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Oxford Cambridge and RSA

GCE

Economics

H460/03: Themes in economics

A Level

Mark Scheme for June 2022

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It is also responsible for developing new specifications to meet national requirements and the needs of students and teachers. OCR is a not-for-profit organisation; any surplus made is invested back into the establishment to help towards the development of qualifications and support, which keep pace with the changing needs of today's society.

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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MARKING INSTRUCTIONS

PREPARATION FOR MARKING

1. Make sure that you have accessed and completed the relevant training packages for on–screen marking: *RM assessor Online Training*; *OCR Essential Guide to Marking*.

2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal http://www.rm.com/support/ca

3. Log–into RM assessor and mark the **required number** of practice responses ("scripts") and the **required number** of standardisation responses.

YOU MUST MARK 5 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

MARKING

1. Mark strictly to the mark scheme.

2. Marks awarded must relate directly to the marking criteria.

3. The schedule of dates is very important. It is essential that you meet the RM assessor 50% and 100% deadlines. If you experience problems, you must contact your Team Leader without delay.

4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or the RM assessor messaging system, or by email.

5. **Crossed Out Responses**
   Where a candidate has crossed out a response and provided a clear alternative then the crossed-out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed-out response where legible.

   Rubric Error Responses – Optional Questions
   Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. Enter a mark for each question answered into RM assessor, which will select the highest mark from those awarded. *(The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.)*

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Multiple Choice Question Responses
When a multiple-choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).
When a question requires candidates to select more than one option/multiple options, then local marking arrangements need to ensure consistency of approach.

Contradictory Responses
When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only **one mark per response**)
Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Short Answer Questions (requiring a more developed response, worth **two or more marks**)
If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

Longer Answer Questions (requiring a developed response)
Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the additional pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there, then add a tick to confirm that the work has been seen. The 'link page' check box should be used on RM assessor to link candidate responses in additional objects to the corresponding question number.
   - Where additional objects are present, all pages must contain an annotation, or RM assessor will not allow you to submit the script. Where no response is given by a candidate on a whole page the 'BP' annotation **must** be applied.
   - Where generic answer booklets are used, all pages must contain an annotation, or RM assessor will not allow you to submit the script. Where no response is given by a candidate on a whole page the 'BP' annotation **must** be applied.
   - Where structured answer booklets are used, the 'BP' annotation **must** be applied to all pages where no response is given by a candidate.

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7. Award No Response (NR) if:
   - there is nothing written in the answer space

   Award Zero '0' if:
   - anything is written in the answer space and is not worthy of credit (this includes text and symbols).

   Team Leaders must confirm the correct use of the NR button with their markers before live marking commences and should check this when reviewing scripts.

8. The RM assessor **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**
   If you have any questions or comments for your Team Leader, use the phone, the RM assessor messaging system, or e–mail.

9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.

10. For answers marked by levels of response:
    - **To determine the level** – start at the highest level and work down until you reach the level that matches the answer
    - **To determine the mark within the level**, consider the following:

Descriptor	**Award mark**
Consistently meets the criteria for this level	At top of level
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Meets most of the criteria with some inconsistencies	Middle of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
On the borderline of this level and the one below	At bottom of level

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11. **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
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

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12. **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.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co–ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co–ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark in pencil a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

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In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

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.

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INSTRUCTIONS TO EXAMINERS:
The indicative content indicates the expected parameters for candidates' answers but be prepared to recognise and credit unexpected approaches where they show relevance.
Using 'best-fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.

- Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
- Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
- Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline' but they have only achieved some of the qualities in the band descriptors.

Be prepared to use the full range of marks. Do not reserve (e.g.) high marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

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

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

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Q	Key	Rationale		AO	Quantitative skills
1	A	A	**Correct:** A decrease in price causes an extension along the demand curve as consumers demand more of a good when it is cheaper to purchase.	AO1	
		B	A decrease in price would cause a contraction along the supply curve as it is less profitable to produce the good.		
		C	The demand curve shifts as a result of changes in non-price factors.		
		D	The demand curve shifts as a result of changes in non-price factors.		
2	B	A	Incorrectly calculates economic growth as (476 – 482) / 476 x 100.	AO2	✓
		B	**Correct:** (476 – 482) / 482 x 100 = -1.24%		
		C	Incorrectly calculates economic growth as (482 – 476) / 482 x 100.		
		D	Incorrectly calculates economic growth as (482 – 476) / 476 x 100.		
3	B	A	The entrance of new firms reduces the market price and so shifts the AR curve down.	AO3	✓
		B	**Correct:** New firms are incentivised to enter the market because there are no barriers to entry and a supernormal profit is being made. When new firms enter this increases the supply in the market, decreasing the price and causing the AR and MR to fall.		
		C	The existence of supernormal profit incentivises firms to enter the market.		
		D	The existence of supernormal profit incentivises firms to enter the market.		
4	B	A	Accounting profit does not include opportunity cost as part of the cost calculations.	AO1	
		B	**Correct:** Accounting profit does not consider opportunity cost in the cost calculations – when economic profit includes this it means economic profit is smaller than accounting profit.		
		C	The inclusion of opportunity cost makes economic profit smaller than accounting profit.		
		D	They are both fundamentally calculating total revenue minus total cost; it is simply the case that		

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Q	Key	Rationale	AO	Quantitative skills
		economic profit includes a cost (opportunity cost) that is excluded from accounting profit.		
5	D	A Country Y has an absolute advantage in the production of both goods. B Country Y has an absolute advantage in the production of both goods. C Country Y has a comparative advantage in the production of corn, as it can producing it at a lower opportunity cost (0.18 golf clubs) than country X (0.45 golf clubs). D **Correct:** Country X can produce golf clubs at a lower opportunity cost (2.22 units of corn) than country Y (5.56 units of corn).	AO3	✓
6	C	A Demand-side policy may reduce unemployment temporarily, but once inflationary expectations adjust the rate of unemployment will return to the natural rate. B Demand-side intervention will be purely inflationary. In fact, increasing welfare benefits could even increase the natural rate of unemployment if it increases frictional unemployment. C **Correct:** This will increase occupational mobility of labour which decreases the natural rate of unemployment. D There is a trade-off between inflation and unemployment in the short run but the natural rate of unemployment is a long run concept which is not determined by the price level.	AO3	
7	C	A This occurs when there are third party benefits ignored by consumers when consuming a good or service. B This occurs when there are third party benefits ignored by producers when producing a good or service. C **Correct:** The scarcity of resources means choices have to be made over how to allocate them. D This occurs in the public good case when consumers are not willing to pay for a good or service because they will wait for someone else to consume it and then consume the good for free, because of its non-excludable nature.	AO1	

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Q	Key	Rationale	AO	Quantitative skills
8	C	A This would reduce the demand for imports, which would cause the supply of the currency to decrease as less domestic currency needs to be supplied to the foreign exchange market to purchase foreign currency. B An increase in interest rates would result in hot money flowing into the country, increasing the demand for the currency. C **Correct:** A decrease in the interest rate would cause hot money to flow out of the economy as investors get a better return from saving abroad, leading to an increase in the supply of the currency as investors swap domestic currency for foreign currency. D This is likely to reduce demand for imports as domestic goods are more price competitive, causing the supply of currency to the foreign exchange market to decrease.	AO3	✓
9	B	A This is a good that has no opportunity cost associated with its consumption or production. B **Correct:** It is possible to stop someone from consuming the good if they have not paid for it and one person's consumption affects the ability of someone else to consume the good. C A public good is non-rival and non-excludable. D A quasi-public good is either rival or excludable, but not both.	AO1	
10	A	A **Correct:** 1 / (0.34 + 0.18 + MPS) = 1.42. 1 / (0.52 + MPS) = 1.42. 1 / 1.42 = 0.52 + MPS. MPS = 0.18. B This is the marginal propensity to consume. C Incorrectly specifies MPS as 1 – MPM – MRT. D Incorrectly specifies MPS as multiplier – MPM – MRT.	AO2	✓
11	A	A **Correct:** The financial provides a mechanism for firms to borrow or raise funds through the equity or bond market to carry out investment.	AO1	

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Q	Key	Rationale	AO	Quantitative skills
		B This may be a result of having a well-established financial sector but is not a role is exists to fulfil. C The financial sector may facilitate trade, but it does not exist to promote it. D This is not a role of the financial sector – indeed it is questionable whether the financial sector contributes to increasing or decreasing income inequality.		
12	D	A No production points are shown on this diagram. B No production points are shown on this diagram. C The opportunity cost of producing Good A has decreased. D **Correct:** less of good A has to be sacrificed in order to produce good B than before.	AO1	✓
13	C	A Goods and services are weighted according to the proportion of disposable income they account for in total expenditure, not the utility brought to society. B This would enable comparisons between domestic and international inflation but is not part of the process of calculating the rate of inflation. C **Correct:** This is used to create the basket of goods, the prices of which are then observed to measure the rate of inflation. D The level of quantitative easing is likely to influence the rate of inflation but is not part of the measurement.	AO1	
14	B	A A good cannot have cross elastic or cross inelastic demand – cross elasticity of demand is about the relationship between two goods. B **Correct:** The extent of the shift of the demand curve could show how demand has responded to a change in income, which explains the income elasticity of demand. Here an increase in income has caused a bigger increase in the demand for Good X than Good Y, meaning demand for Good X is more income elastic than the demand for good Y. C Price elasticity of demand is illustrated by the gradient of the demand curve, not the extent to	AO2	✓

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Q	Key	Rationale	AO	Quantitative skills
		which it shifts. D Price elasticity of supply is illustrated by the gradient of the supply curve – the supply curves have the same gradient here.		
15	C	A This would cause a contraction along the labour demand curve. B This would increase costs of production and therefore decrease the demand for labour. C **Correct:** This increases MR, which increases MRP_L and therefore increases demand for labour. D Less workers will be demanded by firms when either wage costs rise or productivity falls (the determinants of unit labour costs).	AO3	
16	B	A Incorrectly specifies the exchange rate as having remained at 1.26 euros to 1 pound. B **Correct:** Individual initially gets 100 x 1.26 = 126 euros. Left with 126 – 82 = 44 euros. 44/1.14 = £38.60. C This is the number of euros remaining. D Error in the final stage of the calculation: 44 x 1.14 = £50.16.	AO2	✓
17	D	A Cross elasticity of demand concerns the behavior of consumers; stock impacts producers rather than consumers. B Income elasticity of demand concerns the behavior of consumers; stock impacts producers rather than consumers. C Price elasticity of demand concerns the behavior of consumers; stock impacts producers rather than consumers. D **Correct:** The more stock that is available the more elastic supply will be, as the easier it is for firms to respond to a change in price by releasing stock or reducing supply to the market by increasing stock levels.	AO1	
18	A	A **Correct:** The LRAS curve shows the productive capacity of the economy, which is not determined	AO1	✓

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Q	Key	Rationale	AO	Quantitative skills
		by the price level. B The Phillips Curve shows the relationship between the rate of inflation and unemployment. C The SRAS curve is upward sloping. D The Phillips Curve shows the relationship between the rate of inflation and unemployment.		
19	A	A **Correct:** The separation between ownership and control means managers are likely to be more incentivised to pursue revenue maximisation over profit maximisation because their salaries are based on revenue rather than profit. B Most likely to aim to maximise utility/social welfare. C The owner of the business is also likely to be the key decision maker. Assuming economic agents are rational, the small business owner as an entrepreneur will be seeking to maximise profit. D Most likely to aim to maximise utility/welfare of a particular target group.	AO1	
20	D	A Money needs to be durable so that it can be used repeatedly to carry out transactions. B Money needs to be portable, so it is a practical means of carrying out a transaction. C This makes individuals willing to exchange a good or service for it because they know it has some value. D **Correct:** If the value of money does not remain reasonably stable over time individuals will not trust it as a medium of exchange.	AO1	
21	C	A Students are economically inactive so are not classed as being unemployed. B The individual is economically inactive so is not unemployed, as they are not actively seeking work. C **Correct:** An individual is described as being economically active if they are employed or unemployed, so it is possible an individual is economically inactive but currently unemployed, providing they are seeking work.	AO3	

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Q	Key	Rationale	AO	Quantitative skills
		D This individual is outside of the working age population so would not be classed as unemployed.		
22	C	A Incorrectly calculates marginal cost as AC/Q. B This is the change in the average cost. C **Correct:** MC = (240 x £362) – (239 x £356) = £1796 D This is total cost	AO2	✓
23	D	A This will make domestic goods and services more price competitive as foreign consumers have to swap less of their currency for one unit of domestic currency. B This should reduce costs of production and increase price competitiveness. C This will reduce unit labour costs, increasing price competitiveness. D **Correct:** This will reduce labour market flexibility and is likely to increase wages, increasing costs of production and decreasing international price competitiveness.	AO1	
24	A	A **Correct:** This is likely to be a situation of asymmetric information, where the seller had more information than the buyer about the condition of the car, leading the buyer to overestimate its value and pay more than the utility they ended up enjoying. B This explains that an individual is likely to take more risk when they are insured. C There may be some negative externalities of consumption associated with car use, but this does not impact the price a consumer is willing to pay or the utility they derive from consuming the good. D There is likely to have been an opportunity cost associated with choosing to consume the car, but this does not explain why they effectively over-paid.	AO1	

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Q	Key	Rationale		AO	Quantitative skills
25	D	A	This occurs when there is a fall in the price level – the price level is static at P_1.	AO1	✓
		B	This occurs when there is a fall in the price level – the price level is static at P_1.		
		C	This occurs when there is spare capacity.		
		D	**Correct:** The economy is temporarily producing beyond its productive capacity – actual output exceeds potential output.		
26	A	A	**Correct:** This is a strict form of collusion where firms effectively set pricing and output decisions as if they were operating as a monopoly.	AO1	
		B	This is a form of tacit collusion where one firm tends to take the lead in setting prices and other firms follow.		
		C	This occurs when firms reach mutually beneficial agreements to work together in some way, such as in the airline industry where airlines pool resources and each fly different routes.		
		D	This occurs when firms refrain from competing on price but have no formal agreement.		
27	C	A	This is discretionary fiscal policy as it is an active policy intervention by the government.	AO1	
		B	This is discretionary fiscal policy as it is an active policy intervention by the government.		
		C	**Correct:** Without the government having to implement any changes to the tax and benefits system expenditure on unemployment benefits will increase automatically as a result of more people being eligible to claim unemployment benefits because of the likely increase in unemployment resulting from negative economic growth.		
		D	This is discretionary fiscal policy as it is an active policy intervention by the government.		
28	D	A	The opportunity cost of spending has increased, so it will be rational for consumers to spend less and save more.	AO3	
		B	Inferior goods have a negative income elasticity of demand, so when income falls demand will increase.		
		C	This is rational as once the firm has increased its market share it will have more pricing power,		

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Q	Key		Rationale	AO	Quantitative skills
			enabling it to enjoy more profit in the long run – we assume that firms are profit maximisers.		
		D	**Correct:** When demand is price elastic firms will lose revenue when they increase the price, which means profit is likely to fall. This is irrational because we assume firms are profit maximisers.		
29	D	A	Allocative inefficiency will occur but this is not represented by area XYZ.	AO1	✓
		B	Consumer surplus is the difference between what consumers are willing to pay and what they actually pay and would be illustrated by the area below the demand/MPB curve and above the price line.		
		C	There will be a deadweight loss but this is not represented by area XYZ.		
		D	**Correct:** Producer surplus is the difference between the price producers receive and the price they are willing to accept – the area above the supply curve/MPC curve and below the price line.		
30	B	A	Tariffs are more likely to fall than rise elsewhere in response to a country reducing its own level of protectionism.	AO1	
		B	**Correct:** Sunset firms that have lost comparative advantage are no longer protected by protectionist measures, leading to their demand to fall.		
		C	Prices are likely to fall as a result of consumers having access to cheaper imports.		
		D	A reduction in protectionism reduces the cost of trade so should increase the volume.		

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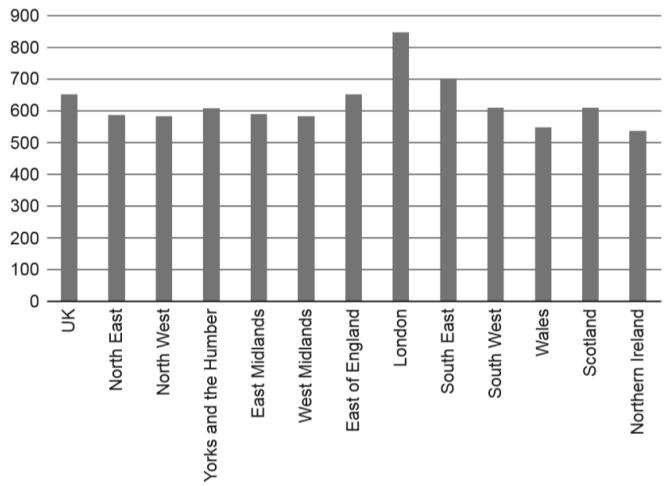
Question			Answer	Marks	Guidance
31			**Using the data in Fig 1.1, describe the regional wage differentials that exist in the UK.** *Award 1 mark for each of 2 non-quantified descriptions of regional wage differentials;* • Average weekly wage in London is higher than in all other regions / UK average (1) • Average weekly wage in Northern Ireland is lower than in all other regions / UK average (1) • Average weekly wage in London is higher than in Northern Ireland (1) *Award 2 marks for a quantified description (absolute or percentage) of 1 regional wage differential:* • Average weekly wage in London is around £300 higher (1) than in Northern Ireland (1) • Average weekly wage in London is around 55% higher (1) than in Northern Ireland (1) • Average weekly wage in London is around £200 higher (1) than the average for the UK (1) • Average weekly wage in London is around 30% higher (1) than the average for the UK (1)	**2** AO2 x 2	Annotate with ✓ **Fig. 1.1** Average Weekly Wage (£s) by region in 2020 

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Question			Answer	Marks	Guidance

32			**Using the data in Fig 1.2, calculate how much faster house prices rose in London compared to the North East between 2005 and 2020.**
			
			Award 1 mark for calculating house price growth in London:
			• (422 – 209) / 209 x 100 = 101.9% (1)
			  ○ Accept in range 101% - 102%
			Award 1 mark for calculating house price growth in the North East:
			• (262 – 203) / 203 x 100 = 29.1% (1)
			  ○ Accept 29%
			
			Award 2 marks for comparing house price growth in London to house price growth in the North East
			• House prices in London increased **3.5 times faster** than in the North East (2)
			• House prices increased by **72.8 percentage points more** in London than the North East. (2)
				2
				AO2 x 2
					Annotate with ✓
					
					Correct calculations of the % change in house prices in London and the North East omitting the % sign should be awarded 1 mark

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Question			Answer	Marks	Guidance
33*			**Evaluate, using an appropriate diagram(s) and the information in Extract 1, whether low labour market flexibility is the main cause of wage differentials between the North and South.** **Level 3 (11–15 marks)** **Good** knowledge and understanding of labour market flexibility and wage differentials. **Good** – **strong** analysis of whether low labour market flexibility is the main cause of wage differentials between the North and the South**. 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 whether low labour market flexibility is the main cause of wage differentials between the North and the South, 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:*** • *The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.* • *To access Good analysis or Good evaluation the answer must have one relevant diagram* • *Good analysis requires:* ○ *a relevant and explained diagram **OR*** ○ *developed chains of reasoning* • *Strong analysis requires, in addition:* ○ *use of the Extract 1* • *Good evaluation requires:* ○ *a relevant and explained diagram **OR*** ○ *developed chains of reasoning* • *Strong evaluation requires, in addition:* ○ *an explained judgement* **Knowledge & Understanding of wage differentials and labour market flexibility:** • wage rates determined by demand and supply of labour • regional wages differentials are caused by differences in the demand and supply of labour in different regions • labour market flexibility relates to the willingness and ability of labour to respond to changes in the demand and supply of labour • at the microeconomic level, demand for labour is a derived demand and related to MRP_L • at the macroeconomic level, demand for labour adjusts to changes in the economic cycle, structure of the economy, globalisation … • factors affecting labour market flexibility include: labour mobility; migration; wage flexibility; pay bargaining; skills

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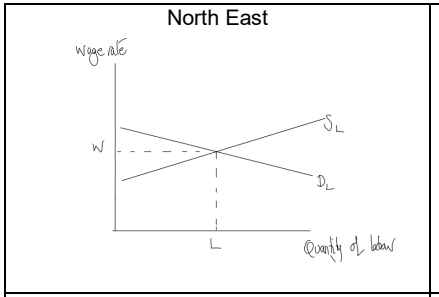
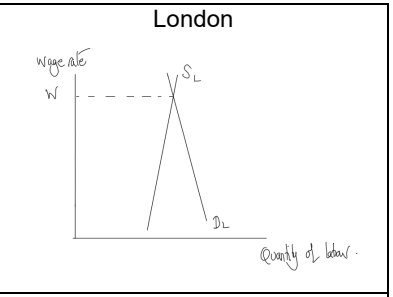
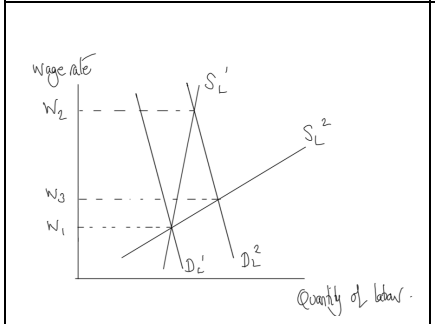
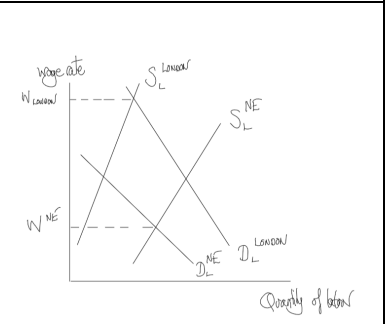
Question	Answer	Marks	Guidance
	Level 2 (6–10 marks) **Good** knowledge and understanding of labour market flexibility and wage differentials. **Reasonable** analysis of whether low labour market flexibility is the main cause of wage differentials between the North and the South. There is correct analysis 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 whether low labour market flexibility is the main cause of wage differentials between the North and the South. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.*		and training; work incentives; ability to hire and fire; labour market information; working time flexibility – part-time, zero hours, flexi hours **Relevant diagrams might include:** North East  London   

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Question	Answer	Marks	Guidance
	Level 1 (1–5 marks) **Limited – reasonable** knowledge and understanding of labour market flexibility and/or wage differentials. **Limited** analysis of whether low labour market flexibility is the main cause of wage differentials between the North and the South. **Limited** evaluation whether low labour market flexibility is the main cause of wage differentials between the North and the South 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.		**Context (Extract 1)** • increasing house price differentials makes it harder for people to relocate to high wage areas • UK has a relatively poor transport infrastructure • people are unaware of job opportunities outside their local area. • lack of transferable skills trap workers in low paid jobs. • London has a higher proportion of graduates • changes in technology has seen labour substituted in semi-skilled occupations • multinationals in the financial and scientific sectors choose to locate in the South of England • increased demand for high skilled workers It is argued that a decrease in labour market flexibility is partly responsible for the widening regional inequality. A significant cause of this is the increasing gap between house prices in different parts of the country, as shown by the data in Fig. 1.2. This makes it harder for individuals to relocate to high wage areas, preventing market forces from reducing wage differentials. 10 There are other factors that further explain labour market inflexibility. The UK's relatively poor transport infrastructure, individuals being unaware of job opportunities outside of their local area and perhaps more significantly a lack of transferable skills trapping workers in low paid jobs, all contribute to the problem. However, it could be said that technological progress is helping to make the labour market more flexible over time. 15 Some therefore argue there are other causes of regional wage differentials beyond the flexibility of the labour market. Whilst the proportion of the workforce with an undergraduate degree has been rising in recent decades, this is not spread evenly across the country, with much of the increase concentrated in London. The nature of employment has changed dramatically in recent years; technology has seen labour substituted in some semi-skilled occupations whilst at the same time increasing demand for highly skilled workers. This makes the distribution of skills across the UK particularly relevant. The impact of large multinationals in the financial and scientific sectors typically choosing to locate in the South of England must also not be underestimated. 20 25

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Question	Answer	Marks	Guidance

			Analysis of supply-side factors might include:
			• house price differentials contribute to segmented labour markets and prevent factor price equalisation from occurring
			• geographical immobility of labour
			  ○ role of house price differentials
			  ▪ if workers could afford to move to high wage areas supply of labour in these areas would increase and supply of labour in low wage areas would decrease, narrowing wage differentials
			  ○ role of transport infrastructure
			  ▪ better transport infrastructure would make labour supply more elastic in high wage areas and bring the wage differentials down
			• information failure
			  ○ individuals in low paid jobs may earn below their MRP_L because they are unaware of the higher paid jobs in other regions.
			• occupational immobility
			  ○ lack of transferable skills
			  ▪ this means many who lost their jobs in the manufacturing industry in the North remain unemployed or can only take up low wage employment, which widens regional wage differentials.

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Question	Answer	Marks	Guidance

			Evaluation might include:
			• demand-side factors
			  ○ workers in high wage areas have a higher MRP_L than workers in low wage areas, because of better qualifications and not low labour market flexibility
			  ○ the demand for labour is higher in high wage areas because financial services firms are often located in the South so wage differentials are not caused by low labour market flexibility
			• wages in London and the South East are higher to reflect the higher costs of living so not due to low labour market flexibility
			• improved provision of education and training means individuals who are out of work have access to retraining, which should reduce occupational immobility and increase wages in low wage areas - this suggests inflexibility is not the main cause of regional wage differentials
			
			Judgements might include:
			• the labour market has become more not less flexible over time
			• technological progress means more people can work from home and enables individuals who live outside of high wage areas to take up jobs in those areas and work remotely, reducing wage differentials
			• improved provision of education and training means individuals who are out of work have access to retraining, which should reduce occupational immobility and increase wages in low wage areas. This suggests inflexibility is not the main cause of regional wage differentials.

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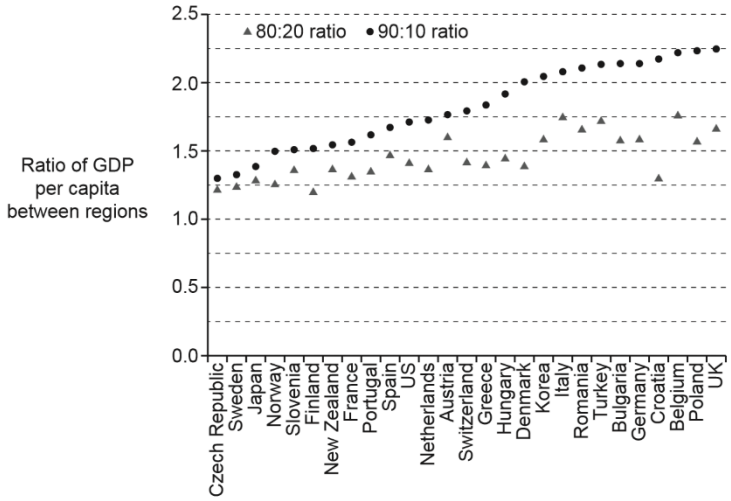
Question			Answer	Marks	Guidance
34			**Explain, how the data in Fig 2.1 can be used to measure the level of income inequality in the UK.** *Award up to 2 marks for any of the following:* • The 90:10 ratio of 2.25 for the UK means a region (accept individual) in the 90th percentile of the income distribution earns 2.25 times more (1) than a region (accept individual) in the 10th percentile of the income distribution. (1) • The 80:20 ratio of 1.7 for the UK means a region (accept individual) in the 80th percentile of the income distribution earns 1.7 times more (1) than a region (accept individual) in the 20th percentile of the income distribution. (1) • The UK has the highest level of income inequality of all the countries in Fig. 2.1 using the 90:10 ratio (1) • The UK has one of the highest levels of income inequality of all the countries in Fig. 2.1 using the 80:20 ratio (1) • The gap between the 90:10 and 80:20 ratios is bigger in the UK than in most other countries (1) • The gap between the 90:10 and 80:20 ratios in the UK shows that those at the top of the income distribution account for a very high proportion of national income (1)	**2** AO1 x 1 AO3 x 1	Annotate with ✓ **Fig. 2.1** Measures of inequality in regional GDP per capita, by country 

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Question			Answer	Marks	Guidance
35			**Explain why infrastructure such as high speed rail is unlikely to be provided in a market economy without government intervention.** Award up to 2 marks for knowledge of valid reasons and / or knowledge of a relevant example Award 1 mark for a linked explanation • there are positive externalities of provision (1) ○ example – improved geographical mobility of labour (1) ○ linked explanation – infrastructure would be underprovided in a market economy because the external benefits would not be considered (1) • private costs of infrastructure provision are high (1) ○ examples – acquisition of land / construction costs (1) ○ linked explanation ▪ private costs occur over a long period of time (1) ▪ private costs occur before infrastructure delivers private benefits / revenue (1) ▪ private costs are subject to uncertainty and are likely to be larger than expected (1) ▪ private sector may not be able to raise finance or be willing to bear risk of provision (1)	**3** AO1 x 2 AO3 x 1	Annotate with ✓ Only award marks for infrastructure being a public good if it is relates to a relevant example of infrastructure • some infrastructure might be public goods (1) ○ example – flood defences (1) ○ linked explanation ▪ public goods are non-excludable and non-rivalrous / subject to the free-rider problem (1) ▪ private sector would not provide such infrastructure because they would not be able to charge for its use (1)

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Question			Answer	Marks	Guidance
36			**Evaluate, using the information in Extract 2, whether subsidising research & development in 'left behind regions' would be the most effective macroeconomic policy option for the government to achieve its objective of a more even distribution of income.** **Level 2 (5–8 marks)** **Good** knowledge and understanding of subsidies, macroeconomic policies and/or the distribution of income. **Good** – **strong** analysis of how subsidising R&D in 'left behind regions' would be effective in achieving a more even distribution of income. **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 whether subsidising R&D in 'left behind regions' would be the most effective macroeconomic policy option for the government to achieve its objective of a more even distribution of income. **Good evaluation** will weigh up both sides/comparing alternatives but without reaching a supported judgment. **Strong evaluation** should include a supported judgment.	**8** AO1 x 1 AO2 x 1 AO3 x 2 AO4 x 4	***Guidance:*** • *The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.* • *Good analysis requires:* ○ *a relevant and explained diagram **OR*** ○ *developed chains of reasoning* • *Strong analysis requires, in addition:* ○ *use of the Extract 2* • *Good evaluation requires:* ○ *a relevant and explained diagram **OR*** ○ *developed chains of reasoning* • *Strong evaluation requires, in addition:* ○ *an explained judgement*

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Question	Answer	Marks	Guidance
	Level 1 (1–4 marks) **Limited – reasonable** knowledge and understanding of subsidies, macroeconomic policies and/or the distribution of income. **Limited – reasonable** analysis of how subsidising R&D in 'left behind regions' would be effective in achieving a more even distribution of income. **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 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 whether subsidising R&D in 'left behind regions' would be the most effective macroeconomic policy option for the government to achieve its objective of a more even distribution of income or **no** evaluation. **0 marks** no response or no response worthy of credit.		**Context (Extract 2)** • subsidising R&D will create prosperous knowledge-based local economies • tackles unbalanced spending on R&D (spending in the South East is 1.8 times higher per capita than in the rest of the UK). • other policy options include high speed rail, relocating civil servants and providing targeted funds for specific towns. • £4 billion fund to upskill population to address low productivity levels and invest heavily in improving the public transport network • the reduction in immigration post-Brexit could benefit low skilled workers but could harm those who work in export industries if there are more barriers to trade. It demonstrates the need for an urgent policy response by the UK government. In November 2020 a £4 billion fund was announced, which prioritised the need to upskill much of the population to address low productivity levels and invest heavily in improving the public transport network. The commitment to this fund follows a report by the Institute of Fiscal Studies in October 2020, which presented a number of policy options the government could implement to address regional inequality: • Invest in high speed rail in the North, in doing so addressing current inequality in government spending on transport which is 2.8 times per capita higher in London than in the rest of the UK. • Subsidise research and development to create prosperous, knowledge-based local economies in left behind regions to tackle unbalanced spending in this area (research and development spending in the South East of England is 1.8 times higher per capita than in the rest of the UK). • Move a number of government departments and civil service jobs away from London to the regions to address the fact that at present 20% of all civil servants are based in London, along with 64% of the most senior government jobs.

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Question	Answer	Marks	Guidance
			Analysis might include: • R&D is a supply-side policy that will boost economic growth in left behind areas • it could trigger a local multiplier effect, generating further increases in income/employment and reducing income inequality. • firms will relocate to 'left behind' areas to take advantage of subsidies • this will generate more jobs and in particular high skilled jobs, increasing wages in these areas and reducing regional income inequality • productivity in left behind areas will increase • this will increase firms' profits and increase workers' wages and/or increase employment, reducing income inequality. **Evaluation might include:** • relocation of civil servants would increase average incomes in left behind areas and may create higher skilled job opportunities creating a more even distribution of income • better transport links (high speed rail) between cities and regions may bring more investment to the Midlands and North, helping to level up the country and create a more even distribution of income • subsidising R&D is expensive and incurs an opportunity cost – this could worsen income inequality if it is funded by cutting benefits/increasing the basic rate of income tax • subsiding R&D is unlikely to improve the distribution of income in the short run as there are time lags involved

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Question			Answer	Marks	Guidance
					Judgements might include: • subsiding R&D may not be the most effective policy option because the take-up of the subsidies may be low if large firms choose to stay in the South to take advantage of local external economies of scale • R&D may not be the most effective policy if not combined with investment in retraining schemes for the structurally unemployment – the local workforce may not be well suited to the jobs R&D creates • firms may not invest in R&D if they believe demand will fall in the future if Brexit reduces the volume of exports • regional income inequality may reduce without R&D if the wages of low skilled workers in left behind areas increase as a result of less immigration

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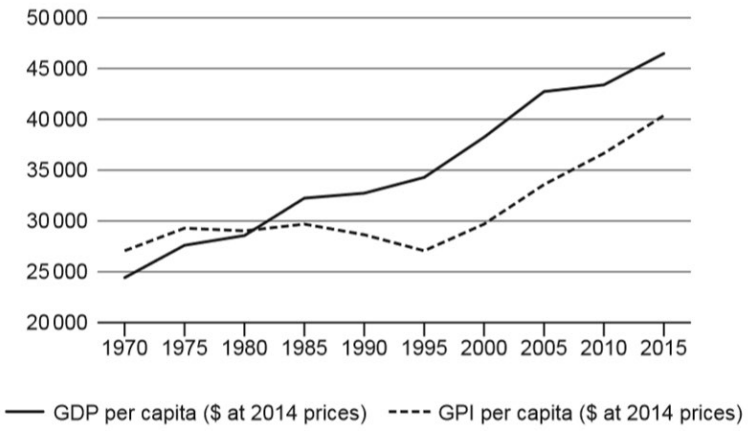
Question			Answer	Marks	Guidance
37			**Explain whether Fig. 3.1 supports the view that "economic growth will not always lead to an improvement in welfare".** *1 mark for a statement of whether Fig. 3.1 supports the view* *2 marks for supporting use of data to* • Yes (1) ○ from 1970 - 1995 GDP per capita is rising (1) whereas GPI per capita staying the same / falling (1) • No (1) ○ over the whole period / 1995 - 2015 GDP per capita increased (1) and GPI per capita increased (1) • Maybe (1) ○ from 1970 - 1995 GDP per capita is rising whereas GPI per capita staying the same / falling (1) ○ from 1995 - 2015 GDP per capita and DPI per capita both rising (1)	**3** AO1 x 2 AO2 x 1	Annotate with ✔ **Fig. 3.1** GDP and GPI per capita in New Zealand, 1970–2015 

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Question			Answer	Marks	Guidance

38*			**Evaluate, using the information in Extract 3, the impact of removing economic growth as one of the government's primary macroeconomic objectives.**
			
			Level 3 (11–15 marks)
			
			Good knowledge and understanding of economic growth.
			
			Good – **strong** analysis of the impact of removing economic growth as one the government's primary macroeconomic objectives**. 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 impact of removing economic growth as one the government's primary macroeconomic objectives, 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:
					• *The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.*
					• *Good analysis requires:*
					  ○ *a relevant and explained diagram OR*
					  ○ *developed chains of reasoning*
					• *Strong analysis requires, in addition:*
					  ○ *use of the Extract 3*
					• *Good evaluation requires:*
					  ○ *a relevant and explained diagram OR*
					  ○ *developed chains of reasoning*
					• *Strong evaluation requires, in addition:*
					  ○ *an explained judgement*
					
					Context (Extract 3):
					• the GPI, which includes factors such as the distribution of income, environmental standards and the cost of crime, is a more effective measure of standard of living
					• economic growth causes human exploitation and environmental destruction
					• social and ecological well-being should be prioritised over profits and consumption
					• reducing global GDP will utilise less natural resources
					• despite significant economic growth, welfare has been largely stagnant since the 1970s

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Question	Answer	Marks	Guidance
	Level 2 (6–10 marks) **Good** knowledge and understanding of economic growth. **Reasonable** analysis of the impact of removing economic growth as one the government's primary macroeconomic objectives. 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 whether economic agents benefit from the food industry becoming more contestable. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.*		**Extract 3 – Growth at all costs?** The UK government has been very clear that 'levelling up' is not about redistributing income from London to the North but by increasing incomes across the UK, with incomes in the North rising faster than in London to enable them to catch up. However, the principle underpinning this – that economic growth is desirable – is increasingly coming under question. It can be argued that economic growth will not always lead to an improvement in welfare, with some economists suggesting the Genuine Progress Indicator (GPI), which includes factors such as the distribution of income, environmental standards and the cost of crime, is a more effective measure of standard of living. Fig. 3.2 charts the relationship between GDP and GPI in New Zealand between 1970 and 2015. There is growing support for the 'degrowth' movement, which criticises the global capitalist system that pursues growth at all costs, causing human exploitation and environmental destruction. The degrowth movement instead argues in favour of prioritising social and ecological well-being over profits and consumption. Achieving this would require a strong commitment to reducing global GDP, in doing so utilising less natural resources and requiring us to live our lives differently to the way we do today. Supporters point to data in many developed countries that shows despite significant economic growth welfare has largely stagnated since the 1970s as powerful evidence in favour of this approach. However, such action would clearly require a radical change to the way economists think – virtually no attempt has been made to develop an economic model that doesn't rely on long term growth.

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Question	Answer	Marks	Guidance
	Level 1 (1–5 marks) **Limited – reasonable** knowledge and understanding of economic growth. **Limited** analysis of the impact of removing economic growth as one the government's primary macroeconomic objectives. **Limited** evaluation of the impact of removing economic growth as one the government's primary macroeconomic objectives. *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.		**Analysis might include:** • in developed nations individuals already have high material standards of living – there are diminishing returns to extra income earned • the government could focus on reducing income inequality through increasing benefits and taxes, even if this decreases economic growth • economic growth often worsens inequality • quality of life could improve as a result of reduced environmental destruction (less negative externalities of production when less output is produced) and individuals working shorter hours and so enjoying more leisure time • removing the focus on economic growth could lead to a fairer allocation of resources around the world – there may be more redistribution from developed to developing countries • inflation is likely to fall, as demand-led growth often causes inflationary pressures • future generations are likely to benefit from less pollution and access to more non-renewable resources, which will not be diminished as quickly when economic growth is not the primary aim - this reduces intergenerational inequality

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Question	Answer	Marks	Guidance
			Evaluation might include: • in many developing nations economic growth is critical in lifting millions of people out of absolute poverty – there is a much closer link between growth and welfare in such countries • economic growth has a significant impact on welfare as higher incomes enable individuals to increase their consumption, whilst the progressive tax system enables these benefits to be widespread • economic growth can improve the environment as the increased tax revenue that it brings provides the government with funds to subsidise green technology **Judgements might include:** • it depends upon the nature of the growth – if sustainable then it is not necessarily the case that pursuing growth conflicts with other objectives

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	AO1	AO2	AO3	AO4	TOTAL	(Quantitative skills)
SECTION A TOTAL	**16**	**6**	**8**		**30**	**(12)**
31		2 (2)			**2**	**(2)**
32		2 (2)			**2**	**(2)**
33	2 (2)	3 (2)	4 (2)	6 (2)	**15**	**(8)**
34	1 (1)		1 (1)		**2**	**(2)**
35	2		1		**3**	**3**
36	1	1	2	4	**8**	
37	2 (2)	1 (1)			**3**	**(3)**
38	2	3	4	6	**15**	
SECTION B TOTAL	**8**	**14**	**12**	**16**	**50**	**(17)**
PAPER TOTAL	**24**	**20**	**20**	**16**	**80**	**(29)**

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