

## **GCSE**

### **Economics**

Unit **A591/02**: How the Market Works

General Certificate of Secondary Education

### **Mark Scheme for June 2017**

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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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

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**Annotations**

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

Annotation	Meaning
	Tick
	Cross
	Unclear
<b>BOD</b>	Benefit of the doubt
<b>IR</b>	Irrelevant
<b>L1</b>	Level one
<b>L2</b>	Level two
<b>L3</b>	Level three
<b>L4</b>	Level four
<b>NAQ</b>	Not answered question
<b>OFR</b>	Own figure rule
<b>SEEN</b>	Noted but no credit given.
<b>TV</b>	Too vague
	Omission mark
<b>BP</b>	Blank Page

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

'BP' is to be inserted on every blank page and 'SEEN' 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.

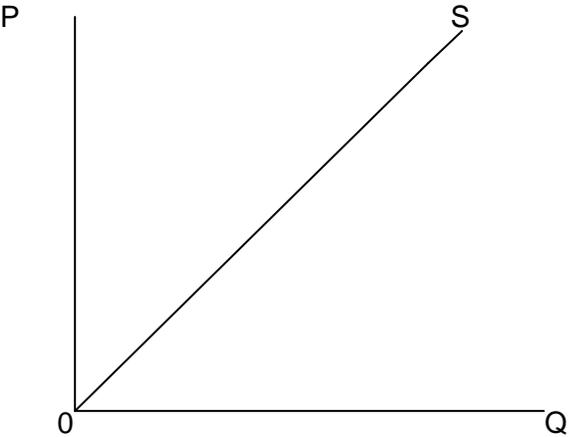
Question		Answer	Marks	Guidance
1	(a)	Opportunity costs is the next <b>best alternative</b> foregone when making a <b>choice</b>	2	Up to 2 marks Give one mark for each correct word in the right place. These are the <b>only</b> acceptable answers..
	(b)	Indicative content: <ul style="list-style-type: none"> <li>• to improve skills/what best at</li> <li>• increase output</li> <li>• increase productivity</li> <li>• reduce costs of production/lower average costs</li> <li>• to improve satisfaction of needs and wants</li> <li>• provide surplus to exchange with others</li> <li>• Higher wages</li> <li>• Achieve monopoly status</li> </ul>	4	Up to 4 marks One mark for each correct identification plus up to 1 further marks for development up to a maximum of two for each part Allow any valid idea. NB the question refers to individuals and firms so either or both are fine. Each mark awarded must be shown by a tick, ie the sum of the ticks must be same as the total mark awarded.
	(c)	(i) Average Revenue = $\frac{[\pounds] 860}{40} [1] = \pounds 21.50 [1]$  Variable costs = $[\pounds] 360 - 200 [1] = \pounds 160 [1]$	4	Up to 4 marks. Give 2 marks for a correct answer even if no working i.e. $\pounds 21.5$ & $\pounds 160$ are worth 4 marks [2+2]. If no $\pounds$ sign shown then a max of 3 marks is available. OFR applies throughout, so <b>do not</b> double penalise for one error. 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.

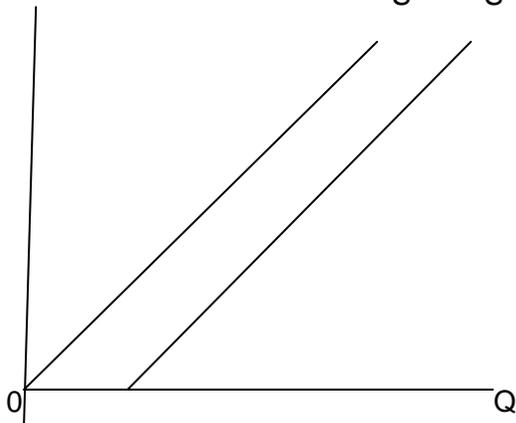
Question		Answer	Marks	Guidance
	(c) (ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>profit for 40 jobs is £380</li> <li>profit for 50 jobs is £300</li> <li>larger profit for doing 40 jobs/less profit falls if the number of jobs increases, as costs rise sharply.</li> </ul> <p>Exemplar Response Profit for 40 jobs is £380 and for 50 jobs is £300 [1]. This shows that it is more profitable to do 40 jobs [1].</p>	2	<p>Up to 2 marks.</p> <p>If only the figures stated then max 1 mark.</p> <p>To get 2 marks there must be some comment i.e. comparison – allow any valid comparison.</p> <p>OFR – if profit totals are miscalculated then 1 mark could still be awarded for a correct comment using those figures.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Exemplar response:</p> <p>Monopolies are good for consumers and the economy because they have the resources for greater R&amp;D which leads to either new products and/or cheaper ways of production and lower prices. On the other hand they can impose costs on consumers by charging high prices. [L2] Monopolies may benefit smaller firms by providing an outlet for their products through external economies of scale, but they may exploit them by not paying them for months or by forcing them to supply at very low prices. [L3] Some monopolies, especially in the public sector, may pay higher wages, but equally in the private sector they may be able to exploit excess supply [L3] by forcing wages down. Internationally, monopolies may opt to pay little tax e.g. Starbucks, or may send their profits home thus denying developing countries the benefit. Overall, while monopolies may provide a range of benefits, the greatest being R&amp;D, the costs are likely to be greater due to the exploitation of consumers, high prices, workers, low wages, and governments, moving profits elsewhere [L4].</p>	8	<p>Indicative content:</p> <p>Benefits may include:</p> <ul style="list-style-type: none"> <li>• higher levels of research and development</li> <li>• afford to produce new products</li> <li>• international competitiveness</li> <li>• gain large economies of scale</li> <li>• higher profit levels</li> <li>• may be able to pay high wages</li> </ul> <p>Costs may include:</p> <ul style="list-style-type: none"> <li>• charge high prices</li> <li>• poor quality products</li> <li>• may become complacent</li> <li>• exploitation of workers</li> <li>• suffer from diseconomies of scale</li> <li>• long time delays for paying</li> </ul> <p>Allow any other valid idea.</p> <p>NB the question is open so candidates may choose to look at it from different viewpoints e.g. consumers, monopolies, governments, etc. Candidates may use material from A593 e.g. globalisation. This is perfectly acceptable, but not required for full marks.</p> <p>Where L3 is gained this <b>must</b> be shown: look for good use of economic concepts.</p> <p>Quality of written communication applies</p>	<p><b>Levels 3 &amp; 4 - AO3</b> <b>Level 2 - AO2</b> <b>Level 1 - AO1</b></p> <p><b>Level 4 [7-8 marks]</b> Candidates give a fully supported answer which clearly considers a range of points and comes to a supported conclusion which addresses 'the extent to which'. Answers at the bottom may offer a very limited number of points or a conclusion which is not clearly supported or ignores 'extent to which'.</p> <p><b>Level 3 [5-6 marks]</b> Candidates are able to analyse a number of relevant points. At the top this analysis must be of at least two points.</p> <p><b>Level 2 [3-4 marks]</b> Candidates are able to apply a number of points. At the top several points will be considered. Answers and/or development of points are likely to be brief.</p> <p><b>Level 1 [1-2 marks]</b> Candidates offer knowledge of monopoly.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
				to the marking of this question.	

Question		Answer	Marks	Guidance
2	(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>the quantity of goods produced [1] per unit of input [1]</li> <li>output [1] per worker [1] (per period of time)</li> <li>measures the ratio of inputs [1] to output [1]</li> <li>output of a firm [1] in a given time period [1]</li> </ul>	2	<p>Up to 2 marks.</p> <p>Allow any valid statement and reward along the lines shown.</p> <p>Each mark awarded must be shown by a tick.</p>
	(b) (i)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>resources allocated by supply and demand</li> <li>all resources are privately owned</li> <li>no [very little] government involvement in resource allocation</li> <li>decisions made by individual buyers and sellers</li> </ul> <p>Exemplar response: All resources are privately owned [1] and are allocated by the forces of supply and demand [1]</p>	2	<p>Up to 2 marks</p> <p>There is 1 mark for a basic statement. The second mark is for another statement which helps to explain the first one (as in the Exemplar) or for development of the first one. Does need some idea of individual/market forces to get 2.</p> <p>Do not allow 'resources are allocated by market forces' which is tautological, unless there is clear explanation as to what this means</p> <p>Each mark awarded must be shown by a tick.</p>
	(ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>resources are allocated by both the government and market forces [public and private sectors]</li> <li>the government will provide public goods</li> <li>the private sector will seek to maximise profits while the public sector will have broader welfare aims</li> <li>the government will seek to regulate and control the private sector</li> </ul> <p>Exemplar response: Resources are allocated by both the private and public sectors [1], but the government will seek to control through taxes etc the private sector [1]</p>	2	<p>Up to 2 marks.</p> <p>There is 1 mark for a basic statement. The second mark is for another statement which helps to explain the first one (as in the Exemplar) or for development of the first one.</p> <p>Pure statements such as 'Both individuals and government allocate the resources' is worth only 1 mark as no explanation/development.</p> <p>Each mark awarded must be shown by a tick.</p>

Question	Answer	Marks	Guidance
(c)	<p>(i) Give 1 mark for correctly plotting the data correctly Give 1 mark for correctly labelling the line</p> 	2	<p>Up to 2 marks:</p> <p>To gain the plotting mark the supply line must start at 0 and the data must, as far as possible, be plotted correctly giving a slight convex shape (curve to the right). A straight (45°) is incorrect</p> <p>✓ at origin; ✓ on the label</p> <p>NB Price and quantity are already given so there is no requirement for candidates to do more.</p> <p>Only mark c1 line in this question.</p> <p>If there are 2 lines, but neither are labelled see if ciii gives any guidance. If one line goes through the origin then take that one to be the line for ci.. If there is no way you can determine which line is which then no marks can be awarded.</p>

Question	Answer	Marks	Guidance
	<p>(ii) Give 1 mark for correctly shifting the supply line to the right. Give 1 mark for correctly labelling the line.</p> 	<p>2</p>	<p>Up to 2 marks</p> <p>Now indicate ticks for this question on the graph</p> <p>✓ on the new rightward shifted supply curve; ✓ on the label</p> <p>No OFR if the supply line is to the left</p>
	<p>(iii) Quantity supplied increased</p> <p>The price fell</p>	<p>2</p>	<p>Up to 2 marks</p> <p>OFR applies re the diagram drawn so a shift of S to the left can gain 2 marks here, but the answers must be logical in terms of the leftwards shift.</p> <p>There is no need for actual figures, but if given are an addition to the ideas shown. If only figures then you must check the graph to ensure they are correct.</p> <p>These are the only acceptable answers.</p>

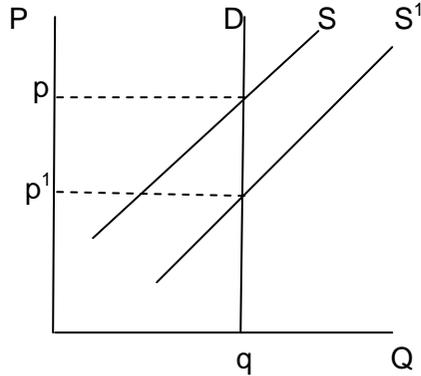
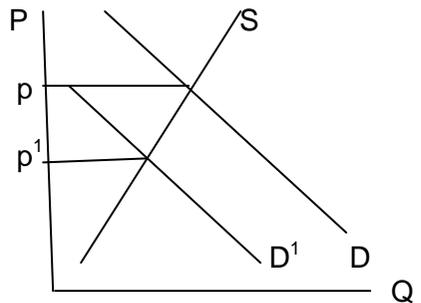
Question		Answer	Marks	Guidance	
				Content	Levels of response
	(d)	<p>Exemplar response:</p> <p>For consumers a product market is likely to result in lower prices and more choice as there will be competition between the sellers. [L2] This is because an increase in suppliers will lead to the supply curve shifting to the right [L3].</p> <p>Producers will also benefit as they may gain more suppliers to choose from and they will have the incentive to become more efficient and increase productivity [L2] which may lead to higher profits [L3]. Greater efficiency could lead to firms gaining a larger market for their goods e.g. being able to export.</p> <p>The economy as a whole will benefit from better allocation of resources.</p> <p>The market might, however, be dominated by a monopoly leading to higher prices, less choice and less innovation [L2]</p> <p>If there is fierce competition then firms may be faced with a scarcity of factors of production and thus rising costs. If firms grow too large then they may encounter diseconomies of scale resulting in higher costs and less efficiency [L3].</p> <p>In general the costs are able to be dealt with either by governments regulating them or by firms being aware of the</p>	8	<p>Indicative content:</p> <p>The <b>product market</b> is the marketplace in which final goods or services are offered for purchase by consumers, businesses, and the public sector. Focusing on the sale of finished goods, it does not include trading in raw or other intermediate materials</p> <p>Benefits may include:</p> <ul style="list-style-type: none"> <li>• lower prices</li> <li>• more choice</li> <li>• competition</li> <li>• increased resource allocation efficiency</li> <li>• wider range of suppliers</li> <li>• helps increase productivity</li> <li>• lead to larger markets for goods</li> </ul> <p>Limitations may include:</p> <ul style="list-style-type: none"> <li>• monopoly power</li> <li>• availability of resources</li> <li>• extent of economies of scale</li> <li>• scarcity and choice</li> <li>• rising costs as factors of production become more scarce</li> <li>• competition</li> </ul> <p>Allow any valid ideas.</p> <p>NB the question is open so candidates</p>	<p><b>Levels 3 &amp; 4 - AO3</b>  <b>Level 2 - AO2</b>  <b>Level 1 - AO1</b></p> <p><b>Level 4 [7-8 marks]</b>  Candidates give a fully supported answer which clearly considers both the benefits and the limitations of the product market and addresses 'to what extent'. Answers at the bottom may have a conclusion which is not clearly supported or fails to address 'to what extent'.</p> <p><b>Level 3 [5-6 marks]</b>  Candidates are able to analyse a number of points in relation to the product market. At the top this will consist of both benefits and limitations. Answers at the bottom may be limited or very one-sided.</p> <p><b>Level 2 [3-4 marks]</b>  Candidates are able to apply a number of ideas to the factor market. Answers at the top will clearly refer to both benefits and limitations. Answers and/or development of points are likely to be brief.</p> <p><b>Level 1 [1-2 marks]</b></p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
		potential for diseconomies. Therefore the benefits are likely to be more long lasting and to be greater than the costs and thus they greatly outweigh the costs.[L4].		<p>may choose to look at it from different viewpoints e.g. consumers, firms, government, etc.</p> <p>Candidates may make reference to ideas from other units of the specification e.g. market failure including external costs.</p> <p>Where L3 is gained this must be shown: look for good use of economic concepts. Answers which consist of several basic assertions with limited development will be at L2.</p> <p>Quality of written communication applies to the marking of this question.</p>	Candidates offer knowledge of the product market. Repetition of the stimulus material will be at this level.
Question		Answer	Marks	Guidance	
3	(a)	Indicative content. The only acceptable answers are: The third one: 'Money is used for buying and selling both goods and services' And the fourth: 'Money takes the place of exchanging goods through bartering'.	2	<p>Up to 2 marks.</p> <p>Accept the first <b>two</b> ticks only i.e. if all four answers are ticked no mark would be awarded.</p> <p>Each mark awarded must be shown by a tick, ie the sum of the ticks must be same as the total mark awarded.</p>	
	(b)	Indicative content: Internal: <ul style="list-style-type: none"> <li>• loss of control of increasing factors of production</li> <li>• /managerial diseconomies</li> <li>• lack of co-ordination</li> <li>• alienation/demotivation of workers</li> </ul>	2	<p>Up to two marks for each correct explanation – 2x2.</p> <p>Candidates may focus on farming or on businesses in general or even another named business or business person.</p> <p>Allow any valid idea.</p> <p>In each case there is 1 mark for a basic point [knowledge] and then 1 more mark</p>	

Question			Answer	Marks	Guidance	
					Content	Levels of response
			Exemplar response: Lack of motivation [1]. As firms become larger workers feel less connected to management and thus less likely to work hard [1].		for some development of this.  Each mark awarded must be shown by a tick, ie the sum of the ticks must be same as the total mark awarded.	

Question		Answer	Marks	Guidance
(c)	(i)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• it rose and then fell [1]</li> <li>• 2010 24.67p, 2013 31.64p, 2015 24.45p [1]</li> <li>• fell steeply from 2014 to 2015 [1]</li> <li>• rose slowly from 2010 24.67p to 2013 31.64p [1]</li> <li>• the 2015 price, 24.45 was the lowest price [1]</li> <li>• 2015 price is similar to 2010 price [1]</li> </ul> <p>Exemplar response: It rose from 24,67p in 2010 to 31.64p in 2013 and then fell slightly to 2014 [1] and then dramatically to 2015 [1].</p>	2	<p>Up to two marks.</p> <p>The question says 'explain' so just stating rose/fell or giving the start/highest/lowest figure is worth a max of 1 mark. Regurgitation of the figures alone is worth zero. A comment on the fall in 2015 is one likely way to gain the second mark.</p> <p>Award any valid explanation.</p> <p>Each mark awarded must be shown by a tick, ie the sum of the ticks must be same as the total mark awarded.</p>
	(ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• loss of regular income from milk purchasers</li> <li>• increased costs in terms of equipment</li> <li>• lower costs of production by using own milk</li> <li>• uncertainty of sales</li> <li>• possibly higher income as they can sell cheese etc for more than milk</li> <li>• more control over own income</li> <li>• the need to make choices/opportunity costs</li> </ul>	4	<p>Up to four marks.</p> <p>There is 1 knowledge mark [L1] There is 1 application mark [L2] There are 2 analysis marks [L3].</p> <p>If you are awarding analysis marks then you must show L3 in the script.</p>

		<ul style="list-style-type: none"> <li>• can decide how to allocate their resources to achieve their objectives</li> </ul> <p>Exemplar response: By deciding to use their milk to produce products such as cheese farmers are making a choice as to how to allocate their resources [L1]. The opportunity cost is in the form of lost income from milk as against gains from sales of cheese etc [L2]. Farmers will incur higher initial costs as they have to buy equipment, but should be able to gain greater profit [L3] and have more control over their incomes rather than the decisions of monopoly buyers [L3]</p>	<p>Analysis is likely to be in terms of:</p> <ul style="list-style-type: none"> <li>• costs explained – as in the exemplar</li> <li>• income/profit/revenue – candidates may refer to just one of these or any combination.</li> </ul> <p>Award any other valid ideas, application or analysis.</p> <p>Each mark awarded must be shown by a tick, ie the sum of the ticks must be same as the total mark awarded.</p>
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Question	Answer	Marks	Guidance	
			Content	Levels of response
(d)	<p>Exemplar response:</p>  <p>If originally price and quantity were <math>p/q</math> and supply increased from <math>S</math> to <math>S^1</math> then supply at <math>p</math> exceeds demand leading to a fall in price to <math>p^1</math> [L3]. Price could also fall due to a decrease in demand. In the diagram below if demand falls from <math>D</math> to <math>D^1</math> then price falls from <math>p</math> to <math>p^1</math> as at the original price [L3].</p>  <p>Prices may also fall if there is an</p>	8	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• over-supply leading to fall in price</li> <li>• fall in demand thus lower price</li> <li>• market has become more competitive</li> <li>• increase in substitutes e.g. soya milk</li> <li>• increase in price of complements e.g. breakfast cereals</li> <li>• imposition of a maximum price</li> </ul> <p>Allow any valid suggestion.</p> <p>NB the question requires reasons so 'yes'/'no' on their own are worth zero.</p> <p>Analysis – expect correctly drawn supply and demand diagram/s and/or good use of economic concepts e.g. correct shift of the supply/demand curve.</p> <p>Candidates may argue which demand factors are the most important or may argue that in all cases there is over-supply which may be the result of various factors.</p> <p>Quality of written communication applies to the marking of this question.</p>	<p><b>Levels 3 &amp; 4 - AO3</b> <b>Level 2 - AO2</b> <b>Level 1 - AO1</b></p> <p><b>Level 4 [7-8 marks]</b> Candidates give a fully supported answer which clearly argues the case for increase in supply and at least one other reason. Answers at the bottom may be very one-sided, possibly increase in supply, or may have a conclusion which is not clearly supported.</p> <p><b>Level 3 [5-6 marks]</b> Candidates are able to analyse at least one cause, probably increase in supply. To reach the top candidates must analyse at least two reasons.</p> <p><b>Level 2 [3-4 marks]</b> Candidates are able to apply knowledge of one or more reasons. Answers at the top will offer at least two reasons applied. Answers and/or development of points are likely to be brief.</p> <p><b>Level 1 [1-2 marks]</b> Candidates offer knowledge of what is meant by over-supply or list factors affecting price.</p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p>increase in competition e.g. from imported milk which would increase supply as in diagram 1 above. In addition, people are moving to products such as soya milk which would decrease demand as in diagram 2 above.</p> <p>As can be seen, all of the above would result in supply exceeding demand so over-supply is the most important reason for the fall in price [L4].</p>			

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