

**GCSE**

**Economics**

**Summer 2009**

**Mark Schemes**

Issued: October 2009



**NORTHERN IRELAND GENERAL CERTIFICATE OF SECONDARY EDUCATION (GCSE)  
AND NORTHERN IRELAND GENERAL CERTIFICATE OF EDUCATION (GCE)**

**MARK SCHEMES (2009)**

**Foreword**

***Introduction***

Mark Schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

***The Purpose of Mark Schemes***

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of 16- and 18-year-old students in schools and colleges. The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes therefore are regarded as a part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

The Council hopes that the mark schemes will be viewed and used in a constructive way as a further support to the teaching and learning processes.

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## CONTENTS

	<b>Page</b>
<b>Foundation Tier</b>	
Paper 1	1
Paper 2	9
<b>Higher Tier</b>	
Paper 1	17
Paper 2	27





*Rewarding Learning*

**General Certificate of Secondary Education**

**2009**

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**Economics**

Paper 1  
Foundation Tier

**[G2701]**

**WEDNESDAY 13 MAY, MORNING**

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**MARK  
SCHEME**

1 (a) Allow [1] for identification of correct data and [1] for the correct calculation.  
 $\pounds 5.73 - \pounds 5.52 = \pounds 0.21$  [2]

(b) The first paragraph states that this represents a 3.8% rise in the national minimum wage at a time when inflation was measured at 2.5%. This is a real increase because workers will experience an increase in spending power provided that their spending patterns and the prices that they pay are similar to those used in the calculation of inflation. Allow up to [2] for identification of a real increase and up to [3] for the supporting explanation subject to a maximum of [4] [4]

2 (a) Employers may prefer to take on more experienced workers if they have to pay the higher rate of wages. This means that there would be fewer openings in the job market for younger workers and they would miss out on the opportunity to gain experience of the workplace. Having to pay younger workers the higher rate would add to firms' wage bills, so they may cut back on recruitment. Allow [1] for stating a reason and [1] for the development. [2]

(b) Possible reasons why the national minimum wage paid to older workers differs to that paid to younger workers include:

- older workers may have more skills and experience than younger workers and be generally more productive
- younger workers may be doing less responsible jobs in a workplace
- older workers may be more settled in the workplace and a higher wage rate may reduce labour turnover
- to encourage younger workers to stay on at school/college to gain more qualifications

Other relevant points to be credited as appropriate

Allow up to [2] for each valid reason ( $2 \times [2]$ ). [4]

3 (a) Allow [1] for identification of each correct answer as follows:

Sectors with the highest percentage of minimum wage jobs are:

1. Retail (39.8%) [1]
2. Hospitality (21.5%) [1]

AVAILABLE  
MARKS

6

6

- (b) Possible reasons for the high number of jobs that pay the national minimum wage in these sectors include:
- many jobs in the retail and hospitality sectors do not require high levels of qualifications or training, hence there is a large supply of workers
  - jobs in retail in particular are often done by young workers who are paid the Youth Development rate of the NMW or the lower rate for 16-17 year olds
  - many of the jobs in these sectors are part-time and/or done by females and the rates of pay for these groups tends to be low
  - competition in the retail and hospitality sectors forces firms to try and control costs

Allow up to [3] for the identification of each reason. (2 × [3]). [6]

8

4 The main reasons why the government introduced an NMW in 1999 were as follows:

- market forces were judged not to be operating efficiently or effectively. In other words, there was market failure. Its purpose was to raise the wages of the lowest paid workers
- the government hoped that by raising the wages of the lowest paid, it could help to reduce levels of poverty. This had been established as an important target of government policy
- it was felt that employers were in a powerful position and able to dominate the market, hence pay would have remained low in many sectors of the economy if the government had not intervened
- higher wages were expected to create incentives and encourage more people off benefits who might otherwise be caught in the poverty trap
- higher wages could increase morale amongst workers and lead to increases in productivity. Employers might also invest more in their training if they were paying them higher wages
- the NMW was expected to reduce some of the traditional wage differences that have existed in the economy such as those between men and women
- higher wages were expected to reduce the need for some benefits payments as well as helping the public purse by bringing in some additional revenue from income tax and VAT on additional spending

Allow [1] for the identification of each reason and up to [2] the supporting explanation. (2 × [3]). [6]

6

- 5 (a) Fig. 3 shows that employment has increased from nearly 26.1 million to 28.8 million since 1999. Allow [1] for indicating an increase in employment and [1] for use of data. [2]
- (b) Possible causes of the increase in employment include:
- the impact of the NMW – more workers have been attracted into the workforce
  - increase in immigration – the UK has become an attractive destination for workers from the EU
  - older people are remaining in the workforce
  - increased investment in the UK
  - reforms to the tax and benefits system have encouraged more people back into work
  - the economy grew during this period and this increased the demand for workers
  - more business start-ups
  - increased multinational investment in the UK
- Allow [1] for identification of each point and [1] for each explanation (3 × [2]). [6]
- 6 (a) Allow [1] for identifying **receptionists**. [1]
- (b) Allow [1] for identification of each point and [1] for the explanation (2 × [2]). Possible reasons include:
- receptionists are frequently employed on a part-time basis and more females work part-time
  - more females are trained in the office practice and hospitality skills that receptionists need. Therefore more trained and experienced females than males are available and apply for jobs
  - the work is perceived as more of a ‘female’ occupation therefore fewer males apply for jobs [4]
- (c) (i) £27.58. Allow [1] for using correct figures and [1] for calculation. [2]
- (ii) Allow [1] for identifying each relevant point and up to [2] for the explanation (2 × [3])  
Possible reasons why workers in some occupations such as doctors are paid more than others, such as bar workers, include:
- Compared to bar workers, doctors require highly specialist qualifications, years of training and experience, therefore the supply of people who can become doctors is much more limited than the potential supply of bar workers
  - the demand for certain occupations is high relative to the supply. For example, there is a limited pool of talented individuals who are capable of becoming doctors, therefore it is necessary to pay high wage rates to attract the best people

- some sectors are dominated by part-time and/or female employees and in spite of equal pay legislation, the bar staff often do not have strong bargaining power with employers
- the government has put more money into the health service and this has included a generous pay package for doctors [6]

(d) Possible effects of high pay settlements for some workers on the UK economy include:

- increased demand for luxury goods and services – Source 2 refers to the increased demand for luxury houses in London and the 5 year waiting time for a Rolls-Royce
- job creation – good for some firms that specialise in the luxury end of the market
- workers are attracted from outside the UK, in particular the EU
- more imported goods and services
- possibility of rising wage costs in general as other workers seek higher wage settlements with the possibility of cost-push inflation
- high pay settlements can lead to higher unemployment

**Level 1 ([1]–[2])**

One effect is identified but there is little to no discussion to support this. Quality of written communication is limited.

**Level 2 ([3]–[4])**

One or two effects are identified and there is an attempt to discuss some effects on the economy. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

Two effects are identified and discussed in depth. Quality of written communication is of a high standard.

[6]

19

- 7 There are many possible economic consequences for the UK economy of the growing gap between rich and poor. These include:
- differences in health are outlined in Source 3. Poorer people have poor health and lower life expectancy. If inequalities continue to widen, there are likely to be more premature deaths of adults and young people. This is very poor use of the human resources that are available to the economy. Resources that have to be spent in providing health care could be reallocated
  - government will have to spend more money on benefits to support those on low pay and this will have an impact on the public purse
  - a dual society could develop where there is one lifestyle for the rich while poorer income groups struggle to make ends meet. This could lead to social divisions
  - government income and spending plans will be affected as the poor will not be contributing as much to tax revenue yet higher levels of public spending will be needed to pay benefits
  - educational achievement of the poor will be affected and this will reduce the quality of the workforce and the economy's ability to compete in a global marketplace
  - growing inequality may act as an incentive to be enterprising

**Level 1 ([1]–[3])**

One or two points are made but these are not supported with a relevant discussion. Quality of written communication is limited.

**Level 2 ([4]–[6])**

Two points are made and there is some attempt to develop a relevant discussion. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

At least two points are made and discussed in detail. Quality of written communication is of a high standard.

[9]

9

- 8 (a) Changes to the tax system in the UK could reduce inequality by:
- changing tax allowances and/or tax bands could reduce the tax burden on lower income groups
  - tax allowances could be changed to target low income individuals and groups such as single parents or pensioners

**Level 1 ([1]–[2])**

One point is identified but it is not well explained. Quality of written communication is limited.

**Level 2 ([3]–[4])**

One or two points are identified and there is some explanation. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

Two points are identified and well explained. Quality of written communication is of a high standard.

[6]

- (b) Changes to the benefits system in the UK could reduce inequality, for example:

- benefits could target those most in need, e.g. the Working Tax Credit aims to give families on low pay more incentives to work as they will not start to pay tax until their income reaches a set level
- low income families could be supported with the cost of child care, hence allowing parents to work
- increasing specific benefits such as the basic rate of state pension, or the winter fuel payments for pensioners

**Level 1 ([1]–[2])**

One point is identified but it is not well explained. Quality of written communication is limited.

**Level 2 ([2]–[4])**

One or two points are identified and there is some explanation. Quality of written communication is satisfactory.

**Level 3 ([4]–[6])**

At least two points are identified and well explained. Quality of written communication is of a high standard.

[6]

- (c) Increased government spending on education and training could reduce inequality by:
- providing opportunities particularly for the long-term unemployed, to improve skills and qualifications that may help people to become employed
  - providing experience of the workplace that will help to improve confidence and skills, and possibly help job prospects
  - providing career guidance about areas in which people who have been out of work for a long time may have opportunities to find work
  - providing new prospects and reduce reliance on benefits

**Level 1 ([1]–[2])**

One point is identified but it is not well explained. Quality of written communication is limited.

**Level 2 ([3]–[4])**

One or two points are identified and there is some explanation. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

Two points are identified and well explained. Quality of written communication is of a high standard.

[6]

**Total**

**AVAILABLE  
MARKS**

18

**80**



*Rewarding Learning*

**General Certificate of Secondary Education  
2009**

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**Economics**

Paper 2  
Foundation Tier

[G2702]

**FRIDAY 15 MAY, AFTERNOON**

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**MARK  
SCHEME**

## Section A

AVAILABLE  
MARKS

(Answer **all four** questions.)

1 (a) The equilibrium price is the price at which there is no tendency to change [1]. It will occur where the demand curve cuts the supply curve [1] [2]

(b) (i) Allow [1] for labelling as follows:

- the demand and supply curves
- a shift to the right of the demand curve
- the new equilibrium price and quantity

(3 × [1])

(ii) Allow [1] for labelling as follows:

- the demand and supply curves
- a shift to the left of the supply curve
- the new equilibrium price and quantity

(3 × [1]) [6]

(c) Allow [1] for identification of each advantage and disadvantage and [1] for each explanation  
(2 × [2])

Possible advantages include:

- farmers' incomes could increase
- increased spending in rural areas

Possible disadvantages include:

- food prices for consumers will rise
- increase in inflation [4]

12

2 (a) Allow [1] for stating that a mortgage is a long term loan and [1] for linking it with the purchase of property (2 × [1]). [2]

(b) Allow [1] for identification of each point and up to [2] for the explanation  
(2 × [3]).

Possible answers include:

- An overdraft allows a consumer to withdraw more money than they have in their bank account. Interest is only charged on the amount overdrawn and the overdraft is repayable on demand
- A personal loan is a sum of money borrowed which is repaid, with interest, over a fixed period of time
- A credit card allows the consumer to purchase items on credit up to a maximum limit. The consumer has to repay a minimum amount each month. If the bill is cleared in full then no interest is charged

[6]

- (c) Allow up to [2] for each point  
(4 × [2]).

Possible answers include:

Advantages

- First time buyers are better able to afford houses
- Reduces inflation
- People will not need to borrow as much to buy a house

Disadvantages

- Falling wealth leads to householders spending less
- Homeowners may be unable to move due to negative equity
- Fewer houses may be built leading to unemployment in the construction industry [8]

16

- 3 (a) Allow [1] for stating that someone is out of work and cannot find a job and [1] for stating that they are part of the workforce and are available for work. [2]

- (b) Allow [1] for identification of each type of unemployment and up to [2] for each description (2 × [3]).

Possible answers include:

- Frictional unemployment – this is caused by workers changing jobs
- Seasonal unemployment – this is when workers are unemployed for part of the year due to seasonal demand for their services  
e.g. fishermen
- Structural unemployment – this is unemployment due to the changing structure of the economy
- Cyclical unemployment – this is caused by a fall in demand as part of the trade cycle [6]

- (c) If the government reduced taxes and increased spending this could have a number of effects on unemployment. These include:
- Increased spending in the public sector could lead directly to more jobs  
e.g. nurses, teachers
  - Increased spending by government could also generate additional jobs indirectly, e.g. building more schools would create jobs for workers in cement plants
  - Reduced taxes would lead to a rise in spending helping reduce unemployment
  - If taxes on profits were reduced firms might invest more creating jobs

#### Level 1 ([1]–[2])

Some understanding of how government tax and spending decisions may affect unemployment. Quality of written communication is limited.

#### Level 2 ([3]–[4])

One or two points about how government tax and spending decisions may affect unemployment are discussed to a reasonable standard. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

At least two points about how government tax and spending decisions may affect unemployment are well discussed. Quality of written communication is of a high standard. [6]

- 4 (a) Allow up to [2] for each point up to a maximum of [4]

Possible answers include:

- A merit good is one which is beneficial to society but would be under-consumed if left to the market
- Healthy school dinners should improve nutrition and reduce obesity
- If healthy dinners were not provided school children might eat unhealthy junk food or skip lunch altogether
- Some families may not be able to afford to buy a healthy meal for children therefore school meals are subsidised and they are provided free to those most in need [4]

- (b) There are a number of ways the government might discourage the consumption of junk food. These include:

- Placing a ban on junk food in the same way as alcohol was banned in the USA during Prohibition
- Imposing indirect taxes on junk food in an effort to reduce the quantity demanded. Examples include taxes on alcohol and cigarettes
- Educating people about the dangers of consuming junk food as in the case of anti-smoking campaigns
- Restricting advertising on junk food, or banning any advertising as a way of reducing consumption. An example is the ban on cigarette advertising

Allow [1] for identification of each way in which consumption could be discouraged, and up to [2] for each explanation ( $2 \times [3]$ ). [6]

- (c) A fall in the consumption of demerit goods, such as junk food, could have a range of effects on consumers and firms. These include:

Consumers

- Health benefits if they switch to a healthier diet
- Increase in disposable income if demerit goods are taxed
- Opportunity costs associated with reallocating their spending

Firms

- Fast food companies may see a fall in profit and sales
- Fast food companies may have to lay off workers and they may diversify into other product lines
- Other companies may see a rise in demand for their products, e.g. sandwich bars

**Level 1 ([1]–[2])**

Some understanding of the effects of taxes on fast food on the economy. Quality of written communication is limited.

**Level 2 ([3]–[5])**

A fair understanding of a range of effects of a tax on junk food. Quality of written communication is satisfactory.

**Level 3 ([6]–[8])**

A comprehensive discussion of the various effects of a tax on junk foods. Quality of written communication is of a high standard.

AVAILABLE MARKS
18

5 (a) (i) Total cost of producing 600 burgers per week is £900 [1]

(ii) Variable cost of producing 800 burgers per week is £400 [1]

(b) (i) Total revenue is the amount of money earned by the firm and is calculated by the formula: Price  $\times$  Quantity [2]

(ii) Allow up to [2] for each definition ( $2 \times [2]$ ) and [1] for each example ( $2 \times [1]$ ).

Fixed costs are costs that the firms incurs irrespective of the level of business activity. Examples include cost of premises and equipment  
Variable costs depend on the level of output for the firm. For Betty's these include the cost of the ingredients to make the burgers such as baps and beef. [6]

(c) (i) Allow [1] for each of the following:  

- Total cost line plotted
- Total revenue line plotted
- Break-even position shown at 600 burgers

( $3 \times [1]$ ) [3]

(ii) Allow up to [3] for explanation that indicates understanding that the firm will not start to make a profit until it has sold 600 burgers per week and that it will go out of business if it is not able to break-even. [3]

(d) The 10% rise in price of a burger to £1.65 will lead to fewer burgers being bought. This is the normal law of demand that less will be bought at a higher price than a lower price. The fall in demand will depend on a number of factors such as consumer loyalty and the price of substitute products. For a product like this, it is likely that there will be substitute products therefore consumers may switch demand to cheaper alternatives. However, all producers in the market may be experiencing rising costs and have to increase their prices so demand may not fall that significantly. Candidates may express this situation in terms of the price elasticity of demand for burgers.

Betty's profits may fall if costs rise and fewer burgers are sold (total revenue down). It all depends on the extent of the reaction by consumers. If quantity demanded falls by less than the price rise of 10%, total revenue should increase and improve profits.

**Level 1 ([1]–[2])**

Some understanding of how the price rise could affect quantity sold or profits. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

There is reasonable discussion of how the price rise could affect quantity sold and profits. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

There is a well developed discussion of how the price rise could affect quantity sold and profits. Quality of written communication is of a high standard.

[6]

- (e) Allow [1] for identification of each advantage and disadvantage, and [1] for developing each point ( $4 \times [2]$ ).

Possible advantages of expanding the business include:

- Higher sales, higher potential profits and higher market share.
- Betty's can take advantage of economies of scale, in particular marketing economies as the brand name may become better known and they will be able to use the same logos and advertising
- They could also benefit from purchasing economies of scale as they will be able to buy ingredients in bulk
- Managerial economies of scale could be developed with specialist managers taking responsibility for key areas of the business across all outlets
- Betty's may be able to take the risk of opening in areas where it is not well known and possibly develop new product lines, hence benefiting from risk-bearing economies
- Betty's could also benefit from external economies of scale such as being able to employ trained and skilled chefs to make the pizzas hence minimising the need for training
- Profits may increase if Betty's can take advantage of economies of scale

Possible disadvantages of expanding the business include:

- If Betty's expands too quickly and is not properly managed, or has not researched new markets sufficiently, it could experience diseconomies of scale resulting in the average cost of each pizza rising
- This could lead to Betty's experiencing financial problems as profit levels could be affected

[8]

- 6 (a) (i) Allow [1] for indicating that there has been a steady increase in the rate of inflation in 2008 and up to [2] for using the data. Inflation was measured by the CPI in August 2007 at just below 2%. By February/March 2008 inflation increased to approximately 2.5% but in the following 5–6 months, inflation rose sharply to approximately 5%. [3]
- (ii) Allow up to [2] for explaining that cost push inflation is caused by an increase in firm's costs which are then passed on to consumers in the form of higher prices. Allow up to [2] for explaining that cost push inflation may be caused by higher taxes, higher wages or a rise in the cost of raw materials ( $2 \times [2]$ ). [4]

(b) The effects of rising inflation include:

Consumers

- Disposable income will fall as the cost of living rises
- People on fixed incomes will feel the effects of inflation more than those whose incomes are index-linked or have pay awards that reflect the rate of inflation

Savers

- The value of savings will fall
- Fewer people will be attracted to save

Businesses

- Changes in patterns of expenditure will have an impact on different sectors of the economy. Demand for luxury goods will fall while demand cheaper substitutes will rise
- Industrial unrest among workers if pay awards are not sufficient to enable them maintain their standard of living. This may result in lost production

**Level 1 ([1]–[3])**

There is some recognition of the effects of rising inflation but this is not developed or explained. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

The main effects of rising inflation are identified and supported with some explanation. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

The main effects of rising inflation are well explained. Quality of written communication is of a high standard. [9]

- (c) Increases in the rate of interest made by the Bank of England's Monetary Policy Committee will make loans more expensive to repay. Home owners will experience more expensive repayments on mortgages and any repayments on other types of personal loans are also likely to increase. A higher rate of interest should result in reducing aggregate demand and this should reduce pressure on prices. If inflation is being caused by demand-pull factors, inflation should slow down. However, if the cause of inflation is mainly cost-push factors such as rising oil prices, increasing the rate of interest may not be effective in reducing inflation.

**Level 1 ([1]–[2])**

There is some understanding of how interest rates affect consumer demand but this is not well developed. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

There is a reasonable explanation of the link between interest rates and inflation. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

There is a well developed explanation of the link between inflation and interest rates. Quality of written communication is of a high standard. [6]

- (d) **Fig. 2** outlines that the economy is suffering from the credit crunch. It also states that the cost of living is rising and economic growth has slowed down. If interest rates rise, this is going to make things much more difficult for consumers. Higher repayments will mean less consumer spending and with the cost of living already rising, people on low and/or fixed incomes will be most affected. Poverty levels could rise. Higher interest rates will also cause the rate of economic growth to slow down as fewer goods and services will be produced in the economy. This could lead to other problems such as reduced tax revenue for the government and this most likely result in cuts in public spending. Candidates are not expected to have detailed knowledge of the popular term, the ‘credit crunch’, but credit should be given if candidates indicate that in the current economic climate it has become more difficult to borrow money at a low rate of interest.

**Level 1 ([1]–[3])**

One or two effects of rising interest rates on the economy are identified but the discussion is not well developed. Quality of written communication is limited.

**Level 2 ([4]–[6])**

The main effects of rising interest rates on the economy are identified and discussed in some detail. Quality of written communication is satisfactory.

**Level 3 ([7]–[8])**

The main effects of rising interest rates on the economy are discussed in detail. Quality of written communication is of a high standard. [8]

**Total**

**AVAILABLE  
MARKS**

30

**120**



*Rewarding Learning*

**General Certificate of Secondary Education**

**2009**

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**Economics**

Paper 1  
Higher Tier

**[G2703]**

**WEDNESDAY 13 MAY, MORNING**

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**MARK  
SCHEME**

1 (a) Allow [1] for identification of correct data and [1] for the correct calculation.  
 $\pounds 5.73 - \pounds 5.52 = \pounds 0.21$  [2]

(b) The first paragraph states that this represents a 3.8% rise in the national minimum wage at a time when inflation was measured at 2.5%. This is a real increase because workers will experience an increase in spending power provided that their spending patterns and the prices that they pay are similar to those used in the calculation of inflation. Credit will also be given if candidates use a more recent example. Allow [1] for identification of a real increase and up to [3] for the supporting explanation. [4]

2 Possible reasons why the national minimum wage paid to older workers differs to that paid to younger workers include:

- older workers may have more skills and experience than younger workers and be generally more productive
- younger workers may be doing less responsible jobs in a workplace
- older workers may be more settled in the workplace and a higher wage rate may reduce labour turnover
- to encourage younger people to stay on at school and get more qualifications

Other relevant points to be credited as appropriate.

Allow up to [2] for each valid reason ( $2 \times [2]$ ). [4]

AVAILABLE  
MARKS

6

4

3 **Fig. 2** indicates that employment in some sectors of the economy is made up of a high percentage of workers who earn the NMW. Most notably these are retail (39.8%), hospitality (21.5%) and social care (13.7%). Other sectors of the economy list in **Fig. 2** have less than 10% of workers earning the NMW. Surprisingly perhaps, textiles and clothing and hairdressing have the lowest percentages with 1.1% and 1.4% respectively.

Sectors most affected generally have minimum entrance and training requirements. They also have a high proportion of part-time jobs which are frequently less well paid.

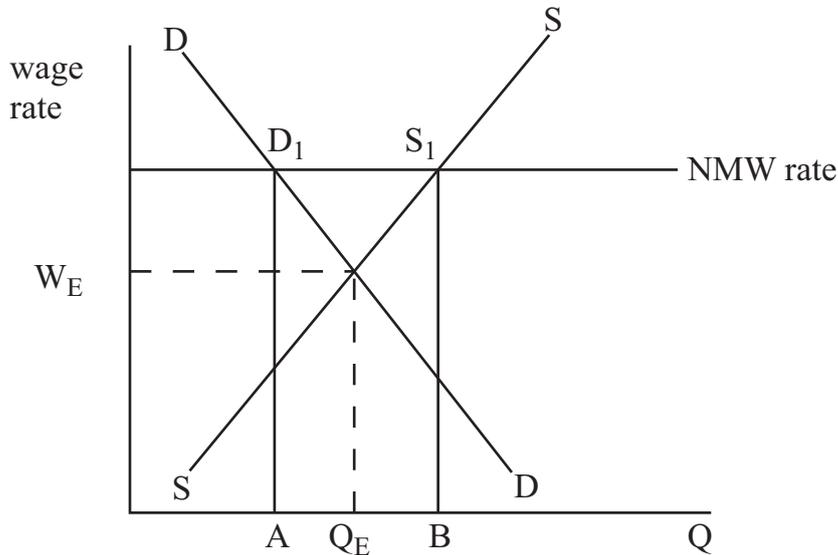
Allow up to [2] for using the data and up to [3] for the explanation, subject to a maximum of [4].

[4]

AVAILABLE  
MARKS

4

- 4 (a) The effect of the NMW on the UK labour market is usually shown in the diagram below. The rate of the NMW is above what would otherwise have been the market equilibrium rate for low paid workers at  $W_E$  and quantity  $Q_E$ . The effect of introducing the NMW is to cause more workers to want to enter the labour market as indicated by the extension along the supply curve to  $S_1$ . Firms will demand fewer workers as indicated by the contraction along the demand curve to  $D_1$ . Overall the effect will be a surplus of labour of  $AB$  at the NMW rate. This means that some workers will be unemployed at this wage rate.



**Level 1 ([1]–[2])**

There is an attempt to use a demand and supply diagram but it is either incomplete or is inaccurate. There is limited explanation of the effect of a NMW rate. Quality of written communication is limited.

**Level 2 ([3]–[4])**

The demand and supply diagram is reasonably accurate and the supporting explanation is adequate but not well developed. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

The demand and supply diagram is accurate and the supporting explanation is well developed. Quality of written communication is of a high standard. [6]

(b) The main reasons why the government introduced a NMW in 1999 were as follows:

- Market forces were judged not to be operating efficiently or effectively. In other words, there was market failure. Its purpose was to raise the wages of the lowest paid workers
- The government hoped that by raising the wages of the lowest paid, it could help to reduce levels of poverty. This had been established as an important target of government policy
- It was felt that employers were in a powerful position and able to dominate the market, hence pay would have remained low in many sectors of the economy if the government had not intervened
- Higher wages were expected to create incentives and encourage more people off benefits who might otherwise be caught in the poverty trap
- Higher wages could increase morale amongst workers and lead to increases in productivity. Employers might also invest more in their training if they were paying them higher wages
- The NMW was expected to minimise some of the traditional wage differences that have existed in the economy such as those between men and women
- Higher wages were expected to reduce the need for some benefits payments as well as helping the public purse by bringing in some additional revenue from income tax and VAT on additional spending

**Level 1 ([1]–[3])**

There is an attempt to link the NMW with reducing poverty and improving the wages of the low paid. Quality of written communication is limited.

**Level 2 ([4]–[6])**

The link between NMW, reducing poverty and improving the wages of the low paid is clearly recognised and explained. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

There is a well developed explanation of the link between NMW, reducing poverty and improving the wages of the low paid. Quality of written communication is of a high standard.

[9]

9

- 5 Source 1 includes the views of trade unions, employers and the government about the effects of recent changes in the rate of the national minimum wage. The NMW does not appear to have caused any problems for the economy. Possible points that could be made include:

#### WORKERS

- Large numbers of low paid workers are now better paid and this should have improved their standard of living
- More workers are gaining experience of work and have the opportunity to update their skills
- The evidence in Source 1 is that more workers want to work and there has been an increase in the supply of workers. Fig. 3 indicates a general downward trend in the numbers unemployed from 2.4 million to 1.6 million, and Fig. 4 shows a 3 million increase in employment

#### BUSINESS

- Some businesses have experienced higher costs and this may have caused them to be less competitive. Some firms' decisions to relocate abroad to cheaper labour locations have been blamed on rising labour costs in the UK
- The supply of skilled and unskilled labour has increased because of the increased numbers of immigrant workers attracted to the U.K.
- It is also possible that increases in the rate of the national minimum wage have not been high enough to cause problems, or that the sectors of the economy where most affected workers are employed have been able absorb the higher wage costs

#### GOVERNMENT

- Source 1 indicates that increases in the national minimum wage rate have not had the damaging effect on employment that had been feared. Other things have not remained equal, and the growing economy has increased the demand for workers. This has contributed more tax revenue
- Real increases in wages for many low paid workers has created greater demand for goods and services. This could have led to demand-pull inflation if the economy had not able to meet this increase in demand
- Increased consumer spending could target imported goods and services and this could contribute to problems with the balance of payments

#### Level 1 ([1]–[4])

There is some discussion of the effects of recent changes in the NMW on workers, businesses and the government. Some information is quoted directly from the source material but there is little attempt to discuss these. Quality of written communication is limited.

#### Level 2 ([5]–[8])

There is a reasonable discussion of the effects of recent changes in the NMW on workers, businesses and the government, although there may be some gaps in knowledge. Quality of written communication is satisfactory.

#### Level 3 ([9]–[12])

There is a good discussion of the possible effects of recent changes in the NMW on workers, businesses and the government. Quality of written communication is of a high standard. [12]

- 6 (a) Source 2 provides several examples of occupations where workers are paid more per hour than others. Reference is made to the high wage settlements in the financial services sector and Fig. 5 outlines the hourly wage rate for some specific occupations.

Possible reasons for the differences include:

- Market forces can explain some of the differences in hourly wage rates such as those between a doctor and a receptionist. Compared to receptionists, doctors require highly specialist qualifications, years of training and experience, therefore the supply of people who can become doctors is much more limited than the potential supply of receptionists
- The demand for certain occupations is high relative to the supply. For example, there is a limited pool of talented individuals who are capable of being directors or chief executives of large organisations, therefore it is necessary to pay high wage rates to attract the best people
- The economy has been strong and growing and this has resulted in higher company profits. This has benefited some particular occupations more than others, such as financial services
- Some occupations, such as in the financial services sectors, earn high bonuses from particular buying and selling transactions. These are associated with mergers and acquisitions or private equity buy-outs
- Some sectors are dominated by part-time and/or female employees and in spite of equal pay legislation, workers in sectors such as kitchen and catering assistants and bar staff often do not have the same strength of bargaining power with employers as more male dominated and full-time occupations

**Level 1 ([1]–[3])**

One point is identified but the explanation is not well developed. Quality of written communication is limited.

**Level 2 ([4]–[6])**

One or two points are identified and there is an attempt to explain the differences in pay, or three points are identified but the explanation is less well developed. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

Three points are identified and supported with a well developed explanation. Quality of written communication is of a high standard. [9]

9

**(b)** Possible effects of high pay settlements for some workers in the UK economy include:

- Increased demand for luxury goods and services – Source 2 refers to the increased demand for luxury houses in London and the 5 year waiting time for a Rolls-Royce
- Job creation – good for some firms that specialise in the luxury end of the market
- Attract workers from outside the UK, in particular the EU
- More imported goods and services
- Possibility of rising wage costs in general as other workers seek higher wage settlements with the possibility of cost-push inflation
- Increased inequality
- Higher paid workers will pay more tax and this could benefit government finances
- Damage to the competitiveness of UK production and exports
- Possible increase in unemployment if higher wage settlement significantly increase business costs

**Level 1 ([1]–[2])**

One effect is identified but there is little or no discussion to support these. Quality of written communication is limited.

**Level 2 ([3]–[4])**

One or two effects are identified and there is an attempt to discuss some effects on the economy. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

Two effects are identified and discussed in depth. Quality of written communication is of a high standard.

[6]

6

- 7 There are many possible economic consequences for the UK economy of the growing gap between rich and poor. These include:
- Differences in health are outlined in Source 3. Poorer people have poor health and lower life expectancy. If inequalities continue to widen, there are likely to be more premature deaths of adults and young people. This is a very poor use of the human resources that are available to the economy. Resources that have to be spent on providing health care could be reallocated
  - Government will have to spend more money on benefits to support those on low pay and this will have an impact on the public purse
  - A dual society could develop where there is one lifestyle for the rich while poorer income groups struggle to make ends meet. This could lead to social divisions
  - Government income and spending plans will be affected as the poor will not be contributing as much to tax revenue yet higher levels of public spending will be needed to pay benefits
  - Educational achievement of the poor will be affected and this will reduce the quality of the workforce and the economy's ability to compete in a global marketplace
  - Growing inequality may act as an incentive to be enterprising

**Level 1 ([1]–[3])**

One or two points are made but these are not supported with a relevant discussion. Quality of written communication is limited.

**Level 2 ([4]–[6])**

Two points are made and there is some attempt to develop a relevant discussion. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

At least two points are made and discussed in detail. Quality of written communication is of a high standard.

[9]

9

8 Possible policies that could deal with inequality in the UK include:

- Changes to the tax and benefits system**  
 The government could revise tax bands and allowances so that people on lower rates of pay less income tax. Recent plans to abolish the 10% band have been unpopular because of the impact this will have on lower income groups. The government has had to rethink how best to support people on low income who will be most affected by this change in policy (details can be updated when policy measures are clearer). The government can adjust the age related allowances for older age groups  
 The benefits system has also seen the introduction of many new measures such as tax credits targeted at specific groups. For example, the Working Tax Credit aims to give families on low pay more incentives to work, as they will not start to pay tax until their income reaches a set level  
 Benefits such as the basic rate of state pension, or winter fuel payments for pensioners could be increased
- Training schemes that target the long-term unemployed**  
 The Job Seekers Allowance tries to encourage people out of work to seek employment. The long-term unemployed may be placed on training schemes and provided with addition guidance and support to help prepare them for the workplace
- Promotion of education for low income groups**  
 Low income is frequently associated with low educational achievement. The government could promote initiatives that target the lowest income households to ensure that children are encouraged to continue in their education and obtain qualifications. Measures could include support with college fees, grants to young people to encourage them to stay in education such as the education maintenance grant, and additional support to schools in poorer areas to promote higher educational achievement
- Targeting groups who are experiencing poverty**  
 Studies show that certain groups such as pensioners, the long-term unemployed and one parent families are the most likely to be living in poverty. Government can target these groups with particular initiatives by providing additional support. This could mean additional spending on education and training, support for firms, or general improvements in infrastructure that could make areas more attractive to employers

**Level 1 ([1]–[5])**

One policy is identified but the evaluation is limited. Quality of written communication is limited.

**Level 2 ([6]–[10])**

Two policies are identified and evaluated to some extent, or one policy is identified and well evaluated. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

At least two policies are identified and well evaluated. Quality of written communication is of a high standard. [15]

AVAILABLE  
MARKS

15

**Total**

**80**



*Rewarding Learning*

**General Certificate of Secondary Education  
2009**

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**Economics**

Paper 2  
Higher Tier

[G2704]

**FRIDAY 15 MAY, AFTERNOON**

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**MARK  
SCHEME**

## Section A

AVAILABLE  
MARKS

- 1 (a) (i) Fixed costs are costs that the firm incurs irrespective of the level of business activity. Examples include rent and rates. Variable costs vary directly with the level of output for the firm. For Betty's Burger Bar these include the cost of the ingredients to make the burgers such as beef and rolls.  
Allow [1] for each definition ( $2 \times [1]$ )  
and [1] for each example ( $2 \times [1]$ ) [4]
- (ii) Allow [1] for selecting the correct data and/or method, and [1] for the correct calculation:  
$$\begin{aligned} VC &= TC - FC \\ &= £1000 - £600 \\ &= £400 \end{aligned}$$
 [2]
- (b) (i) Allow [1] for each of the following:
- Costs/revenue plotted on the vertical axis
  - Quantity of hamburgers plotted on the horizontal axis
  - Total cost line plotted
  - Total revenue line plotted
  - Break-even position shown at 600 hamburgers
- ( $5 \times [1]$ ) [5]
- (ii) Allow up to [2] for explanation that indicates understanding that the firm will not start to make a profit until it has sold 600 hamburgers per week and that it will go out of business if it is not able to break-even. [2]
- (c) (i) Allow [1] for identifying the correct information to use which is total revenue and the number of hamburgers, e.g.  $£300 \div 200$ , [1] for calculating the price at £1.50. [2]
- (ii) The 10% reduction in price leading to a 20% increase in quantity demanded indicates that the demand for burgers is elastic. The price elasticity of demand (PED) is 2. This means that the decrease in price should lead to an increase in total revenue for Betty's. This also means that the firm's break-even position will be higher.  
Credit should be given if the new break-even position is calculated, however this is not required to achieve full marks.

### Level 1 ([1]–[2])

Some understanding that the business finances will be affected and the explanation is either not developed or contains errors. Quality of written communication is limited.

### Level 2 ([3]–[4])

The link between the reduction in price and the change in consumer demand is made and there is a reasonable attempt to interpret the findings. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

PED is correctly calculated and interpreted, or there is clear understanding that the firm's total revenue or break-even will be affected. Quality of written communication is of a high standard. [6]

(d) Possible advantages of expanding the business include:

- Opening up in markets in other locations and adding to the competition in these markets. Consumers may get a better deal such as a better quality product, more efficient service and/or cheaper prices
- Betty's can take advantage of marketing economies of scale, as the brand name may become better known and they will be able to use the same logos and advertising
- They could also benefit from purchasing economies of scale as they will be able to buy ingredients in bulk
- Managerial economies of scale could be developed with specialist managers taking responsibility for key areas of the business across all outlets
- Betty's may be able to take the risk of opening in areas where it is not well known and possibly develop new product lines, hence benefiting from risk-bearing economies
- Betty's could also benefit from technical economies of scale such as being able to employ trained and skilled chefs to make the burgers hence minimising the need for training, or buying specialist equipment
- Profits may increase if Betty's can take advantage of economies of scale

Possible disadvantages of expanding the business include:

- If Betty's expands too quickly and is not properly managed, or has not researched new markets sufficiently, it could experience diseconomies of scale resulting in the average cost of each burger rising. Such diseconomies would include difficulties in communication within the business and difficulty in co ordination
- Promotion of Betty's may not be equally effective in new locations
- Expansion of the business could lead to Betty's experiencing financial problems as profit levels could be affected
- Betty's may not be fully aware of the competition in new locations and any new product lines or promotion of existing lines may not produce the level of sales needed to cover the cost of expansion

**Level 1 ([1]–[3])**

One advantage or disadvantage is identified but the explanation is not well developed and there is limited use of economic concepts and terms. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

At least one advantage and one disadvantage is identified and explained to a reasonable level with adequate use of economic concepts and terminology. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

A range of relevant advantages and disadvantages are identified and explained to a high standard using relevant economic concepts and terminology. Quality of written communication is of a high standard. [9]

2 (a) Allow [1] for indicating that there has been a steady increase in the rate of inflation in 2008 and up to [2] for the interpretation of the data. Inflation was measured by the CPI in August 2007 at just below 2%. By February/March 2008 inflation increased to approximately 2.5% but in the following 5–6 months, inflation rose sharply to just below 5%. [3]

(b) The rate of inflation is measured from changes in the average price level in the economy over a given period of time, usually a year. Recent increases in the rate of inflation have been blamed on the rising price of many basic household needs such as home heating fuel, electricity, gas and food. Some other household items that are included in the calculation have been falling in price, such as electrical goods. These recent increases in inflation that are attributed to rising costs are categorised as cost-push factors rather than demand-pull factors.

**Level 1 ([1]–[2])**

A possible cause is identified and there is some understanding of why inflation is rising but the explanation is not developed. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

Possible causes are identified and there is reasonable understanding and explanation about why inflation is rising. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

Possible causes are identified and there is a well developed explanation of recent rises in inflation. Quality of written communication is of a high standard. [6]

- (c) The effects of rising inflation include:
- Disposable income will fall as the cost of living rises
  - Changes in patterns of expenditure will have an impact on different sectors of the economy. Demand for luxury goods will fall while demand for cheaper substitutes will rise
  - People on fixed incomes will feel the effects of inflation more than those whose incomes are index-linked or have pay awards that reflect the rate of inflation
  - Industrial unrest among workers if pay awards are not sufficient to enable them maintain their standard of living
  - The value of savings will fall
  - Some businesses will struggle to cope with rising costs
  - Loss of international competitiveness if UK exports rise in price relative to those produced abroad

**Level 1 ([1]–[2])**

There is some recognition of the effects of rising inflation but this is not developed or explained. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

Two effects of rising inflation are identified and supported with some explanation. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

Two effects of rising inflation on the economy are well explained. Quality of written communication is of a high standard. [6]

- (d) Decisions to change the rate of interest are made by the Bank of England's Monetary Policy Committee and these can have a range of impacts on the economy. For example, an increase in interest rates will make loans more expensive to repay. Home owners may experience more expensive repayments on mortgages and any repayments on other types of personal loans are also likely to increase. A higher rate of interest should result in reduced aggregate demand and other things remaining equal, this will reduce pressure on prices. Increasing the rate of interest may not be an effective policy measure given cost-push factors such as rising oil prices.

Increasing the rate of interest may impact on the UK's international competitiveness. The exchange rate may rise as a result of foreign investment being attracted to the UK. This will make imports relatively cheaper in the UK but will reduce demand for exports. Hence, the Balance of Payments may be affected.

A decrease in interest rates would affect a similar range of economic indicators.

**Level 1 ([1]–[2])**

There is some understanding of how a change in the rate of interest affects consumer demand but this is not well developed. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

There is a reasonable explanation of the link between a change in the rate of interest and inflation. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

There is a well developed explanation of the link between a change in the rate of interest and inflation. Quality of written communication is of a high standard. [6]

(e) **Fig. 3** outlines that the economy is suffering from the credit crunch. It also states that the cost of living is rising and economic growth has slowed down.

- If interest rates rise, this is going to make things much more difficult for consumers. Higher repayments will mean less consumer spending and with the cost of living already rising, people on low and/or fixed incomes will be most affected
- Poverty levels could rise
- Higher interest rates will also cause the rate of economic growth to slow down as fewer goods and services will be produced in the economy
- This could lead to other problems such as reduced tax revenue for the government and this will most likely result in cuts in public spending
- The international competitiveness of the UK economy may also be affected, through rising costs for business and possible increases in the value of the pound

Candidates are not expected to have detailed knowledge of the popular term, the ‘credit crunch’, but credit should be given if there is some understanding that it has become more difficult to borrow money at a low rate of interest in the current economic climate.

**Level 1 ([1]–[3])**

One or two effects of rising interest rates on the economy are identified but the discussion is not well developed. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

The effects of rising interest rates on the economy are identified and discussed in some detail. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

The effects of rising interest rates on the economy are discussed in detail. Quality of written communication is of a high standard.

[9]

30

**Section A**

**60**

**AVAILABLE  
MARKS**

## Section B

AVAILABLE  
MARKS

- 3 (a) Equilibrium price is the price where demand equals supply. The demand curve represents the quantity of a good or service that a consumer is willing to buy at a possible range of prices in a given time, *ceteris paribus* (all other things being equal). The supply curve represents the quantity that suppliers are willing to supply at given prices in the same time period, *ceteris paribus*. This situation is represented in the traditional demand and supply diagram. The equilibrium price, or market clearing price, indicates that everything that is offered for sale at a given price is the same as what is demanded at that price. Therefore market price is in equilibrium.

### Level 1 ([1]–[2])

Some understanding of the concept of market clearing/equilibrium price and the diagram is either incomplete or is not wholly accurate. Quality of written explanation is limited.

### Level 2 ([3]–[4])

There is a reasonable understanding of the concept of market clearing/equilibrium price and this is supported with a diagram a mostly accurate diagram. Quality of written communication is satisfactory.

### Level 3 ([5]–[6])

The concept of market clearing/equilibrium price is clearly understood and this is supported with an accurate diagram. Quality of written communication is good. [6]

- (b) The price of a basic loaf of bread will be the result of both demand and supply conditions. The factors that affect the demand for bread include:
- The size of the population and the number of people trying to buy bread
  - The effects of advertising
  - The impacts of substitutes for example, people may be more attracted to other bread products such as bagels or pitta bread, rather than the standard loaf of bread
  - Levels of income may affect the overall demand for bread
  - The price of traditional complements such as butter and jam may have an impact on the demand for a basic loaf of bread

On the supply side, the price of bread will be affected by:

- The price of the raw materials. The question stem suggests that wheat is the most significant ingredient and that its price has been rising
- The rising cost of labour and/or transportation may impact on to the quantity of loaves that a supplier is prepared to supply at any given price
- The supply of bread will also be influenced by any government taxes or subsidies

**Level 1 ([1]–[3])**

There is some understanding of the factors that may have caused price to increase. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

There is good understanding of the factors that may have caused price to increase. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

There is comprehensive understanding of both supply and demand side factors. Quality of written communication is of a high standard. [9]

- (c) Any economy needs to allocate scarce resources in order to meet wants. The market economy uses the price mechanism to allocate resources. This means that the forces of demand and supply determine prices rather than prices being set by the government. Prices set in free market conditions provide signals to consumers and producers to help them allocate their resources. Changes in prices also help suppliers to allocate their resources to areas where there is demand. The market economy has a number of advantages and disadvantages.

The advantages include:

- It promotes efficiency through competition
- Consumer sovereignty ensures that goods produced are what consumers want
- It provides incentives for workers and firms

Disadvantages include:

- It can lead to inequality
- Merit and public goods are not provided
- External costs and benefits are not considered
- Over-consumption of demerit goods
- Monopolies can emerge

**Level 1 ([1]–[5])**

Some understanding of the advantages and disadvantages of the market economy but points are not discussed or developed. Quality of written explanation is limited.

**Level 2 ([6]–[10])**

A fair understanding of the advantages and disadvantages of the market economy supported with some discussion. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

A comprehensive discussion of the advantages and disadvantages of the market economy. Quality of written communication is of a high standard. [15]

- 4 (a) A fall in the exchange rate is also referred to as a depreciation or a devaluation. It occurs when a currency is able to buy less of another currency. For example, if in August £1 could buy \$2 but in September it is only able to buy \$1.80, then the pound is said to have fallen in value.

**Level 1 ([1]–[2])**

Some understanding of the concept of a fall in the exchange rate. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

A fair understanding of the concept of a fall in the exchange rate. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

A good understanding of the concept of a fall in the exchange rate. Quality of written communication is of a high standard. [6]

- (b) There are a number of reasons why the pound may have fallen in value against the euro. The value of the pound is determined by demand and supply therefore any change in its value will be determined a by a change in these factors.

Some possible factors include:

- A fall in the demand for UK exports
- A rise in the demand for imports to the UK
- A fall in foreign investment in the UK
- Speculators buying fewer pounds or selling more pounds as they anticipate that the value of the pound may fall
- Change in the UK and/or Eurozone interest rates

**Level 1 ([1]–[3])**

A limited understanding of factors that could cause the exchange rate to change. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

A good understanding of factors that could cause the exchange rate to change. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

A comprehensive understanding of two factors that could cause the exchange rate to change. Quality of written communication is of a high standard. [9]

- (c) A fall in the exchange rate may affect government economic objectives in a number of ways. These include:
- Exports will increase and this should help to reduce the current account deficit
  - The increase in exports will lead to an increase in economic growth
  - The increase in exports/fall in imports should lead to a fall in unemployment
  - Increase in the cost of UK imports will have an impact on inflation and on the size of the current account

**Level 1 ([1]–[5])**

Some understanding of the effects of a fall in the exchange rate on government economic objectives but points are not discussed or developed. Quality of written explanation is limited.

**Level 2 ([6]–[10])**

A fair understanding of the effects of a fall in the exchange rate on government economic objectives supported with some discussion. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

A good discussion of the effects of a fall in the exchange rate on government economic objectives. Quality of written communication is of a high standard.

[15]

30

- 5 (a) A social cost is the total cost to society of consuming or producing a good or service. It includes both the private costs and the external costs. Private costs include such things as wages or rent, while external costs include the cost of congestion or cleaning up pollution.

**Level 1 ([1]–[2])**

There is some understanding of a social cost. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

There is a fair understanding of a social cost but the answer may be inaccurate such as equating social costs with external costs. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

There is a clear understanding that social costs include both private and external costs. Quality of written communication is of a high standard.

[6]

- (b) Demerit good are goods that produce negative externalities. The government can take a number of steps to reduce their consumption

These include:

- Banning the good:  
Certain goods are simply banned, this applies to illegal drugs and has applied to alcohol in the USA during Prohibition
- Taxes:  
Indirect taxes can be placed on demerit goods in an effort to reduce the quantity demanded. Examples include taxes on alcohol and cigarettes
- Education:  
People can be educated as to the dangers of consuming demerit goods as in the case of anti-smoking campaigns
- Advertising bans:  
In order to reduce consumption restrictions can be placed on advertising demerit goods, or any advertising can be banned altogether. An example is the ban on cigarette advertising

**Level 1 ([1]–[3])**

Some understanding of how the government may attempt to reduce the consumption of demerit goods. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

A good understanding of how the government may attempt to reduce the consumption of demerit goods. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

A comprehensive understanding of how the government may attempt to reduce the consumption of demerit goods. Quality of written communication is of a high standard. [9]

- (c) A reduction in the consumption of demerit goods, such as junk food or cigarettes, could have the following effects:
- If consumers reduce demand for demerit goods such as junk food, there may be health benefits for them
  - In the long term government spending on health care may fall
  - However there may be a fall in tax revenue as the government loses the money it earned from taxes on demerit goods
  - Companies that supply demerit goods may see a fall in their sales and profits
  - Job security of workers in companies that supply demerit goods may be affected
  - Other companies may see a rise in demand for their products as consumer switch expenditure away from demerit goods
  - There may be higher social security costs if workers are laid off
  - In the longer term, there may be improvements in health or the environment

**Level 1 ([1]–[5])**

Some understanding of the effects of a fall in the consumption of demerit goods but the points are not discussed or developed. Quality of written explanation is limited.

**Level 2 ([6]–[10])**

A fair understanding of the effects of a fall in the consumption of demerit goods supported with a good level of discussion. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

There is a good discussion of the effects of a fall in the consumption of demerit goods. Quality of written communication is of a high standard.

[15]

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- 6 (a) The functions of the Stock Exchange include:
- Enabling companies to raise finance and savers to invest money in companies
  - Providing an easily accessible market where shares in public limited companies can be traded
  - Providing a leading indicator of the health of the economy from interpretation of movements in share prices in general, such as the FTSE 100
  - Providing market information about share price movements which provide signals to investors about where best to invest their money

**Level 1 ([1]–[2])**

There is some understanding of the role of the stock exchange. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

There is a fair understanding of the role of the stock exchange. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

There is clear understanding of the role of the stock exchange. Quality of written communication is of a high standard. [6]

- (b) There are several possible reasons why investors may buy shares rather than invest in some other financial asset such as a savings account.

These include:

- In the longer term, there has been a good return on shares in general
- Shares may be part of a pay award, or the option to buy shares in the company in which someone works may be open to employees
- The potential to make a higher return from dividends than in a bank saving account
- Rising share prices mean that the value of the capital will rise
- Speculative reasons
- To spread risk as part of an overall investment portfolio

**Level 1 ([1]–[3])**

Some understanding of why people might buy shares. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

A good understanding of why people might buy shares. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

A comprehensive understanding of why people might buy shares. Quality of written communication is of a high standard. [9]

- (c) Falling share prices will affect the value of individual investments and those of institutional investors such as pension funds. Some groups in society, such as retired employees, may be dependent on the income from shares held in pension funds. Many people may see their incomes falling if share prices fall.

Falling share prices will mean that the market conditions will be difficult for companies to raise additional capital should they wish expand. Falling share prices also produce instability in the markets and this impacts on to the economy in general.

**Level 1 ([1]–[5])**

Some understanding of the reasons why share prices may fall but the points are not discussed or developed to explain the effects on the economy. Quality of written explanation is limited.

**Level 2 ([6]–[10])**

A fair understanding of reasons why share prices may fall and this is supported with a good level of discussion about the effects on the economy. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

There is a good discussion of the why share prices may fall and the effects of this on the economy. Quality of written communication is of a high standard.

[15]

30

**Section B**

**60**

**Total**

**120**

**AVAILABLE  
MARKS**





