

GCSE

Economics

Unit **A591**: How the Market Works

General Certificate of Secondary Education

Mark Scheme for June 2015

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

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

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

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Annotations

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
	Tick
	Cross
	Unclear
BOD	Benefit of the doubt
IR	Irrelevant
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4
NAQ	Not answered question
OFR	Own figure rule
SEEN	Noted but no credit given.
TV	Too vague
REP	Repeat

Highlighting is also available to highlight any particular points on the script.

'SEEN' is to be inserted on every blank page and in every question space where NR is the mark.

Subject-specific Marking Instructions

Some questions may have a 'Level of Response' mark scheme.

The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for part (d) of each question.

Level 4:

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the subject matter. There may be few, if any, errors of spelling, punctuation and grammar.

Level 3:

Relatively straight forward ideas have been expressed with some clarity and fluency. There may be some errors of spelling, punctuation and grammar, but these are to be obtrusive or obscure marking.

Level 2:

Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar, which may be noticeable and obtrusive.

Level 1:

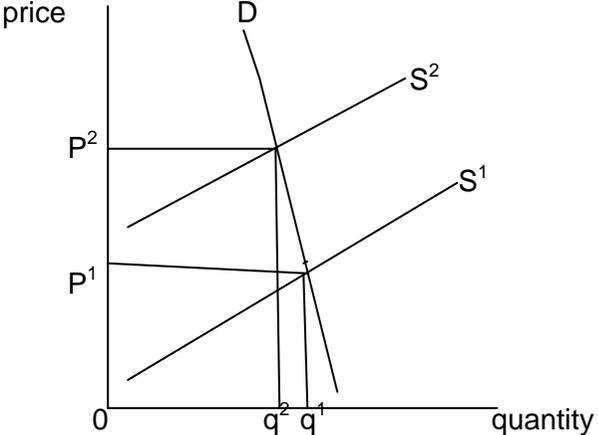
Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar, of which some may be noticeable and obtrusive.

Question			Answer	Marks	Guidance
1	(a)	(i)	Indicative content: <ul style="list-style-type: none"> capital – ships or trains or lorries labour – Kevin Nyeke or Operations Director 	2	One mark for each correct identification up to a maximum of two identifications. These are the only acceptable responses.
	(b)	(i)	Indicative content: While train may be the better answer, allow either train or lorry or train and lorry.	1	For one mark. The answer must be drawn from Fig.1.
		(ii)	Indicative content: <ul style="list-style-type: none"> scarcity of capital [financial], etc. opportunity cost economic problem, unlimited needs and wants, finite resources conflict between production and investment to achieve the best/most efficient possible outcome <p>Exemplar Response:</p> <ol style="list-style-type: none"> 'Because capital is scarce [1] which means there is an opportunity cost involved [1] as more investment in capital means less money for other factors of production. [1] In making a choice opportunity cost is involved [1] in that by investing in e.g. ships there is no money for trains [1] as factors of production/resources are scarce [1]. 	3	One mark for each correct point made up to a maximum of three such marks, but also award development marks as seen in exemplar 2. Allow any valid reason. NB Outcomes includes objectives

Question	Answer	Marks	Guidance
(c)	<p>Indicative content:</p> <ul style="list-style-type: none"> • prices will fall or possibly be unable to rise • quantity demanded will fall • will have to spend more on marketing, advertising, promotion • fall in profits/revenue • become more efficient • need to increase quality/innovation • an extreme effect would be that a business would fail/be taken over • may lose workers • increased costs in terms of marketing/innovation <p>Exemplar responses:</p> <p>Effect 1: Prices will fall [1]. Firms will cut prices to gain market share [1] so long as they are covering [1].</p> <p>Effect 2: More competition means less demand [1] so they will need more advertising [1], so with less revenue and higher costs, profits will fall [1]</p>	6	<p>One mark for each correct identification up to a maximum of two identifications, plus up to a further two marks (one for application and one for analysis) for an explanation.</p> <p>Allow any valid reason, but beware of repetition.</p> <p>For each: Give one mark for the reason Give one mark for some development – application Give one mark for analysis with reference to ‘a business such as Nyeke plc’.</p> <p>NB This part of the question is marked out of six.</p> <p>Do not allow lower quality unless linked to lower price or costs.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Exemplar response:</p> <p>By expanding the costs per unit may fall allowing a firm to either sell at a lower price and/or make more profit. In addition, bulk buying allows a firm to reduce costs as the more that is purchased the cheaper per unit it is, but this may mean that a business has to spend more on storage space. Nyeke plc, by buying larger ships, could not only gain from bulk buying, but would increase the productivity of the crews [top L2].</p> <p>On the other hand, employees may become bored if they are doing the same work all the time or may feel that they have lost contact with management leading to a loss of productivity. Diseconomies of scale may also result in a loss of control and poor communications all of which could mean a rise in the cost per unit [top L3].</p> <p>The extent to which firms benefit depends on the balance between economies and diseconomies of scale. So long as the economies are greater than the diseconomies and firms realise the need to counter the latter then the benefits are likely to be greater than the costs [L4].</p>	8	<p>Indicative content:</p> <p>Benefits may include:</p> <ul style="list-style-type: none"> • lower costs per unit • increased productivity • bulk buying • marketing economies • able to spread risks • financial economies <p>Costs may include:</p> <ul style="list-style-type: none"> • worker alienation/boredom • loss of managerial control • poor communications • diseconomies of scale <p>Allow any other valid idea. Candidates may focus on Kevin's business or on businesses in general or even another named business.</p> <p>NB the question asks 'to what extent'.</p> <p>Answers which just go through describing some economies and/or diseconomies of scale will be at L2. Economies of scale explained in terms of fall in average/unit cost = L3 [NB not lower costs]</p> <p>Quality of written communication applies to the marking of this question. Please see page 5 for guidance.</p>	<p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly considers a number of both benefits and costs of economies of scale and comes to a supported conclusion/ offers comment. In terms of 'the extent to which', answers at the bottom may only consider benefits and the extent to which or considers both, but has a conclusion which is not in terms of the extent to which.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of factors relating to economies of scale. At the top this analysis must cover both benefits and costs, though expect more benefits.</p> <p>Level 2 [3-4 marks] Candidates are able to apply benefits and possibly costs of economies of scale. At the top a number of points will be considered. Answers and/or development of points are/is likely to be brief.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of [benefits and/or costs of] economies of scale.</p>

Question		Answer	Marks	Guidance
2	(a)	<p>Exemplar response: Demand is the quantity consumers are willing and able to buy at a given price in a given period of time.</p>	2	<p>Give one mark for each correct identification, up to a maximum of two identifications.</p> <p>This is the only acceptable answers.</p>
	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> • change in productivity • change in indirect taxes/VAT/subsidy • better/more advanced technology/processes • rise in wages • change in rents, business rates. • Weather if linked to specific resources/ingredients, but not 'cost of materials' <p>Exemplar responses: Factor 1: Rise in wages [1]. This will increase costs at each output shifting the supply curve to the left [1].</p> <p>Factor 2: More efficient ovens [1]. This will reduce costs leading to the supply curve shifting to the right [1].</p>	4	<p>One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of the two explanations.</p> <p>Allow any valid point about a change in costs.</p> <p>Give one mark for each factor Give one mark for each explanation in terms of a shift, see exemplars, or e.g. more at the same price 2x2</p> <p>NB 'Other than a change in the cost of materials'.</p> <p>Do not allow 'advertisement' on its own, but if linked to increased costs then it can be rewarded.</p>

Question	Answer	Marks	Guidance
(c) (i)	 <p>Give one mark for drawing and labelling a correct supply curve.</p> <p>Give one mark for shifting the supply curve to the left and labelling correctly</p> <p>Give one mark for labelling the original price/quantity</p> <p>Give one mark for labelling the new price/quantity</p>	4	<p>Up to four marks.</p> <p>If the supply is shifted to the right candidates can gain a max of one mark for the first two parts.</p> <p>If the P & Q lines are not labelled/incorrectly labelled candidates can gain a max of one mark for the last two parts.</p> <p>OFR applies for the price/quantity part so, if the supply line was incorrectly shifted, 3 marks are available.</p> <p>Each mark awarded must be shown by a tick, ie the sum of the ticks must be the same as the total mark awarded.</p> <p>The diagram also applies to part (ii) below.</p>
(ii)	<p>Give one mark for risen/increased/etc.</p> <p>Give one mark for the explanation, e.g. price has gone up by more than the fall in quantity, or words to this effect.</p>	2	<p>Up to two marks.</p> <p>OFR applies re the diagram so if the supply was shifted to the right the correct answer will be the reverse, i.e. revenue has fallen.</p> <p>1 mark can be awarded if the candidate says 'stayed the same' so long as the explanation in terms of price/quantity – see content – is given.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Exemplar response:</p> <p>With Lauren specialising this brings in more revenue and thus profit so that Lauren could pay herself more [bottom L2]. She will improve her cake decorating skills and this is likely to increase both her output and productivity. This will lead to her having more job satisfaction and may not only motivate her, but also her employees [bottom L3].</p> <p>The danger for individuals specialising is that they lose their skills in other areas and thus, if demand falls, they could be made redundant or in some cases machines may be developed that could do the same work. The main danger is boredom, but this depends on whether the work is repetitive or not. In Lauren's case each cake will be individual so she is unlikely to suffer boredom [top L3].</p> <p>Where specialisation leads to repetitive work then it is bad for individuals, unless that is what they want. In general, however, specialisation will help people improve their knowledge/skills, become more interested in their work and increase their satisfaction. Overall, therefore, it is beneficial [top L4].</p>	8	<p>Indicative content:</p> <p>Benefits may include:</p> <ul style="list-style-type: none"> • higher pay • improvement in skills • increased output • increased job satisfaction/motivation • increased status <p>Costs may include:</p> <ul style="list-style-type: none"> • greater boredom • decline in overall skill level • could be replaced by machines • redundant, if no demand <p>Allow any valid ideas.</p> <p>NB 'specialising to an individual worker'</p> <p>Candidates may focus on Lauren, as a worker not an owner, or on individuals in general or even another named individual.</p> <p>Analysis may be shown by good reference to: interaction of supply & demand; elasticity of supply; human capital; transferable skills or lack of; structural unemployment; etc.</p> <p>Quality of written communication applies to the marking of this question. Please see page 5 for guidance.</p>	<p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly considers both benefits and costs of specialisation and comes to a supported conclusion. Answers at the bottom may have a conclusion which is not clearly supported.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of points in relation to specialisation. At the top this will consist of both benefits and costs. Answers at the bottom may be limited or only cover benefits.</p> <p>Level 2 [3-4 marks] Candidates are able to apply a number of factors in relation to specialisation. Answers at the top will have at least one benefit and one cost. Answers and/or development of points are likely to be brief.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of specialisation. Answers which totally ignore 'specialising to an individual worker' will also be at this level.</p>

Question		Answer	Marks	Guidance
3	(a)	<p>Give one mark for the idea of the service sector</p> <p>Give one mark for a relevant example</p>	2	<p>Up to two marks.</p> <p>Allow any valid definition of the tertiary sector.</p> <p>NB The question states 'Using an example other than the buying and selling of cars' so no mark can be awarded for the example if cars are mentioned.</p> <p>A relevant example with no definition is worth one mark. Just stating 'shop' is not sufficient as an example.</p>
	(b)	<p>30 cars x £1000 = £30000 [1] £7000 + £3000 = £10000 [1] £30000 - £10000 [1] = £20000 [1]</p>	4	<p>Up to four marks</p> <p>Give four marks for £20000 even if no working shown. £ sign is required for the profit for full marks.</p> <p>OFR applies throughout, so do not double penalise for one error.</p> <p>Each mark awarded must be shown by a tick, i.e. the sum of the ticks must be the same as the total mark awarded. 4 marks = 4 ticks.</p>
	(c)	(i)	2	<p>Exemplar response: Price elasticity of demand measures the responsiveness of quantity demanded to a change in the price of the good. [2].</p> <p>Up to two marks.</p> <p>The wording must closely approximate to that given for two marks.</p> <p>Answers which have a general idea, e.g. 'measures how quantity changes with a price change', are worth one mark.</p> <p>Accept the formula: $PED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in the price}}$</p> <p>for both marks</p>
		(ii)	4	<p>Indicative content:</p> <ul style="list-style-type: none"> quicker sale <p>Up to four marks</p>

Question	Answer	Marks	Guidance
	<ul style="list-style-type: none"> • to increase his chance of selling • demand is price elastic • cut in price will lead to an increase in demand • To allow Incars to increase its revenue/profit • to clear the forecourt of cars <p>Exemplar response: As the demand for this type of car is price elastic, cutting the price by 10% would increase the demand for this type of car [1] by more than 10% [1]. This would mean that Alan would be more likely to sell his car [1] and Incars Ltd would be more likely to earn revenue from the sale. [1]</p>		<p>One mark for each valid point up to a maximum of four such points but allow development marks.</p> <p>Allow any valid point.</p> <p>Do not allow 'because his car is price elastic' unless the candidate goes on to explain this in terms of demand.</p> <p>NB Alan does not increase his revenue/profit, only Bill/Incars does.</p>

Question		Answer	Marks	Content	Guidance
	(d)	<p>Exemplar response:</p> <p>The National Minimum Wage enables the low paid to have more money and, thus, it helps to reduce poverty [L2]. For those who do not work it would encourage them to do so as they would get more money and would be more motivated. This would reduce the amount of state benefits needing to be paid, allowing this money to be directed to the very poor or spent on, for example, education and training. As people would be earning more they would pay more taxes so the government could again increase spending on, for example, education, etc. [L3]</p> <p>The National Minimum Wage, however, can be detrimental especially if the demand for workers is elastic as this would result in a large fall in employment and, thus, the opposite effect of that explained above. Equally, in a recession it may deter firms from taking on new workers. Workers who are paid slightly more than the minimum will demand higher pay so as to maintain their differential [top L3].</p> <p>The effect of the National Minimum Wage depends largely on two points. Firstly, is it set above the equilibrium wage as if it is not it has no effect. Secondly, is the demand for workers elastic or inelastic. In the short run it is likely to be inelastic as workers cannot be substituted by machines and, thus, the effects will be positive. Overall evidence in the UK tends to show that the National Minimum Wage has benefitted the low paid. [L4]</p>	8	<p>Indicative content:</p> <p>Advantages may include:</p> <ul style="list-style-type: none"> • reduces poverty • more equal income distribution • increases consumption • higher tax revenue due to increased earnings • reduction in state benefits • increases incentive to work <p>Disadvantages may include:</p> <ul style="list-style-type: none"> • increases unemployment and/or youth unemployment • reduces willingness of employers to take on workers due to higher costs • other workers demand more pay to maintain differential • increases inflation • ignores regional cost of living differences • firms reduce investment in training <p>Allow any valid suggestion. Analysis can be: a diagram explained; the correct use of price elasticity of supply/ demand; a clear employment argument; other macro-economic arguments; etc. Quality of written communication is assessed in this question. Please see page 5 for guidance.</p>	<p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly discusses a number of advantages and disadvantages of a national minimum wage. Answers at the top will have a supported conclusion while those at the bottom will have a conclusion/ comment, but this lacks clear support.</p> <p>Level 3 [5-6 marks] Candidates are able to analyse a number of points in relation to a national minimum wage. To reach the top candidates must consider both advantages and disadvantages. .</p> <p>Level 2 [3-4 marks] Candidates are able to apply knowledge of a national minimum wage. At the top there must be at least one advantage and one disadvantage. Answers and/or development of points are likely to be brief.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of a national minimum wage, which may include a definition, or a list of advantages/disadvantages.</p>

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