

GCSL

Economics

Summer 2010

Mark Schemes

Issued: October 2010

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

MARK SCHEMES (2010)

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.

CONTENTS

	Page
Foundation Tier	
Paper 1	1
Paper 2	11
Higher Tier	
Paper 1	21
Paper 2	31



Rewarding Learning

General Certificate of Secondary Education

2010

Economics

Paper 1
Foundation Tier

[G2701]

MONDAY 7 JUNE, MORNING

**MARK
SCHEME**

		AVAILABLE MARKS
<p>1 (a) The credit crunch refers to the economic situation that started in August 2007 when:</p> <ul style="list-style-type: none"> • it became much harder to obtain cheap credit as banks and other financial institutions had reduced their lending • consumers had less money to spend and this has had a knock-on effect on the general health of the economy <p>Allow up to [2] for each point identified and briefly described, up to a maximum of [3] for a well developed explanation [3]</p>	<p>(b) Source 1, lines 5–9 outline how the credit crunch started in the USA when higher interest rates made mortgage repayments more expensive and many people were unable to keep up with payments. Loans had also been made to people who were considered ‘high risk’ because they had a poor history with debt, and/or had low incomes.</p> <p>Allow up to [2] for each possible point up to a maximum of [3] [3]</p>	6
<p>2 (a) Banks took more risks than usual by:</p> <ul style="list-style-type: none"> • lending money to people who may not have been able to pay it back because they had poor credit histories, or were earning low incomes • lending more money than they should have • placing assets in the sub-prime and buy-to-let markets <p>Allow up to [2] for identifying each example (2 × [2]) [4]</p>	<p>(b) Banks are profit-making companies. Their business is to ‘sell’ financial services. Some of these services make more profit than others. Lending makes most money and in the search for higher profits, and/or a larger market share, some banks risked lending to people who had a high risk of not being able to pay back the loan should their circumstances change.</p> <p>Allow up to [2] identifying a reason and up to [2] for the explanation (2 × [2]) [4]</p>	8

- 3 (a) People queued outside Northern Rock because they had lost confidence in the bank. When they heard that Northern Rock had asked the Bank of England for financial help, they feared that they would not be able to withdraw the money they had deposited. They did not feel that their money was safe with Northern Rock.

Allow up to [2] for each point identified and explained
(2 × [2])

[4]

- (b)
- Northern Rock is now in the private sector
 - Northern Rock was a private limited company owned by shareholders. Nationalisation brought it under Government ownership, on behalf of the nation
 - Northern Rock was no longer controlled by a Board of Directors, hence it no longer needs to hold an annual general meeting for shareholders, or share dividends with those shareholders. Instead the Government has the right to be involved in the day-to-day management of the business
 - the business may have to use taxpayers money to fund activities if it is not breaking-even or profit-making
 - a Government Minister will have overall responsibility for the progress of the business. Reports must be made to Parliament

Level 1 ([0]–[1])

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

Level 2 ([2]–[3])

One or two differences are identified and supported with reasonable explanation. Quality of written communication is satisfactory.

Level 3 ([4]–[5])

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

[5]

9

4 There are several possible services and products that banks and financial institutions provide. These include:

Current accounts

Allows customers to deposit money, usually their wages, and to make payments using standing orders and direct debit payments

Direct debit

Your bank makes arranged payments, for example, utility charges or monthly payments for insurance

Insurance policies

A product that covers a specified risk, e.g. motor and house insurance

Overdrafts

Permission for a business to draw a limited amount of money from a bank account above what is deposited in that account, e.g. at times when the cash flow is low

There are several other possible services and products that banks and financial institutions provide. These include:

- savings accounts
- telephone and internet banking services
- personal loans and mortgages
- business loans
- foreign currency exchange
- investment 'products' such as ISAs
- pension products
- mortgages

Credit will be given for other relevant points

Allow up to [2] for each product or service described
(4 × [2])

[8]

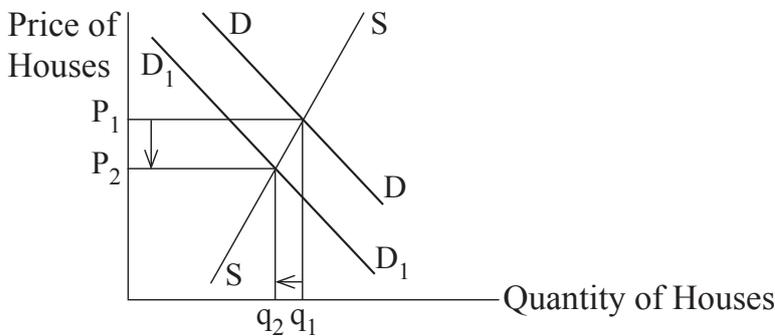
8

AVAILABLE
MARKS

- 5 (a) Two ways in which the credit crunch has affected people who need a mortgage include:
- borrowing money has become much more difficult for consumers, especially first-time buyers
 - many mortgage products have been withdrawn by the banks, including 100% and 125% mortgages. This has meant that these buyers have to save a sizeable deposit to buy a house, possibly as much as 10% or more
 - banks have increased the administrative costs for arranging mortgages
 - lending criteria have also been tightened so many people are unable to obtain financial products and services such as a mortgage

Allow [1] for identifying each possible point and up to [2] for each explanation
(2 × [3]) [6]

- (b) The average price of houses has fallen. This situation is represented in the diagram below by a shift to the left of the demand curve causing the equilibrium, or market clearing price to fall.



Allow [1] for labelling the Demand and Supply curves, [1] for showing a shift to the left of the Demand curve, and [1] for marking the new equilibrium, or market clearing price and up to [3] for the supporting explanation [6]

- 6 (a) The credit crunch has had mainly a negative effect on consumers and these include:
- reduced spending overall but much greater interest in discounts, offers and special deals
 - consumers are having to budget more carefully and make more informed decisions about purchases
 - reduced consumption of luxury goods in order to be able to pay for essentials
 - fewer credit and more cash payments

Level 1 ([1]–[2])

One or two effects are identified but not well explained. Quality of written communication is limited.

Level 2 ([3]–[4])

Two effects are explained to a reasonable standard. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Three effects are well explained. Quality of written communication is of a high standard. [6]

- (b) The main effects of the credit crunch on businesses include:
- many supermarkets and shops are experiencing a reduction in trade and profits as consumers reduce their spending
 - discount stores such as Lidl and Iceland are experiencing an increase in business as consumers trade down
 - supermarkets are emphasising ‘price’ in their promotions rather than other features such as being ‘ethical’ or ‘green’
 - competition is focusing around deals and special offers
 - repair businesses are thriving as are some take-away outlets as people stay at home more rather than go out to eat
 - people are spending less on cars, electronic products and foreign holidays
 - there has been an increase in pawnbrokers’ business reflecting some people’s need for a quick source of ready cash
 - sales of some luxury items have increased as very rich people may prefer to have their spare cash tied up in an investment asset rather than keep it in the bank

Level 1 ([1]–[2])

One or two effects are identified but not well explained. Quality of written communication is limited.

Level 2 ([3]–[4])

Two effects are explained to a reasonable standard. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Three effects are well explained. Quality of written communication is of a high standard. [6]

- 7 The performance of the economy has been severely affected by the credit crunch. Source 3 indicates that the economy went into recession at the end of 2008, and that industries such as car manufacturing, laid off workers. The data in Fig. 2 indicates:

Economic growth in 2007 was at a steady 3%. However, during 2008 economic growth slowed to 2% early in the year and to 1% by the end of the year. Following this slowdown in the rate of growth, economic statistics indicated that the economy had experienced negative growth over a six month period which meant that the economy was officially in recession as confirmed by the Governor of the Bank of England.

Unemployment was 5.75% (1.75 million) at the start of 2007 but during 2008, it rose steadily to nearly 2 million.

Inflation was between 2 and 3% in 2006–2007. By the end of 2008, it crept up gradually to 5% before starting to reduce again.

Since 2007 the value of the pound has weakened considerably against the euro. It had been trading at 1.5 euro to the pound but by the end of 2008, there was parity between the two currencies – one pound was worth only one euro. If the pound remains as weak as this, there may be increased demand for UK-produced goods and services but imports will become much more expensive. This could affect businesses that are very dependent on imported materials.

Reduced demand for goods and services, especially those linked to building and construction is being felt by businesses. There is generally less business investment therefore the downturn will continue for some time.

Level 1 ([1]–[3])

There is some interpretation of Source 3. Reference is made to at least one of the economic variables – economic growth, unemployment, inflation and the pound/euro exchange rate, but the explanation is not developed. Quality of written communication is limited.

Level 2 ([4]–[7])

There is reasonable interpretation of Source 3. Reference is made to at least two of the economic variables – economic growth, unemployment, inflation and the pound/euro exchange rate, but the explanation is not developed. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

There is a very good interpretation of Source 3. Reference is made to three of the economic variables – economic growth, unemployment, inflation and the pound/euro exchange rate, and the explanation is well developed. Quality of written communication is of a high standard.

[10]

10

8 Lowering the basic rate of income tax from 22% could have the following economic effects:

Advantages

- disposable income for all workers will increase and this should increase aggregate demand in the economy
- increased aggregate demand should increase employment and economic growth
- receipts from indirect taxes such as VAT and excise duties should increase

Disadvantages

- the effect of higher disposable income will be felt mostly by low income earners and this may affect their entitlement to benefits or tax credits
- some people might save a large proportion of any increase in disposable income but the Government want people to spend it and boost the economy
- people could buy more imported goods and the benefits of the increase in aggregate demand may not be felt in the domestic economy

A temporary cut in VAT could have the following effects:

Advantages

- it may stimulate more spending in the economy as people should have a small increase in disposable income from the saving on items subject to VAT
- provides a boost to consumer spending as most prices fall by 2.5%

Disadvantages

- people may only notice the price reduction in high price items
- shops will have to change their pricing and their tills to reflect the change

Using Government spending to build more schools and hospitals could have the following economic effects:

Advantages

- increase aggregate demand and create employment
- increase disposable income and stimulate aggregate demand
- economic growth should start to rise
- providing there is spare capacity in the economy, fiscal policy should not be inflationary
- provide much needed public facilities that should improve the experiences of those who use them for education and health purposes

Disadvantages

- it takes time to plan and build therefore extra spending may not occur until the economy is in recovery
- the Government may have to borrow to fund such projects creating a burden of debt
- other areas of public spending may experience cuts in order to pay for schools and hospitals

Level 1 ([1]–[5])

There is evidence of some understanding of possible advantages or disadvantages of one policy measure. Quality of written communication is limited.

Level 2 ([6]–[10])

There is evidence of reasonable understanding of possible advantages and disadvantages of two policy measures. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

There is evidence of good understanding of possible advantages and disadvantages of three policy measures. Quality of written communication is of a high standard.

[15]

Total

**AVAILABLE
MARKS**

15

80



Rewarding Learning

**General Certificate of Secondary Education
2010**

Economics

Paper 2
Foundation Tier

[G2702]

TUESDAY 15 JUNE, MORNING

**MARK
SCHEME**

Section A

AVAILABLE
MARKS

- 1 (a) Competition refers to the situation where at least two firms participate in a market to sell similar goods and services, for example, Asda is competing with Aldi, Lidl, Tesco and Sainsbury in food retailing in the UK. Allow up to [2] for explanation. [2]
- (b) There are a number of ways in which Asda can compete. These include:
- price
 - advertising
 - use of loyalty cards
 - providing a wider range of services
 - internet shopping
 - promotions

Level 1 ([1]–[3])

One way in which Asda competes is identified but the explanation is not well developed. Quality of written communication is limited.

Level 2 ([4]–[6])

One way in which Asda competes is reasonably well explained, or two ways are identified but not as well developed. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

Three ways in which Asda competes are well explained. Quality of written communication is of a high standard. [9]

11

- 2 (a) Allow [1] for stating that Steve is affected by cyclical unemployment and [1] for explaining that this is caused by a fall in the level of demand in the economy. [2]
- (b) Allow up to [2] for explaining one other type of unemployment. Possible answers include:
- frictional unemployment when workers are unemployed due to changing jobs
 - seasonal unemployment when workers are unemployed due to seasonal factors, e.g. fishermen
 - structural unemployment when workers are unemployed due to a fall in the demand for their particular skill [2]
- (c) (i) Allow up to [2] for explaining one possible cost of unemployment to Steve. Possible answers include:
- reduction in income
 - loss of skills and experience [2]
- (ii) Allow up to [2] for explaining one possible cost of unemployment to the economy. Possible answers include:
- loss of output
 - higher costs of unemployment benefits
 - lower income tax contributions [2]
- (d) There are a number of policies Government could use to reduce unemployment. These include:
- for frictional unemployment improving information on job availability or reducing welfare benefits
 - for seasonal unemployment providing out of season employment opportunities
 - for structural unemployment providing retraining or policies to attract replacement industry
 - for cyclical unemployment the Government could boost aggregate demand by reducing taxes or increasing spending

Level 1 ([1]–[2])

A limited understanding of one policy the Government could pursue to reduce unemployment. Quality of written communication is limited.

Level 2 ([3]–[4])

A fair understanding of two policies the Government could use to reduce unemployment. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

A thorough understanding of two policies the Government could use to reduce unemployment. Quality of written communication is of a high standard. [6]

- 3 (a) Allow up to [2] for each of the following definitions:
- (i) Private costs are paid by a consumer or producer of a good, e.g. aviation fuel.
 - (ii) External costs are paid by a third party, e.g. noise from aircraft.
 - (iii) Social costs are equal to private costs plus external costs.
(3 × [2]) [6]

- (b) An increase in the number of flights will bring about a range of costs. These include:
- increased pollution and global warming
 - increased noise levels on flight paths
 - higher risk of accidents
 - increased traffic congestion with current level of infrastructure
 - destruction of habitat and farmland

Level 1 ([1]–[2])

A limited understanding of at least one cost. Quality of written communication is limited.

Level 2 ([3]–[4])

A fair understanding of some costs. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

A thorough understanding of costs. Quality of written communication is of a high standard. [6]

An increase in the number of flights will bring about a range of benefits. These include:

- creation of jobs in the airline industry
- knock-on effects with more business for ancillary industries that supply the airline industry
- greater range of destinations for local holidaymakers
- possible fall in air fares due to more competition
- greater attractiveness of Northern Ireland to outside investors and/or immigrant workers
- increased tax revenue to spend on public sector services

Level 1 ([1]–[2])

A limited understanding of at least one benefit. Quality of written communication is limited.

Level 2 ([3]–[4])

A fair understanding of some benefit. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

A thorough understanding of benefit. Quality of written communication is of a high standard. [6]

- 4 (a) Allow up to [2] for outlining that goods are tangible products that you can touch, e.g. cars, food. [2]
- (b) Allow up to [2] for outlining that services are intangible items, e.g. a haircut, a sightseeing tour. [2]
- (c) Allow up to [4] for outlining that the trade deficit relates to trade in goods and services. It is calculated by subtracting the value of imported goods and services from the value of exported goods and services. If this calculation is negative, there is a trade deficit. [4]
- (d) Allow [1] for indicating that the pound has depreciated against the dollar and up to [2] for stating that in March 2008 £1 bought \$2.03, while in October it bought \$1.54. [3]
- (e) If the pound depreciates then UK imports in terms of pounds will become more expensive, therefore the demand for imports will fall. At the same time exports will become cheaper in terms of the foreign currency and so exports should rise. This should result in the deficit falling, and possibly a surplus occurring.

Level 1 ([1]–[2])

A limited understanding of what will happen to the deficit. Quality of written communication is limited.

Level 2 ([3]–[4])

A fair understanding of what will happen to the deficit. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

A good explanation of the impact of a depreciation on the trade deficit. Quality of written communication is of a high standard. [6]

Section A

AVAILABLE
MARKS

17

60

Section B

**AVAILABLE
MARKS**

- 5 (a) Allow [1] for plotting and/or labelling each of the following:
- price on the vertical axis and quantity on the horizontal axis
 - the demand curve
 - equilibrium price at £80
 - equilibrium quantity at 95 000
- (4 × [1]) [4]

- (b) (i) Allow [1] for each of the following:
- a rightward shift in the supply to a vertical line at 105 000
 - labelling the shift of the supply curve
 - the new market clearing price at £70
 - the new equilibrium clearing price at 105 000
- (4 × [1]) [4]

- (ii) Allow [1] for each of the following:
- the formula (price × quantity)
 - selecting the correct information
- Allow up to [2] for the calculation: $£80 \times 95\,000 = £7\,600\,000$ or £7.6 million [4]

- (c) The organisers will have a number of fixed and variable costs that will have to be met from the revenue from sales of tickets.

Possible fixed costs include:

- repayments on loans needed to build the stadium
- stadium lighting
- management costs
- stadium cleaning and upkeep

Possible variable costs include:

- temporary staff
- promotion/marketing of the match

Level 1 ([1]–[2])

There is some understanding of costs but the answer is not developed.

Quality of written communication is limited.

Level 2 ([3]–[4])

There is a clear understanding of fixed and variable costs and some suitable examples are used. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is a good understanding of fixed and variable costs and relevant examples are used. Quality of written communication is of a high standard.

[6]

- (d) Hosting a major sporting event, such as football's World Cup, may contribute to a country's development in the following ways:
- there may be investment that will help to improve infrastructure such as sports facilities, roads, communications, transport, hotel capacity and power supply
 - it will attract spectators (tourists) who will spend money in the host country's economy
 - it should create a positive image of the country that could help future investment and tourism
 - it should help to develop the knowledge and skills of the local workforce to be able to deal with future inward investment

However, arguments against hosting such a high profile event include:

- the country may have to make difficult choices that involve a high opportunity cost about resource allocation in order to properly stage the event
- people may be asked to pay higher taxes or contribute to the cost of the event
- the money spent on hosting the World Cup could be better spent on more important needs like education and health care
- the infrastructure created by the investment may not be what is urgently needed
- the event may create externalities such as pollution and waste

Level 1 ([1]–[4])

There is some discussion of the positive or negative effects of hosting the World Cup. Quality of written communication is limited.

Level 2 ([5]–[8])

There is a reasonable discussion of the positive or negative effects of hosting the World Cup. Quality of written communication is satisfactory.

Level 3 ([9]–[12])

There is a good discussion of the positive or negative effects of hosting the World Cup. Quality of written communication is of a high standard.

[12]

30

- 6 (a) (i) Allow up to [2] for interpreting and describing each point from Fig. 1 as follows:
- national income per person was slightly higher in the UK than France in 2006 at \$32 213 compared to \$29 877
 - life expectancy is just over a year higher in France at 80.3 years
 - workers in France have 10 days more paid holiday per year at 30 days
 - France had a higher rate of unemployment at 11.8% compared to the UK's 4.4%
- (3 × [2]) [6]
- (ii) Possible additional data that could be used to compare the standard of living include:
- number of doctors per head of the population
 - other health data such as infant mortality
 - literacy, numeracy and general standards of education
 - environmental measures
- Allow up to [2] for each point identified and briefly described (2 × [2]). Other relevant points will be credited. [4]
- (b) The opportunity cost to UK workers of working longer hours in the EU include the next best alternative to which these resources could be used. These include:
- time with their family
 - leisure time pursuing a hobby
 - time when they could earn overtime or have another form of employment
- Allow up to [2] for understanding of the concept of opportunity cost and allow up to [2] for relating it to the context. (2 × [2]) [4]
- (c) There are a number of reasons why French workers may be more productive than UK workers. These could include:
- the data shows that France spends more on education than the UK therefore French workers are likely to be better educated and equipped for the world of work
 - France spends more on research and development
 - higher levels of investment in the French economy
 - French workers could be more motivated than UK workers
 - social policies in relation to sick leave may be stricter than in the UK
- Allow up to [2] for the explanation of each reason. (2 × [2]) [4]

- (d) There are many possible ways in which the Government could improve the standard of living of the UK economy. These include any policy measures that increase the country's GDP, and hence GDP per head, assuming that the population is stable. They also include any social and environmental measures that the Government may put in place to improve the quality of health, education, or the environment.

Some candidates may structure their answers under the specific policy headings such as fiscal policy, monetary policy or supply side policy. Possible answers may include:

Fiscal policy measures

- increasing national income through the use of direct and indirect taxes
- redistributing income through changes in direct taxes and reforms of the benefits system, e.g. Family Tax Credits
- providing tax incentives to firms to encourage investment
- increasing Government spending on health and/or education services

Monetary policy measures

- stimulating the economy to produce more goods and services through cuts in interest rates (initiated by the Bank of England's Monetary Policy Committee)

Supply-side policies

- increasing the output in the economy by improvements in the educational standards of the workforce, e.g. setting educational targets

Other relevant points will be credited so long as their link with the standard of living is discussed. Possible points may include:

- lower working hours
- increases in the National Minimum Wage rates
- more spending on leisure

Level 1 ([1]–[4])

One or two ways in which the Government could help to improve the standard of living are identified but the discussion is not well developed. Quality of written communication is limited.

Level 2 ([5]–[8])

One way in which the Government could help to improve the standard of living is discussed in detail, or at least two ways are identified but this discussion is not well developed. Quality of written communication is satisfactory.

Level 3 ([9]–[12])

At least two ways in which the Government could improve the standard of living are discussed to a high standard. Quality of written communication is of a high standard. [12]

Section B

Total

AVAILABLE
MARKS

30

60

120



Rewarding Learning

**General Certificate of Secondary Education
2010**

Economics

Paper 1
Higher Tier

[G2703]

MONDAY 7 JUNE, MORNING

**MARK
SCHEME**

- 1 (a) The credit crunch refers to the economic situation that started in August 2007 when:
- it became much harder to obtain credit as banks and other financial institutions reduced their lending
 - consumers had less money to spend and this had a knock-on effect on the general health of the economy

Allow up to [2] for each point identified and briefly described, up to a maximum of [3] for a well developed explanation. [3]

- (b) Causes of the credit crunch outlined in Source 1, lines 5–18 include:
- the USA’s high interest rates in 2007 made mortgage repayments more expensive and many people were unable to keep up with payments
 - banks had too much high risk business having lent to people with poor credit histories and low incomes
 - bad debts in the USA were repackaged into new financial ‘assets’ and sold in the financial markets including the UK
 - in general, banks had insufficient secure assets to back the extent of lending that they had undertaken

Allow up to [2] for each possible cause of the credit crunch identified (2 × [2]). [4] 7

- 2 (a) Allow up to [3] for identifying that Northern Rock was a public limited company owned by shareholders, operating in the private sector. It was controlled by a Board of Directors for day-to-day management. Strategy and policy were agreed at the annual general meeting that shareholders were invited to attend. [3]

- (b) Allow up to [3] for identifying that the Government takes over the day-to-day management of a nationalised business and uses taxpayers money to fund activities if the business is not breaking-even or profit-making. Once nationalised, Northern Rock was part of the public sector. [3] 6

AVAILABLE
MARKS

3 There are several possible services and products that banks and financial institutions provide. These include:

Current accounts

Allows customers to deposit money, usually their wages, and to withdraw cash and make payments using standing orders and direct debit payments

Direct debit

Your bank makes arranged payments, for example, utility charges or monthly payments for insurance

Insurance policies

A product that covers a specified risk, e.g. motor and house insurance

Overdrafts

Permission for a business to draw a limited amount of money from a bank account above what is deposited in that account, e.g. at times when the cash flow is low

There are several other possible services and products that banks and financial institutions provide. These include:

- savings accounts
- telephone and internet banking services
- personal loans and mortgages
- business loans
- foreign currency exchange
- investment 'products' such as ISAs
- pension products
- mortgages

Credit will be given for other relevant points

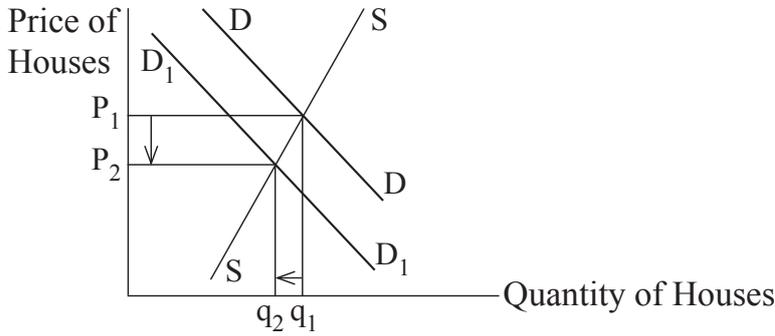
Allow up to [2] for each product or service described
(4 × [2])

[8]

8

AVAILABLE
MARKS

- 4 The housing market has been affected by the credit crunch. As people are finding it harder to obtain mortgages, the demand for houses has fallen, and the average price of a house has fallen. There has been a decline in house-building. This situation is represented in the diagram below where there has been a shift to the left of the demand curve causing the market clearing (equilibrium) price to fall.



Level 1 ([1]–[3])

There is some explanation that house prices have fallen but the diagram is either incomplete or inaccurate. Quality of written communication is limited.

Level 2 ([4]–[6])

There is a reasonable explanation that house prices have fallen and the diagram is mostly accurate. Quality of written communication is satisfactory.

Level 3 ([7]–[8])

There is a good explanation that house prices have fallen and the diagram is accurate. Quality of written communication is of a high standard.

[8]

8

- 5 The credit crunch has had mainly a negative effect on consumers and businesses, but some businesses are thriving as consumers become more careful about how they spend their limited funds.

The main effects on consumers are:

- reduced spending overall but much greater interest in discounts, offers and special deals
- consumers are having to budget more carefully and make more informed decisions about purchases
- reduced consumption of luxury goods in order to be able to pay for essentials
- fewer credit and more cash payments

The main effects on businesses are:

- many supermarkets and shops are experiencing a reduction in trade and profits as consumers reduce their spending
- discount stores such as Lidl and Iceland are experiencing an increase in business as consumers trade down
- supermarkets are emphasising 'price' in their promotions rather than other features such as being 'ethical' or 'green'
- competition is focusing around deals and special offers
- repair businesses are thriving as are some take-away outlets as people stay at home more rather than go out to eat
- people are spending less on cars, electronic products and foreign holidays
- there has been an increase in pawnbrokers' business reflecting some people's need for a quick source of ready cash
- sales of some luxury items have also been adversely affected as very rich people may prefer to have their spare cash tied up in an investment asset rather than keep it in the bank

Level 1 ([1]–[4])

Some effects on consumers or businesses are identified but the discussion is not developed. Quality of written communication is limited.

Level 2 ([5]–[8])

There is a reasonable discussion of the effects on consumers and businesses. Quality of written communication is satisfactory.

Level 3 ([9]–[12])

There is a well developed discussion of the effects on consumers and businesses. Quality of written communication is of a high standard. [12]

12

- 6 The performance of the economy has been severely affected by the credit crunch. Source 3 indicates that the economy went into recession at the end of 2008 and that industries such as car manufacturing laid off workers. The data in Fig. 2 indicates:

Economic growth in 2007 was at a steady 3%. However, during 2008 economic growth slowed to 2% early in the year and to 1% by the end of the year. Following this slowdown in the rate of growth, economic statistics indicated that the economy had experienced negative growth over a six month period which meant that the economy was officially in recession as confirmed by the Governor of the Bank of England.

Unemployment was 5.75% (1.75 million) at the start of 2007 but during 2008, it rose steadily to nearly 2 million.

Inflation was between 2 and 3% in 2006–2007. By the end of 2008, it crept up gradually to 5% before starting to reduce again.

Since 2007 the value of the pound has weakened considerably against the euro. It had been trading at 1.5 euro to the pound but by the end of 2008, there was parity between the two currencies – one pound was worth only one euro. If the pound remains as weak as this, there may be increased demand for UK produced goods and services but imports will become much more expensive. This could affect businesses that are very dependent on imported materials.

Reduced demand for goods and services, especially those linked to building and construction is being felt by businesses. There is generally less business investment therefore the downturn will continue for some time.

Level 1 ([1]–[4])

There is some interpretation of Source 2 but the discussion is not developed. Quality of written communication is limited.

Level 2 ([5]–[8])

There is reasonable interpretation of Source 2 and the discussion is developed. Quality of written communication is satisfactory.

Level 3 ([9]–[12])

There is a very good interpretation of Source 2 and the discussion is well developed. Quality of written communication is of a high standard. [12]

12

- 7 (a) The Financial Services Authority (FSA) was set up by the Government to regulate the financial sector in the UK and it has several important functions:
- it sets down standards of good practice which financial institutions are expected to follow
 - it ensures that banks keep sufficient liquid assets to cover customer demands rather than pursuing excessive profit
 - problems in the financial sector have a serious knock-on effect in the economy as a whole hence the Government regulates this sector

Without regulation there would be a danger that financial institutions might exploit consumers by encouraging them to invest in unsuitable products, or by not providing them with complete information and not adequately protecting money deposited. Without robust regulation there is a risk of losing consumer confidence in the system and this could have a severe effect on the economy as a whole.

Level 1 ([1]–[2])

There is very limited explanation of the need for regulation and little or no reference to the FSA. Quality of written communication is limited.

Level 2 ([3]–[4])

There is a reasonable explanation of the need for regulation and some reference is made to the FSA. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is a comprehensive explanation of how the financial sector is regulated and why regulation is needed. Quality of written communication is of a high standard. [6]

- (b) Given the financial problems that have affected consumers, businesses and the wider economy, many feel that regulation of the financial services sector was not effective. Specific criticisms include:
- banks appear to have pursued profit-making before the needs of their customers as they made huge profits for many years before the credit crunch
 - banks lent too much money, for example, 100% and 125% mortgages, and provided credit facilities to customers with poor credit ratings
 - the division of responsibility between the Treasury, the FSA and the Bank of England has, at times, been unclear
 - loss of confidence in the banking sector. Northern Rock customers queued to withdraw their money in case the bank would collapse
 - lack of controls and procedures to check the risks of financial repackaging of assets
 - instances of financial mis-selling by the industry, e.g. selling of Payment Protection Insurance, or the collapse of Equity Life
 - other financial institutions have experienced problems and the Government has had to step in and provide financial help to secure the banking system. Share prices in many financial institutions have fallen heavily

Level 1 ([1]–[2])

There is some understanding that the financial sector has not been adequately looking after the interests of customers but this is not well developed or explained. Quality of written communication is limited.

Level 2 ([3]–[4])

There is a reasonable explanation that financial regulation has been inadequate. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is a well developed explanation that financial regulation has been inadequate. Quality of written communication is of a high standard. [6]

12

- 8 Source 3 outlines that the Government implemented both monetary and fiscal policy measures to deal with the recession and the effects of the credit crunch.

Monetary policy measures were intended to reduce the cost of borrowing and included:

- reductions in the rate of interest by the Bank of England to record lows
- putting pressure on high street banks to pass on interest rate reductions to customers
- negotiating with the banks to allow those customers who could not pay mortgage repayments, perhaps as a result of unemployment, to have more time to get their finances in order before banks moved to repossess homes
- quantitative easing (candidate not expected to have a detailed knowledge and understanding of this)

The effectiveness of these measures has been open to debate.

- homeowners with a mortgage have enjoyed lower mortgage repayments. However, the increase in household's disposable income did not find its way to increased spending in the high street. The recession and credit crunch caused people in general to worry about their financial future with many preferring to save and delay purchases, rather than spending immediately. In January 2009, sales of new cars had fallen by 30%
- high street banks have become much stricter about lending and first-time buyers require a sizeable deposit for their home
- banks have not always passed on the full extent of falls in interest rates to customers and the Government has intervened to request that they do this, especially those banks that have been supported with public money
- savers have been very disappointed by the fall in return from their investments
- after an initial rise in late 2008, inflation started to fall during 2009
- lower interest rates do not appear to have stimulated business and unemployment continued to rise in 2009
- the value of the pound plummeted against the euro – lower interest rates have not made the UK an attractive place to invest and the demand for pounds on foreign exchange markets fell
- in the global crisis, the weak pound has not helped to stimulate exports

Fiscal policy measures that the Government could use to stimulate the economy are extensive. Some of these measures can target consumers and households, while others are intended to target businesses

To support consumers and households, as indicated in Fig. 3, the Government:

- tried to reduce the burden on lower income families through more generous tax credits
- introduced a temporary reduction in VAT to 15% for one year
- increased the personal allowance threshold
- increased the thresholds for Capital Gains and Inheritance Tax

Other possible fiscal measures include:

- giving workers a tax 'holiday'
- reducing direct taxes, namely the basic rate of income tax
- providing more generous benefits that target the lowest income groups, e.g. increase the basic state pension
- reducing indirect taxes such as excise duties
- reduce stamp duty to encourage more house purchases

To support businesses, the Government:

- provided subsidies to employers to assist with employing workers
- commissioned large capital spending projects such as schools and hospitals
- in theory, could reduce the rates of corporation tax and/or national insurance contributions

The package of fiscal policy measures should have stimulated the economy by:

- increasing aggregate demand, e.g. through the scrappage scheme
- increased investment by businesses
- reduced unemployment
- contributed to economic growth
- providing there is spare capacity in the economy, fiscal policy should not be inflationary

However, the economy has not shown clear signs of responding to the fiscal policy measures.

One significant effect of Government fiscal policy measures has been the impact on public sector borrowing in order to fund such measures, and this is very controversial as it will have serious economic repercussions in the future. This may be considered too high a proportion of national income and this could contribute to future economic instability. Many commentators have criticised the impact that increased Government borrowing will have on future generations. Fiscal policy measures take time to have an impact on the economy and they may not have the desired effect on the economy.

Level 1 ([1]–[5])

There is some understanding of Government policy measures that could be used to tackle the effects of the credit crunch and the recession but these are not evaluated. Quality of written communication is limited.

Level 2 ([6]–[10])

There is a reasonable understanding of Government policy measures that could be used to tackle the effects of the credit crunch and the recession, and there is an attempt to evaluate their effectiveness. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

There is a good understanding of Government policy measures that could be used to tackle the effects of the credit crunch and the recession, and there is an attempt to evaluate their effectiveness. Quality of written communication is of a high standard. [15]

Total

**AVAILABLE
MARKS**

15

80



Rewarding Learning

**General Certificate of Secondary Education
2010**

Economics

Paper 2
Higher Tier

[G2704]

TUESDAY 15 JUNE, MORNING

**MARK
SCHEME**

Section A

AVAILABLE
MARKS

- 1 (a)** Allow [1] for plotting and/or labelling each of the following:
- price on the vertical axis
 - quantity on the horizontal axis
 - demand curve
 - supply curve
 - market clearing (equilibrium price) at £80
 - market clearing (equilibrium quantity) at 95 000
- (6 × [1]) [6]

- (b) (i)** Allow [1] for each of the following:
- a rightward shift in the supply to a vertical line at 105 000
 - labelling the new supply curve
 - indicating the new market clearing (equilibrium) price at £70
 - indicating the new market clearing (equilibrium) quantity at 105 000
- (4 × [1]) [4]

- (ii)** Allow [1] for each of the following:
- formula: price × quantity = total revenue (TR = p × q)
 - sale of tickets = 95 000
 - 95 000 × £80
 - total revenue will be £7 600 000, or £7.6 million
- (3 × [1]) [3]

- (c)** Price elasticity of demand (PED) measures the responsiveness of quantity demanded to a change in price. It is calculated as follows:

$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

If price is reduced from £80 to £70, sales of tickets will increase from 95 000 to 105 000, hence all the available seats will now be sold.

PED = 10.52%/12.5% This will give a value of 0.84, which is less than 1.

This is an inelastic value. This means that if price of a ticket rises, total revenue will rise. However, if price falls, total revenue will also fall.

Allow up to [3] for exploring the meaning of PED and [2] for calculating and interpreting PED [5]

- (d)** Hosting a major sporting event, such as football's World Cup, may contribute to economic development in the following ways:
- there may be investment that will help to improve infrastructure such as sports facilities, roads, communications, transport, hotel capacity and power supply
 - it will attract spectators (tourists) who will spend money in the host country's economy
 - it should create a positive image of the country that could help future investment and tourism
 - it should help to develop the knowledge and skills of the local workforce to be able to deal with future inward investment

However, arguments against hosting such a high profile event include:

- the country may have to make difficult choices that involve a high opportunity cost about resource allocation in order to properly stage the event, for example, spending on education or housing may be reduced in order to pay for infrastructure such as new road links
- people may be asked to pay higher taxes to contribute to the cost of the event
- the money spent on hosting the World Cup could be better spent on more important needs like education and health care
- the infrastructure created by the investment may not be what is urgently needed
- the event may create externalities such as pollution and waste

Level 1 ([1]–[4])

There is some discussion of how hosting the World Cup could affect the economic development of a country. Quality of written communication is limited.

Level 2 ([5]–[8])

There is a reasonable discussion of how hosting the World Cup could affect the economic development of a country. Quality of written communication is satisfactory.

Level 3 ([9]–[12])

There is a good discussion of how hosting the World Cup could affect the economic development of a country. At the upper end of the mark range reference should be made to costs as well as benefits. Quality of written communication is of a high standard. [12]

30

- 2 (a) (i) Allow up to [2] for interpreting and describing three points ($3 \times [2]$) from Fig. 1 as follows:
- national income per person was higher in the UK than France in 2006 at \$32 213 compared to \$29 877
 - life expectancy was just over a year higher in France at 80.3 years
 - workers in France had 10 days more paid holiday per year at 30 days than workers in the UK
 - France had a higher rate of unemployment at 11.8% compared to the UK's 4.4% [6]
- (ii) Possible additional information that could be used to compare the standard of living includes:
- number of doctors per head of the population
 - other health data such as infant mortality
 - literacy, numeracy and general standards of education
 - environmental measures
- Allow up to [2] for each point identified and briefly described ($2 \times [2]$). Other relevant points will be credited. [4]

- (b) The opportunity cost to UK workers of working longer hours in the EU include the next best alternative to which these resources could be used.

These include:

- time with their family
- leisure time pursuing a hobby
- time when they could earn overtime or have another form of employment

Allow up to [2] for understanding of the concept of opportunity cost and allow up to [2] for relating it to the context.

(2 × [2])

[4]

- (c) There are a number of reasons why French workers may be more productive than UK workers. These could include:

- the data shows that France spends more on education than the UK therefore French workers are likely to be better educated and equipped for the world of work
- France spends more on research and development
- higher levels of investment in the French economy
- French workers could be more motivated than UK workers
- social policies in relation to sick leave may be stricter than in the UK

Allow up to [2] for the explanation of each reason.

(2 × [2])

[4]

- (d) There are many possible ways in which the Government could improve the standard of living of the UK economy. These include any policy measures that increase the country's GDP, and hence GDP per head, assuming that the population is stable. They also include any social and environmental measures that the Government may put in place to improve the quality of health, education, or the environment.

Some candidates may structure their answers under the specific policy headings such as fiscal policy, monetary policy or supply side policy.

Possible answers may include:

Fiscal policy measures

- increasing national income through the use of direct and indirect taxes
- redistributing income through changes in direct taxes and reforms of the benefits system, e.g. Family Tax Credits
- providing tax incentives to firms to encourage investment
- increasing Government spending on health and/or education services

Monetary policy measures

- stimulating the economy to produce more goods and services through cuts in interest rates (initiated by the Bank of England's Monetary Policy Committee)

Supply-side policies

- increasing the output in the economy by improvements in the educational standards of the workforce, e.g. setting educational targets

Other relevant points will be credited so long as their link with the standard of living is discussed. Possible points may include:

- lower working hours
- increases in the National Minimum Wage rates
- more spending on leisure

Level 1 ([1]–[4])

One or two ways in which the Government could help to improve the standard of living are identified but the discussion is not well developed. Quality of written communication is limited.

Level 2 ([5]–[8])

One way in which the Government could help to improve the standard of living is discussed in detail, or at least two ways are identified but this discussion is not well developed. Quality of written communication is satisfactory.

Level 3 ([9]–[12])

At least two ways in which the Government could improve the standard of living are discussed to a high standard. Quality of written communication is of a high standard. [12]

Section A

**AVAILABLE
MARKS**

30

60

Section B

AVAILABLE
MARKS

- 3 (a) A trade deficit is the result of the value of imported goods and services being larger than the value of exported goods and services. In May 2008 this deficit was £4.2 billion. It is usual for the UK to import more goods than it exports, and export more services than it imports. The UK needs raw materials, food, and resources, and we cannot manufacture many consumers goods as cheaply as other countries.

Level 1 ([1]–[2])

There is some understanding of the export and import of goods and services, but the concept of a deficit is not understood. Quality of written communication is limited.

Level 2 ([3]–[4])

There is reasonable understanding of the export and import of goods and services, and the concept of a trade deficit. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

A clear understanding of the concept of a trade deficit. Quality of written communication is of a high standard. [6]

- (b) A fall in the value of the pound will mean that the cost of imports will increase in terms of sterling and the cost of exports, in terms of foreign currency, will fall, all other things remaining equal. With costs rising, UK importers are likely to reduce demand. UK exporters are likely to experience an increase in demand. The combined effect of these changes is that the value of imports should fall and the value of exports should rise, hence reducing the trade deficit.

However, the UK now has a low manufacturing base, hence any change in the relative prices as a result of the fall in the value of the pound may have a very limited impact on the quantity exported. If UK importers are not able to significantly reduce demand for particular goods in response to increasing costs, such as oil, or respond within a short time period, there will be little to no reduction in the trade deficit. There may also be a limited response from other countries to the falling value of the pound possibly because of the global downturn. Other countries may not have sufficient resources to capitalise on the relatively cheaper goods and services available in the UK.

Better candidates may use the concept of Price Elasticity of Demand for exports and imports to explain possible changes in exports and imports.

Level 1 ([1]–[3])

There is a basic understanding of the relationship between the exchange rate and the trade deficit. Quality of written communication is limited.

Level 2 ([4]–[6])

There is a reasonable understanding of the relationship between the exchange rate and the trade deficit. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

There is a clear and well developed understanding of the relationship between the exchange rate and the trade deficit. Quality of written communication is of a high standard. [9]

(c) The theory of comparative advantage states that countries can benefit from trade by specialising in producing those goods and services which carry the lowest opportunity cost. If all countries do this then output and consumer welfare are maximised. The UK also benefits from trade as follows:

- consumer choice is increased
- UK firms can benefit from economies of scale
- jobs are created in export industries
- competition is increased between businesses, and this can improve efficiency
- international relations can be improved

However, there can also be disadvantages to trade, for example:

- cheap imports can lead to job losses and structural unemployment
- skills can be lost
- undesirable goods may be imported
- the UK may become over-dependent on other countries for essential goods and services, or items of strategic importance

Level 1 ([1]–[5])

There is some discussion of the advantages or disadvantages of trade. Quality of written communication is limited.

Level 2 ([6]–[10])

There is a good discussion of the advantages and disadvantages of trade for the UK. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

There is an excellent discussion of both advantages and disadvantages of trade. Quality of written communication is of a high standard. [15]

30

- 4 (a) Asda is a large supermarket chain that can take advantage of economies of scale. It can purchase goods in large quantities and negotiate better prices from suppliers than smaller competitors. It can pass these 'savings' on to the consumer in the form of lower prices. It also benefits from other economies of scale such as marketing and managerial economies that also help to keep their prices low. Asda is part of the large US chain, Walmart, and this may also help it to source goods at a cheaper price than other, smaller competitors.

Level 1 ([1]–[2])

There is a basic understanding of how prices can be kept low but this is not developed or linked well with the concept of economies of scale. Quality of written communication is limited.

Level 2 ([3]–[4])

There is a reasonable understanding of how prices can be kept low and there is an attempt to link this with the concept of economies of scale. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is a clear understanding of how prices can be kept low and the concept of economies of scale. Quality of written communication is of a high standard. [6]

- (b) There are a number of possible ways, other than price, in which supermarkets compete with one another. These include:
- quality and range of products sold – in recent years supermarkets have extended the product ranges to include electrical equipment, furniture, cooking utensils and equipment, DVDs, and clothes
 - quality of the shopping environment and the general look and facilities that they provide at their stores, for example, cafes
 - customer care, for example, by investing in staff training
 - introduction of online shopping and delivery
 - through advertising
 - special offers such as 'buy one get one free'
 - customer loyalty schemes

Level 1 ([1]–[3])

A basic understanding of one or two ways, other than price, that supermarkets can compete. Quality of written communication is limited.

Level 2 ([4]–[6])

A reasonable understanding of one or two ways, other than price, that supermarkets can compete. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

A clear understanding of two or more ways, other than price, that supermarkets can compete. Quality of written communication is of a high standard. [9]

(c) The availability of cheap school uniforms will attract families to shop in Asda. The benefits of this for Asda include:

- increased profits from the sales of school uniforms
- increased sales and profits from increased sales of other goods

However, while Asda may be busier, there are many possible negative externalities in the form of pollution from increased traffic.

The existence of a monopoly in the market for school uniforms is a form of market failure. Economists generally consider that it is more efficient to have competition in markets as this leads to lower prices and more consumer choice. Markets can fail if the market mechanism does not operate effectively and efficiently to allocate resources to where they are needed, and at prices that consumers can afford. The very low price of £4 for a basic school uniform suggests that other suppliers are not able to compete at this low price.

The Government may take action to limit the power of a monopoly if it is considered to be against the public interest, for example, if it is limiting effective competition.

Competitors may try to compete by offering goods and services at better prices than their competitors. This may take the form of special offers at certain times such as bank holidays, or promotions for a limited period where there is a substantial reduction in price.

Level 1 ([1]–[5])

Some effects of Asda having a monopoly are identified but the discussion is not well developed. Quality of written communication is limited.

Level 2 ([6]–[10])

A range of possible effects of Asda having a monopoly are discussed to a reasonable standard. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

A wide range of possible effects of Asda having a monopoly are discussed in detail. Quality of written communication is of a high standard. [15]

30

- 5 (a) Unemployment is defined as the number of people in the workforce seeking work but who do not have a job. It has a number of possible causes that include:
- frictional unemployment – this is when workers have left one job and are searching for another
 - seasonal unemployment – this is when workers are unemployed at certain times of the year, e.g. fishermen
 - structural unemployment – this is caused by a change in the structure of the economy
 - cyclical unemployment – this is due to a fall in the level of demand in the economy

Level 1 ([1]–[2])

There is some understanding of one cause of unemployment. Quality of written communication is limited.

Level 2 ([3]–[4])

There is a reasonable understanding of two causes of unemployment. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is good understanding of two causes of unemployment. Quality of written communication is of a high standard. [6]

- (b) Unemployment generates a range of costs for the individual and the economy. These may include:
- loss of income leading to lower living standards
 - increased stress and possible illness
 - increased personal debt
 - damaged credit ratings
 - possible repossession of home or other assets
 - increased welfare spending by Government
 - fall in tax revenue
 - knock-on effect on other businesses through fall in spending
 - more Government spending on training schemes
 - increased social problems such as crime
 - loss of output to the economy

Level 1 ([1]–[3])

A basic understanding of the costs of unemployment to the individual or the economy. Quality of written communication is limited.

Level 2 ([4]–[6])

A good explanation of the impact of unemployment on individuals and the economy. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

A comprehensive explanation of the costs of unemployment on individuals and the economy. Quality of written communication is of a high standard. [9]

- (c) There is a range of possible policy approaches to address rising unemployment. In many instances the Government has the challenge of weighing up the drawbacks of particular measures against their intended benefit. Many Government measures require increased spending. They may also be slow to have an effect, and they can be politically unpopular. Some actions may also conflict with other economic objectives. Possible approaches include:
- for frictional unemployment, improve information on job availability or reduce welfare benefits
 - for seasonal unemployment, provide out of season employment opportunities
 - for structural unemployment, provide retraining or initiate policies to attract replacement industry
 - for voluntary unemployment, reduce the level of benefits to improve the operation of the labour market
 - for cyclical unemployment, the Government could boost aggregate demand by reducing taxes or increasing spending

Level 1 ([1]–[5])

There is a limited discussion of some relevant policy measures. Quality of written communication is limited.

Level 2 ([6]–[10])

There is a good discussion of a range of policy measures and there is an attempt to analyse and evaluate issues. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

There is a comprehensive discussion of a range of relevant policy measures, including developed analysis and evaluation. Quality of written communication is of a high standard.

[15]

30

- 6 (a) Social costs are the total costs to society of an economic activity. They are equal to the sum of private and external costs. Private costs are paid by the consumer or firm, external costs are paid by a third party. For example, air passengers pay for the cost of fuel and other charges, but they do not pay for pollution or noise caused by aircraft.

Level 1 ([1]–[2])

There is some understanding of social cost, perhaps confusing social and external cost. Quality of written communication is limited.

Level 2 ([3]–[4])

There is a fair understanding of social costs. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is a comprehensive understanding of social cost, clearly distinguishing between private and external costs. Quality of written communication is of a high standard. [6]

- (b) An increase in the number of flights will bring about a range of social costs and benefits. The benefits include:
- creation of jobs in the airline industry
 - knock-on effects with more business for ancillary industries that supply the airline industry
 - greater range of destinations for local holidaymakers
 - possible fall in air fares due to more competition
 - greater attractiveness of Northern Ireland to outside investors and/or immigrant workers
 - increased tax revenue to spend on public sector services

The costs include:

- increased pollution and global warming
- increased noise levels on flight paths
- higher risk of accidents
- increased traffic congestion with current level of infrastructure
- destruction of habitat and farmland

Level 1 ([1]–[3])

There is a limited explanation of social costs and benefits of increasing the number of flights. Quality of written communication is limited.

Level 2 ([4]–[6])

There is a good explanation of social costs and benefits of increasing the number of flights. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

There is a comprehensive explanation of social costs and benefits of increasing the number of flights. Quality of written communication is of a high standard. [9]

(c) The Government is trying to ‘make the polluter pay’ when it places taxes on air passengers.

Possible advantages include:

- a reduction in noise and congestion near airports due to the possible decrease in the number of flights
- possible increase in domestic holidays
- possible reduction in pollution
- increased revenue for the Government
- possible decrease in other taxes

Possible disadvantages include:

- higher costs for business and leisure travel
- possible closure of some low-cost airlines, and loss of jobs in industries that supply the airline industry
- higher costs for holidaymakers
- inflationary pressure
- administration costs

Level 1 ([1]–[5])

There is a basic discussion of some advantages or disadvantages of taxing air travel but this is not well developed. Quality of written communication is limited.

Level 2 ([6]–[10])

There is a good discussion of the advantages and disadvantages of taxing air travel. Points are analysed and evaluated to a reasonable standard. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

There is a comprehensive discussion of the advantages and disadvantages of taxing air travel. Points are analysed and evaluated to a high standard. Quality of written communication is of a high standard.

[15]

30

Section B

60

Total

120

AVAILABLE
MARKS

