

**Economics**

Advanced GCE **F581**

Markets in Action

**Mark Scheme for June 2010**

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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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**Subject-specific Instructions**

- 1 The paper is to be marked to AS standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, ie a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 4 The mark scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required. Further guidance is provided on the right hand side of the mark scheme.

A set number of marks for written communication is not a requirement. However, where a levels of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. These criteria are integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

Level 4

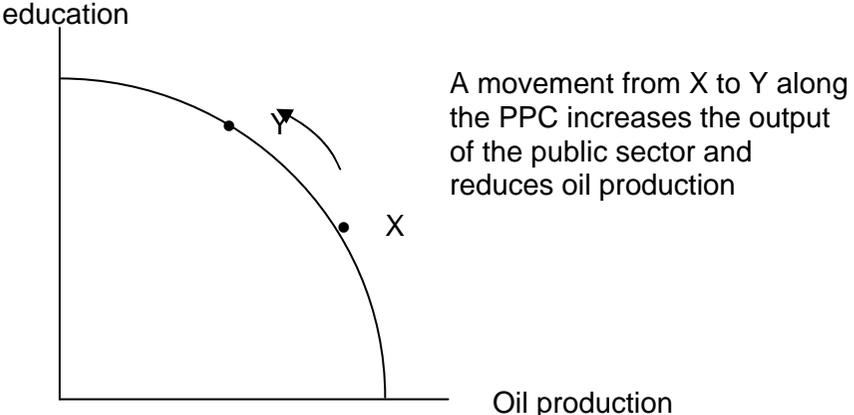
Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

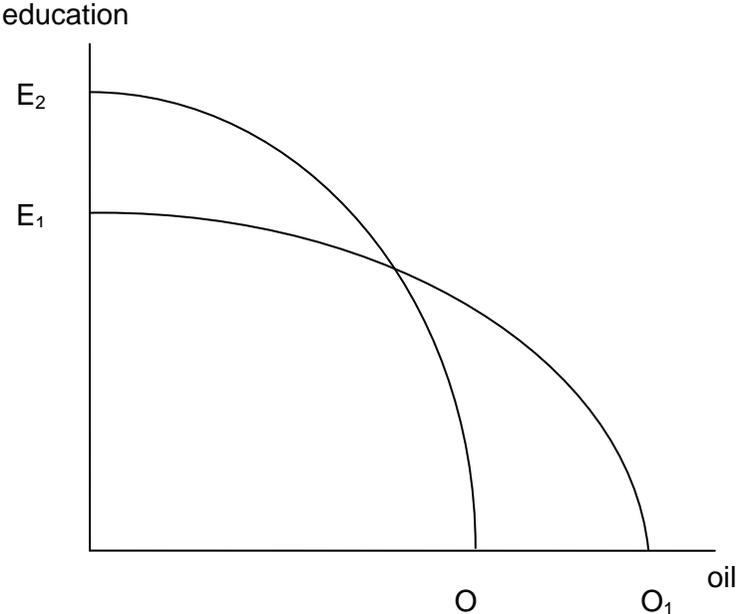
Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

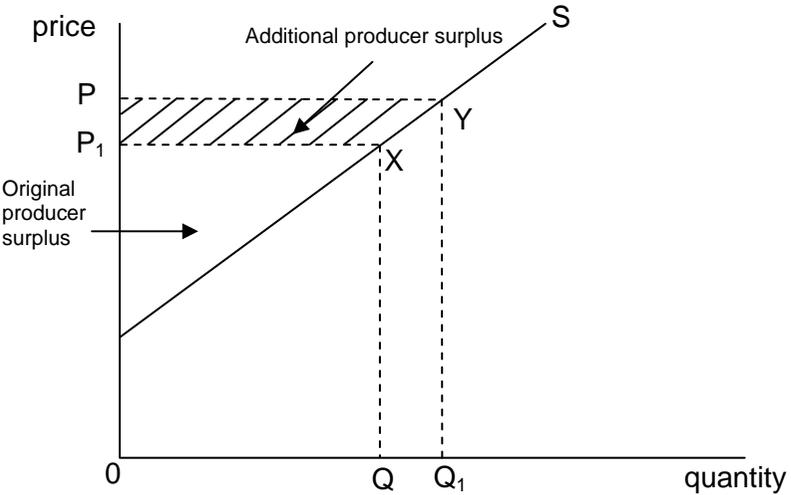
Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

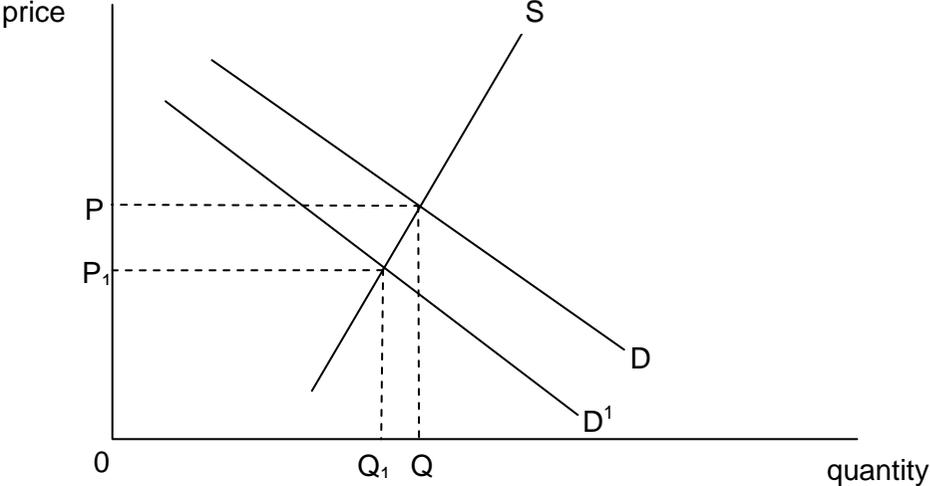
		Expected Answer	Mark	Rationale
1	(a)	<p><b>Describe what is shown by a production possibility curve.</b></p> <p>A production possibility curve shows:</p> <ul style="list-style-type: none"> <li>- maximum quantities, output or combinations of output (1)</li> <li>- for different combinations of output of two products (1)</li> <li>- productive efficiency when on PPC (1)</li> <li>- given current level of resources (1)</li> <li>- factor mobility/diminishing returns (1)</li> </ul> <p>Output potential at optimum efficiency (2 marks)                      Opportunity cost involving <u>choice</u> between two products, stated or exemplified (1 mark)</p>	[2]	<p>Accept an example as an <u>alternative</u> description of different combinations of two products (1)</p>
	(b)	<p><b>Using a production possibility curve diagram, show how Saudi Arabia could expand its provision of education, whilst cutting back on the resources it allocates to oil production.</b></p> <div style="text-align: center;">  <p>A movement from X to Y along the PPC increases the output of the public sector and reduces oil production</p> </div>	[4]	

<p>1</p>	<p>(b)</p>	<p>Correct diagram – 4 marks consisting of:</p> <ul style="list-style-type: none"> <li>- axes – 1 mark (must be education and oil production/oil)</li> <li>- correct PPC – 1 mark</li> <li>- X and Y – 1 mark (can be data on vertical or horizontal axes)</li> <li>- correct change – 1 mark (accept correct numerical interpretation of change)</li> </ul> <p>Also accept a diagram that shows a change from a point inside the PPC, with movement up and towards education.</p> <p>Alternative diagram:</p> 	<p>If axes are labelled as 'price and quantity' – no marks at all.</p> <p>If axes are not education and oil, 2 maximum (i.e. for correct PPC, X and Y)</p> <p>New PPC changes in favour of education with less oil produced.</p>
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Question	Expected Answer	Mark	Rationale
2	<p data-bbox="259 212 297 240">(a)</p> <p data-bbox="353 212 1384 272"><b>Using information from the case study, state and explain the <u>two</u> factors which have affected the supply of Saudi Arabian oil.</b></p> <p data-bbox="353 312 1104 341">The information provided contains two factors. These are:</p> <ul data-bbox="353 381 1352 576" style="list-style-type: none"> <li>- the price of oil</li> <li>- Saudi government policy to expand public sector and create more local jobs from additional oil revenue or reallocation of resources from oil to education</li> <li>- earlier policies to control supply in order to maintain price stability</li> <li>- need for higher revenue from oil supply.</li> </ul> <p data-bbox="353 616 1368 676">Award 1 mark for recognition plus one further mark for elaboration as to <u>how it has affected supply</u>. (x2)</p> <p data-bbox="797 796 835 825">Q<sub>1</sub></p>	[4]	<p data-bbox="1518 212 2085 304">Must draw upon case study. So, increased costs, technology, weather etc. are not acceptable.</p> <p data-bbox="1518 344 2096 475">Watch out for demand side factors such as change in indirect tax unless there is a clear elaboration of how this might affect price and supply. Otherwise no marks.</p> <p data-bbox="1518 515 2085 576">For your guidance, the case study contains the following:</p> <ul data-bbox="1518 616 2085 916" style="list-style-type: none"> <li>- 'price of oil began its relentless rise'</li> <li>- 'encourage reasonably low prices'</li> <li>- 'maintain price stability'</li> <li>- 'need to expand Saudi Arabia's public sector'</li> <li>- 'additional revenue to be generated from oil'</li> <li>- 'Saudi Arabia's oil pricing is a now one of achieving high revenue through high prices'</li> </ul> <p data-bbox="1518 956 2063 1048">These prompts can generate recognition marks; how supply has been affected can generate further marks (2 + 2).</p>

<p>2</p>	<p>(b)</p>	<p>Use a diagram to show how the producer surplus of Saudi Arabian oil producers changes with an increase in the price of oil.</p>  <p>1 mark for upward sloping S (labelled)          1 mark for original producer surplus          1 mark for additional producer surplus (e.g. shaded area)          1 mark for increased producer surplus (e.g. arrows, labels or annotation)</p>	<p>[4]</p>	<p>Watch out for confusion between 'new' and 'additional' – these are not the same.</p>
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Question	Expected Answer	Mark	Rationale
2	<p data-bbox="257 204 302 236">(c)</p> <p data-bbox="347 204 1344 268"><b>Comment on whether Saudi Arabian oil producers increasing supply is likely to reduce world oil prices.</b></p> <p data-bbox="347 308 1332 371">The increase in supply is shown by a shift to the right(2); as a consequence world <u>oil</u> prices will fall(1); supply of oil bought/produced will increase(1).</p> <p data-bbox="347 411 1377 507">This assumes that there is no change in demand(1); or supply from other producers(1); likely to only be short term(1); depends on how much supply has increased (1), depend upon price elasticity of demand (1), 2 maximum.</p> <p data-bbox="347 547 1299 611">Alternatively, any one point that contains a mature commentary can get 2 marks.</p>	<p data-bbox="1426 611 1471 643"><b>[6]</b></p>	<p data-bbox="1516 204 2072 268">Although not required, a diagram could be used to show the shift of S.</p> <p data-bbox="1516 308 1702 339">Watch out for:</p> <ul data-bbox="1516 379 2072 475" style="list-style-type: none"> <li>- answers that lack application to oil</li> <li>- conditional answers e.g. if or may as part of comment</li> </ul> <p data-bbox="1516 515 2049 611">Such answers can only get 2 marks maximum for the comment aspect of the question.</p>

Question	Expected Answer	Mark	Rationale
<p>3</p>	<p><b>OPEC has forecast that in 2009 there will be a fall in world demand for oil. Using a demand and supply diagram, analyse the likely effects of this on the market for oil.</b></p>  <p>Up to 4 marks for a correct diagram:</p> <p>S and D curves – 1 mark  old equilibrium – 1 mark  new equilibrium – 1 mark  shift of D – 1 mark</p> <p>The outcome is that the world price will fall(1) and the quantity produced and demanded/consumed will also fall(1); contraction of supply (1)  Clear reference to effect of elasticity of supply(2). Loss of producer surplus elaborated (2).</p>	<p>[6]</p>	<p>No diagram marks if:</p> <ul style="list-style-type: none"> <li>- axes wrongly labelled</li> <li>- S and D reversed</li> <li>- S and D shown as AS and AD</li> </ul> <p>But accept P and Q points for axes labels.</p> <p>No marks for quantity alone will fall.  Quantity falling from Q to Q<sub>1</sub> is acceptable.</p>

Question	Expected Answer	Mark	Rationale
4	<p data-bbox="253 204 297 236"><b>(a)</b></p> <p data-bbox="349 204 958 236"><b>Define the term 'price elasticity of demand.'</b></p> <p data-bbox="349 276 1373 371">2 marks for a correct definition such as 'the responsiveness of quantity demanded or quantity following a change in the price of a product'/'measure of demand response to a price change'.</p> <p data-bbox="349 411 835 443">Accept correct formula as alternative.</p> <p data-bbox="349 451 1323 507">Award 1 mark where the change in price is not clearly recognised or where quantity or demand rather than quantity demanded is used in a formula.</p>	[2]	
	<p data-bbox="253 547 297 579"><b>(b)</b></p> <p data-bbox="349 547 1361 643"><b>Using the information in the case study (lines 19-24), comment on the price elasticity of demand for unleaded petrol from March 2007 to March 2008.</b></p> <p data-bbox="349 683 1368 850">An obvious starting point is to calculate the price of elasticity of demand for unleaded petrol from March 2007 to March 2008. This is <math>21/15 = 1.4</math> (2). The estimate is elastic (1) elaboration of what this means (1) confirming the IEA's survey findings that motorists are driving less (1) and spending less on petrol (1) numerical example (2) – 4 maximum</p> <p data-bbox="349 890 1379 1090">In some respects this is surprising (1). It is normally assumed that the demand for petrol is price inelastic (1) since it is an essential product with no substitutes (1). The data are estimates (1), depends on extent of price change; revenue implications. It could mean that more people are using public transport; walking or just not making the trips they would normally take (2). Change in factors affecting demand e.g. environmental, attitudinal (2)</p> <p data-bbox="349 1129 1301 1185">Any of the above points well elaborated – 4 max but estimate comment a maximum of 2.</p>	[8]	<p data-bbox="1514 547 1955 611">Give 1 mark for 21/15 with wrong calculation</p> <p data-bbox="1514 651 2011 715">Can get OFR comment marks even if calculation of PED is wrong.</p>

Question	Expected Answer	Mark	Rationale
5	<p><b>Explain why the price of petrol and diesel fuel may not reflect the true costs of their use.</b></p> <p>The price of petrol is determined to some extent by the market forces of supply and demand. The retail price in the UK is inflated by the way in which indirect taxes on fuel are determined. The true costs of its use are the social costs which include private costs and external costs. These latter costs which include the pollution from vehicle use and congestion costs are invariably not paid for by the user of petrol and diesel powered vehicles. This can lead to over-consumption.</p> <p>Up to 4 marks for an understanding of private costs/social costs/external costs/externalities and for an application of these costs to consumption of petrol and diesel.</p> <p>Up to 2 marks for an analysis of why externalities are not considered, problems of estimation and measurement, to curb over consumption, information failure and excess resource allocation.</p>	<p>[6]</p>	<p>A diagram is an acceptable alternative. Examples of application include CO<sub>2</sub> emissions, pollution, health risks.</p>

Question	Expected Answer	Mark	Rationale
6	<p><b>Discuss whether indirect taxes on petrol and diesel fuel in the UK should be <u>reduced</u>.</b></p> <p>This question requires a balanced discussion of the arguments for and against a reduction in the indirect taxes on fuel. Answers should be in context, although theoretical principles need to be included at all levels.</p> <p><i>The issue is a controversial one. The usual view of economists is that, by increasing indirect taxes, it is producing a situation whereby the private costs are becoming much closer to social costs (Recent research has confirmed this was reached when diesel prices topped 120 pence per litre but we cannot expect candidates to know this.) Historically also, the taxes on fuel have been a very substantial source of revenue for governments.</i></p> <p><i>A reduction in taxation is demanded by the industry lobby which is concerned about competitiveness and being squeezed as a source of huge amounts of revenue collected by the government. If accepted, this would be contrary to previous government policies towards the negative externalities of vehicle use. It would also anger environmental groups. The big increase in government revenue from fuel taxation could be used to fund other forms of government spending. On the other hand, a cut in fuel taxes is likely to reduce government revenue.</i></p>	[18]	

Question	Expected Answer	Mark	Rationale
6 cont	<p><b>L4 For a discussion of whether indirect taxes on fuel should be reduced (13-18)</b></p> <p>A balanced answer is required, with discussion of some of the points stated above. For 16+ marks, the controversial nature of a cut in fuel taxes should be clearly recognised <u>and there should be a judgement on whether the industry or the environmental case has more substance</u>, in which case fuel prices should be increased.</p> <p>Complex ideas have been expressed clearly and fluently in a style of writing appropriate to subject matter. Sentences and paragraphs, consistently relevant, have been well structured using appropriate terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p><b>L3 For an analysis of the case for a reduction in the indirect taxes on fuel. (9-12)</b></p> <p>Answers should contain relevant analysis of the effects of a reduction; a diagram seems appropriate but is not essential for full marks.</p> <p>For 11+ marks, the analysis should have depth and is likely to contain a correctly drawn diagram.</p> <p>Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.</p>		<p>Relevant analysis must underpin this level. This analysis can be in the form of a correct diagram, explained, or in a written format.</p> <p>Analysis of an increase in indirect tax is not answering the question, use NAQ annotation</p> <p>Relevant diagrams are: - shift of S to right - negative externality case, consumption or production situations.</p> <p>Possible analytical diagrams might include: - competitiveness - consumer and producer surplus - XED and PED - complementary goods - regressive nature of tax</p>

Question	Expected Answer	Mark	Rationale
6 cont	<p><b>L2 For an application of knowledge of the effects of a reduction in the indirect taxes on fuel (5-8)</b></p> <p>These answers will essentially summarise the case material in context, using some economic terminology.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p><b>L1 For a knowledge and understanding of indirect taxes (1-4)</b></p> <p>These answers will be descriptive, shallow and include just a few simply made points.</p> <p>Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.</p>	[18]	<p>This can include a series of assertions about the argument for and against a reduction in indirect taxes on fuel e.g. benefits/costs of fuel taxation without any analysis of the reduction.</p> <p>One side only 5-6 marks.</p> <p>A diagram showing a shift to the left of supply can also be L2 but explanation of increase in tax is not answering the question, 6 marks maximum.</p>

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