly specialised / occupational mobility is low and so retraining courses may be required for car workers / lack of government funds available for retraining / discussion on transferable skills (1+1+1).</li> <li>• Discussion on temporary plant closures - which may have little effect on mobility of labour if they reopen (1).</li> </ul> <p>Use of real life example (1)</p>	(6)
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Question Number	Answer	Mark
10(c)	<p>Explanation KAA up to 4 marks:</p> <ul style="list-style-type: none"> <li>• Definition or formula of income elasticity of demand (responsiveness of demand for a good due to a change in income). (1)</li> <li>• Demand for new cars appear income elastic since proportionate change in demand is greater than the proportionate change in income / OR YED is greater than 1 / OR use of figures (1)</li> <li>• Reference to the data: 1% fall in income has lead to a 21.8% fall in demand (1).</li> <li>• Calculation of income elasticity of demand is 21.8 (1). NB Do not award if answer states 21.8%</li> <li>• Cars are a normal good (accept luxury) / they have a positive income elasticity of demand (1).</li> <li>• Diagram depicting income elastic demand for new cars (1)</li> </ul> <p>Evaluation (2)</p> <ul style="list-style-type: none"> <li>• Depends on type of car e.g. luxury cars may have a different income elasticity of demand than smaller cars.</li> <li>• Discussion of second hand cars which may be less income elastic in demand. They may even be inferior goods.</li> <li>• YED for cars may change over time.</li> <li>• People unlikely to purchase new car if uncertainty over future employment prospects and lack of consumer confidence (income elastic).</li> <li>• Other factors e.g. the availability of finance might also be significant in determining changes in demand.</li> </ul>	(6)

Question Number	Answer	Mark
10(d)	<p>Explanation KAA of positive economic effects up to 6 marks (2+2+2 or 3+3):</p> <p>NB Candidates may present either positive or negative effects of the car scrappage scheme for KAA marks. Accept presentation of the alternative view as evaluation.</p> <ul style="list-style-type: none"> <li>• Benefits to motor vehicle firms include increase in sales, revenue and profits. Prevention of closure of factories.</li> <li>• Benefits to motor vehicle scrap dealers.</li> <li>• Benefits to motor vehicle workers include saving jobs or reducing the amount of redundancies.</li> <li>• Benefits to consumers include cheaper prices and more consumer surplus.</li> <li>• Benefits to government or macroeconomic arguments e.g. include less expenditure on unemployment-related benefits if redundancies reduced / possible fiscal neutral scheme as car sales bring in tax revenue.</li> <li>• Benefits to environment shown in Figure 2 in reduced CO<sub>2</sub> emissions / less external costs.</li> </ul> <p>Evaluation (2+2+2 or 3+3)</p> <p>This may refer to the costs of the scheme or reasons why the positive effects are not so significant / limitations of the car scrappage scheme.</p> <ul style="list-style-type: none"> <li>• Benefits not so significant since motor vehicle firms have to pay half of the grant to consumers / this could reduce profit margins and future investment.</li> <li>• Domestic car manufacturers may not benefit much since eight out of ten cars purchased are imported / however, UK car component suppliers may benefit more.</li> <li>• The more expensive car models are unlikely to benefit much from increased demand e.g. Jaguar and Land Rover, compared to the smaller, cheaper models of Ford Fiesta and Toyota Yaris.</li> <li>• Limited funding of scheme (just £300 million compared to the German</li> </ul>	

	<p>government's £4.49 billion) / limited time span / job losses still being announced in motor vehicle industry.</p> <ul style="list-style-type: none"> <li>• Consumers are already receiving price discounts / so these could be simply transferred to the scrappage scheme. Some consumers may have bought new cars without the scheme / danger that firms raise prices and then lower them again so no real change in car prices.</li> <li>• Opportunity cost to government: taxpayers may lose out in form of higher taxes.</li> <li>• There are significant CO2 emissions in the production of motor vehicles / it may be more environmentally friendly to use existing cars rather than scrap for new ones.</li> </ul>	(12)
Question Number	Answer	Mark
10(e)	<p>Explanation KAA up to 6 marks</p> <ul style="list-style-type: none"> <li>• Definition of fuel duty / indirect tax (tax on expenditure of fuel) (1)</li> <li>• Explanation of diagram, e.g. decrease in motoring costs / encourage more consumption and production (1)</li> </ul>  <ul style="list-style-type: none"> <li>• Diagram (Up to 4 marks) <ul style="list-style-type: none"> <li>➢ Original demand &amp; supply curve with equilibrium price and quantity (1)</li> <li>➢ Outward shift of supply curve (1)</li> <li>➢ New equilibrium price and quantity (1)</li> <li>➢ Demand is price inelastic (1)</li> <li>➢ Total expenditure on fuel is reduced (1)</li> <li>➢ Identify the tax per unit (1)</li> </ul> </li> </ul> <p>Note: If no diagram, or one which does not <u>implicitly</u> refer to <u>fuel market</u> then award up to 4 marks in this section.</p> <p>Note: If MPC, MSC and MB diagram used with tax being shown, award up to 4 marks.</p>	

- Reference to public transport, where there may be an increase or decrease in demand (1)
- Fuel and cars are complementary goods / a fall in price of fuel will increase demand for cars (1+1)
- Benefit to the motor vehicle industry, e.g. more revenue and profits (1)
- Lower fuel prices may increase mobility of labour (1)
- Benefit to low income motorists (1)
- Accept macroeconomic argument, e.g. increased employment and incomes via the multiplier, impact on inflation (up to 2 marks)

Evaluation (2+2+2 or 3+3)

Candidates may refer to positive and negative effects of the fuel tax decrease for evaluation.

- Magnitude of tax decrease. Tax still comprises the majority of fuel price at the pump.
- Discussion of price elasticity of demand for fuel; it may be price inelastic and so have little impact for motorists.
- Discussion of a reduction in possibility of fuel tax protests. Less disruption to economy.
- Impact on economic recovery. It could increase investment in motoring industry / road transport industry.
- Other factors may affect the impact of falling fuel prices, e.g. availability of loans to purchase cars.
- Increase road traffic congestion. This could lead to higher transport costs in long run / increased negative externalities such as air and noise pollution.
- Impact on government finances, e.g. it may worsen since demand for fuel is price inelastic.

(12)

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