IQM3005

LEVEL 3 · CONTROLLED STAFF DOCUMENT

INTO QUALIFICATIONS

Economics

Assessment 1: Controlled response to data

STAFF ONLY · Mark scheme

Duration
2 hours

Total marks
30

Assessment window
To be assigned before issue

Assessment set
Set S of 2026

Audience
Staff only

Release timing
exam release

Exam date
_____

Assessment set ID
2026-S

STAFF ONLY · Use only this assessment-specific scheme and approved standardisation decisions.	
Assessment window To be assigned before issue	**Exam date** _____
Paper Paper 1	**Assessment set** Sample 2026· ID2026-S

General marking principles

- Record every awarded mark in the corresponding OCR-readable annotation on the candidate response document.
- Credit equivalent valid answers only where the approved item-specific scheme permits them.
- Do not infer grade boundaries from raw marks; award boundaries are held in programme specifications.
- Paper 1 assesses AO1–AO4. Apply the approved item-specific level or point allocation only.

Positive point marking. Credit equivalent valid economic reasoning. Apply only the stated maxima and do not award the same evidence twice within an item. Do not add an unstated penalty for language, missing introductions or diagram style. All eight scored locations contribute to the 30-mark total.

Item ID	Question / requirement	Solution and allocation	Alternatives / notes	Max
Q1(a)	Using Table 1 in Extract B and the original values as the percentage-change bases, calculate the price elasticity of demand for bus journeys. Show your working.	1 mark (AO1): Uses a valid percentage-change method and obtains quantity +10% and fare −20% (allow one arithmetic error where the method is valid). 1 mark (AO2): PED = +10% ÷ −20% = −0.5. Accept magnitude 0.5 when the convention is clear.	A bare correct final PED earns the AO2 mark. Do not award midpoint calculations because the question specifies the original-value bases.	2
Q1(b)	Using your answer to Q1(a) and Extract B, explain why demand for bus journeys during the trial was relatively price inelastic.	1 mark (AO1): Explains that the absolute value of PED is below 1. 1 mark (AO2): Applies the trial: a 20% fare fall produced a smaller proportionate 10% rise in journeys. 1 mark (AO2): Gives an applied reason, such as the reported limited practical alternatives at peak times.	Credit an equivalent valid applied reason. Do not award the final mark for a generic assertion with no link to the routes or passenger circumstances.	3

Q1(c)	Using Extract B, analyse how the fare reduction affected (i) weekly fare revenue and (ii) passengers.	1 mark (AO2): Applies the rise in weekly journeys from 80,000 to 88,000 (10%). 1 mark (AO2): Calculates or accurately uses weekly fare revenue falling from £200,000 (£2.50 × 80,000) to £176,000 (£2.00 × 88,000), a £24,000 or 12% fall. 1 mark (AO3): Explains that the fare fell proportionately more than journeys rose, so revenue fell because demand was relatively price inelastic. 1 mark (AO3): Explains the passenger effect: more journeys were made and each journey cost less, while recognising that the data do not identify the number of unique passengers.	Credit equivalent accurate revenue working. Do not infer that every passenger travelled more often or that passenger welfare is fully measured by the two observations.	4
Q2(a)	Using Extract C, explain how fixed costs differ from variable costs in the short run. Use one example of each cost faced by Lydon Transit.	1 mark (AO1): Fixed costs do not change with output in the short run. 1 mark (AO2): Applies the £18,000 monthly depot lease as a fixed cost because the payment is unchanged by services operated that month. 1 mark (AO1): Variable costs change as output changes. 1 mark (AO2): Applies diesel as a variable cost because purchases rise when additional bus kilometres are operated.	Credit equivalent accurate examples only where the short-run relationship to output is explained. Do not classify all labour costs without information about contracts or the time period.	4

Q2(b)	Using Extract C and a long-run average cost diagram, explain how increasing the scale of Lydon Transit may lead to economies of scale.	1 mark (AO1): Provides an accurate, clearly labelled LRAC diagram with output and average cost axes. 1 mark (AO1): Explains that long-run average cost falls as output or scale increases over the relevant range. 1 mark (AO2): Applies a source of economies from Extract C, such as bulk spare-parts purchasing or a specialist maintenance team. 1 mark (AO2): Explains how the selected source reduces cost per bus kilometre, service or other valid unit as scale increases.	The requested diagram is required for the diagram mark. A full U-shaped LRAC is acceptable but not required. Do not credit spreading the short-run lease alone as proof of long-run economies of scale.	4
Q3(a)	Using Extract E, explain what is meant by a positive externality of consumption in the context of bus travel.	1 mark (AO1): A positive externality of consumption is an external benefit received by third parties that is not fully reflected in the consumer's private decision or the market price. 1 mark (AO1): Explains that the social benefit of an additional bus journey can exceed the private benefit where it replaces a car trip. 1 mark (AO2): Applies a third-party benefit from Extract E, such as reduced congestion for other road users or reduced local air pollution for residents.	Not every additional passenger generates the stated benefit; the extract says some previously walked or cycled. Credit this as a qualification, but it is not required for full marks here.	3

Q3(b)	Using a diagram, explain how the positive externality in Extract E may cause market failure in bus travel.	1 mark (AO1): Correctly labels marginal private benefit (MPB) and marginal social benefit (MSB), with MSB above MPB. 1 mark (AO2): Includes a correctly labelled marginal social cost = marginal private cost curve and the market equilibrium. 1 mark (AO2): Identifies the socially efficient quantity above the market quantity and applies the divergence to socially valuable bus journeys. 1 mark (AO3): Explains under-consumption and welfare loss because consumers respond to MPB while third-party congestion and pollution benefits are omitted.	Credit an economically equivalent diagram that clearly shows private and social benefits or costs and the resulting under-consumption. The explanation must be consistent with the diagram.	4

Q4	Using Extracts D, E and G, analyse how the proposed £0.40 passenger subsidy may reduce the market failure associated with bus travel, and briefly evaluate one limitation of this intervention.	Analysis — maximum 4 marks (AO3): • Identifies the subsidy as a £0.40 payment to operators for each eligible passenger journey. • Explains that it can lower the effective private cost of providing journeys and may lower fares or increase service provision. • Develops how lower fares or more services may increase bus journeys, including journeys that replace car trips and create third-party congestion or pollution benefits. • Explains how the increase may move consumption towards the higher socially efficient quantity where MSB = MSC. Evaluation — maximum 2 marks (AO4): • Identifies one relevant limitation, such as incomplete fare pass-through or market power, poor targeting where passengers switch from walking or cycling, an incorrectly set subsidy, the fixed public budget or opportunity cost. • Develops the limitation into a reasoned judgement about how far the subsidy would correct the market failure in Lydon.	Award up to four marks for a coherent analytical chain and up to two for one developed limitation. Do not credit higher passenger numbers alone as proof of improved resource allocation. Credit an equivalent valid limitation once.	6