

GCE

Edexcel GCE

Economics (6351/01)

January 2006

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Mark Scheme (Results)

## Mark Scheme

### Section A

#### Key to answers

1	2	3	4	5	6	7	8
C	B	D	C	A	C	A	D

Note 1. If incorrect option is selected, a maximum of 2 marks is available for explanation.

Note 2. Up to 2 marks available for candidates who explain two incorrect options.

**Q1 Answer C (1)**

Explanation of price mechanism e.g. an increase in demand (1) pushes up price (1) which then causes an extension in supply (2).

Diagram to illustrate changes in consumer demand or producer supply (2).

Also award for definition of a free market economy, for example, resources allocated by the price mechanism (1) and limited government intervention (1).

**Q2 Answer B (1)**

Definition of production possibility frontier or opportunity cost (2)

Application of the data (2)

Also award for correct production possibility frontier diagrams showing an

Increase in opportunity cost (2).

**Q3 Answer D (1)**

Definition of PED (2)

Annotation of diagram, showing how PED falls from being elastic, to unitary elastic and inelastic, moving downwards from left to right. (2)

Also accept correct calculations (2)

**Q4 Answer C (1)**

Definition of subsidy e.g. grant/money to firm (1) to increase supply (1)

This leads to lower production costs (1) and a lower price (1).

Also award annotation of diagram showing subsidy area (2).

**Q5 Answer A (1)**

Definition of XED or formula (2)

Tea & coffee are substitutes (1)

Application e.g. a rise in price of tea will cause a rise in demand for coffee. This might be shown by a diagram (1).

Also award for a numerical example (1).

**Q6 Answer C (1)**

Definition of producer surplus (2)

Original producer surplus  $P_2XZ$  (1)

New producer surplus  $P_1YZ$  (1)

Also award for annotation of diagram showing the decrease in producer surplus (1).

Also award for variation of definition of producer surplus eg 'above the supply curve but below the equilibrium price line'. (1)

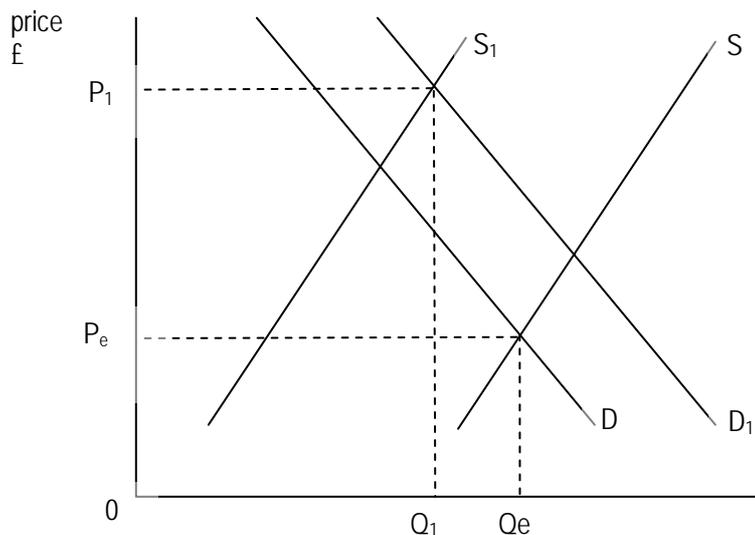
Q7 Answer A (1)  
 Definition of YED or formula (2)  
 Percentage fall in demand 25% (1)  
 Percentage fall in income 50% (1)  
 Also accept cinema demand is a normal good (1) and is income inelastic in demand (1).

Q8 Answer D (1)  
 A rise in real income will cause a decrease in demand for bus transport to  $D_1$  since it is an inferior good (2).  
 An increase in fuels costs will increase production costs and so cause supply to decrease to  $S_1$  (2).

### Section B

#### Question 9 The Price of Tin

(a) Using a supply and demand diagram, explain why 'the price of tin has more than doubled to \$7,820 a tonne since February 2002' (*line 1*).  
 (6)



Correctly labelled diagram showing an increase in demand (1) and a decrease in supply (1), with the original and new equilibrium price (1).  
 Note: If only one curve is shifted then award just (1) mark for the diagram.

The price increase is due to an increase in demand (1 + 1):

- Speculators piled into the metal.
- Tighter environmental restrictions for lead soldering in electronics causing a switch to using tin.
- Strong Chinese demand.

The price increase is also due to a decrease in supply (1):

- Restrictions on tin exports by the Indonesian government.

(b) Using the passage and your own knowledge, discuss whether the supply of tin is likely to be price elastic or price inelastic. Justify your answer. (5)

- Definition of price elasticity of supply, or supply appears to be price inelastic (1).
- Explanation of price inelastic supply or a relevant diagram (1)
- Comment by Ingrid Sternby that the market is likely to remain in deficit until at least 2006 or that demand persistently exceeds supply, or: It appears that supply cannot keep up with the growth in demand, despite the doubling of tin prices since February 2002. (1)
- **Evaluation** ( Two points or one point well developed) (2).
  - Finite quantity of tin resources.
  - Time required exploring and discovering new tin resources.
  - Time required building new tin smelting factories and machinery.
  - Reference to tin stockpiles.

(c) Assess the likely impact of the rise in price of tin 'for the major consumers of tin' (*line 12*). (4)

- The canning, construction and electronics industries are likely to experience higher production costs. They may respond by passing the higher costs on to final consumers via price increases.
  - They may absorb the higher production costs by reducing profit margins.
  - They may consider exiting the industry or switch to using substitutes such as plastic and aluminium.
- Any one point developed (2).

- **Evaluation** (2)
  - The impact on canning, construction and electronics industries depends on the percentage of tin costs to total costs of the products made.
  - The ability of canning, construction and electronics firms to raise price will depend upon the price elasticity of demand for the products made.
  - Discussion of short-run and long-run impact on tin consumers.
  - Discussion of the size of price increase. It was more than doubled.

Availability of substitutes for tin.

Award up to 2 marks for any one point examined.

- (d) Examine one 'demand' factor and one 'supply' factor that might reduce the rate of growth in tin prices.

(5)

Demand factors may include: Less speculative buying, worsening business confidence, a recession, falling price of substitutes, rising price of complements.

Supply factors may include: Discovery of new tin resources, entry of new firms into the tin industry, improved production techniques, relaxed pollution restrictions on tin production, government subsidies to tin producers, increased investment into the tin industry, Indonesian government releasing supplies from stockpile.

Explanation of one demand factor and one supply factor (3). Note, if just a demand or a supply factor is considered, award up to 2 marks.

**Evaluation (2)**

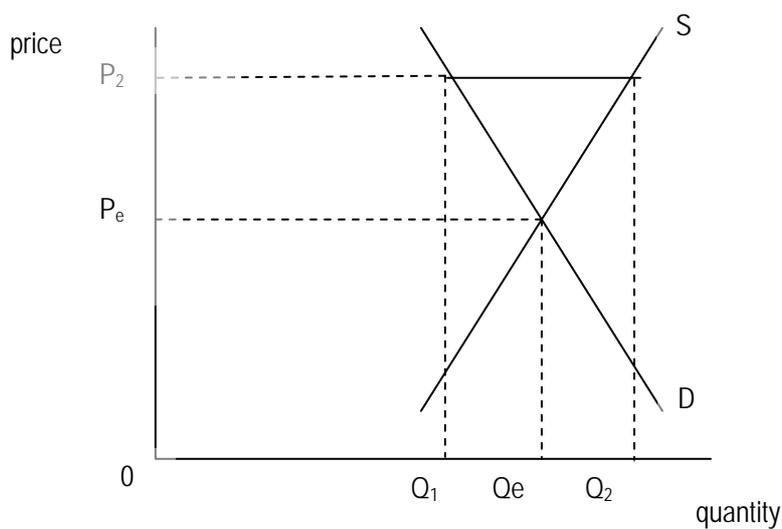
- Prioritise which factor might be most significant.
- Time period under consideration.
- Magnitude of the impact - could tin prices even fall?  
Award up to 2 marks for any one point examined.

**Question 10      The Price of Oil**

- (a) Using a supply and demand diagram, explain the meaning of the phrase 'there is a danger of an excess supply in the oil market'.

(line 4)

(4)



Correctly labelled diagram showing an excess supply. This may be shown by a decrease in the demand curve (2).  
Explanation of supply exceeding demand at the current price (2).

- (b) (i) With reference to Figure 1, explain the relationship between the United States' strategic petroleum oil reserves and the price of oil.  
(3)

Explicit reference to data (1).

The increase in US oil reserves has contributed to an increase in demand for oil and so leading to an increase in oil price (2) or, accept a diagram showing an increase in the demand for oil, pushing up price (2).

Also award for suggestion that rising oil prices might cause the U.S government to increase its petroleum reserve (2).

- (b) (ii) To what extent might the build-up of strategic petroleum oil reserves in the United States undermine the effectiveness of Opec in fixing high oil prices?  
(5)

**Increase supply:** The American government could release some of its oil reserves at any time to reduce the price set by Opec or, fears of another war could lead to the US releasing its oil stockpiles. (up to 3 marks)

**Decrease demand (for Opec oil):** The US is the world's largest consumer of oil and so by switching demand from Opec oil to its own oil reserves, it will have a major impact on the global oil price. (up to 3 marks)

Candidates may use a relevant demand & supply diagram here (1)

**Evaluation (2)**

- The use of US strategic oil reserves might only be a short-term policy since the stocks could be run down fairly quickly.
- The US government has halted its programme of increasing its strategic oil reserve) so placing a downward pressure on price. *(lines 11 & 12)*
- Opec might respond by cutting oil production further to offset the United States build up of oil stocks.
- Other factors could be more significant eg not all oil producers are in Opec or some Opec members may break ranks and exceed their quotas.

Award any one evaluative comment or more up to (2) marks

- (c) Assess the likely economic effects of high oil prices on either the airline industry or the road haulage industry in the United States. (4)

The economic effects are similar to each industry. Candidates could focus on:

- Increase in transport costs and therefore production costs to the industries (1)
- Transport firms may try to pass on the extra costs to their customers via higher prices (1).
- A decrease in output, employment and profits for firms in the industries (1)

Award up to (2) marks

#### Evaluation

The likely economic effects depend upon

- the magnitude of the rise in oil price. Reference could be made to Figure 1.
- the price elasticity of demand for oil by airlines or trucking firms.
  - oil costs as a percentage of production costs to transport firms.
  - lack of substitutes for oil that airline and truck firms can use.
- the time period under consideration - oil prices can be expected to fall in the near future if the US government stops adding to oil reserves.

Award any one evaluative comment or more up to (2) marks

- (d) Examine one disadvantage of specialising in the production of oil for a country such as Saudi Arabia. (4)

Understanding of the term specialisation (1)

Explanation of one disadvantage of specialisation in oil production:

- Price fluctuations leading to unstable producer revenues & export revenues.
- Development of long-term substitutes for oil.
- Exhaustion of oil stocks.
- Immobility of resources through over-specialisation

Award up to 2 marks for any one point explained.

#### Evaluation

The extent of the disadvantage will depend upon the size of oil price fluctuations, the ability of firms to develop oil substitutes and the level of oil reserves. Saudi Arabia has significant oil reserves.

Award up to 2 marks for any one evaluation point.



Unit 1 Assessment Objectives Grid January 2006

Questions	Knowledge	Application	Analysis	Evaluation	Total
<b>Section A</b>					
1	2	1	1	1	5
2	2	2		1	5
3	2	2	1	1	5
4	2	2	1		5
5	2	2	1		5
6	2	2		1	5
7	2	2	1		5
8	2	3			5
<b>Total</b>	<b>16 ÷ 2 = 8</b>	<b>16 ÷ 2 = 8</b>	<b>4 ÷ 2 = 2</b>	<b>4 ÷ 2 = 2</b>	<b>40 ÷ 2 = 20</b>
<b>Section B</b>					
9 (a)	2	3	1		6
9 (b)		1	2	2	5
9 (c)			2	2	4
9 (d)	2		1	2	5
<b>Total</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>6</b>	<b>20</b>
10 (a)	1	2	1		4
10 (bi)		1	2		3
10 (bii)		1	2	2	5
10 (c)	2			2	4
10 (d)	1		1	2	4
<b>Total</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>6</b>	<b>20</b>
<b>A + B</b>	<b>12</b>	<b>12</b>	<b>8</b>	<b>8</b>	<b>40</b>

