2009 Economics

Intermediate 2

Finalised Marking Instructions

ECONOMICS INTERMEDIATE 2

2009 Marking Scheme

Item A

			Marks
(a)	TR is price x quantity (1) sold (1) or, TR is the total amount of money a producer/ seller receives (1) from the sale of his/her goods. (1).		**2**
(b)	**(i)**	£28 (or 28)	**1**
	(ii)	Accept any fixed cost plus some development or link with Rosewood Ltd.	**1**
(c)	AR = TR/Sales (1) or AR = £150/5 (1) = £30 (1).		**2**
(d)	Variable costs (at an output of 7) are £168 - £28 (1); or £140 (1); or AVC are £140/7 (1); or VC = TVC/output (1); = £20 (1).		**2**
(e)	6 (seats) (1). Lowest ATC (1).		**2**
(f)	**(i)**	Accept any plausible reason eg to increase efficiency; to reduce wage costs; to increase quality; to meet an increase in demand. One mark per reason.	**2**
	(ii)	Advantages include: less stress/strain as the machine can do the heavy work; higher pay because of the increase in productivity (credit references to piece rates); greater job security from being employed in a more efficient firm; gaining new machine operating skills. Disadvantages include: redundancy, as fewer workers are needed; have to be trained in how to operate the machine; increased stress because of having to keep up with a (tireless) machine.	**2**
(g)	**(i)**	The diagram should show a decrease in supply (1) and the resultant increase in the equilibrium price. (1)	**2**
	(ii)	It will reduce their profit (1) because their costs would have risen (1).	**2**
(h)	Accept any plausible factor eg warm weather; the summer; an advertising campaign; a fall in the price of garden tables/barbecues/paving slabs.		**2**
			20

Item B

			Marks
(a)	**(i)**	Look for an understanding of the fact that households 'give' firms (the services of) the factors of production (1) and in return receive a (monetary) reward/income (1). Credit references to wages, rent, profit and interest.	**2**
	(ii)	Households spend their income (1) on the goods and services produced by the firms (1). Credit references to expenditure.	**2**
(b)	**(i)**	Look for an understanding of how injections are incomes that enter the flow from outside it (1) or income that does not arise because of the spending of (domestic) consumers (1). Examples are Investment, Government Spending and Exports – any 1 for 1 mark.	**2**
	(ii)	A withdrawal is money/income that flows out of/is withdrawn from/leaks from the system/flow of income (1) or income that has been received but is not passed on to firms (1). Examples are Savings, Taxation and Imports – any 1 for 1 mark.	**2**
(c)	Accept any characteristic – social as well as economic – but look for some attempt at describing it.		**2**
(d)	The main ways are the various forms of aid plus debt relief and free trade. One mark for the method and 1 for describing how it can increase the NY of DCs.		**4**
(e)	**(i)**	One mark for the import control and 1 for the explanation of how it reduces/controls imports.	**4**
	(ii)	Credit any reason for imposing import controls and mark according to the overall quality of the explanation.	**2**
			20

PART 2

Marks

1 **(a)** Look for a description of at least 3 benefits for full marks eg

- greater choice/variety as not all countries produce the same goods
- lower prices because some countries can produce goods more cheaply than others (credit references to comparative advantage)
- augments home supplies – shortages can be met by imports
- increases world competition which could lead to reduced prices
- companies can benefit from greater economies of scale because of bigger markets. If no description, maximum of 3 marks. **5**

(b) It is likely to worsen the B of T (1) as our exports will be dearer/less competitive (1) – credit reason (1) – and the demand for them will fall/we will sell less (1). Our imports will be cheaper/more competitive (1) – credit reason (1) – therefore we will buy more (1). **5**

(c) **(i)** Look for a simple description of either the claimant count or the LFS. **2**

(ii) The rate is the number unemployed/the unemployment level expressed as a percentage (1) of the working population (1). **2**

(d) **(i)** Look for an understanding of how a fall in the rate of interest will encourage borrowing/investment (1) and discourage saving (1) – credit reasons – which will increase spending/demand (1) and reduce unemployment – credit reason. Also credit references to derived demand. Maximum 4 marks.

(ii) Look for an understanding of how a budget deficit (1) G>T (1) will increase demand (AMD) (1) and therefore reduce unemployment – credit references to derived demand. Maximum 4 marks but if answer mentions only an increase in G or a reduction in T, maximum of 2 marks. **6**

2 **(a)** Opportunity cost is the sacrifice (1) of the next best (alternative) choice (1). **2**

(b) **(i)** Governments do not have enough taxation revenue (1) to do all they would wish to do (1) or therefore they have to choose how to spend/use it (1). Credit any logical example (1).

(ii) Producers do not have enough resources (1) to produce all they would like (1) or therefore they have to choose what to produce/how to use them (1). Credit any logical example.

(iii) Consumers do not have enough income (1) to buy all they would like (1) or therefore they have to decide what to buy/how to spend it (1). Credit any logical example. **9**

Marks

(c) **(i)** Look for an understanding of how a cut in corporation tax or any budget measure aimed at increasing AMD would reduce costs/ increase revenue for producers. One mark for the measure, 2 for the explanation.

(ii) The government could cut the rate of income tax/national insurance (1) which would reduce the amount of tax taken off workers' pay (1) and give them more money to spend (1). Credit definitions of disposable income.

(iii) The government could make taxes more progressive (1) so that the rich pay proportionately more tax than the poor (1) which will reduce income inequality (1). Alternatively, the government could increase welfare benefits (1) – credit examples – which tend to be given to the poorest in society (1) and will therefore make incomes more equal (1). **9**

3 **(a)** The main areas are social security, health, education and defence – but the word 'areas' is somewhat vague, so credit pensions, JSA, debt interest etc. **2**

(b) **(i)** Look for an understanding of the link between government spending and demand (AMD) and the link between demand and economic growth. Credit definitions of economic growth.

(ii) Candidates should mention (again) the link between government spending and demand and then explain the link between demand and inflation. Credit definitions of inflation. The sections can be marked 5:3; 4:4 or 3:5. **8**

(c) Look for a description of any 2 taxes; form of government borrowing or government charges. **4**

(d) The main reason is to correct market failure (1) – credit definition. Look for 3 explanations of situations in which the market might not allocate resources efficiently. If the candidate mentions, and defines, market failure, two explanations are enough for full marks. Candidates might give a micro answer and discuss the reasons for the government taxing goods, granting subsidies and imposing minimum and maximum prices. This is a valid approach, so look for 3 explanations for full marks. **6**

Marks

4 **(a)** A group of countries (1) which has no trade barriers between them (1). The advantages for consumers include: lower prices; greater choice; better quality goods; more opportunity for specialisation (comparative advantage); increased trade (and economic growth). Maximum of 3 marks per description, but if 'free trade area' is not correctly defined, maximum is 5. **6**

(b) **(i)** More countries becoming members of the EU (1). One mark for any recent (ie since 2004?) examples. **2**

(ii) Advantages include: greater opportunity to work abroad; increased demand for workers from new firms setting up in UK; increased wages because of increased demand. Disadvantages include: loss of jobs because of UK firms re-locating; lower wages because of the increase in the supply of labour: UK firms might employ immigrant workers rather than UK workers (the former may be cheaper or more highly skilled). Mark 2:2. **4**

(c) **(i)** The cost advantages (1) firms' can experience when they increase their size (increase all their factors) (1) or, reductions in ATC (1) which large firms can achieve (1) – or any similar definition. Maximum of 2 marks.

(ii) One mark for the definition of internal (ie applying within the firm) and a maximum of 2 for the examples. One mark for the definition of external (ie applying outwith the firm/applying to the industry) and a maximum of 2 for the examples. **8**

5 **(a)** **(i)** The reasons include: to reduce the demands on (and costs of) the NHS; to reduce the number of working days lost through smoking related illnesses; to reduce the effects of secondary smoking (negative externalities); to improve the health (and productivity) of the workforce. Credit any other plausible economic (but not purely social) reason. **4**

(ii) The government will lose a great deal of tax revenue (1) as cigarettes are heavily taxed (1). Also credit candidates who state that revenue from corporation tax could fall because of reductions in the profits of tobacco firms. **2**

(b) The diagram should show: the original D and S curves (1), if the axis are correctly labelled; a fall in demand (1) and a fall in the EP (1). Look for a simple explanation eg a fall in the number of people smoking will cause the demand for cigarettes to fall; the fall in demand will reduce the price (2). Three marks for the diagram, 2 for the explanation. **5**

Marks

(c) The diagram should show a decrease in supply (1) and an increase in the EP (1). Look for an explanation of why the increase in tax will lead to a decrease in supply eg it increases the producer's costs (1); how this reduction in supply will increase the price of cigarettes (1); and how the increase in price will reduce the demand for cigarettes/lead to fewer people smoking (1). Two marks for the diagram, 3 for the explanation. **5**

(d) The reasons include; to encourage production by increasing supply; to reduce the price of essential products; to switch demand from imports to home produced goods; to protect employment in declining industries. **4**

[END OF MARKING INSTRUCTIONS]