AQA

A-level
ECONOMICS
7136/3

PAPER 3 ECONOMIC PRINCIPLES AND ISSUES

Mark scheme

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Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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SECTION A

KEY LIST

1	C	**11**	A	**21**	C
2	B	**12**	C	**22**	A
3	B	**13**	C	**23**	B
4	A	**14**	D	**24**	B
5	B	**15**	D	**25**	B
6	B	**16**	B	**26**	C
7	B	**17**	C	**27**	B
8	D	**18**	C	**28**	A
9	B	**19**	C	**29**	C
10	C	**20**	C	**30**	C

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

SECTION B

INVESTIGATION **Total for this investigation: 50 marks**

3 1 *To what extent, if at all, do the data suggest that houses in the UK were more affordable in 2017 than they were in 2007? You must use the data in **Extract C** to support your assessment.*

[10 marks]

Level of response	Response	Max 10 marks
3	**A good response that:** • is well organised and includes at least three relevant, well-developed issues • makes effective use of the numerical/statistical data in Extract C • shows some appreciation of the limitations of the data • includes a supported final judgement concerning the extent to which the data suggest that houses in the UK were more affordable in 2017 than 2007	**8–10 marks**
2	**A reasonable response that:** • is fairly well organised and includes at least two relevant and fairly well-developed issues • includes some satisfactory use of the numerical/statistical data in Extract C • may show some appreciation of the limitations of the data • at the top of the level, is likely to include a final judgement regarding the extent to which the data suggest that houses in the UK were more affordable in 2017 than 2007	**4–7 marks**
1	**A weak response that:** • is very brief and/or lacks coherence • may include one or more superficial points regarding the extent to which the data suggest that houses in the UK were more affordable in 2017 than 2007 • contains very limited or poor use of the data in Extract C • doesn't show any appreciation of the limitations of the data • may include an unsupported judgement concerning the extent to which the data suggest that houses in the UK were more affordable in 2017 than 2007	**1–3 marks**

When assessing the extent to which the data suggest that houses were more affordable in 2017 than they were in 2007, most students are likely to base their assessment on the data in **Extract C**. However, they can also be rewarded for making relevant use of the other extracts and their own knowledge.

Allow students a small margin of error when quoting from Figures 1 and 2.

Most students are likely to focus on the affordability of 'houses to buy' but can also be rewarded for assessing the affordability of 'houses available to rent'. Students who **only** consider the affordability of 'houses to buy' can be awarded full marks.

Relevant issues include:

- the meaning of affordability
- indicators of affordability, eg changes in house prices, changes in rents, mortgage payments as a percentage of earnings, changes in the ratio between earnings and house prices, rents as a proportion of disposable income, help available from the government to buy a house or pay the rent, ability to save the amount needed for a deposit on a house
- information in Extract B relating to the change in the ratio between median earnings and house prices (risen from 4 to 8 times since 1997 – suggesting houses are less affordable). However, the ratio between median earnings and house prices is not available for 2007, a limitation of the data
- information in Extract B relating to the spending of people with below-average incomes on housing
- the significance of the changes in the 'variable mortgage interest rate' as shown in Figure 1 (eg fallen, with some variability, from around 7.6% to 4.2% - ceteris paribus, making buying a house more affordable)
- the significance of the changes in the mortgage payments for first-time buyers as a percentage of take-home pay, as shown in Figure 2 (declined from around 52% to 32% between 2007 and 2017 – indicating improved affordability for first-time buyers)
- the significance of the data in Figure 3, showing the house price to earnings ratio for first-time buyers (between 2007 and 2017 the ratio fell from 5.4:1 to 5.2:1, indicating little change in affordability for first-time buyers)
- the significance of the data in Figure 4, showing what has happened to the average house price and nominal weekly earnings – these data can be used in several ways, but it is significant that between 2007 and 2017, the average house price rose by 19.9% and weekly earnings rose by 20.5%, indicating little change in affordability. However, since 2008, the average house price has risen much faster than average weekly earnings (40.9%% and 18.7%% respectively)
- limitations of the data might include:
  - some of the data relate to first-time buyers and may not be a fair reflection of affordability of houses in the UK
  - some of the data might be distorted by 'special deals', which may be short term, eg very low interest rates for the first couple of years
  - little information on required deposits, loan to value ratios and other restrictions on lending imposed by the authorities or self-imposed by banks and building societies
  - little information on the age of first-time buyers **or** the growth of 'generation rent' **or** use of 'the bank of mum and dad'
  - there is limited information about the affordability of rented accommodation which is important for an increasing proportion of the population, eg how this has been affected by the growth in the private rented sector and changes to the provision of social housing
  - limited information on the help available from the government for people buying or renting accommodation, eg Help to Buy scheme and housing benefit. Some might mention the so-called 'bedroom tax'
  - changes to stamp duty land tax (SDLT) have also affected the affordability of buying a house
  - there is little evidence showing regional differences in house prices and affordability.

As indicated in the level of response mark grid above, a good response will include a supported final judgement concerning the extent to which the data suggest that houses in the UK were more affordable in 2017 than 2007. A good response will quote data to support the judgement and data should be quoted accurately. The evidence is contradictory and has some limitations, the conclusion is likely to be qualified but what really matters is that it is well supported.

MAXIMUM FOR QUESTION 31: 10 MARKS

Data summary table for Question 31

Figure 1 Standard variable mortgage interest rate	2007 - 2017	Fell from 7.6% to 4.2% - fall of 3.4% (allow percentage fall of around 45% - with a margin of error)
	2007 – mid 2008	Fell from 7.6% to 3.9% - fairly stable thereafter
Figure 2 Mortgage payments for first-time buyers % of mean take-home pay	2007 - 2017	Fell from 52% to 32% - indicating a significant increase in affordability for first-time buyers
	Between 2007 to 2008	Largest fall from 52% to 40% - reduction of 12%
Figure 3 House price to earnings ratio for first-time buyers	2007 - 2017	Fell from 5.4:1 to 5.2:1 (Small reduction over the period)
	2007 - 2012	Fell from 5.4:1 to 4.3:1 (Significant reduction over this period)
Figure 4 Average house price and average nominal weekly earnings	2007 - 2017	**House prices** increase from £189,193 to £226,756 – **increase of 19.9%** **Earnings** increase from £425 to £512 – **increase of 20.5%** Little change in affordability
	2007 - 2008	**House prices** fell from £189,193 to £160,954 – **fall of 14.9%** **Earnings** increase from £425 to £435 – **increase of 2.4%** Significant increase in affordability in the early part of the period.

Although the table above includes figures for the early part of the period, most candidates are likely to focus on changes over the whole period and that is perfectly acceptable. They do not have to consider changes within the period, but some may do so.

Allow a reasonable margin of error when candidates are quoting from Figures 1 and 2.

3 2 *Explain the likely causes of the main changes in house prices that have taken place between 2007 and 2017.*

[15 marks]

Level of response	Response	Max 15 marks
Level 3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11–15 marks**
Level 2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	**6–10 marks**
Level 1	**A weak response provides an answer that:** • has one or more relevant issues identified • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	**1–5 marks**

Remember: AO4, ie evaluation, is not being assessed through this question.

Relevant issues include:

- the distinction between nominal and real house prices; given the data, most students are likely to focus on causes of changes in nominal house prices
- use of the data in Figure 4 showing the changes in house prices over the period
- the role of the demand for and supply of houses as causes of changes in house prices
- determinants of the demand for houses, eg availability of mortgages, cost of mortgages, required loan-to-value ratios, deposit required, income, other factors affecting affordability, confidence and expectations, speculation and property price bubbles, government support, tax changes affecting the property market (may also affect supply)
- determinants of the supply of houses, including factors that determine:
  - long-term changes in the housing stock, eg building new houses, change of use, supply of building land, technological change
  - short-term changes in the flow of houses available to buy, eg building new houses and existing owners' willingness to put their property on the market

- elasticity of demand and supply of houses and their significance to house price fluctuations
- possible reasons why the average house price fell by around 15% in 2008, eg linked to the financial crisis, availability of credit, confidence and the general state of the economy
- possible reasons why the average house price changed little in nominal terms between 2009 and 2012 – demand and supply were both subdued, eg the hangover from the financial crisis, little growth in nominal incomes/falling real incomes, rising unemployment, but low interest rates and low levels of house building
- possible reasons for the substantial rise in the average price of a house between 2012 and 2017 (+34%), eg sustained period of very low interest rates, mortgage finance more readily available, economy growing and unemployment falling, returning confidence and expectations of house prices rising further in the future, the role of the Finance For Lending scheme, the Help to Buy Scheme, changes in SDLT, population/households growing more rapidly than the supply of new properties, planning and other government restrictions on the supply of building land, large house builders 'sitting on' land that could have been used for building new homes
- distinction between those factors that caused short-term changes in the average house price between 2007 and 2017 and those that resulted in a general upward trend in the nominal average house price
- consideration of causes of differences in the change in the average house price in different regions of the UK.

The use of relevant diagrams to support analysis should be taken into account when assessing the quality of a student's response to the question.

MAXIMUM FOR QUESTION 32: 15 MARKS

3 3 *After considering **Extract E**, and the original evidence in **Extracts A**, **B**, **C** and **D**, would you recommend that the Government should increase its spending on housing? Justify your recommendation.*

[25 marks]

Level of response	Response	Max 25 marks
Level 5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21–25 marks**
Level 4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16–20 marks**
Level 3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	**11–15 marks**
Level 2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6–10 marks**
Level 1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes analysis which is, at best, very weak • includes attempted evaluation which is weak and unsupported.	**1–5 marks**

Relevant issues and areas for discussion include:

- adequate housing as a basic human need, indicated by the mention of housing as a merit good in Extract E
- population growth, leading to more households, outstripping the growth in the UK's housing stock
- different methods of dealing with the problems experienced in the housing market, some of which involve more government spending on housing, eg relaxing planning controls, eliminating other impediments to private sector provision of more houses, making it easier for people to borrow, cutting SDLT, making it more expensive for people to buy and own a second home, discouraging housebuilders from sitting on building land, 'encouraging' local authorities to build more houses, subsidising housing associations, increasing 'housing benefits' paid to people on low incomes, rent controls, measures to encourage the provision of low-cost housing, encouraging innovation and improvements in productivity in the construction of houses
- an assessment of the pros and cons of some of the above
- the impact of more government spending on housing on the budget deficit and the national debt
- the significance of the type of government spending and whether it affects the 'current budget balance' or the overall budget balance, ie ceteris paribus, more capital spending will increase the overall budget deficit but not the current deficit
- the macroeconomic consequences of an increase in the budget deficit and national debt
- possible opportunity cost of an increase in government spending on housing, eg reduced spending on other programmes, higher taxes, crowding out of the private sector
- the case for more government borrowing for capital projects when government borrowing costs are low
- are there sufficient resources, eg construction workers, available to increase the number of houses built?
- increased spending on house building and short-run economic growth, including possible multiplier effects
- increased spending on house building and long-run economic growth
- market failure in the housing market and the possibility that state intervention may result in government failure
- the case for more state provision and ownership of the housing stock versus encouraging more private-sector provision
- should private-sector provision be encouraged by deregulation and relaxing planning controls or by the state giving financial support to the sector and/or homebuyers?
- are measures that make housing more affordable likely to help by encouraging private sector providers to build more homes or are they likely to just bid up house prices, adding to the problem?

Good answers are likely to present and evaluate arguments for and against the government increasing its spending on housing. They are also likely to discuss other methods of dealing with the problems of the UK housing market. The significance of and the impact on the macroeconomy of increasing spending on housing are likely to be considered, as well as possible microeconomic effects of specific policies identified. The response should include a supported recommendation which could be either for or against the government increasing its spending on housing. The recommendation might also include an alternative policy or set of policies.
The use of relevant diagrams to support analysis should be taken into account when assessing the quality of a student's response to the question.

An answer that does not include ANY evaluation must not be awarded more than 13 marks.

MAXIMUM FOR QUESTION 33: 25 MARKS