



Oxford Cambridge and RSA

Practice Paper – Set 1

A Level Economics

H460/01 Microeconomics

MARK SCHEME

Duration: 2 hours

MAXIMUM MARK 80

FINAL

Last Updated: 24/5/2016

This document consists of 23 pages

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

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.

Question		Answer	Marks	Guidance
1	(a)	<p>Explain what is meant by a resource being rival.</p> <p>Rival means that the consumption/use of a resource by one person (1) reduces the availability for the consumption/use by another person (1).</p>	<p>2</p> <p>(A02*2)</p>	
1	(b)	<p>Explain, using a diagram and the information in Fig.1, the change in the level of market failure resulting from water use by producers in Romania between 2000 and 2012.</p> <p>Fig.1 shows that water pollution has reduced (1).</p> <p>This has reduced the level of market failure, shifting the MSC line to the right. Diagram should show the MSC line shift to right producing a new equilibrium (new MSC=MSB) closer to the social optimum, Q OPT, than the initial equilibrium (original MSC= MSB) (1)</p> <p>Original quantity produced, Q 2000 (1)</p> <p>New quantity produced, Q 2012 (1)</p>	<p>6</p> <p>(AO1*4 AO2*2)</p>	<p>Both diagram and ref to Fig.1 needed to gain full marks.</p> <p>Also accept a diagram showing the MPC curve shifting to the left and so reducing overproduction and moving the equilibrium closer to the socially optimal level</p>

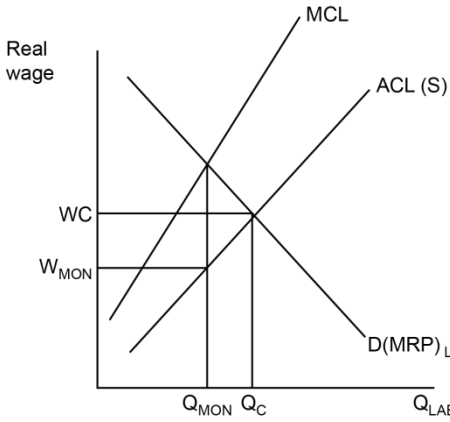
		<p>Axis must be correctly labelled to obtain diagram marks.</p> <p>Vertical – accept costs and benefits, p and price.</p> <p>Horizontal – accept q, quantity and output</p> <p>Up to 4 marks for diagram.</p> <p>Up to 2 marks for explanation.</p> <p>Pollution by producers has resulted in external costs creating MSC 2000 and an market outcome of Q2000 which is sub optimal.(1) The reduction in pollution as shown in the table has reduced the external cost producing a new equilibrium of Qpost 2012. (1)</p>		
1	(c)	<p>Explain one possible reason why the contributions countries make to the ICPDR account for different percentages of the ICPDR’s total fund.</p> <p>Possible reasons may be;</p> <ul style="list-style-type: none"> • Contribution is related to size of GDP or GDP per capita.(1) The larger the GDP the larger the contribution.(1) • Contribution is related to amount of pollution created.(1) The greater the amount the greater the contribution.(1) • Accept any well made and relevant explanation. 	2	(AO2*2)
1	(d)	<p>Evaluate the effectiveness of legislation and regulation, such as environmental standards, in reducing the market failure associated with the Danube river.</p> <p>Level 2 (5–8 marks)</p>	8	<p>(AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3)</p> <p>Legislation and regulation are associated with the work of member states, EU directives and the ICPDR. These, for example, involve regulatory authorities setting limits on emissions, monitoring a range of activities and, if necessary, giving out penalties and fines to states that do not abide by the laws and rules.</p> <p>There are a number of advantages of legislation and</p>

	<p>Good knowledge and understanding of legislation and regulation and market failure.</p> <p>Good – strong analysis of the ways in which legislation and regulation reduce 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.</p> <p>Reasonable – Strong evaluation of the effectiveness of legislation and regulation considering both sides/comparing alternatives and underpinned by appropriate theoretical analysis. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgement. Strong evaluation should include a supported judgement.</p> <p>Level 1 (1–4 marks)</p> <p>Limited – reasonable knowledge and understanding of legislation and regulation and market failure.</p> <p>Limited – reasonable analysis of the ways in which legislation and regulation reduce market failure. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p>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</p>	<p>regulation. They are clear and cheap to implement. Any penalties/fines can be used to reduce pollution (hypothecation). They are backed by the force of law. They can be particularly effective if the legislation results from agreed consent.</p> <p>The disadvantages of legislation and regulation include that it is difficult to monitor activities in a number of different countries. It is also expensive to monitor activities in a number of different countries. Some countries are EU member states and some are not and so this limits the regulatory scope of the EU directives.</p> <p>There are also alternatives to legislation and regulation. Investment in new production techniques and better treatment facilities are examples of areas where investment may be a better route than legislation and regulation. The ICPDR estimates that 200 million of investment would be necessary. This would involve a high opportunity cost.</p>
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			<p>relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>Limited evaluation of the effectiveness of legislation and regulation in the form of an unsupported statement or no evaluation.</p> <p>0 marks no response or no response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
			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)
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Question			Answer	Marks	Guidance
1	e	*	<p>Using evidence from the stimulus material evaluate whether economic growth always limits sustainable development.</p> <p>Level 3 (9–12 marks)</p> <p>Good knowledge and understanding of economic growth and sustainable development.</p> <p>Good – strong analysis of how economic growth does or does not limit sustainable development Good analysis will be in the form of developed links. These links are</p>	<p>12</p> <p>(AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)</p>	<p>For a mark at the top of the level evidence must be provided of both the use of the stimulus material and the candidate's additional knowledge.</p> <p>Economic growth involves increases in GDP which are associated with increased domestic output from a range of industries. Sustainable development involves GDP growth which is not at the expense of severe resource depletion and/or imposing social costs in the form of negative externalities on the economy.</p> <p>Economic growth can limit sustainable growth if expanding industry is relying on inefficient technology.</p>

	<p>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.</p> <p>Good - strong evaluation of whether economic growth always limits sustainable development, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment.</p> <p><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>Level 2 (5–8 marks)</p> <p>Good knowledge and understanding of economic growth and sustainable development.</p> <p>Reasonable analysis of how economic growth does or does not limit sustainable development. 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 whether economic growth always limits sustainable development considering both sides/comparing alternatives.</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>Firms operating in a free market are not forced to internalise the negative externalities produced. Consumers base their decisions on private costs and so consumer activity may add to pollution e.g. car ownership</p> <p>Economic growth implies greater output and therefore greater resource depletion. Industrial production depletes common access resources due to their rival but non excludable nature.</p> <p>Economic growth may be more sustainable if the profits generated by economic growth are reinvested in the industries in order to create more environmentally friendly production techniques.</p> <p>If firms are growing and making profits they may not engage in cost saving activities such as inadequate water treatment and reduced use of cheap but harmful substances.</p> <p>Economic growth is able to create more government revenue allowing the state to improve monitoring of regulation and standard and to subsidise investment in a range of areas which are associated with environmental problems.</p> <p>The Kuznets curve, relating pollution to per capita income, suggests that after a certain level of per capita income pollution will begin to fall.</p>
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		<p>Level 1 (1–4 marks)</p> <p>Limited – reasonable knowledge and understanding of economic growth and sustainable development.</p> <p>Limited analysis of how economic growth does or does not limit sustainable development. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p>Limited evaluation of whether economic growth always limits sustainable development in the form of an unsupported statement or no evaluation.</p> <p><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></p> <p>0 marks no response or no response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>	
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		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)
		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)
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Question	Answer	Marks	Guidance
<p>2 *</p>	<p>In January 2016 junior doctors were planning to strike after pay negotiations with their employer, the National Health Service, had failed to produce a satisfactory outcome.</p> <p>Evaluate, using an appropriate diagram(s), the impact of a monopsonist employer, such as the National Health Service, on the market for highly skilled labour.</p> <p>Level 5 (21–25 marks)</p> <p>Good -Strong knowledge and understanding of the impact of monopsony and elasticity of supply on the market for labour.</p> <p>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.</p> <p>Strong evaluation of the impact of monopsony and elasticity of supply on the market for labour weighing up both sides/comparing alternatives and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks)</p> <p>Good knowledge and understanding of the impact of</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>A monopsonist is a single buyer within a market. A monopsonist employer will be the single buyer of labour within a labour market. Examples of this are usually associated with public sector employment such as doctors and nurses. Although there is a small private sector the market for doctors is dominated by the NHS.</p> <p>Junior doctors/doctors are highly skilled factors of production. The training period is long and there are barriers to entry in the form of high achievement in examinations. As a result, there is a very inelastic supply for such labour.</p> <p>It is argued that the monopsonist will use its market power to drive down wages below the market equilibrium. Similarly, the quantity of labour employed will be reduced.</p> <p>The MC of labour curve of the monopsonist will be above the AC (Supply) of labour – assuming that all workers are paid the same wage when the marginal worker is employed.</p> 

monopsony and elasticity of supply on the market for labour.

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 evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment.

There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.

Level 3 (11–15 marks)

Good knowledge and understanding of monopsony and elasticity of supply.

Good analysis of the impact of monopsony and elasticity of supply on the market for labour. There is correct analysis 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.

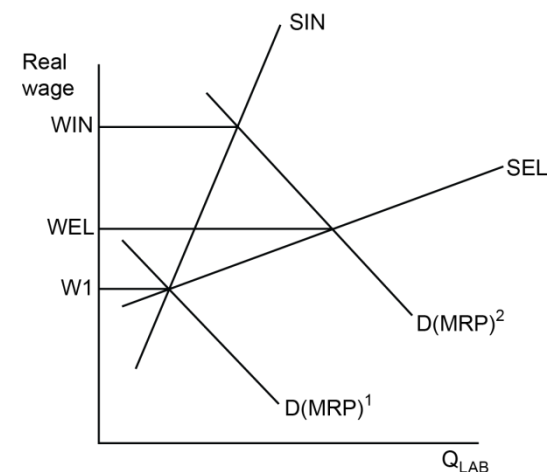
Reasonable evaluation of the impact of monopsony and elasticity of supply on the market for labour considering both sides/comparing alternatives.

There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.

Level 2 (6–10 marks)

In the diagram the monopsonist will employ the quantity of labour determined by the interaction of MC lab and the MRP curve, This will produce a wage, W_{MON} , below the equilibrium, W_c , and a level of employment, Q_{MON} below the equilibrium, Q_c .

The inelastic supply of doctors will place them in a very strong bargaining position. Any increase in the demand for a factor with an inelastic supply will produce a high return compared with those with an elastic supply.



In the diagram the increase in demand for labour, D_1 to D_2 , has produced a greater increase in wages for workers with an inelastic supply.

The BMA is the professional body representing the interests of junior doctors. It is in effect a monopoly supplier of labour similar to a trade union.

The bargaining process between the two groups can be similar to the bi-lateral monopoly argument. The skilled

	<p>Good knowledge and understanding of monopsony and elasticity of supply.</p> <p>Reasonable analysis of the impact of monopsony and elasticity of supply on the market for labour. 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 impact of monopsony and elasticity of supply on the market for labour considering both sides/comparing alternatives.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks)</p> <p>Reasonable knowledge and understanding of monopsony and/or elasticity of supply.</p> <p>Limited or no analysis of the impact of monopsony and/or elasticity of supply on the market for labour. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p>Limited evaluation of the impact of monopsony and elasticity of supply on the market for labour in the form of an unsupported statement or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks no response or no response worthy of credit.</p>	<p>group can refuse to supply their labour below a certain wage and thus counteract the power of the monopsonist.</p> <p>The result is indeterminate and will rely on the relative strength of the two groups. Factors which will influence the outcome may include; the financial position of the monopsonist, the state of the economy and the degree of militancy of the labour force</p> <p>The elasticity of demand for the labour will be a factor and may involve analysis of the elasticity of demand for the good or service provided by the skilled labour, the time period and the percentage of total costs made up by the wage bill.</p>
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		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)
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		On the borderline of this level and the one below	At bottom of level
Question	Answer	Marks	Guidance
3	*	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	<p>Monopoly power exists in theory when one firm controls the whole of the market. In practice any firm with over 25% market share is considered to be a monopoly. Monopoly power is usually associated with abnormal profits, high barriers to entry and a lack of competition.</p>
<p>One of the roles of the Competition and Markets authority is to prevent the abuse of monopoly power.</p> <p>Evaluate, using an appropriate diagram(s), the potential impact of monopoly power within an industry.</p> <p>Level 5 (21–25 marks)</p> <p>Good -Strong knowledge and understanding of monopoly.</p> <p>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.</p> <p>Strong evaluation of the impact of monopoly power weighing up both sides/comparing alternatives and</p>			

	<p>reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks)</p> <p>Good knowledge and understanding of monopoly.</p> <p>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.</p> <p>Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks)</p> <p>Good knowledge and understanding of monopoly.</p> <p>Good analysis of the negative and positive impacts of monopoly power. There is correct analysis 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.</p> <p>Reasonable evaluation of the impact of monopoly power considering both sides/comparing alternatives.</p> <p><i>There is a line of reasoning presented with some structure.</i></p>	<p>The diagram above may be used to illustrate analysis of price, abnormal profits, productive and allocative inefficiency.</p> <p>The analysis of the potential impact of a monopoly may include the following negative impacts The monopolist has power over price as it has the ability to be a price maker. This is because the lack of competition allows the monopolist to reduce the amount of consumer surplus</p> <p>The monopolist can also restrict output in order to increase price. These two features create a situation where the firm is able to earn abnormal profits and operate at levels of output which are both productively and allocatively inefficient.</p> <p>Abnormal profits represent a redistribution of income in favour of the entrepreneurs and away from consumers which is both inefficient and may be considered unfair/inequitable.</p> <p>The monopolist may also maintain barriers to entry through aggressive behaviour towards potential entrants.eg entry limit pricing or predatory pricing. It may also take-over any potential entrants.</p> <p>Under certain conditions a monopolist has the ability to operate price discrimination to convert consumer surplus into abnormal profit. A diagram may be used here.</p> <p>On the other hand monopoly power can be seen to have some beneficial effects on the economy.</p> <p>The monopoly may be a natural monopoly benefiting from continuous falls in LRAC. Examples might include state controlled activities such as rail networks or power distribution. A diagram may be used to analyse various aspect of this argument. The fundamental requirement is a LRAC curve which continues to fall as output increases. The MC curve will be below the LRAC curve.</p>
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The information presented is in the most-part relevant and supported by some evidence.

Level 2 (6–10 marks)

Good knowledge and understanding of monopoly.

Reasonable analysis of the negative and positive impacts of monopoly power. 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 impact of monopoly power considering both sides/comparing alternatives.

The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.

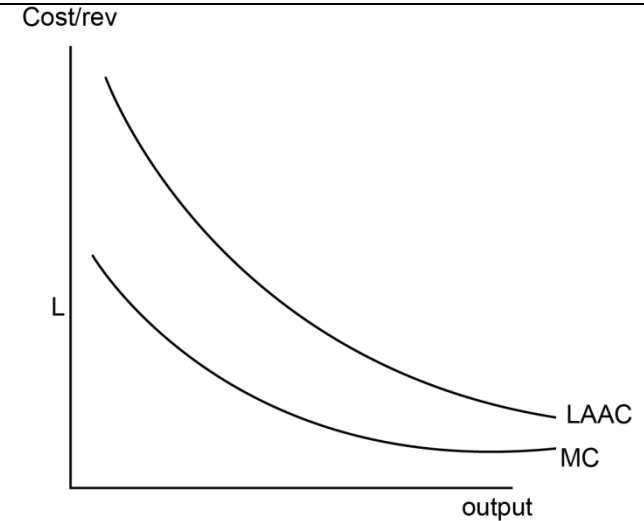
Level 1 (1–5 marks)

Reasonable knowledge and understanding of monopoly.

Limited or no analysis of the negative and positive impacts of monopoly power. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.

Limited evaluation of the impact of monopoly power in the form of an unsupported statement or **no** evaluation.

Information presented is basic and may be ambiguous or unstructured. The information is supported by limited



Abnormal profit may be used to reinvest in research and development into new products and production techniques. Thus potentially making the firm more dynamically efficient. So improving both productive and allocative efficiency in the very long run.

Monopoly power on a domestic basis may enable a company to be internationally competitive. Helping employment, growth and the balance of trade.

The objectives of the monopoly firm may not be profit maximisation but some philanthropic objective.

		<i>evidence.</i> 0 marks no response or no response worthy of credit.		
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		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
Question		Answer	Marks	Guidance
4	*	<p>Merger activity can be of significant benefit to producers.</p> <p>Evaluate whether the main influence on the size of a firm over time is economies of scale.</p> <p>Level 5 (21–25 marks)</p> <p>Good -Strong knowledge and understanding of economies of scale.</p> <p>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</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>Economies of scale can be internal or external.</p> <p>Internal economies result in a reduction in the long run average costs of a firm as the scale of production increases. There are several sources of internal economies of scale.</p> <p>These include technological, management, marketing, finance and procurement.</p> <p>External economies of scale benefit all firms as the scale of the whole industry increases.</p> <p>These include; a pool of skilled labour, shared research facilities and shared infrastructure.</p> <p>Economies of scale will encourage firms to grow as they will benefit from the reduction in long run average costs.</p> <p>This reduction might allow them to reduce the price of their product(s) and thus gain a competitive edge in the market. They may decide to keep price the same but earn more abnormal profit. In turn this will allow greater investment in the firm. The firm will become more internationally</p>

	<p>to the analysis.</p> <p>Strong evaluation of the significance of economies of scale in the growth of a firm, weighing up both sides/comparing alternatives and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks)</p> <p>Good knowledge and understanding of economies of scale.</p> <p>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.</p> <p>Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks)</p> <p>Good knowledge and understanding of economies of scale.</p> <p>Good analysis of how economies of scale influence the growth of a firm. There is correct analysis in the form of</p>	<p>competitive and have access to a larger market.</p> <p>The extent to which economies of scale exist vary in different industries. Firms in some industries may be able to take advantage of economies of scale over a large range of outputs than in other industries.</p> <p>Other factors influencing growth might include the level of competition determined by the existence or lack of barriers to entry or the number of competitors and the behaviour of those competitors in the market.</p> <p>Other factors influencing growth will be the level of differentiation of the product and the size of the market. Increasing output in order to reduce average costs will be of no value if the demand for the product does not exist.</p> <p>A period of slow, no or negative economic growth in the national economy will reduce the ability of a firm to grow and the state of the global economy will have a similar effect.</p> <p>A firm may seek to grow for other reasons than to achieve economies of scale, for example, a firm may wish to achieve a size which will act as a barrier to entry. A state owned enterprise may grow in order to keep pace with demand.</p> <p>The firm may have a wide range of alternative economic objectives – these may not involve growth of the firm. For instance firms may focus on horizontal integration – not necessarily aimed at increasing output but reducing costs within the production process.</p> <p>The divorce of ownership and control in larger firms may mean that those running the business may do so more for their personal benefit, so adopting goals that are less than profit maximising. These goals may be goals such as revenue maximising, sales maximising, increasing market share and profit satisficing.</p>
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		<p>Limited or no analysis of how economies of scale influence the growth of a firm. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p>Limited evaluation of the significance of economies of scale in the growth of a firm, in the form of an unsupported statement or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks no response or no response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
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Question		Answer	Marks	Guidance
5	*	The Conservative government's Airport Committee is clear that there is a need for new airport capacity in the south of England but has delayed the decision on	25 (AO1 x 6)	Cost Benefit Analysis (CBA) is a process of evaluating the worth of a project by comparing its costs and benefits. This includes both private and social costs and benefits, including

	<p>the location.</p> <p>Evaluate the value of Cost Benefit Analysis in helping governments to make this and other major infrastructure decisions.</p> <p>Level 5 (21–25 marks)</p> <p>Good -Strong knowledge and understanding of CBA.</p> <p>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.</p> <p>Strong evaluation of the value of CBA in making major infrastructure decisions, weighing up both sides/comparing alternatives and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks)</p> <p>Good knowledge and understanding of CBA.</p> <p>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.</p> <p>Good evaluation will weigh up both sides/comparing</p>	<p>AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>externality effects.</p> <p>CBA involves a series of steps;</p> <ul style="list-style-type: none"> • Identifying relevant costs and benefits • Placing a monetary value on private and external costs and benefits • Discounting the future – this involves the concept of net present value and provides an opportunity to demonstrate quantitative skills. • Decision making. <p>CBA is a process which is commonly used by governments in making decisions about major infrastructure projects. It has the advantage of being widely based in that it does not simply focus on the private costs and benefits of a project but also tries to take into account the impact on society. It does this by considering the external costs/benefits and by doing so can try to measure the impact on society by looking at social costs and benefits.</p> <p>The process is usually a very open and consultative process which allows all stakeholders to be considered. It allows a 'long and wide view' to be taken and does not focus on purely financial matters.</p> <p>However, CBA is not without its limitations. The ability of a government to identify all possible costs and benefits both private and external must be questioned. It is also difficult to measure all possible costs and benefits both internal and external. In particular, the problem of establishing shadow prices. The placing of a current value on a stream of costs and benefits involves discounting to calculate the net present value. This is subject to estimation and may prove to be inaccurate.</p> <p>Governments may choose different discount rates than</p>
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	<p>alternatives but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks)</p> <p>Good knowledge and understanding of CBA.</p> <p>Good analysis of the advantages and disadvantages of CBA. There is correct analysis 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.</p> <p>Reasonable evaluation of the value of CBA in making major infrastructure decisions considering both sides/comparing alternatives.</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>Level 2 (6–10 marks)</p> <p>Good knowledge and understanding of CBA.</p> <p>Reasonable analysis of the advantages and disadvantages of CBA. 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 value of CBA in making</p>	<p>consumers. There may also be a political backdrop with the desire to provide benefits in the short run at an unacceptable long run cost. Some stakeholders/pressure groups may be more powerful than others and have a disproportionate impact.</p> <p>Any major project will involve a significant amount of funding and the method of raising the funding may not be easy to identify or calculate over time.</p> <p>There is also an opportunity cost argument if one only one or a small number of options is looked at using CBA. If the wrong decision is made then the result is government failure.</p>
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		<p>major infrastructure decisions, considering both sides/comparing alternatives.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks)</p> <p>Reasonable knowledge and understanding of CBA.</p> <p>Limited or no analysis of the advantages and disadvantages of CBA. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p>Limited evaluation of the value of CBA in making major infrastructure decisions, in the form of an unsupported statement or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks no response or no response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>	
		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)

			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

Assessment Objectives Grid

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)		2			2	
1(b)	4(4)	2 (2)			6	(6)
1(c)	0	2 (2)			2	(2)
1(d)	1	1	3	3	8	
1(e)	1	1	5	5	12	
2/3	6 (2)	6 (2)	6 (2)	7 (2)	25	(8)
4/5	6	6	6	7	25	
TOTAL	18 (6)	20 (6)	20 (2)	22 (2)	80	(16)