



GCE

Economics

H460/03: Themes in economics

A Level

Mark Scheme for June 2023

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

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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**PREPARATION FOR MARKING
RM ASSESSOR**

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–in to 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.)*

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

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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.

- 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.
- 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.
- 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 |

11. Annotations

| Annotation | Meaning |
|------------|---------|
|------------|---------|

| | |
|---|---|
|  | 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. |
|  | Correct – mark awarded |
|  | Incorrect |
|  | Benefit of doubt |
|  | AO1 – Knowledge and understanding |
|  | AO2 – Apply knowledge and understanding |
|  | AO3 - Analyse |
|  | AO4 - Evaluation |
|  | Not answered question |
|  | Noted but no credit given |
|  | Too vague |
|  | Own figure rule |
|  | Confused |
|  | Unclear |

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.

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.

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.

| 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. |

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.

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

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

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| Q | Key | Rationale | AO | Quantitative skills |
|---|-----|---|-----|---------------------|
| 1 | B | <p>A This depends upon the cause of the shift in the long run aggregate supply curve. For example, if it is caused by technological progress then this could increase income inequality if it results in capital-labour substitution.</p> <p>B Correct: An increase in LRAS increases the economy's productive capacity, meaning there is less competition for factors of production, which should decrease the price level.</p> <p>C If anything an increase in the economy's productive capacity is more likely to decrease the current account deficit because it is likely to result in an increase in domestic output, although this will depend upon the cause of the shift in LRAS.</p> <p>D This depends upon the cause of the increase in LRAS. For example, if it occurred as a result of investment in education and training it is likely unemployment would decrease.</p> | AO3 | |
| 2 | D | <p>A This would cause hot money to flow out of the economy, putting pressure on the currency to depreciate.</p> <p>B The government rather than the Central Bank imposes tariffs, and it is not clear what the impact of a tariff would be on a currency – it would only lead to a reduction in import expenditure if demand for imports was price inelastic.</p> <p>C Quantitative easing is likely to lead to interest rates falling, which will lead to outflows of hot money and put pressure on the currency to depreciate.</p> <p>D Correct: By purchasing the domestic currency on the foreign exchange market this increases demand for the currency and prevents it falling in value.</p> | AO1 | |
| 3 | C | <p>A This occurs when $MC = MR$.</p> <p>B This is a non-maximising objective when a firm is trying to please a variety of stakeholders.</p> <p>C Correct: When firms are producing when $MR = 0$ it is not possible to increase revenue by increasing or decreasing the level of output.</p> <p>D This occurs when $AR = AC$.</p> | AO3 | ✓ |

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| Q | Key | Rationale | AO | Quantitative skills |
|---|-----|---|-----|---------------------|
| 4 | C | A Incorrectly specifies the formula as % change in income / % change in QD. | AO2 | ✓ |
| | | B Ignores the YED figure and decreases demand by 3%. | | |
| | | C Correct: $0.4 = \% \text{ change in QD} / -3\%$. $\% \text{ change in QD} = -1.2\%$. New quantity demanded = $0.988 \times 650 = 642$. | | |
| | | D Incorrectly specifies income to have increased by 3%. | | |
| 5 | C | A This is a reallocation of welfare from consumers to producers. | AO3 | ✓ |
| | | B This is the loss in consumer surplus. | | |
| | | C Correct: This is the loss in consumer surplus that is not reallocated to any domestic economic agent. Whilst area Y is reallocated to foreign firms, this represents a loss to the domestic economy. | | |
| | | D Y is also part of the domestic welfare loss, as it is reallocated from consumers to foreign producers. | | |
| 6 | B | A This is absolute poverty. | AO1 | |
| | | B Correct: When households earn below 60% of median income, they are likely to be poor compared to those around them, placing them in relative poverty. | | |
| | | C This is the poverty trap, which could mean people are stuck in relative poverty. It is not though a definition of relative poverty. | | |
| | | D This is sometimes used to indicate the wage an individual would have to earn to have a satisfactory standard of living. It is an alternative measure of welfare/inequality to relative poverty. | | |

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| Q | Key | Rationale | AO | Quantitative skills |
|----|-----|--|-----|---------------------|
| 7 | A | <p>A Correct: Firms must decide which goods and/or services to produce for consumers.</p> <p>B This is one of the roles of the government.</p> <p>C This is one of the roles of households.</p> <p>D This is one of the roles of the government.</p> | AO1 | |
| 8 | C | <p>A This is comparative advantage.</p> <p>B This is absolute advantage.</p> <p>C Correct: The term of trade indicates the extent to which countries are likely to benefit from international trade – a decrease in the terms of trade means a country would need to export a greater volume of goods in exchange for the same volume of imports.</p> <p>D This is the balance of payments.</p> | AO1 | |
| 9 | D | <p>A This is capital expenditure as it is an investment that delivers future benefits.</p> <p>B This is capital expenditure as it is an investment that delivers future benefits.</p> <p>C This is capital expenditure as it is an investment that delivers future benefits.</p> <p>D Correct: This is current expenditure, as it represents a transfer payment for immediate use.</p> | AO1 | |
| 10 | B | <p>A This describes external diseconomies of scale, which would increase LRAC.</p> <p>B Correct: This is an external economy of scale, as the firm can experience a reduction in its costs of production without altering its level of output by employing more productive workers that have trained in the industry because it has grown in size.</p> <p>C This describes an internal diseconomy of scale, which is represented by a moment along the LRAC curve beyond the minimum efficient scale.</p> <p>D This describes an internal economy of scale, which is represented by a moment along the LRAC curve before the minimum efficient scale.</p> | AO3 | ✓ |

| Q | Key | Rationale | AO | Quantitative skills |
|----|-----|---|-----|---------------------|
| 11 | B | <p>A This is a cause of market failure.</p> <p>B Correct: Governments are often looking for quick-fixes with immediate results to please the electorate, meaning they sometimes do not take decisions that produce the best long term outcomes.</p> <p>C This is a cause of market failure in the public good case.</p> <p>D This explains the conflict between ownership and control when determining the behaviour of firms.</p> | AO1 | |
| 12 | D | <p>A This diagram shows that pollution often increases at the early stages of economic development, typically because of industrialisation.</p> <p>B This shows a decrease in income inequality which would occur as a result of a decrease in the Gini coefficient.</p> <p>C This shows that pollution often decreases at the later stages of economic development, typically as a result of deindustrialisation and/or technological progress.</p> <p>D Correct: As the Gini coefficient moves closer to one the level of income inequality increases, which is shown by a shift of the Lorenz curve further away from the line of equality.</p> | AO2 | ✓ |
| 13 | C | <p>A An increase in the marginal revenue product of labour will lead to employment increasing.</p> <p>B Each worker now contributes more to a firm's revenue, meaning the wage rate increases.</p> <p>C Correct: An increase in the marginal physical product of labour will increase the marginal revenue product of labour. This shifts the demand curve for labour to the right, leading to employment and the wage rate to increase.</p> <p>D An increase in the marginal revenue product of labour will lead to employment increasing.</p> | AO3 | |

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| Q | Key | Rationale | AO | Quantitative skills |
|----|-----|--|-----|---------------------|
| 14 | B | <p>A There is a contraction along the demand curve in response to an increase in price.</p> <p>B Correct: A decrease in the price causes an extension along the demand curve, as more individuals are willing and able to purchase the phone at a lower price.</p> <p>C The demand curve shifts in response to a change in a non-price factor. In this instance the price of the smartphone has changed.</p> <p>D The demand curve shifts in response to a change in a non-price factor. In this instance the price of the smartphone has changed.</p> | AO2 | |
| 15 | C | <p>A This is the average tax rate.</p> <p>B This is the marginal tax rate charged on the first portion of the pay rise.</p> <p>C Correct: Marginal tax rate = Change in tax paid / Change in income x 100. Change in tax paid = $((66,000 - 55,977) \times 0.275) + ((55,977 - 51,000) \times 0.225) = 2,756.33 + 1,119.83 = 3,876.16$. Change in income = 15,000. Marginal tax rate = $3,876.16 / 15,000 \times 100 = 25.8\%$.</p> <p>D This is the marginal tax rate charged on the second portion of the pay rise.</p> | AO2 | ✓ |
| 16 | B | <p>A A monopoly firm is likely to use its market power to price above marginal cost.</p> <p>B Correct: Monopoly firms are likely to use their supernormal profits to invest in research & development, in doing so helping them to keep barriers to entry high and retain their monopoly power.</p> <p>C A monopoly firm will restrict output below the minimum efficient scale in order to keep prices high, in doing so maximising profit.</p> <p>D Firms are unlikely to produce at the lowest attainable average cost as the lack of competitive pressure will lead to organisational slack developing.</p> | AO1 | |

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| Q | Key | Rationale | AO | Quantitative skills |
|----|-----|--|-----|---------------------|
| 17 | B | <p>A The PPC does not provide any information about consumer preferences, so cannot inform us about the level of allocative efficiency.</p> <p>B Correct: The economy is now operating on the PPC, meaning all resources are fully and efficiently employed and productive efficiency is therefore achieved.</p> <p>C The PPC does not provide any information about consumer preferences and therefore the level of demand in an economy.</p> <p>D This would be illustrated by a change in the gradient of the PPC.</p> | AO3 | ✓ |
| 18 | A | <p>A Correct: $MV = PY$. Assuming V and Y are fixed, any increase in the money supply will lead to a corresponding increase in the price level.</p> <p>B This is one of the key benefits of money but is not explained by the quantity theory of money.</p> <p>C This is the neo-classical school of thought.</p> <p>D This is shown by the Phillips Curve.</p> | AO1 | |
| 19 | D | <p>A This is the decrease in long run average cost as a result of increasing the level of output.</p> <p>B This is taking into account the sacrifice of the next best alternative foregone when a choice is made.</p> <p>C Profit maximising firms will be making marginal decisions, but the fact that a firm is making a decision on the margin does not mean it is profit maximising – firms would need to make a decision on the margin if they were pursuing an alternative maximising objective.</p> <p>D Correct: This is an example of an economic agent taking decisions by considering the effect of small changes from the existing situation.</p> | AO3 | ✓ |

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|----|-----|---|-----|---------------------|
| 20 | D | <p>A This will decrease the marginal rate of taxation, which will increase the size of the multiplier.</p> <p>B This is likely to decrease the marginal propensity to save, which will increase the size of the multiplier.</p> <p>C This is likely to decrease the marginal propensity to save, which will increase the size of the multiplier.</p> <p>D Correct: This will make imports relatively cheaper, which is likely to increase the marginal propensity to import and reduce the size of the multiplier.</p> | AO1 | |
| 21 | A | <p>A Correct: The productive capacity of the economy will increase, representing long run economic growth.</p> <p>B There is long run economic growth as the productive capacity of the economy increases.</p> <p>C There is no short run economic growth as output does not change.</p> <p>D There is no short run economic growth as output does not change.</p> | AO3 | ✓ |
| 22 | B | <p>A This is where information is not shared equally between the two parties involved in the market transaction.</p> <p>B Correct: Moral hazard explains how individuals are likely to take more risk when they are insured, because they have absolved themselves from paying for the consequences.</p> <p>C This is where third parties are harmed as a result of the good or service being consumed.</p> <p>D This is where third parties are harmed as a result of the good or service being produced.</p> | AO2 | |

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|----|-----|---|-----|---------------------|
| 23 | B | <p>A This occurs in an oligopoly.</p> <p>B Correct: In an economy without money to act as a medium of exchange, goods and services are purchased by swapping them for another good or service.</p> <p>C This explains a buffer stock scheme.</p> <p>D This is division of labour.</p> | AO1 | |
| 24 | D | <p>A An increase is most likely to promote economic development, as it will increase the material standard of living of those whose income has increased and has the potential to increase the quality of public services and the welfare system as a result of increased tax revenue.</p> <p>B Demand side growth would increase the level of employment, helping to achieve this policy objective.</p> <p>C This depends upon the nature of the demand side policy, but it is more likely to be the case that reducing a negative output gap that is this significant will improve the distribution of income through reducing high levels of unemployment.</p> <p>D Correct: It is likely that when output increases incomes will rise. Given imports have an income elastic demand, it is likely demand for imports will rise, which would worsen the current account and potentially harm this objective.</p> | AO3 | ✓ |
| 25 | D | <p>A An individual is not categorised as being unemployed when they are in employment – this individual works in a distribution centre.</p> <p>B An individual is not categorised as being unemployed when they are in employment – this individual works in a distribution centre.</p> <p>C An individual is not categorised as being unemployed when they are in employment – this individual works in a distribution centre.</p> <p>D Correct: This individual is best described as being underemployed – they are not unemployed because they are in work, albeit not in their chosen occupation or on a full-time basis.</p> | AO1 | |

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|----|-----|--|-----|---------------------|
| 26 | B | <p>A This is the new average fixed cost.</p> <p>B Correct: Original average cost = $(4000 / 85) + £3.20 = £50.26$. New average cost = $(4000 / 86) + £3.20 = £49.71$. Average cost decreases by $£50.26 - £49.71 = £0.55$.</p> <p>C Whilst there is no change in average variable cost, there is a decrease in average fixed cost, meaning average total cost decreases.</p> <p>D This is the marginal cost of increasing output by one unit.</p> | AO2 | ✓ |
| 27 | D | <p>A This information only refers to one policy objective – price stability – meaning there is no suggestion of a conflict between objectives.</p> <p>B This is an alternative macroeconomic policy objective.</p> <p>C A symmetric target means undershooting the inflation target is as problematic as overshooting the target. In this instance it is only considered problematic if inflation rises above 2% - anything below 2% meets the target.</p> <p>D Correct: The European Central Bank only intervenes when inflation exceeds the 2% target – there is no intervention required by the target when inflation falls well below 2%.</p> | AO1 | |
| 28 | B | <p>A This would cause the demand curve to shift.</p> <p>B Correct: This would reduce a firm's costs of production, increasing profitability and shifting the supply curve to the right.</p> <p>C This would increase a firm's costs of production, decreasing profitability and shifting the supply curve to the left.</p> <p>D This would cause the demand curve to shift as it would increase real disposable income.</p> | AO2 | ✓ |

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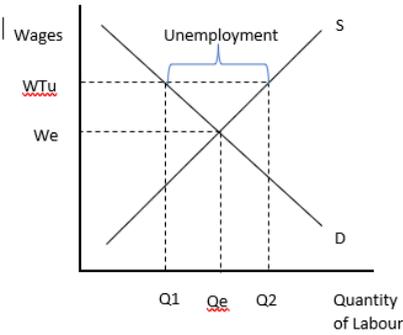
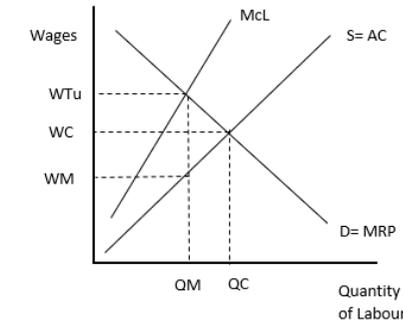
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| Q | Key | Rationale | AO | Quantitative skills |
|----|-----|---|-----|---------------------|
| 29 | A | <p>A Correct: All resources are allocated through a process of central planning in a command economy.</p> <p>B Command economies aim to achieve lower levels of inequality than are seen in market or mixed economies.</p> <p>C There are no private enterprises in command economies meaning profit maximising behaviour is not seen.</p> <p>D The price mechanism is not used in the allocation of resources in a command economy.</p> | AO1 | |
| 30 | C | <p>A This is the role of Central Banks.</p> <p>B This is the role of the World Trade Organisation.</p> <p>C Correct: The World Bank typically provides funds for large scale infrastructure projects in developing nations, which commercial financial institutions would consider too risky to fund.</p> <p>D This is the role of the International Monetary Fund.</p> | AO1 | |

| Question | Answer | Marks | Guidance |
|----------|---|--|---|
| 31 | <p>Explain, using the information in Extract 1, why private car journeys may be overconsumed in the free market.</p> <p>1 mark for knowledge:</p> <ul style="list-style-type: none"> • there are negative externalities of consumption (1) • consumers ignore the harms to third parties from driving their cars (1) <p>1 mark for application:</p> <ul style="list-style-type: none"> • other road users experiencing longer journeys because of congestion (1) • the wider population suffering from more pollution (1). | <p>2</p> <p>AO1 x 1 AO2 x 1</p> | <p>Credit can only be given for the example of a negative externality if it relates to the case study eg. congestion, pollution caused by traffic</p> |
| 32 | <p>Explain, using the information in Fig. 1.2, what has happened to the price of train tickets between 2004 and 2020. <i>Award up to 2 marks for an explanation of what has happened to the price of train tickets:</i></p> <p>1 mark for:</p> <ul style="list-style-type: none"> • ticket price has increased (1) <p>1 mark for:</p> <ul style="list-style-type: none"> • comparing the price increase to inflation (1) • calculating how much a ticket prices have increased by.(1) | <p>2</p> <p>AO2 x 2</p> | <p>Prices have risen higher than Retail Price Index does not get the second mark without reference to inflation or real.</p> <p>Accept between 81-85% or risen by more than 80%</p> <p>2 marks for statements such as prices have increased in real terms</p> |

| Question | Answer | Marks | Guidance |
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| 33 | <p>Evaluate, using an appropriate diagram(s) and the information in Extract 1, the extent to which Trade Unions are responsible for labour market failure.</p> <p>Level 3 (11–15 marks) Good knowledge, understanding and application of the impact of trade unions on the labour market. Good – strong analysis of the extent to which trade unions are responsible for labour market failure. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the extent to which trade unions are responsible for labour market failure, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> | <p>15</p> <p>(AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6)</p> | <ul style="list-style-type: none"> • <i>A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation.</i> • <i>Strong evaluation requires an explained judgement. An explained judgement without good evaluation can be credited as evaluation.</i> • <i>The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation.</i> <p>Knowledge, Understanding and Application: Knowledge, Understanding and Application marks should be awarded for material that is given in the case study:</p> <ul style="list-style-type: none"> • 36,000 days were lost due to strike action of London Underground workers between 2010 and 2020. • Tube drivers earn more than their marginal revenue product of labour. • Tube drivers earn more than double the average wage (£55,000). • The wages of tube drivers reflect demanding nature of job (public safety responsibilities and working unsociable hours). • Members would otherwise be exploited and underpaid by TfL. • Unions have power in rail industry because of size of membership and critical nature of work. • Union membership has declined in UK from two thirds in 1970s to less than 25% today. • Globalisation has led to influence of unions declining. • Unions only have power today in a few public sector professions. |

| Question | Answer | Marks | Guidance |
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| | <p>Level 2 (6–10 marks) Good knowledge, understanding and application of the impact of trade unions on the labour market. Reasonable analysis of the extent to which trade unions are responsible for labour market failure. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the extent to which trade unions are responsible for labour market failure. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> | | <p>Appropriate diagram:</p>  <p>WTu = Trade union wage We = equilibrium wage in competitive market Unemployment = market failure Q1-Q2 If explained appropriately Q1-Qe could be accepted as unemployment</p> <p>Counter argument could be supported by the following diagram, but strong evaluation is possible without it:</p>  <p>We = wage equilibrium in a competitive market Wm = Wages initially offered by Monopsony (transport firm) WTu = Trade union wage Wages up to WTu reduce market failure, wages above Wtu increase market failure</p> |

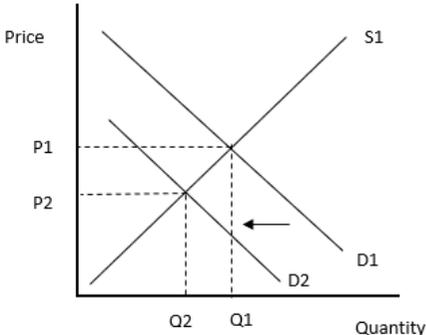
| Question | Answer | Marks | Guidance |
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| | <p>Level 1 (1–5 marks) Limited – reasonable knowledge, understanding and application of the impact of trade unions on the labour market. Limited analysis of the extent to which trade unions are responsible for labour market failure. Limited evaluation of the extent to which trade unions are responsible for labour market failure. <i>The information is basic and communicated in an unstructured way.</i> <i>The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> | | <p><i>Analysis and Evaluation requires candidates to go beyond what is given in the case study.</i></p> <p>Analysis may include:</p> <ul style="list-style-type: none"> • Unions act as the monopoly supplier of labour, bidding wages up above the competitive equilibrium – there is a union ‘mark-up’. • Unions bidding up wages causes a contraction along the labour demand curve and disequilibrium unemployment. • Worker productivity may suffer due to lost days from strikes. • Unions can reduce labour market flexibility and increase unit labour costs, either by restricting supply into an industry or reducing the functional flexibility of workers. <p>Evaluation may include:</p> <ul style="list-style-type: none"> • Unions are not the main cause of labour market failure as they have little impact on most industries due to declining membership; this means other causes of labour market failure (such as immobility) are more significant. • Unions’ declining membership combined with globalisation means demand for labour has become more elastic. This means unions have the potential to cause more unemployment when bidding for higher wages but more likely will cause them to moderate their wage demands, reducing labour market failure. • Unions can enhance productivity through training workers and providing a channel of communication between employer and employee. • Unions tend to have most power in monopsony labour markets. In such cases unions can solve |

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| Question | Answer | Marks | Guidance |
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| | | | <p>labour market failure as this is a situation of bilateral monopoly. This however depends upon the relative bargaining power of the union and the firm.</p> <p>Judgements may include:</p> <ul style="list-style-type: none"> • the level of market failure depends upon how competitive the market is • TU membership and power • whether the TU negotiated wage is above the MRP • another significant cause of labour market failure |

| Question | Answer | Marks | Guidance |
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| 34 | <p>Explain, using the data in Fig. 2.1, the most likely market structure of the car manufacturing industry in the UK.</p> <ul style="list-style-type: none"> The car manufacturing industry is likely to be an oligopoly (1) There is a high 5 firm concentration ratio of 90% (1) <p>Or</p> <ul style="list-style-type: none"> The car manufacturing industry is likely to be a monopoly (1) Jaguar Land Rover / Nissan has a market share of over 25% (1) | <p>2</p> <p>AO1 x 1 AO2 x 1</p> | <ul style="list-style-type: none"> Also award the second mark for a correct calculation of the three or four firm concentration ratios. 3 firm concentration ratio = 71% and 4 firm = 82% Accept the term market share instead of concentration ratio, provided calculations correct |
| 35 | <p>Explain, using the information in Extract 2 and a relevant diagram, the impact on the market for new cars of the 2020 recession.</p> <p><i>Award up to 2 marks for a diagram:</i></p> <ul style="list-style-type: none"> 1 mark for correctly labelled D and S diagram 1 mark for leftward shift in D curve <p><i>Award up to 2 marks for a supporting explanation:</i></p> <p>1 mark for the change in equilibrium mark price and quantity</p> <ul style="list-style-type: none"> price and number of cars sold will fall as a result (1) <p>1 Mark for the explaining the cause of the drop in demand:</p> <ul style="list-style-type: none"> a recession causes real disposable income to fall, which decreases the demand for cars (1) cars are a normal/luxury good so have a positive income elasticity of demand (1) | <p>4</p> <p>AO1 x 1 AO2 x 2 AO3 x 1</p> | <ul style="list-style-type: none"> Only maximum 1 mark for diagram when axes labels are missing or incorrect. Do not accept macro labels (e.g. price level). Do not award the statement that a recession causes the demand for cars to fall unless linked to income. Another appropriate reason for the shift in demand can be awarded if in context eg. less travel/more homeworking due to lockdown in 2020, lack of job security due to recession/Covid. Do not award mark for shift in demand if there is also a shift in supply.  |

| Question | Answer | Marks | Guidance |
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| 36 | <p>Explain, using the information in Extract 2, the impact on the UK economy of introducing export subsidies to the automotive industry in the UK.</p> <p>Level 2 (5–8 marks) Good knowledge, understanding and application of export subsidies. Good – strong explanation of the impact of introducing export subsidies to the automotive industry in the UK. Good explanation 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 explanation 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 explanation. Any diagrams must be integral to the explanation.</p> <p>Level 1 (1–4 marks) Limited – reasonable knowledge, understanding and application of export subsidies. Limited – reasonable explanation of the impact of introducing export subsidies to the automotive industry in the UK. Limited explanation will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Reasonable explanation will have correct explanation 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.</p> <p>0 marks no response worthy of credit.</p> | <p>8</p> <p>AO1 x 2 AO2 x 2 AO3 x 4</p> | <p>Knowledge, Understanding and Application: Knowledge, Understanding and Application marks should be awarded for material that is given in the case study:</p> <ul style="list-style-type: none"> • Export market demands 80% of cars produced in the UK. • Car exports account for 13% of all goods exported. • There is a history of export subsidies in the EU - £30bn a year. • Subsidies go against principles of comparative advantage. • Export subsidies are needed to promote international competitiveness. • Brexit risks competitiveness of car industry – lack of frictionless trade and end of free movement of labour. <p>Explanation requires candidates to go beyond what is given in the case study. As the question refers to impact (either positive or negative) a counter argument should also be rewarded.</p> <p>It may include:</p> <ul style="list-style-type: none"> • Subsidising exports will reduce the price of car exports, making them more internationally competitive. • Increased exports will have a positive impact on the current account. This injection into the circular flow will increase AD and cause economic growth. |

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| | | | <ul style="list-style-type: none"> • The multiplier and accelerator effects may stimulate even further growth. • Higher demand for cars will protect employment, reducing the risk of structural unemployment. • Supporting the car industry reduces the risk of regional inequality developing, given the car manufacturing industry is focused on specific areas of the country. • Firms could develop slack/become inefficient as a result of the subsidy, thus reducing exports in the long run. • The cost of the subsidy could increase national debt/require increased taxes/create an opportunity cost. • Other countries could retaliate to this protectionist measure by imposing tariffs, meaning car exports may not increase. • Sunset industries should be allowed to decline in order to stimulate the development of sunrise industries, which would be a better use of scarce resources. • Export subsidies would make more sense to protect infant industries rather than established industries. |
| 37 | <p>Using the data in Fig. 3.1, calculate the value of UK financial services exports in 2018.</p> <p><i>Award 2 marks for the correct answer:</i></p> <ul style="list-style-type: none"> • £62.5bn (2) <p><i>Award 1 mark for the correct working but incorrect answer:</i></p> <ul style="list-style-type: none"> • $£297.4 / 100 \times 21$ (1) | <p>2</p> <p>AO2 x 2</p> | <p>Award 1 mark if £ and/or bn is missing but the numerical value is correct.</p> <p>As decimal places not asked for in the question, also accept £62.454bn or £62.45bn for 2 marks</p> <p>Alternatives of correct working can be credited eg $£294.7bn \times 0.21$</p> |

| Question | Answer | Marks | Guidance |
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| 38 | <p>Evaluate, using the information in Extract 3, the extent to which deregulation of financial services would benefit the UK economy.</p> <p>Level 3 (11–15 marks) Good knowledge, understanding and application of deregulation. Good – strong analysis of how deregulation of financial services would or would not benefit the UK economy. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the extent to which deregulation of financial services would benefit the UK economy, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> | <p>15</p> <p>(AO1 x 2 AO2 x 3 AO3 x 4 AO4 x 6)</p> | <ul style="list-style-type: none"> • <i>A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation.</i> • <i>Strong evaluation requires an explained judgement. An explained judgement without good evaluation can be credited as evaluation.</i> • <i>The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation.</i> <p>Knowledge, Understanding and Application: Knowledge, Understanding and Application marks should be awarded for material that is given in the case study:</p> <ul style="list-style-type: none"> • Brexit meant financial services firms lost their passporting rights, which could increase complexity and cost. • Some financial services firms have relocated away from London. • Financial services is an important element of the UK economy, contributing to current account surplus on trade in services. • Deregulation could include removing caps on bankers' bonuses and reducing capital adequacy ratios. • Deregulation risks creating systemic risk and causing another financial crisis. |

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| | <p>Level 2 (6–10 marks)</p> <p>Good knowledge, understanding and application of deregulation.</p> <p>Reasonable analysis of how deregulation of financial services would or would not benefit the UK economy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of the extent to which deregulation of financial services would benefit the UK economy.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> | <p><i>Analysis and Evaluation requires candidates to go beyond what is given in the case study.</i></p> <p>Analysis may include:</p> <ul style="list-style-type: none"> • Deregulation will reduce firms' costs of production, making it more profitable to operate in the UK. • This will help reduce the current account deficit, contributing to economic growth and reducing unemployment. • Deregulation reduces the inefficiency and distortion the workings of free markets caused by regulation. • Deregulation could be necessary to prevent firms moving to operate in other financial centres (e.g. Hong Kong or New York) where regulation is not as stringent. • Consumers and firms are likely to benefit from lower interest rates when financial services firms are able to lend more/have lower costs. |
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| | <p>Level 1 (1–5 marks) Limited – reasonable knowledge, understanding and application of deregulation. Limited analysis of how deregulation of financial services would or would not benefit the UK economy. Limited evaluation of the extent to which deregulation of financial services would benefit the UK economy. <i>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.</i> 0 marks no response worthy of credit.</p> | <p>Evaluation may include:</p> <ul style="list-style-type: none"> • There is a moral hazard in financial services – where firms know they are likely to be bailed out if they fail – that encourages excessive risk taking and means the market fails without intervention. • Regulation is needed to prevent financial services firms taking advantage of asymmetric information to exploit consumers. • If the UK diverges from EU regulation this could lead to retaliation/reduce the chance of reaching an agreement over the trade in services. • The financial sector has an impact on almost all aspects of the economy, so has to be regulated because problems in the financial sector have the potential to cause widespread damage to the macroeconomy. • Reducing capital and liquidity reserve requirements encourages risky behaviour by profit motivated financial institutions and as such could lead to another financial crisis <p>Judgements may include:</p> <ul style="list-style-type: none"> • the benefit of deregulation depends upon the level of deregulation put in place (ie how risky the financial sector becomes) • whether it works in discouraging firms from relocating away from the UK. • The actions of the EU <p>Answers which evaluate deregulation generally rather than deregulation of financial services should not be awarded higher than reasonable analysis and evaluation.</p> |
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| | AO1 | AO2 | AO3 | AO4 | TOTAL | (Quantitative skills) |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------------------|
| SECTION A TOTAL | 16 | 6 | 8 | | 30 | (11) |
| 31 | 1 | 1 | | | | |
| 32 | | 2 (2) | | | 2 | (2) |
| 33 | 2 (2) | 3 (2) | 4 (2) | 6 (2) | 15 | (8) |
| 34 | 1 (1) | 1 (1) | | | 2 | (2) |
| 35 | 1 (1) | 1 (1) | 2 (2) | | 2 | (4) |
| 36 | 2 | 2 | 4 | | 8 | |
| 37 | | 2 (2) | | | | (2) |
| 38 | 2 | 3 | 4 | 6 | 15 | |
| SECTION B TOTAL | 11 | 15 | 14 | 12 | 50 | |
| PAPER TOTAL | 25 | 21 | 22 | 12 | 80 | (299) |

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