

Mark Scheme Summer 2008

GCE

GCE Economics (8121 - 9121)

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

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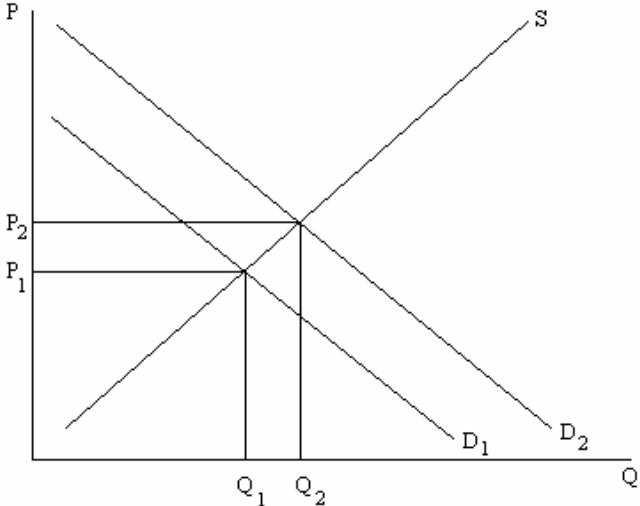
1	2	3	4	5	6	7	8
C	A	C	C	D	A	A	C

1. If incorrect option is selected, a maximum of 2 marks are available for explanation
2. Up to 2 marks are available for candidates explaining two incorrect options.
3. If option is left blank, but correct option is referred to in the text, then the mark for the correct key is available.

Question Number	Answer	Mark
1	C	(1)
	Definition of specialisation i.e. reference to division of labour 2 marks	
	Explanation of how productivity might rise through specialisation 1 mark	
	Application to the pin factory or other industrial process 1 mark	(4)

Question Number	Answer	Mark
2	A	(1)
	Restrictions on the amount of fish caught cause the supply curve to shift to the left 2 marks	
	Diagram or written explanation of how prices increase as a result 2 marks	(4)

Question Number	Answer	Mark
3	C	(1)
	Explanation that speculation will increase demand for shares in Boots 2 marks	
	Diagram or written explanation to show increase in demand and therefore increase in share price 2 marks	(4)

Question Number	Answer	Mark
9(a)	<p>Correct diagram showing shift in demand curve and increase in price of uranium 2 marks</p>  <p>Written explanation of why demand for Uranium has increased - reference to increased demand for nuclear power (i.e. derived demand). 2 marks</p>	(4)

Question Number	Answer	Mark
9(b)	<p>Reference to the profit motive associated with the upward sloping supply curve 1 mark explanation of how increasing demand and higher prices are an incentive for firms to enter the market 1 mark</p> <p>Evaluation Discussion of other factors which may play a part in the entry of firms into the uranium extraction industry - these may include cheaper extraction methods, greater difficulty in other mining operations, long term v short term profit motives. 2 marks for any one point</p>	(4)

Question Number	Answer	Mark
9(c)	<p>Formula and definition of PES - the responsiveness of quantity supplied to a change in price or percentage change in quantity supplied / percentage change in price 1 mark</p> <p>Explanation of the relationship between PES and ability to increase supply - reference to short run inelastic supply (1 mark) and reference to long run elastic supply (1 mark)</p> <p>Comment on the implications for a country in figure 1 e.g. in USA it is now possible to extract significantly more uranium because the price has increased. 1 mark</p> <p>Evaluation Discussion of other factors that will influence decisions to mine uranium such as whether this is expected to be a long run phenomenon, or whether excess supply from around the world will cause prices to fall, the speed with which firms can react and the factors that play a part in determining this ability to react 2 marks</p>	(6)

Question Number	Answer	Mark
9(d)	<p>Definition of subsidy: Payment by government to reduce the cost of production/encourage supply. 1 mark</p> <p>Nuclear power requires large scale, long term investment and therefore requires state intervention or it is not profitable at current uranium prices, therefore government must intervene to lower uranium prices. Specific reference to how this makes nuclear power stations more profitable/encourages more to be built must be made. 1 mark</p> <p>Diagram showing supply curve shifting to the right. 2 marks</p> <p>Evaluation What role does the private sector play, good use of taxpayers' money, potential long term costs? Possible reference to elasticity of demand for nuclear power stations and consequent increase in quantity as a result of a subsidy. Also depends on the size of the subsidy 2 marks for any one evaluative statement</p>	(6)

Question Number	Answer	Mark
10(a)	<p>Correct definition of positive statement - must include reference to 'testable' or 'verifiable' 1 mark</p> <p>Correct identification from opening paragraph of a positive statement and direct reference to it e.g. <i>"Rising tenant demand has ensured that it has been a strong start to the year for the residential rental market"</i> 1 mark and explanation of how this is testable 1 mark</p> <p>Correct definition of normative statement - must include 'value judgement' or 'not testable/verifiable' 1 mark</p> <p>Do not accept 'opinion' on its own.</p> <p>Correct identification from opening paragraph of a normative statement and direct reference to it e.g. <i>"Some critics are calling for government intervention as rents are becoming unfairly high"</i> 1 mark</p> <p>Marks to be allocated 2 + 2 marks</p>	(4)

Question Number	Answer	Mark
10(b)	<p>Diagram showing shift in D curve to the right 1 mark. Shift in S curve to the right 1 mark showing an increase in price 1 mark.</p> <p>Either written or diagrammatic explanation/illustration of smaller increase in supply than demand 1 mark.</p> <p>Reference to extract to explain shift in D 1 mark i.e.: rising demand from abroad or corporate clients and shift in S 1 mark i.e.: evidence from extract that supply is increasing by 17%.</p> <p>Maximum of 3 marks if there is no correct shift in the supply curve.</p>	(6)

Question Number	Answer	Mark
10(c)	<p>Definition or formula for cross price elasticity of demand - the responsiveness of quantity demanded of owner-occupied housing to a change in rental prices or percentage change in quantity demanded of owner-occupied houses / percentage change in rental prices 1 mark</p> <p>Do accept reference to 'good A' and 'good B'</p> <p>Explanation that owner-occupied housing and rental accommodation are likely to have a positive relationship 1 mark and therefore they are substitutes 1 mark</p> <p>Maximum of 2 marks available for the above explanation.</p> <p>Evaluation Identification and explanation of other factors that might determine the relationship and the closeness of this relationship, should one exist. E.g. confidence in the economy and future price increases. 3 marks for one or more evaluation points.</p>	(5)

Question Number	Answer	Mark
10(d)	<p>Difficulty to build new housing stock, time associated and the planning regulations and obstacles. Also supply slowing down as people seek to cash-in on their assets. Or reference to factors which have caused demand to increase at a greater rate than supply, such as income increasing. 2 marks</p> <p>Reward use of data from figures 1 & 2. 1 mark</p> <p>Maximum of 2 marks can be awarded for the above</p> <p>Evaluation: Significance of an argument, perhaps demand rising faster, housing stock is still rising as one would expect as rents increase. 3 marks</p>	(5)

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Question Number	Answer	Mark
1(a)	<p>Private benefits: those accruing to an individual or firm who is part of the transaction/activity; (2 marks); or a benefit that is internal to an exchange (1 mark). If there is no reference to transaction or market then award 1 mark.</p> <p>Examples: posting/receiving letters; pensions; wages to employees; revenue to post office from transactions; subsidy from the government (1 mark for example and 1 further mark for explanation or use of data from extract or 2 marks for 2 separate examples)</p> <p>External benefits: Spill over effects accruing to third parties who are not part of the transaction/activity (2 marks); or a benefit that is external to an exchange (1 mark). If answer only states MSB is greater than MPB then give 1 mark.</p> <p>Examples: extra business to local shops; generation of income to local economy (1 mark for example and 1 further mark for explanation or use of data from extract or 2 marks for 2 separate examples)</p> <p>Knowledge (definitions 2 x 2 marks); Application: (2 x 2 marks)</p>	(8)

Question Number	Answer
1(b)(i)	<p>3 marks for fully labelled diagram [1 mark of which for identifying free market level of provision (X) and socially efficient level of provision (Y) which could be on diagram or in written explanation] Accept price or £ sign on the vertical axis. Up to 2 marks for explanation e.g. under a free market there would be under provision of YX or for explanation for welfare loss area. Maximum 4 marks if no reference to post office. Context reference inadmissible for incorrect diagram.</p>

Question Number	Answer	Mark
1(b)(ii)	Difficulty of identifying and valuing external and/or social benefits Difficulty of identifying and valuing external and/or social costs Any valid point worth 2 marks	(2)

Question Number	Answer	Mark
1(c)(i)	Royal Mail had 100% market share (or was sole supplier) with regard to the delivery of letters until 1 January 2006. (2 marks) Now Royal Mail must compete with other firms to provide this service. (1 mark). Must be in context of letter delivery otherwise 1 mark maximum. If monopoly is defined only in terms of 25% maximum 1 mark for definition. Candidate could get second mark for reference to competition. Similarly if reference to 'market dominance' 1 mark for definition.	(3)

Question Number	Answer	Mark
1(c)(ii)	<p>Barriers to entry could include:</p> <ul style="list-style-type: none"> • Economies of scale e.g. sorting technology; network of delivery and distribution centres. 2 different economies of scale could count as 2 separate points. • Royal Mail has strong brand name reinforced by advertising • Information gaps/costs • High start up costs • Limit pricing <p>Candidate should explain how each of above acts as a barrier to entry</p> <p><i>Evaluative points could include:</i></p> <ul style="list-style-type: none"> • <i>Relative importance of barriers identified</i> • <i>Barriers less significant to a new entrant with an established brand name</i> • <i>Regulatory authority could reduce barriers e.g. by providing information about the market</i> <p>2 marks for identification; 2 for application e.g. use of data in extract 1; 2 for analysis and 2 for any one evaluative point</p>	(8)

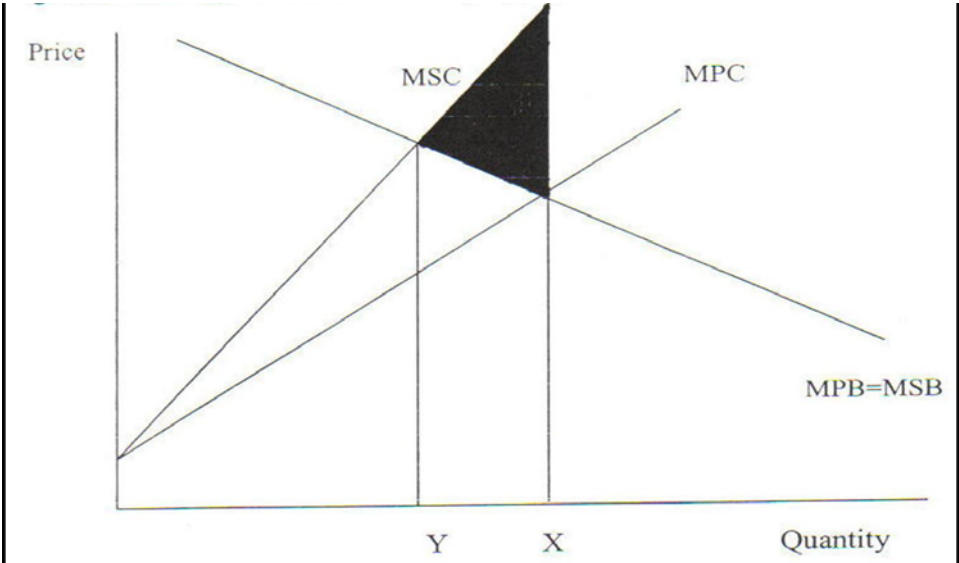
Question Number	Answer	Mark
1(d)(i)	<p>When intervention in the market by the government (1 mark) results in a net welfare loss/increase in inefficiency/movement further away from socially optimum level of output (1 mark)</p> <p>Maximum 1 mark if answer refers to government intervention making the situation worse</p>	(2)

Question Number	Answer	Mark
1(d)(ii)	<p>Benefits of competition include:</p> <ul style="list-style-type: none"> • Greater choice for customers • Better service e.g. earlier delivery times • Possibility of lower prices (and increased consumer surplus) • Incentive for Royal Mail to increase efficiency <p>Disadvantages include:</p> <ul style="list-style-type: none"> • New providers will 'cherry pick' most profitable deliveries e.g. in and between large cities causing Royal Mail to make losses • Customers in rural and sparsely populated communities might face reduced services and/or higher prices for deliveries • Competition might be inefficient (natural monopoly argument) <p>1 mark for knowledge; 1 for application, 4 for analysis and 6 for any two evaluation points developed well or 3 points developed less well.</p> <p>A candidate could score full marks with a discussion of at least 2 advantages and 2 disadvantages of competition in the delivery of mail.</p> <p>Maximum of 11 out of 12 if no reference to context.</p>	(12)

Question Number	Answer	Mark
2(a)(i)	<p>Failure of the market to allocate resources efficiently; where social marginal benefits \neq social marginal costs; where the free market does not result in a socially optimum level of output.</p> <p>Any definition for both marks.</p>	(2)

Question Number	Answer	Mark
2(a)(ii)	<p>Recognition of magnitude of market failure (1 mark) Climate change a classic case of negative externalities Recognition of negative externalities (1 mark); Definition of negative externalities: Where social costs exceed private costs or costs to third parties who are not part of the transaction; (1 mark) Also reward answers which approach question in terms of information gaps e.g. difficulty of knowing precisely the effects of climate change (up to 3 marks, depending on quality of explanation) Also reward answers which refer to absence of property rights and regulations (up to 3 marks, depending on quality of explanation) Examples of negative externalities: hurricanes, floods, fall in global output (1 mark for appropriate example) Maximum 3 marks if no reference to magnitude of market failure.</p>	(4)

Question Number	Answer	Mark
2(b)	<p>Possible reasons include: Faster rate of economic growth in China rather than USA Faster rate of growth of population in China rather than USA Impact of environmental pressure groups greater in USA than China Rapid industrialisation in China (contrast with deindustrialisation in US) Rapid increase in car ownership in China (contrast with use of more fuel efficient cars in US) Rapid increase in real incomes and consumer spending in China with associated increase in energy consumption Evaluation could include:</p> <ul style="list-style-type: none"> • Change in environmental policies in the future • Impact of future international agreements • Criticism of data e.g. accuracy of forecasts <p>2 marks for identification; 2 for application (specific data references relating to change in greenhouse gas emissions). If general comment only then 1 mark. 2 marks for analysis 2 for evaluation (could gain all 2 marks for one good evaluative comment)</p>	(8)

Question Number	Answer	Mark
2(c)	 <p data-bbox="268 857 1283 1191">3 marks for fully labelled diagram [1 mark of which for identifying free market level of provision (X) and socially efficient level of provision (Y) which could be on diagram or in written explanation] Accept price or £ sign on the vertical axis. Up to 2 marks for explanation e.g. under a free market there would be over provision of YX or for explanation for welfare loss area or explanation that carbon dioxide emissions are a negative externality and would lead to over production. Maximum 4 marks if no reference to electricity generation from fossil fuels. Context reference inadmissible for incorrect diagram.</p>	(5)

Question Number	Answer	Mark
2(d)	<p data-bbox="268 1305 1283 1848">Reasons mentioned:</p> <p data-bbox="268 1339 1283 1440">Uncertainty: difficulty of estimating external costs of climate change with reason e.g. identifying and quantifying external costs; information gaps; forecasting problems</p> <p data-bbox="268 1444 1283 1574">Crosses generations: problem that production and consumption now will affect people in future generations. Consideration of how to account for this; myopia; lack of incentive for current generations to deal with the problem</p> <p data-bbox="268 1579 1283 1709">Crosses national boundaries: problem that production and consumption by people in one country can affect livelihood of people in other countries with reason e.g. absence of property rights; problems of achieving and enforcing international agreements</p> <p data-bbox="268 1713 1283 1753">For each of the above give credit to candidates providing examples</p> <p data-bbox="268 1787 1283 1848">3 x 3 marks 3 marks for identification; 6 for application</p>	(9)

Question Number	Answer	Mark
2 (e)	<p>Discussion of green taxes e.g. tax on flights. Analysis is likely to include supply and demand diagram with an upward shift in the supply curve to show the impact of the green tax. Evaluation: effect on quantity will depend on price elasticity of demand as will the proportion of the tax burden on consumers and producers. Also incentive for firms to reduce emissions.</p> <p>Discussion of carbon trading scheme. Analysis is likely to include reference to trade in permits and implications for producers e.g. higher costs, incentives to employ new technology Evaluation: problem of determining number of permits to be allocated; unless price of permits is high, there might be insufficient incentive for firms to introduce new technology Also incentive for firms to reduce emissions.</p> <p>Discussion of regulation. Consideration of how such regulations might be applied. Evaluation: problem and costs of enforcement; difficulty of determining socially efficient level of regulation</p> <p>1 mark for knowledge; 1 for application, 4 for analysis and 6 for any two evaluation points developed well or 3 points developed less well.</p>	(12)

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Section	Knowledge	Application	Analysis	Evaluation	Total
Question 1					
(a)	4	4			8
(b)(i)	2	1	2		5
(b)(ii)	1	1			2
(c)(i)		3			3
(c)(ii)	2	2	2	2	8
(d)(i)	2				2
(d)(ii)	1	1	4	6	12
Total	12	12	8	8	40
OR					
Question 2					
(a)(i)	2				2
(a)(ii)	2	2			4
(b)	2	2	2	2	8
(c)	2	1	2		5
(d)	3	6			9
(e)	1	1	4	6	12
Total	12	12	8	8	40

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Question Number	Answer	Mark
1(a)(i)	<p>Output per unit of input per hour (2 marks)</p> <p>Output per hour (1 mark)</p> <p>Productivity definition, output per unit of input or sense of efficiency, productiveness (1 mark)</p> <p>Production or output in total (0 marks)</p>	(2)

Question Number	Answer	Mark
1(a)(ii)	<p>Trend: Description of how the data changes over the period shown (1 mark). Allow 'productivity is falling in France'</p> <p>Data comparison: If the data provided is given relative to Britain award (up to 2 marks, of which 1 may be for a valid calculation) e.g. French productivity is rising less quickly than British productivity.</p> <p>Concept that 'Britain = 100' means it is the base or comparator, or that other figures are given as a percentage relative to Britain. (1 mark)</p> <p>Do not award marks for reference to Britain as having constant productivity</p>	(3)

Question Number	Answer	Mark
1(b)(i)	<p>Award three factors. At least one should be taken from the passage (the following factors):</p> <ul style="list-style-type: none"> • Lack of skills • Full employment/inelastic aggregate supply • Service-based economy • Lack of space (retailing) • Planning restrictions • Transport problems • Increasing size of government • Underinvestment, particularly in research and development. • Heavier taxes • Regulation <p>Also allow factors not in the passage, which might include:</p> <ul style="list-style-type: none"> • Labour market issues - e.g. strike action, national minimum wage • Tax rates - corporation tax a disincentive to cut costs? • Over spending by public sector e.g. crowding out issues <p>For identifying 3 valid factors (2 marks) If two valid factors only (1 mark) Award up to (4 marks) for link to productivity (not production).</p> <p>Evaluation (2 marks, or 1 + 1). At least one point:</p> <ul style="list-style-type: none"> • Honda example of higher productivity in Swindon. • Public sector productivity is hard to measure, and often low. • Services in America have higher productivity. • The gap is closing • There may be more improvement in some countries than others • Award prioritisation with justification. 	(8)

Question Number	Answer	Mark
1(b)(ii)	<p>For each effect allow up to (2 marks) Diagram up to (2 marks) showing rightward shift (or downward shift) in AS. For the first mark there should be a correct shift. For the second diagram mark the fall in price level and the increase in real GDP must be shown.</p> <p>Effects via AS (1 mark identification, 1 mark explanation) might include:</p> <ul style="list-style-type: none"> • There has been a rise in real output • Changes in employment or unemployment • Increased wages • Current account improves • Britain becomes more competitive internationally (AS shift to right) • Inflation (cost push) slows or price level falls • Increase in investment or FDI • Standards of living increase • Firms may become more profitable <p>Award no marks for reasons why productivity is low, or why it has improved.</p> <p>For a convincing answer explaining that AD might shift to the right via X or increased investment internationally then the full marks for diagram and explanation are available.</p>	(6)

Question Number	Answer	Mark
1(c)(i)	<p>Award (2 marks) answers such as:</p> <ul style="list-style-type: none"> • Everyone willing and able to work has a job at the current wage • The demand = supply of labour at the market rate • There is no involuntary unemployment • There is only frictional unemployment • 2-5% of people who would like a job can't find one (allow natural rate of unemployment argument). • All resources are employed as on PPF curve • equilibrium in the labour market 	(2)

Question Number	Answer	Mark
1(c)(ii)	<p>Identification of relevant factor (1 mark).</p> <p>Explanation of link between full capacity and the factor (up to 3 marks). Reason why this is a problem (up to 2 marks). Factors might include:</p> <ul style="list-style-type: none"> • Inflation, e.g. demand pull and/or cost push • Raise in the interest rate by MPC • Wage pressures/costs pressures for firms • Current account worsening • Reduced incentives for those in work as income differentials narrow • Environmental impact • Infrastructure problems • Reduced or slowing growth in investment • Social impact of immigration <p>Do not award answers which refer to the effect on productivity</p>	(4)

Question Number	Answer	Mark
1(d)	<p>Definition or implicit understanding of supply side or other relevant policies, e.g. tax breaks or action by government as a major employer such as performance related pay. (1 mark)</p> <p>Diagram showing effects of AS shift to the right, or equivalent verbal analysis showing a fall in price level and an increase in real output. (2 marks)</p> <p>6 marks (2 x 3 marks or 3 x 2 marks) effects of supply side or other relevant policies.</p> <p>Evaluation</p> <p>6 marks (2 x 3 marks or 3 x 2 marks). Factors might include:</p> <ul style="list-style-type: none"> • Weighing up benefits and costs • Time lag, or other long run effects being different from short run • Contrast with demand side approaches. Perhaps interest rates are too high? • Other things are not equal, for example high oil prices, weak currency might outweigh any action by government. • Limited scope for further supply side policies in the UK. • Side effects of policies • Difficulty in assessing productivity <p>There is no mark cap for those referring to production, not productivity, in this question.</p>	(15)

Question Number	Answer	Mark
2(a)(i)	Total expenditure, spending, or output (1 mark) on goods and services (1 mark) Allow components $C+I+G+(X-M)$ (1 mark) Allow 'planned' (1 mark)	(2)

Question Number	Answer	Mark
2(a)(ii)	For each factor: 1 mark identification, 1 mark explanation of the process involved. (2x2 marks) Mechanisms might include <ul style="list-style-type: none"> • C or Consumption changes (the following are sensitive to changes in interest rates and will affect consumption - savings, loans, hire purchase, mortgage interest repayments etc.) • I or Investment changes (investment levels change with interest rates, for example if interest rates go up there will be less investment as rewards are reduced. Award 'marginal efficiency of capital') • X-M or Exports - Imports, or net exports changes (changes in costs of production owing to interest rate changes can make exports and imports more or less competitive, or exchange rate arguments: e.g. if the interest rate goes up the pound will get stronger so exports will more expensive and imports less expensive). 	(4)

Question Number	Answer	Mark
2(a)(iii)	<p>Analysis (6 marks) of which 2 marks for the diagram. Interest rates have risen i.e. data mark (1 mark);</p> <p>AD will fall shown on appropriate diagram (2 marks, first mark for shift to the left and second mark for changes on the axes) so price level will fall (1 mark) and output will fall (1 mark).</p> <p>Award 2 marks for further explanation such as multiplier, application of text, e.g. 'slowing consumer spending growth ... to 2.25%', cooling house markets, AS effects or other developed analysis beyond basic transmission mechanisms.</p> <p>Evaluation (2 marks) might include:</p> <ul style="list-style-type: none"> • Time lag - some of these effects might not happen straight away, e.g. if mortgages are fixed • The steps are small but the overall effect over the year much greater • Many other things determine shifts in AD, e.g. consumer confidence • Elasticity of AS curve • Award prioritisation with justification 	(8)

Question Number	Answer	Mark
2(b)(i)	The pound has become stronger or 'appreciated' (1 mark) with data reference, e.g. increasing trend, rate of increase, 26-year high, £1 = \$2 (1 mark)	(2)

Question Number	Answer	Mark
2(b)(ii)	<p>Concept of <i>net trade</i> as X-M or similar (1 mark)</p> <p>Exports will be relatively expensive (1 mark)</p> <p>Imports will be relatively cheap (1 mark)</p> <p>The balance worsens (1 mark)</p> <p>Changes in the pattern of trade (1 mark)</p> <p><i>Also allow further analysis points (up to 2 marks), which might include</i></p> <ul style="list-style-type: none"> • The pound has not risen against the euro (or equivalent data observation) up to 2 marks • The context is narrow - need a wider picture of trade and exchange rates • The exchange rate is not the only factor determining net trade <p>AD likely to fall (diagram or equivalent analysis)</p>	(5)

Question Number	Answer	Mark
2(b)(iii)	<p>e.g. labour market pressures, commodity prices, finance markets, exchange rates</p> <p>For each factor (2 x 2 marks): Factors might include:</p> <ul style="list-style-type: none"> • 'Credit crunch' or other credit problems • unemployment/employment levels • debt • savings • change in retail sales • exogenous shocks • regional data • the fiscal stance • money supply growth • commodity prices • skills shortages • inflation (for explanation mark there must be reference to expected rates or pattern of inflation) • performance in other countries • level of confidence in the economy • allow economic growth figures • consumer spending • house price changes • export and imports levels • investment • government spending <p>1 mark for identification (do not allow interest rates unless convincing analysis given!)</p> <p>1 mark for link to PRICE LEVEL or inflationary pressures</p> <p>Allow max 1 mark for inflation as a source, with a further mark if linked to projected ranges.</p> <p>Do not allow exchange rates as a source of information</p>	(4)

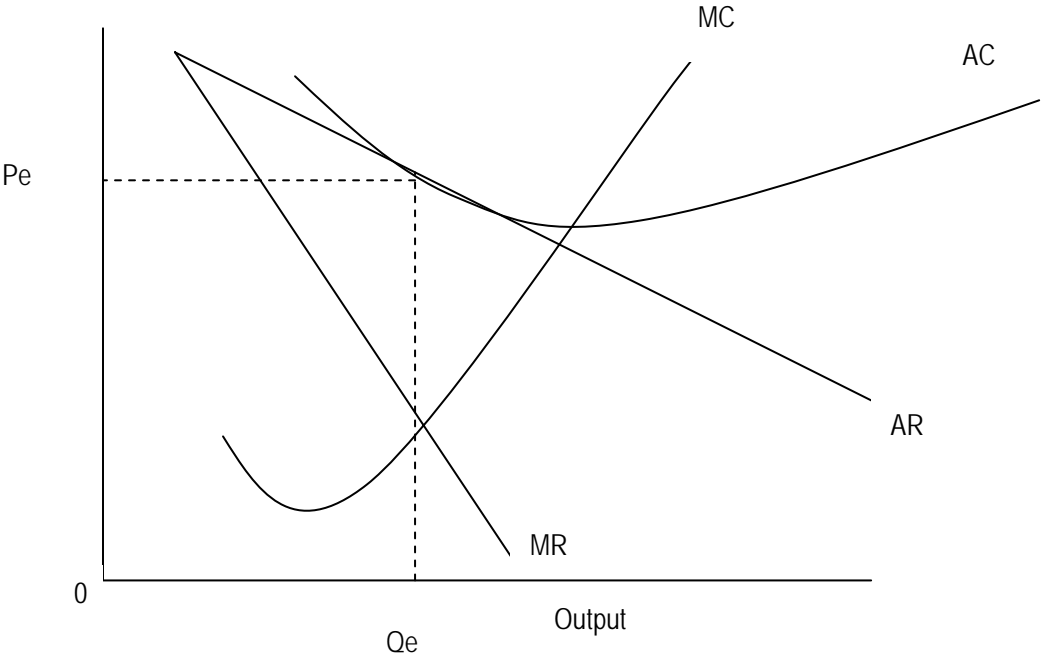
Question Number	Answer	Mark
2(c)	<p>Definition or implicit understanding of tight demand side policy (1 mark)</p> <p>2 marks diagram showing effects of AD shift to the left (1 mark) with price level falling and real output falling (1 mark) or equivalent verbal analysis</p> <p>6 marks (2 x 3 marks) for identification of macroeconomic objectives and explanation (1+2 marks for each). Objectives might include:</p> <ul style="list-style-type: none"> • inflation control • growth • employment/low unemployment • balance of payments equilibrium or improvement • reduction in income inequalities • environmental objectives <p>Evaluation</p> <p>6 marks (2 x 3 marks or 3 x 2 marks). Factors might include:</p> <ul style="list-style-type: none"> • Elasticity of AS curve • Monetary policy or fiscal policy might be a blunt instrument • Time lag, or implementation lag, or other long run effects being different from short run • Contrast with supply side approaches. Perhaps high interest rates have side effects, e.g. on AS or external economy • Size of the multiplier • Side effects of policies • Allow discussion of trade-offs (although not required at AS level) • Other things are not equal, for example high oil prices, weak currency might outweigh any action by government. 	(15)

Specification Grid

	Knowledge	Application	Analysis	Evaluation	Total
Question 1					
ai	2				2
a ii	1	2			3
bi		2	4	2	8
b ii	2	2	2		6
ci	2				2
c ii	2	2			4
d	3	4	2	6	15
Total	12	12	8	8	40
Question 2					
ai	2				2
a ii	2	2			4
a iii		4	2	2	8
bi	2				2
b ii	1		4		5
b iii	2	2			4
c	3	4	2	6	15
Total	12	12	8	8	40

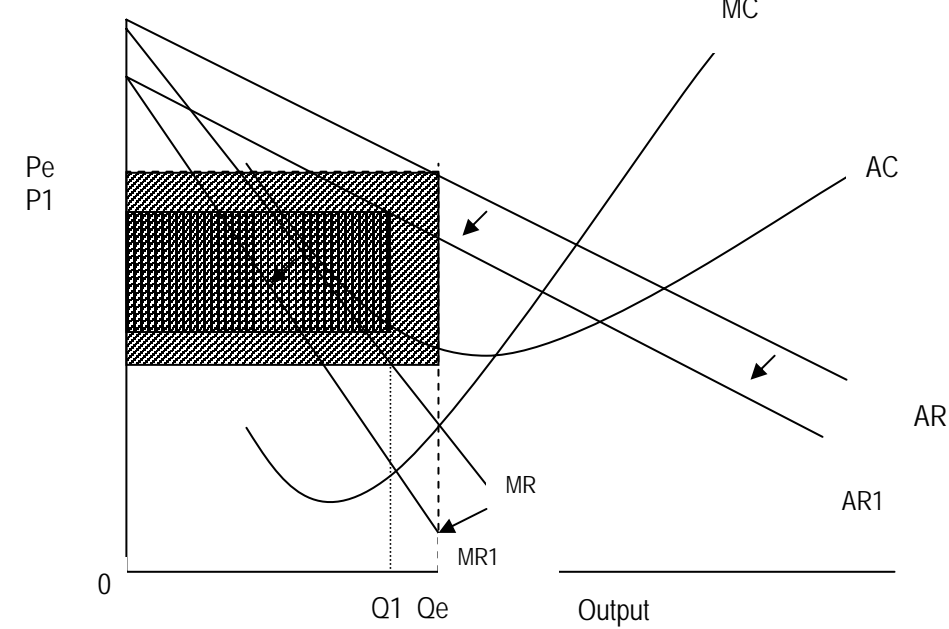
Question Number	Answer
2	<p>C</p> <ul style="list-style-type: none"> ➤ Definition of marginal profit (the addition to total profit from one more unit of output) (1). ➤ Marginal cost equals marginal revenue is profit maximisation. (1). ➤ Marginal analysis: a change in output will lead to either marginal costs exceeding marginal revenue or vice-versa (1). ➤ Total profits are maximised so marginal profit must be zero (1). ➤ Application - correct diagram of perfectly competitive firm in short run equilibrium making supernormal profits (1).

Question Number	Answer	Mark
3	<p>E</p> <ul style="list-style-type: none"> ➤ Definition of fixed cost or formula of average fixed cost (Total fixed cost ÷ total output or fixed cost per unit of output) or annotation on diagram, showing total fixed costs as a horizontal line (1). ➤ Application - correct calculation: $£10,000 \div 1000 = £10$ (2). (NB 1 mark for identifying fixed cost as £10,000). ➤ NB a maximum of 2 marks from calculation. 	<p>(1)</p> <p>(3)</p>

Question Number	Answer	Mark
4	<p data-bbox="256 264 277 293">E</p> <ul style="list-style-type: none"> <li data-bbox="308 331 1318 432">➤ Low entry & exit barriers mean firms can enter the market and compete the supernormal profits away in long run /so only make supernormal profits in the short run (1). <li data-bbox="308 465 1270 539">➤ Application - correct diagram of monopolistically competitive firm in long run equilibrium (1).  <ul style="list-style-type: none"> <li data-bbox="308 1317 1318 1417">➤ Application to plumbing services e.g. product differentiation as different kinds of plumbing services such as gas central heating / water / sewerage / reputation of plumber (1). <li data-bbox="308 1451 1318 1552">➤ Definition of normal profits (minimum profit required to keep resources in their current use) or idea that total revenue equals total cost or price equals average cost (1). 	<p data-bbox="1497 264 1517 293">(1)</p> <p data-bbox="1497 1485 1517 1514">(3)</p>

Question Number	Answer	Mark
5	<p>D</p> <ul style="list-style-type: none"> ➤ Revenue maximisation is where average revenue multiplied by output is at a maximum (1). ➤ Application - the diagram shows the total revenue curve is at the highest point / the gradient is zero / diagram showing a falling MR curve and being equal to zero when TR is maximised (1) ➤ Revenue maximisation is the output where marginal revenue is zero (MR=0) (1). ➤ Marginal analysis: for example, to the left of output Q_e MR is positive / TR is rising, to the right MR is negative / TR is falling (1). <p><u>Also award</u> candidates who knock out up to two incorrect options for two marks e.g.</p> <ul style="list-style-type: none"> ➤ Key 'A' is incorrect as this is where total revenue equals total cost / break even point (1). ➤ Key 'B' is incorrect since profit maximisation is at output Q3 (1). ➤ Key 'C' is incorrect since sales maximisation is at output Q5 (1). ➤ Key 'E' is incorrect since allocative efficiency is output where MC=Price (1). 	<p>(1)</p> <p>(3)</p>

Question Number	Answer	Mark
6	<p>E</p> <p>Conditions of price discrimination:</p> <ul style="list-style-type: none"> ➤ Ability separate iPod consumers into different markets and prevent leakage / prevent resale (prevent arbitrage) (1). ➤ Apple has monopoly power over iPod sales so consumers have little alternative (1). ➤ Different price elasticities of demand exist between UK and US markets (1). <p>Also development:</p> <ul style="list-style-type: none"> ➤ Explanation of more price inelastic demand for UK than US consumers, thus a higher price for UK than US consumers (this may be shown by diagram) (1). <div data-bbox="261 840 1305 1397" style="border: 1px solid black; padding: 10px;"> </div> <p>Note: at least two conditions for price discrimination are required for full marks.</p> <p>Note: No marks awarded for definition of price discrimination as it is already in the question.</p>	(1)
		(3)

Question Number	Answer	Mark
9	<p>A</p> <p>Application to diagram showing:</p> <ul style="list-style-type: none"> ➤ A decrease in average revenue marginal revenue curves e.g. from AR and MR to AR1 and MR1 (1). ➤ A lower price and output e.g. from P_e to P_1 and Q_e to Q_1(1). ➤ A decrease in profits (1) e.g. shown graphically the new profit area. <p>Costs, Revenue</p>  <p> = Original SNP = new SNP </p> <p>If no application to diagram, award a maximum of (1+1) explanation marks.</p>	(1)

(3)

Question Number	Answer	Mark
10	<p>B</p> <p>Definition of sunk costs (fixed costs which cannot be recovered by firm on exit from an industry) (1).</p> <p>Application - the £8 million advertising expenditure has created brand loyalty / led to lower price elasticity of demand, which will deter new entrants (1). NB Merely stating advertising is a sunk cost does not merit a mark.</p> <p>One other example of sunk costs: high start up costs in terms of factory & machinery / weak second hand market / economies of scale achieved by Coca Cola / difficulty in obtaining market outlets (1).</p>	<p>(1)</p> <p>(3)</p>

Question Number	Answer	Mark
11(a)	<ul style="list-style-type: none"> ➤ Market structure is an oligopoly (1). ➤ Definition: ‘Few sellers and many buyers’ / ‘large scale industry dominated by a few firms’ / ‘A few large firms’ (1). ➤ Reference to data e.g. for Figure 1, a concentration ratio can be calculated (1). NB a precise calculation is required. <p>Six firm concentration ratio of 71.9%. Five firm concentration ratio of 65.4%. Four firm concentration ratio of 54.5%. Three firm concentration ratio of 42.0%.</p>	(3)

Question Number	Answer	Mark
11(b)(i)	<ul style="list-style-type: none"> ➤ Horizontal integration (1). ➤ Two firms merge at the same stage of production / BOD accept same level of production (1). ➤ One example from the text or figure 1 e.g Lloyds merger with TSB, Santander Bank takeover of Abbey, or Royal Bank of Scotland taking over National Westminster Bank (1). 	(3)

Question Number	Answer	Mark
11(b)(ii)	<p>Four or more factors required (2+2+2+2) at least one advantage and one disadvantage for full marks. Each factor identified needs to be explained for 2 marks.</p> <p>If just one side considered then cap this section at 6 marks.</p> <p>NB Only give credit for advantages / disadvantages for those firms involved in the merger i.e. not consumers, not other banks.</p> <p>Advantages include:</p> <ul style="list-style-type: none"> ➤ Types of economies of scale (managerial, technical, purchasing, marketing, financial, risk-bearing). Each type can be classed as one factor. ➤ Cost savings through rationalisation e.g. closure of unprofitable bank branches. ➤ Increase market share (a fast way to grow) / total revenue / profits. ➤ Higher share price & dividends. ➤ Reduce competition / create barriers to entry / compete more effectively with larger banks. ➤ Award 1 mark for diagrammatic analysis of lower costs leading to higher profits. <p>Disadvantages include:</p> <ul style="list-style-type: none"> ➤ Types of diseconomies of scale (managerial, coordination). ➤ Redundancy costs from rationalisation programme. ➤ Merger / takeover cost. ➤ Hostile takeover. ➤ Bad publicity of takeover may harm brand. ➤ Eligibility of future OFT enquiry and/or referral to the Competition Commission. <p>Evaluation (2+2)</p> <ul style="list-style-type: none"> ➤ A conclusion that sums up the arguments. ➤ Prioritise between the advantages and disadvantages. ➤ Magnitude - do the advantages outweigh the disadvantages to banks? ➤ Time factor: the long run benefits could outweigh the short run costs involved with a merger. 	(12)

Question Number	Answer	Mark
11(c)	<p>Explanation and application (2+2+2+1) or up to 3 marks for a very well developed point. A minimum of three points are required for achieving 7 marks.</p> <ul style="list-style-type: none"> ➤ Data application e.g. major loss of consumer welfare in inner cities and rural areas (1). ➤ Data application to Figure 2 e.g. Britain already has fewer bank branches per million people than other selected countries - this implies more branches are required (1). <p>2 or 3 marks for each well developed point e.g.</p> <ul style="list-style-type: none"> ➤ Choice of banks / bank branches in an area. ➤ Distance from local branch means more time and travel cost. ➤ Bank branch could have local monopoly power so raise charges / fees. ➤ Quality of service / product innovation. ➤ Quality of provision has become more unequal - could be undesirable consequences in creating pockets of poverty. <p>If no evaluation then award up to a maximum of 7 marks.</p> <p>Total evaluation marks available 5: (Up to 3 marks for a well developed evaluative point - this means at least 2 evaluation points required for full marks).</p> <p>Arguments for an increase and decrease in consumer welfare in the same response is considered as evaluation.</p> <ul style="list-style-type: none"> ➤ Magnitude of decline since 1995 - huge since -20% or 4,041 branch closures. ➤ Time factor - the decline might be part of a long term trend which could be a major concern. ➤ Prioritisation of factors affecting consumer welfare. Impact on consumer welfare is variable ➤ Branch closures may enable bank to improve service at remaining branches / cut costs / increase size / extend opening hours. ➤ Growth of internet and telephone banking may mean the branch closures is less of an issue - - extract mentions that internet banking is very popular so bank branch closures have little impact for regular internet bank users. ➤ Some consumers may gain e.g. 1,074 new branches opened up though mainly in out-of-town shopping centres and business parks in prosperous south east. ➤ The information does not include building societies - so hard to assess impact of bank branch closures. 	(12)

Question Number	Answer	Mark
11(d)	<ul style="list-style-type: none"> ➤ Profits are likely to fall (1) and development of this point e.g. the firm may be ordered to refund customers / the refunds mean higher costs to the banks / profits may not fall too much since they also make profits in other areas (1). ➤ Application to extract e.g. £2.6 billion already paid out to 3.8 million customers (1). ➤ Application to extract: another million claims to be settled, depending on the OFT / High Court decision so profits likely to fall (1). ➤ Also award for role of OFT in promoting competition/ protecting consumer interest / fines of up to 10 per cent of annual turnover (1). ➤ Also award relevant diagram showing falling profits (1). 	(4)

Question Number	Answer	Mark
11(e)	<p>Identification and development of entry barrier (1+1)</p> <ul style="list-style-type: none"> ➤ The entry barriers may include: high start-up costs; economies of scale; brand loyalty to existing firms; asymmetrical information; technological barriers; cultural barriers; limit pricing; Bank of England license/regulation. (2+2). <p>NB Do not accept predatory pricing as an entry barrier</p> <p>Evaluation (2)</p> <ul style="list-style-type: none"> ➤ Possible to overcome 'high start-up costs' if firm has significant financial resources such as Santander bank. ➤ Possible to overcome brand loyalty by taking over existing UK firm. ➤ Possible to reduce problem of asymmetrical information by taking over existing UK firm. ➤ Technological / cultural barriers could prove to be long term problems. ➤ Magnitude - overall impact on performance of firm e.g. revenue, costs and profits; sales growth. ➤ Prioritise between the two barriers - which one is the most significant and why? 	(6)

Question Number	Answer	Mark
12(a)	<p>Cap 2 marks maximum without data reference.</p> <ul style="list-style-type: none"> ➤ Application to extract / Figure 1, for example, Wrigley's market share has fallen from 98.5% to 84% so monopoly power falling / nearly 100% but falling (1). <p>Further points include:</p> <ul style="list-style-type: none"> ➤ Identification of monopoly (1). ➤ Definition of monopoly e.g. a single seller of a good / Wrigley has more than 25% of the market share (1). ➤ Market moving towards a duopoly / oligopoly (1). 	(3)

Question Number	Answer	Mark
12(b)	<p>Any three of the following points (2+2+2):</p> <ul style="list-style-type: none"> ➤ Cadbury purchased Adams, a chewing gum company (1) so able to quickly gain expertise in the market (1). ➤ Cadbury's £10 million advertising campaign (1). This raised consumer awareness of Trident brand / creating demand (1). ➤ £20 million spent on perfecting product (1). This created a high quality product that consumers are buying / offers choice to consumers (1). ➤ Cadbury is an established firm in confectionary (1). For example a distribution network / application of appropriate economies of scale / Trident brand is available in many retail outlets and so makes it highly accessible to consumers (1). 	(6)

Question Number	Answer	Mark
12(c)	<p>Three or more factors required, at least one advantage and one disadvantage (2+2+2).</p> <p>If just one side considered, award a maximum of 4 marks in this section.</p> <p>Advantages include:</p> <ul style="list-style-type: none"> ➤ Application of economies of scale e.g. risk-bearing, marketing, managerial, technical, purchasing, financial. (Accept two types of scale economies as two separate factors if answered well). ➤ Possible for company to cross-subsidise brands. ➤ Easy to launch new products due to existing distribution networks. ➤ Brand name of Cadbury makes it easier to produce a range of products. ➤ It may provide continued sales / profits growth when traditional product markets reach saturation point. <p>Disadvantages include:</p> <ul style="list-style-type: none"> ➤ Application of diseconomies of scale e.g. managerial / co-ordination problems alienation from end product. ➤ Lack of expertise in production of individual goods. Company may spread its resources too thinly so cannot properly fund products. ➤ Currency fluctuations could affect internal transactions and profits. ➤ Asymmetric information in different markets. ➤ Salmonella scare has damaged reputation of Cadbury brands. <p>Evaluation (2)</p> <ul style="list-style-type: none"> ➤ Prioritise between the advantages and disadvantages (including limitations of them). ➤ Magnitude - do the advantages outweigh the disadvantages of producing different goods in different markets? ➤ Time factor: the long run benefits could outweigh the short run costs involved with launching new products into markets. 	(8)

Question Number	Answer	Mark
12(d)	<p>Three or more consequences required, at least one for producers and one for consumers (2+2+2).</p> <p>If just one group considered, award a maximum of 4 marks in this section.</p> <p>The focus of the answer should be on a price war rather than non-price competition.</p> <p>Producers</p> <ul style="list-style-type: none"> ➤ Impact on / revenue / sales (Kinked demand curve may be used here). ➤ Impact on profits / losses may even be made in extreme cases. ➤ Firms may attempt to cut costs e.g. raw materials and labour. ➤ Impact on investment and product development / less funds available. ➤ Deter market entry / Perfetti may be reluctant to enter market. ➤ Impact on share price and shareholder dividends. ➤ Reduce producer surplus. <p>Consumers</p> <ul style="list-style-type: none"> ➤ Impact on consumer surplus - will increase. ➤ Impact on consumer perception of gum if price is very low. ➤ Product quality may fall if producers cut costs e.g. source inferior ingredients. ➤ is price inelastic in demand - a price war will cause a fall in total revenue to producers. <p>Evaluation (2+2)</p> <ul style="list-style-type: none"> ➤ Time - difficulty in ending price war. ➤ Magnitude of price war - how large are the price cuts and does this lead to losses and eventual market exit? This is unlikely as both firms have invested heavily and have high sunk costs. Candidates may bring in the idea of predatory pricing here and its effectiveness. ➤ Consumer surplus may increase in the short run but decrease in the long run. ➤ Impact on consumer choice in long run if firms exit market. ➤ It may lead to increased monopoly power in long run / higher prices / and less efficiency in production. ➤ Price war is unlikely to lead to a significant growth in sales since market has been declining over recent years. ➤ Chewing gum is a relatively small part of consumer expenditure and so the benefit is relatively small. ➤ Will collusion occur in long run as firms agree not to compete on price? 	(10)

Question Number	Answer	Mark
12(e)	<p>This can be argued both ways and a candidate that does this also evaluates:</p> <p>Award up to 3 marks for one side of argument; if both sides considered award a further 2 marks for evaluation.</p> <p>NB If no application to confectionary manufacturers award a maximum of 4 marks.</p> <p>Consumer welfare not damaged since:</p> <ul style="list-style-type: none"> ➤ High profit margins may reflect that consumers are prepared to pay for product. ➤ High profit margins enable firms to invest into new product development (£20m) and so consumer welfare may increase in long run. ➤ Confectionary products are relatively insignificant to consumer welfare - especially chewing gum which accounts for a tiny percentage of a consumer's income. <p>Consumer welfare damaged since:</p> <ul style="list-style-type: none"> ➤ Time factor - if high profit margins remain in long run then this suggests the market is not working properly and that consumers are exploited (depends on whether monopoly profits or normal profits made). ➤ More consumer surplus captured by firms - a disadvantage to consumer welfare. ➤ Magnitude - the extract states that Wrigley achieved 30% profit on turnover which is very high. This suggests consumers are being exploited. ➤ A theoretical approach is acceptable e.g. price set above marginal cost resulting in allocative inefficiency. 	(5)

Question Number	Answer	Mark
12(f)	<p>➤ Definition of contestable market in terms of low entry & exit barriers / low sunk costs (or understanding of the term) (1). Note: Candidates that argue for and against contestability effectively evaluate and so be prepared to award maximum marks: NB Award up to 2 marks for each factor but if only one side of the argument given, maximum 5 marks.</p> <p>The market is unlikely to be contestable since</p> <ul style="list-style-type: none"> ➤ High start-up costs in terms of capital - factory & machinery. ➤ Research & development costs - Cadbury Schweppes spent over £20 million on perfecting Trident brand. ➤ High advertising costs - Cadbury Schweppes spent £10 million in first few weeks for the launch of Trident). ➤ Strong brand loyalty - Wrigley has been in UK for almost 100 years / synonymous with chewing gum / main sponsor of TV programmes & Premiership. ➤ Economies of scale for Wrigley through having such a large production (still 84% market share). ➤ A new entrant will require strong retail distribution network - very few firms have this. ➤ Price war between Wrigley and Cadbury Schweppes will deter new entrants e.g. Perfetti. <p>The market may be contestable since:</p> <ul style="list-style-type: none"> ➤ Cadbury successfully entered the market. ➤ A large firm may have substantial financial resources; also it might be possible to recover some of the marketing costs by selling brands on to another company (note Cadbury is seeking to sell Schweppes - its soft drinks division in US). ➤ A niche market could be developed and so avoiding direct brand competition e.g. Cadbury is focusing on use of sweet flavours in chewing gum while Wrigley remains focused on spearmint & health related gum. <p>Also accept as evaluation</p> <ul style="list-style-type: none"> ➤ Magnitude of the barriers - e.g. the size of the advertising expenditure / research & development costs. ➤ Advertising / branding expenditure may recovered if firm is able to sell brand names on. ➤ Time - it took almost 100 years before a major competitor appeared to rival Wrigley. This suggests the market is not contestable. ➤ Prioritise - what is the most significant entry barrier and why? ➤ Data provision - require specific data to answer question e.g. access to retail distribution outlets is key to successful entry. 	(8)

Unit 4: Assessment Objectives Grid for June 2008

Question	Knowledge	Application	Analysis	Evaluation	Total
Section A					
Qu.1	2	1	1		4
Qu.2	1	1	1	1	4
Qu.3	2	1	1		4
Qu.4	2	1	1		4
Qu.5	2	1	1		4
Qu.6	1	1	1	1	4
Qu.7	1	1	1	1	4
Qu.8	1	1	1	1	4
Qu.9	2	1	1		4
Qu.10	1	1	1	1	4
Total	15	10	10	5	40
Section B					
Qu.11 (a)	1	1	1		3
Qu.11 (bi)	1	1	1		3
Qu.11 (bii)		2	6	4	12
Qu.11 (c)	1	2	4	5	12
Qu.11 (d)		2	2		4
Qu.11 (e)	2	2		2	6
Total	5	10	14	11	40
Qu.12 (a)	1	1	1		3
Qu.12 (b)		3	3		6
Qu.12 (c)		2	4	2	8
Qu.12 (d)	2	2	2	4	10
Qu.12 (e)	1		2	2	5
Qu.12 (f)	1	2	2	3	8
Total	5	10	14	11	40
Grand Total A+B	20	20	24	16	80

Question Number	Answer	Mark
1(a)	<p>Knowledge, Application and Analysis (KAA) 12 marks. Award four factors up to (3 marks) each.</p> <p>(1 mark) for identification of the factor, and (2 marks) for why the change causes employment levels or unemployment rates to rise.</p> <p>Award fewer factors more generously if very well developed.</p> <p>At least one factor must relate to why unemployment rate is rising. There is a CAP of 9/12 for a one sided answer.</p> <p>Factors might include:</p> <p>Employment level rising:</p> <ul style="list-style-type: none"> • The workforce is bigger • Economic growth • Immigration • Increased participation (older workers, pension problems, better health) <ul style="list-style-type: none"> • Increased participation ('long upward trend of female participation' Ext 1 line 29) • Highly flexible labour market Ext 1 line 10, meaning more scope for employment • Allow macro factors e.g. increased spending, rise in aggregate demand, multiplier <p>Unemployment rate rising:</p> <ul style="list-style-type: none"> • The workforce is bigger • Immigrants may displace people from jobs in the short run <ul style="list-style-type: none"> • Uncompetitive wages e.g. high unit wage costs relative to other countries, or an increasing NMW • Failure of education and skills training • Immobility of workers, geographically and occupationally • Depressed wages (Extract 1 line 10) mean that workers are reluctant to work • Allow macro factors e.g. high value of the pound 	

Evaluation (Ev) 8 marks. Award (4 x 2 marks) or (2 x 4 marks). Factors might include:

- Discussion of the difference between levels and rates e.g. apparent paradox that employment levels are rising but employment rates are falling, or apparent paradox that employment levels are rising but unemployment rates and levels are rising.
- Unemployment rate is rising because the workforce is bigger
 - Trend of female participations is now declining (Extract 1 lines 28-29)
 - The education argument is not sufficient (Extract 1 lines 21-22) - e.g. the 24-35 year group are likely to be lacking skills, not in education
 - Data range too narrow e.g. Extract 1 line 1 refers only to the last two years
 - Inaccurate data e.g. questioning whether the LFS is the most useful measure of unemployment

(20)

Question Number	Answer	Mark
1(b)	<p>Knowledge, Application and Analysis (KAA) 9 marks.</p> <p>Diagram or equivalent verbal analysis (2 marks) Award one marks for the correct shift, and 1 mark for the changes in wages and employment</p> <p>Award three factors, or two if well developed. Factors might include:</p> <ul style="list-style-type: none"> • Wages decrease: Increased labour supply. Wages fall and employment rises. • Increased skills (e.g. higher MRP) in labour market or other changes to the supply of labour besides price/wage • Lower inflation makes the country more competitive internationally • Increase in aggregate demand therefore job opportunities rise • Boosted economic growth by 1% since 2004 (Extract 2 line 1) • More flexible labour market e.g. immigrants have filled jobs that could not be filled • Some people displaced from jobs (increased unemployment as British workers reluctant to take jobs at lower wages) • Housing impact - upward pressure on prices, relaxed building regulations • Increased government spending of social services e.g. schools and housing • Social impact allowed where linked specifically to an economic factor such as living standards • Allow wider macro implications e.g. improved balance of payments, fiscal benefits <p>Evaluation (Ev) 6 marks. Award (3 x 2 marks) or (2 x 3 marks). Factors might include:</p> <ul style="list-style-type: none"> • People are starting to leave as other countries open their labour markets (Extract 2 lines 4-5) • Some of the increased incomes might be transfer payments abroad - accept macro arguments e.g. the multiplier effect is dampened owing to increased leakages • Depends on the skill levels of the immigrants. If very low skilled then there may be no overall effect, as displacement is more likely • Hard to measure changes, e.g. loss of skills might occur in the long term if British workers drop out of 	

	<p>the workforce</p> <ul style="list-style-type: none">• Immigration often has positive effects on living standards of those already in Britain e.g. an improving fiscal position	<p>(15)</p>
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Question Number	Answer	Mark
1(c)	<p>Knowledge, Application and Analysis (KAA) 6 marks. Award two factors (one must be for each category, 3 marks each). Factors might include:</p> <p>Beyond normal retirement age:</p> <ul style="list-style-type: none"> • for pensioners on income support or other means-tested benefits e.g. pension credits, there is less government spending (do not accept 'no need to pay pensions') • increased tax revenues e.g. income tax, NICs, VAT, depending on level of income <p>Working age women:</p> <ul style="list-style-type: none"> • for working age women leaving the workforce, more expenditure on benefits and/or less expenditure on government funded childcare. Do not award reference to JSA payments increasing. • for working age women joining the workforce, less expenditure on benefits and/or more expenditure on government funded childcare Do not award reference to JSA payments decreasing. • decreased tax revenues from women leaving the workforce • increased tax revenues from women joining the workforce <p>Evaluation (Ev) 4 marks. Award (2 x 2 marks or 1 x 4 marks). Factors might include:</p> <ul style="list-style-type: none"> • Benefits/costs of using older workers (e.g. experience and expertise vs. e.g. flexibility or IT literacy) • Discussion of magnitude of changes - more than half of the increase is from post retirement age (Extract 1 line 18) • Balance between the two groups -the increase in one group might outweigh the other • Retirement ages are changing anyway 	(10)

Question Number	Answer	Mark
1(d)	<p>Knowledge, Application and Analysis (KAA) 9 marks. Award three factors.</p> <p>At least one factor must relate to lone parents and at least one factor must relate to incapacity claimants. There is a CAP of 6/9 for a one sided answer.</p> <p>Factors might include:</p> <ul style="list-style-type: none"> • Reduce level of incapacity benefits/lone parents benefits • Make it harder to claim - e.g. via doctors having caps to the number of people that can be signed off in any period • Shorten the age until which lone parents can claim benefits (from age 12 in 2008) • 'Pathways to work' 2003 government initiated to help people back to work (interview with trained adviser, drawing up a plan to return to work) • Government as an employer - might use a more sensitive employment policy • Allow New Deal if specifically related to increasing participation • Allow an increase in NMW if specifically related to increasing participation • Increasing working tax credits if specifically related to increasing participation • Increase child benefits if specifically related to increasing participation • More crèche facilities if specifically related to increasing participation • Changes in marginal tax rates if specifically related to increasing participation • Tougher application of equal pay/anti-discriminatory practices <p>Evaluation (Ev) 6 marks. Award (3 x 2 marks) or (2 x 3 marks). Factors might include:</p> <ul style="list-style-type: none"> • The policies might not work - e.g. conflict with each other or time lag • Other problems might arise, e.g. poverty • Difficult to distinguish the half of the capacity claimants are not genuinely unable to work • Lone parent benefit age has already been lowered to 12 in 2008. • Other problems might arise, e.g. child poverty if benefits are cut 	

	<ul style="list-style-type: none">• Sense of fairness? Some sense of widening income distribution in short run.	(15)
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Question Number	Answer	Mark
2(a)	<p>Knowledge, Application and Analysis (KAA) 9 marks. Award three factors. Factors might include:</p> <p>Demand factors</p> <ul style="list-style-type: none"> • Service vs. manufacturing sectors regionally based • MRP theory • Regional structural issues e.g. North/South divide • More economic activity focused on London • Agriculture has been a low wage industry, and focused outside London (this could to some extent be extended to manufacturing) • London and South East the gateway to trade with Europe - increased demand pressure • Government, a major employer, still very focused in London • Degree of monopsony in regions <p>Supply factors</p> <ul style="list-style-type: none"> • Constraints on housing • Cost of living higher in South - must relate costs to wage pressures • Transport/commuting costs • Influence of trade unions varies according region/industry • Flexibility of workforce • Mobility of workforce • More welfare dependency in North (Extract 2 line 1-2) • Skills/education regional differences <p>Evaluation (Ev) (three factors up to (2 marks) each)</p> <ul style="list-style-type: none"> • Changes are afoot, e.g. more government departments moving out from the South East/London • Exports to Europe are mainly services, and do not need to be located in the higher cost South East/London • Elasticity arguments - e.g. that over time the wage differentials are likely to reduce as people respond to wage opportunities • National Minimum Wage may be reducing wage differentials, certainly at the lower end • Government policies to increase labour mobility, e.g. subsidised housing costs • Size of the regional multiplier • Unreliable data - does not show regional cost of living or illegal workers <p>Do not allow answers based on non-wage incomes</p>	(15)

Question Number	Answer	Mark
2(b)	<p>Knowledge, Application and Analysis (KAA) 12 marks.</p> <p>At least one factor must relate to why a regional minimum wage would be an improvement. There is a CAP of 9/12 for a one sided answer.</p> <p>Diagram or equivalent verbal analysis (2 marks) Award one marks for the correct shift, and 1 mark for the changes in wages and employment</p> <p>Award four factors. Factors might include:</p> <p>Weaknesses of the NMW</p> <ul style="list-style-type: none"> • Poverty in London and other Southern areas (diagram showing NMW below equilibrium might be used) is not alleviated (main aim of NMW) • NMW does not help people who are unemployed - it may lead to unemployment in northern areas (may be supported by diagram showing NMW above equilibrium) • High rate of NMW can make firms uncompetitive and the jobs will be lost altogether • Incentives may be destroyed if wage differentials are narrow • Increased rigidity in the labour market <p>Positive aspects of RMW</p> <ul style="list-style-type: none"> • Reflects regional living costs • Reflects other regional differences • Could attract FDI or other investment if wages are lower, so employment increases in areas where this a problem • Reduces the need for high government spending in northern parts of Britain (Extract 2 line 3-5) • Market signals become more effective - reduced market failure, increased flexibility 	

	<p>Evaluation (Ev) 8 marks. Award (4 x 2 marks or 2 x 4 marks). Factors might include:</p> <ul style="list-style-type: none">• Very difficult to set a regional minimum wage at the right levels for each region• NMW is cheaper than an RMW to enforce• Mobility issues e.g. even if wages are different it might be very difficult for workers to move• Spillage between regions• Elasticity arguments - degree of response• Low Pay Commission states that NMW does not have a discernable effect on employment (LPC report 2001).• RMW widens income inequalities, or increase poverty/NMW narrows income inequalities• Income support provisions render RMW manipulation of wages unnecessary• Better to have no minimum wage at all?	<p>(20)</p>
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Question Number	Answer	Mark
2(c)	<p>Knowledge, Application and Analysis (KAA) 9 marks. Award three factors or two factors and a diagram. Factors might include:</p> <ul style="list-style-type: none"> • Monopsony explanation: diagram can earn 3 marks counts as a factor. This may include a helpful definition, description of depressed wages and reduced employment. • Regional differences will be exacerbated • Localised spillage across regional boundaries as regional wages start to differ • Monopsony power increased in local market (or the reverse if public sector monopsony power is reduced in some areas) • Buyer power implies that the wages will be depressed in some regions and increased in some others • Local trade union power will try to keep wages up in areas where government expenditure would otherwise decrease i.e. collective bargaining • More flexibility in wage negotiations, e.g. easier to recruit teachers when wages are raised • Macro effects of income redistribution - e.g. changing spending propensities of income groups <p>Evaluation (Ev) 6 marks. Award (3 x 2 marks) or (2 x 3 marks). Factors might include:</p> <ul style="list-style-type: none"> • bilateral monopoly analysis • decisions will vary across regions and over time - hard to say what will happen • trade union power is not generally focused regionally, and is declining in some areas and rising in others • possible widening of income inequality - this may be illustrated through a shift in the Lorenz curve • depends on the elasticity of the labour supply and demand 	(15)

Question Number	Answer	Mark
2(d)	<p>Knowledge, Application and Analysis (KAA) 6 marks. Award two factors, up to three marks each. Factors might include:</p> <ul style="list-style-type: none"> • Constant marginal rate of tax cuts act as an incentive - with specific reference to higher earners AND/OR constant marginal rate of tax cuts act as a disincentive - with specific reference to lower earners • Uncomplicated system will make it easier for people taking on work and coming off benefits • No 'step up' to higher tax bands to prevent people from working harder, so removes employment traps <p>Evaluation (Ev) 4 marks. Award (up to 2 x 2 marks or 1 x 4 marks). Factors might include:</p> <ul style="list-style-type: none"> • Depends on the rate that was chosen will determine the effect on incentives • Job seekers' incentives involve far more than the marginal tax rate • Need to have steps in place to ensure there is not an employment trap/poverty trap • Sense of fairness - widening income inequality, which might be shown with a shift in the Lorenz curve. • Use of evidence from other countries. Successes and failures of countries that are already operating the flat rate tax e.g. Baltic countries Estonia, Latvia and Lithuania have had flat rate taxes of 24%, 25% and 33% respectively since the mid 1990s • Short run effects different from long run - depends on elasticities e.g. might change the shape of the backward bending supply curve 	(10)

6355/01 Evaluation Grid

	Knowledge, Application and Analysis	Evaluation	Total
Question 1			
A	12	8	20
B	9	6	15
C	6	4	10
D	9	6	15
Question 2			
A	9	6	15
B	12	8	20
C	9	6	15
D	6	4	10
Total	12	40	60

Question Number	Answer	Mark
1(a)	<p>KAA 12</p> <p>Award 3 marks for each approach identified, analysed and applied up to a maximum of 12 marks</p> <p>Explanation may include</p> <ul style="list-style-type: none"> • Promote education & training - improving literacy rates • Develop infrastructure • Develop health care - reducing mortality rates • Develop manufacturing sector • Candidates may use the to Harrod-Domar model to support/explain their answer • Debt relief • Cash subsidy to specific firms in areas that charity aims to help • Disaster relief • Microfinance <p>Also award discussion of types of aid and organisations e.g. Tied, Untied, NGOs, bilateral, multilateral</p> <p>Do not reward candidates who confuse Aid with FDI</p> <p>E8 Award up to 8 marks for evaluation, (4 * 2 marks). The question gives candidates scope to assess the relative importance of the indicators chosen, or address the strengths of each indicator.</p> <p>Evaluation may consider:</p> <ul style="list-style-type: none"> • Ineffective nature of aid, • Time lags associated with the use of Aid to improve infrastructure/healthcare etc • Tied v Untied aid • Corruption • Creates dependency culture • NGOs too small/ineffective - don't make a difference • Poor governance of the work of NGOs • Multiplier effect of the aid 	(20)

Question Number	Answer	Mark
1(b)	<p>KAA 6</p> <p>Award 3 marks for two factors identified, analysed and applied up to a maximum of 6 marks. These might include</p> <ul style="list-style-type: none"> • Attracts FDI • Provides healthier workforce • Provides better educated workforce • Diaspora remittances as a result of development of human capital. <p>Cap answers which do not explicitly mention economic development at 2/3 for KAA for each point made.</p> <p>E4 Award up to 4 marks for evaluation, (2 * 2 marks). Candidates may consider</p> <ul style="list-style-type: none"> • Brain drain • Long run nature of human capital • Cost of developing human capital <p>Cap at 8/10 answers which don't refer to the last two paragraphs of Extract 1</p>	(10)

Question Number	Answer	Mark
1(c)	<p data-bbox="363 367 451 394">KAA 9</p> <p data-bbox="363 434 1090 562">Award 3 marks for three factors identified, analysed and applied or award fewer points very well developed up to a maximum of 9 marks. These might include</p> <ul data-bbox="416 607 1090 1122" style="list-style-type: none"> • Some discussion of the nature of the MDGs and whether they are too far reaching and wide in their scope. E.g. Inappropriate nature of goals for some countries e.g China and India • Slow progress with attaining them so far • Ambitious project, lacking the backing of the G8 to achieve these in the past • Not enough domestic national support e.g. universal primary education • Local conditions may act as an obstacle e.g. civil conflict or corruption. • Climate change - can make it difficult to achieve the MDGs • Cultural obstacles to change, e.g. universal education <p data-bbox="320 1160 1090 1227">Candidates may also discuss up to three individual goals and the success in achieving these for KAA 9/9.</p> <p data-bbox="363 1294 1090 1395">E6 Award up to 6 marks for evaluation, (3 * 2 marks or fewer more developed points up to 4 marks each). Candidates may consider</p> <ul data-bbox="416 1435 1090 1570" style="list-style-type: none"> • Obtainable if money is committed to them • Tangible measures can be achieved. • Ambitious but progress has already been made. 	(15)

Question Number	Answer	Mark
1(d)	<p>KAA 9</p> <p>Award 3 marks for three factors identified, analysed and applied or award fewer points very well developed up to a maximum of 9 marks. Candidates may consider</p> <ul style="list-style-type: none"> • Advantages of specialisation - reference to trade and economies of scale • Promotes employment • Allows greater trade opportunities • Earn foreign currency • Promotes investment • Reference to Rostow's five stages of development • Self-sufficiency • Creates conditions to attract FDI • Large numbers of population involved therefore large numbers benefit • Improve income distribution • Increasing price of agricultural output makes it worthwhile. <p>E6 Award up to 6 marks for evaluation, (3 * 2 marks or fewer more developed points up to 4 marks each). Candidates may consider</p> <ul style="list-style-type: none"> • Primary product dependency • Difficulties of trying to access new markets - EU • Exploitation of the economy by FDI • Prebisch Singer thesis and worsening terms of trade • High price of agricultural output makes it a lucrative area for exploitation 	(15)

Question Number	Answer	Mark														
2(a)	<p>KAA 9</p> <p>Award 3 marks for three factors identified, analysed and applied up to a maximum of 9 marks. Candidates may consider</p> <p>E6 Award up to 6 marks for evaluation, (3 * 2 marks or fewer more developed points up to 4 marks each).</p> <table border="1" data-bbox="320 607 1083 2045"> <thead> <tr> <th data-bbox="320 607 703 640">KAA</th> <th data-bbox="703 607 1083 640">Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="320 640 703 976"> <ul style="list-style-type: none"> • Dependency ratio increases </td> <td data-bbox="703 640 1083 976"> <p>Play a role in looking after younger members of the family and therefore release parents to work.</p> <p>Greater role of extended family in LEDCs - less reliance on the state.</p> </td> </tr> <tr> <td data-bbox="320 976 703 1048"> <ul style="list-style-type: none"> • Non-productive labour force </td> <td data-bbox="703 976 1083 1048"> <p>Experience may result in greater productivity</p> </td> </tr> <tr> <td data-bbox="320 1048 703 1458"> <ul style="list-style-type: none"> • Higher levels of pension provision </td> <td data-bbox="703 1048 1083 1458"> <p>Older population may have savings so therefore not really cause greater dependency</p> <p>Culture to look after extended family in the developing world therefore less pressure on state provision for the elderly.</p> </td> </tr> <tr> <td data-bbox="320 1458 703 1597"> <ul style="list-style-type: none"> • Greater demands on health care system </td> <td data-bbox="703 1458 1083 1597"> <p>Better health means that they are still able to contribute to productivity</p> </td> </tr> <tr> <td data-bbox="320 1597 703 1839"> <ul style="list-style-type: none"> • Increased level of poverty </td> <td data-bbox="703 1597 1083 1839"> <p>Average age of population rising therefore generates experience and creates conditions for economic growth and less poverty</p> </td> </tr> <tr> <td data-bbox="320 1839 703 2045"> <ul style="list-style-type: none"> • Increased savings may lead to greater economic growth - reference may be made to </td> <td data-bbox="703 1839 1083 2045"> <p>But increased savings may be at the cost of reduced consumption i.e. leakage from the economy and therefore reduction in</p> </td> </tr> </tbody> </table>	KAA	Evaluation	<ul style="list-style-type: none"> • Dependency ratio increases 	<p>Play a role in looking after younger members of the family and therefore release parents to work.</p> <p>Greater role of extended family in LEDCs - less reliance on the state.</p>	<ul style="list-style-type: none"> • Non-productive labour force 	<p>Experience may result in greater productivity</p>	<ul style="list-style-type: none"> • Higher levels of pension provision 	<p>Older population may have savings so therefore not really cause greater dependency</p> <p>Culture to look after extended family in the developing world therefore less pressure on state provision for the elderly.</p>	<ul style="list-style-type: none"> • Greater demands on health care system 	<p>Better health means that they are still able to contribute to productivity</p>	<ul style="list-style-type: none"> • Increased level of poverty 	<p>Average age of population rising therefore generates experience and creates conditions for economic growth and less poverty</p>	<ul style="list-style-type: none"> • Increased savings may lead to greater economic growth - reference may be made to 	<p>But increased savings may be at the cost of reduced consumption i.e. leakage from the economy and therefore reduction in</p>	(15)
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	Harrod-Domar	economic growth.	
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Question Number	Answer	Mark
2(b)	<p>KAA 12</p> <p>Award 3 marks for four factors identified, analysed and applied or award fewer points very well developed up to a maximum of 12 marks. Candidates may consider</p> <ul style="list-style-type: none"> • Greater output • Greater labour force - cheap labour, attracts FDI • Higher tax revenue • Greater pool of labour to choose from <p>Candidates must make the link back to economic development (rather than just increase in GDP) to gain full marks</p> <p>Cap answers which do not explicitly mention economic development at 2/3 for KAA for each point made.</p> <p>E8 Award up to 8 marks for evaluation, (4 * 2 marks or fewer more developed points up to 4 marks each). Candidates may consider</p> <ul style="list-style-type: none"> • Unemployment • Pressure on resources - e.g. education & healthcare • Greater levels of urban migration and therefore creation of shanty towns • Greater levels of urban poverty • Social unrest • Total benefit will depend on how well government invests in developing infrastructure • Wider impact on relative and absolute poverty and income distribution. 	(20)

Question Number	Answer	Mark
2(c)	<p data-bbox="363 360 453 394">KAA 6</p> <p data-bbox="320 434 1091 501">Award 3 marks for two factors identified, analysed and applied up to a maximum of 6 marks</p> <ul data-bbox="416 539 1091 891" style="list-style-type: none"> • Better healthcare - pre-natal & post-natal • Better education • Better sanitation • Cleaner water • Better access to food • Greater stability in the home and in sources of income • Economic growth • Greater access to cheap drugs & vaccination programmes <p data-bbox="320 929 1091 996">E4 Award up to 4 marks for evaluation, (2 * 2 marks). Candidates may consider</p> <ul data-bbox="416 1034 1091 1279" style="list-style-type: none"> • Relative improvements still have some way to go. • Significance of one of the measures over another • Time lags associated with the various policies • Damaged by other factors e.g. civil unrest/war 	(10)

Question Number	Answer	Mark
2(d)	<p>KAA 9</p> <p>Award 3 marks for three factors identified, analysed and applied or award fewer points very well developed up to a maximum of 9 marks. Candidates may consider</p> <ul style="list-style-type: none"> • Greater dependency ratio • Increased pressure on healthcare systems • Increased levels of poverty • Falls in productivity • Greater pressure on businesses - costs of training workers • Increased juvenile delinquency - outcome of orphan status from young age • Less government money available for other sectors • Social unrest • Less FDI <p>E6 Award up to 6 marks for evaluation, (3 * 2 marks or fewer more developed points up to 4 marks each). Candidates may consider</p> <ul style="list-style-type: none"> • HIV/AIDs numbers are falling with education • Anti retro-viral drugs are more affordable in the developing world • HIV/AIDs does not mean that the individual is incapable of working • Depends on the number affected • Other factors play a more important part in determining lack of economic growth e.g. civil conflict/corruption • Time lag associated with recreating an economically viable family unit (once this has been destroyed) 	(15)

6355/02 Specification Grid

	KAA	EVALUATION	TOTAL
(a)	12	8	20
(b)	6	4	10
(c)	9	6	15
(d)	9	6	15
Total	36	24	60
As % of total marks	60	40	100

	KAA	EVALUATION	TOTAL
(a)	9	6	15
(b)	12	8	20
(c)	6	4	10
(d)	9	6	15
Total	36	24	60
As % of total marks	60	40	100

6356 01 Mark Scheme Summer 2008

Question Number	Answer	Mark
1(a)	<p>Factors which could explain the higher rate of inflation in UK include:</p> <ul style="list-style-type: none"> • Higher aggregate demand in the UK; aggregate demand rising faster than aggregate supply • Cost-push pressures e.g. higher unit wage costs; higher non-wage costs e.g. rents, government regulations • Lower productivity • Differences in monetary policy i.e. inflation targets (below 2% in eurozone; 2% +/- 1% in UK) • Fall in £ against the Euro • Lower unemployment in UK than France and Italy • Higher fiscal deficit in UK than in France and Italy <p><i>Evaluation comments could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation of factors</i> • <i>Significance of productivity differences</i> • <i>Allow credit for differences in accuracy of calculation</i> <p>For a L5 mark: Consideration of 3 factors together with 1 evaluative point. A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation Max 28 marks if no evaluation. Award a L4 mark (24-27 marks) if only 2 factors + evaluation or 3 factors without evaluation Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points. Max 23/40 if no hint of comparison between countries</p>	(40)

Question Number	Answer	Mark
1(b)	<p>Factors include:</p> <ul style="list-style-type: none"> • Application of supply side policies (this could count as two points) e.g. education and training; policies designed to increase competition; increased incentives for investment. Discussion should relate to how these measures might increase productivity and reduce unit labour costs • Improvements in infrastructure e.g. roads, railways • Tax relief on research and development to improve non-price factors such as quality, design, reliability, branding • Reduction in UK inflation rate relative inflation rates in other countries e.g. by lowering the inflation rate target • Depreciation in the exchange rate of the £ • Net migration, especially from Eastern Europe, reduce wage pressures. <p><i>Evaluation could include:</i></p> <ul style="list-style-type: none"> • Discussion relative importance of the factors identified • Comment on the importance of labour costs as a proportion of the total costs of production • Discussion of problems of measuring competitiveness • Time lags involved in the application of supply side policies • New machinery by itself might not improve productivity - much depends on its quality and ability of workers to operate it efficiently <p>For a L5 mark: Discussion of 4 points and 2 evaluative points. A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation. Award a L4 mark (36-41 marks) if only 3 points + evaluation Max 42 marks (top L4) if no evaluation Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(60)

Question Number	Answer	Mark
2(a)	<p>Growth of trade associated with increased globalisation. Factors include:</p> <ul style="list-style-type: none"> • Reduction in trade barriers linked to the work of the WTO; application of law of comparative advantage • Opening up of economies to world market e.g. China; former Communist countries • Economic development in LDCs leading to more demand for foreign goods • Growth of offshoring and outsourcing by multinationals • Higher real incomes create increased demand for imported goods (depending on value of the marginal propensity to import) • Expansion of trade blocs <p><i>Evaluation comments could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation of factors</i> • <i>Critical view of accuracy of measures of trade and world GDP</i> • <i>Application of concepts such as income elasticity of demand and marginal propensity to import</i> <p>For a L5 mark: Consideration of 3 factors together with 1 evaluative point. A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation Max 28 marks if no evaluation. Award a L4 mark (24-27 marks) if only 2 factors + evaluation Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(40)

Question Number	Answer	Mark
2(b)	<p>Possible disadvantages include:</p> <ul style="list-style-type: none"> • Danger of deficit on the current account of the Balance of Payments <i>But not a problem if this can be financed by inflows into the financial account</i> • In turn, this might lead to the need to borrow from other countries or from the IMF <i>Unnecessary if financed by inflows into the financial account</i> • Increased unemployment - if the country's goods are uncompetitive <i>Effects will be uneven e.g. little effect on non-traded services sector</i> • Overdependence on imported goods of strategic importance e.g. food, energy would be undesirable in times of war or political instability • Lower GDP - if free trade results in imports rising at a faster rate than exports <i>But, according to the law of comparative advantage, world output should rise as a result of increased specialisation and trade</i> • Country's economy would be more subject to changes in the world economy • Negative externalities • Increased possibility of food shortages - abolition of CAP <i>But.. food would be cheaper than would be the case with protectionist measures</i> • Increased possibility of dumping <p>For a L5 mark: Discussion of 4 points and 2 evaluative points. A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation. Award a L4 mark (36-41 marks) if only 3 points + evaluation Max 42 marks (top L4) if no evaluation Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(60)

Question Number	Answer	Mark
3(a)	<p>Possible factors include:</p> <ul style="list-style-type: none"> • World growth of GDP • Industrialisation of China • Supply shortages - more expensive to extract metals from new mines; food supplies disrupted by droughts, floods; wars • Speculation • Fall in value of dollar • Use of food for biofuels • Export taxes and/or bans on exports <p><i>Evaluation could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation of factors</i> • <i>Comment on significance of inelasticity of supply/demand</i> • <i>Comment on why metal prices have risen faster than food prices</i> <p>For a L5 mark: Consideration of 3 factors together with 1 evaluative point. A Level 5* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation Max 28 marks if no evaluation. Award a L4 mark (24-27 marks) if only 2 factors + evaluation Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(40)

Question Number	Answer	Mark
3(b)	<p>Effects include:</p> <ul style="list-style-type: none"> • Cost push inflation - AD/AS analysis showing leftward shift in AS curve <i>But increased costs might be offset by increased productivity or efficiency gains</i> • Danger of wage price spiral and rising inflationary expectations <i>But... monetary policy might help to keep inflation under control</i> • Lower growth - AD/AS analysis <i>But... if the rise in commodity prices is caused by rapid world growth, then the impact on growth might be limited</i> • Possibility of increased unemployment • Impact on the trade in goods balance <i>In the UK's case, there is likely to be an adverse effect on the trade in goods balance. But: this effect might be offset by a rise in goods and services</i> • Impact on public expenditure e.g. benefits are increased in line with increases in RPI. • Impact on environment <p>For a L5 mark: Discussion of 4 points and 2 evaluative points. A Level 5* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation. Award a L4 mark (36-41 marks) if only 3 points + evaluation Max 42 marks (top L4) if no evaluation Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.</p>	(60)

Question Number	Answer	Mark
4(a)(i)	$\frac{550.4 - 342}{342} = \frac{208}{342} \times 100$ $= 60.9\% \text{ (Accept 61\%)}$ <p>Or 2 marks for correct answer without showing calculation.</p>	(1) (1)

Question Number	Answer	Mark
4(a)(ii)	<p>The data is in current terms - no account taken of inflation</p> <p>Must consider the change in public expenditure as a proportion of GDP</p> <p>2 x 2 marks, or up to 3 marks for point explained well (3+1)</p>	(4)

Question Number	Answer	Mark
4(a)(iii)	<p>There was a fiscal surplus (1) of £16.5 billion (1) in 1999-2000 but a fiscal deficit (1) of £30.4 billion in 2006-07.(1)</p> <p>OR general approach to change in fiscal position (1)</p>	(4)

Question Number	Answer	Mark
4(b)	<p>Effects include:</p> <ul style="list-style-type: none"> • GDP growth; multiplier effects; AD/AS analysis • Increase employment • Change in employment patterns - an increase in proportion of workers employed in the public sector • Possibility of inflationary consequences (this could be used in evaluation) • Financing issues - with the need for public sector borrowing • Crowding out • Improvement in public services leading to an increase in productivity <p><i>Evaluation points could include:</i></p> <ul style="list-style-type: none"> • <i>Impact on GDP might be limited because low productivity in public sector</i> • <i>Inflationary consequences have not materialised because inflation targeting; 'China effect'</i> • <i>Few problems have been experienced in financing public sector net borrowing</i> • <i>Labour and skill shortages could have been overcome by immigration</i> • <i>Disincentive effects of increased taxes</i> <p>2 marks for identification; 1 for application; 4 for analysis and 5 for any two evaluation points (3 + 2; 2 + 3).</p>	(12)

Question Number	Answer	Mark
4(c)	<p>Key issues include:</p> <ul style="list-style-type: none"> • Growth in footloose multi-nationals seeking the lowest cost locations - UK needs to ensure its corporation tax rate is competitive • Lower corporation tax would lead to an increase in investment • Increase in GDP via the multiplier effect • Higher investment would increase AS so would not be inflationary • Lower public sector borrowing <p>Evaluation points could include:</p> <ul style="list-style-type: none"> • <i>Other factors might be more significant for attracting FDI e.g. wage costs</i> • <i>Research methodology might be flawed leading to inaccurate estimates of effects</i> • <i>A reduction in corporation tax might not result in increased investment - companies might raise dividend payments to shareholders</i> • <i>Discussion of short term and long term effects</i> <p>1 mark for identification; 2 for application (1 mark for data reference and 1 for recognition of different rates of corporation tax); 3 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
4(d)	<p>Effects could include:</p> <ul style="list-style-type: none"> • Less even distribution of income - tax system has become less progressive <i>But could be offset by increases in tax credits</i> • Cheaper to administer because the tax system has been simplified <i>But other changes have increased complexity of tax system</i> • Impact on incentive to work <i>Incentives will vary according to income etc.</i> • Increase in disposable income for some groups - could lead to rise in consumption and increase in AD <i>But tax cuts might result in an increase in savings and/or increase in imports</i> <p>Credit answers which refer to recent increase in tax free allowances</p> <p>1 mark for identification; 2 for application; explicit or implied reference to abolition of 10p tax rate (1 mark) and reduction in standard rate (1 mark); 3 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
4(e)	<p>Effects include:</p> <ul style="list-style-type: none"> • Repayment of part of Public Sector Net Debt • Reduction in interest payments on public sector debt • More money available for expenditure on public services <p><i>Would not be true if tax revenues were falling</i></p> <ul style="list-style-type: none"> • UK would be able to meet criteria for entry into euro <p><i>But ... this does not appear to be a priority at present</i></p> <ul style="list-style-type: none"> • Possibility of lower interest rates; reduction in 'crowding out' <p><i>But... other factors influence inflation and, therefore, the Bank of England's decisions on interest rates</i></p> <ul style="list-style-type: none"> • Lower borrowing might imply less investment in infrastructure and public services and/or higher taxes <p><i>But ... not necessary if lower taxes generate increase economic activity and increased tax revenue and incentives</i></p> <p><i>1 mark for identification; 1 mark for application (refer to context i.e. extra tax revenue resulting from tax cuts); 4 marks for analysis and 2 marks for any one evaluative comment</i></p>	(8)

Question Number	Answer	Mark
5(a)(i)	<p>1999: $\frac{195\,217}{911\,945} \times 100 = 21.4\%$</p> <p>2006: $\frac{328\,736}{1\,299\,622} \times 100 = 25.3\%$</p> <p>1 mark for correct method; 2 marks for accurate calculations. Allow +/- 0.1% Or 3 marks for correct answers without calculations; 2 marks if only one correct answer without calculation.</p>	(3)

Question Number	Answer	Mark
5(a)(ii)	<p>Possible causes include:</p> <ul style="list-style-type: none"> • High value of the £ (reference to Figure 3) • Increase in real incomes, associated with continuous economic growth. Demand for imports is income elastic • Industrialisation of China - cheap imports from low wage countries; change in comparative advantage resulting in deindustrialisation in UK • Non-price factors e.g. quality design • Expansion of EU <p>Evaluative comments could include:</p> <ul style="list-style-type: none"> • Prioritisation of factors • Comment that it could have been caused by a combination of factors <p>If no reference to change in import penetration then 5/8 maximum mark.</p> <p>2 marks for identification; 2 for application (causes must relate to UK economy. Examples may be given 1+1); 2 for analysis and 2 for any one evaluative comment</p>	(8)

Question Number	Answer	Mark
5(a)(iii)	<p>Possible effects include:</p> <ul style="list-style-type: none"> • Deterioration in trade in goods and services balance - use of data; • Unemployment in manufacturing industries • Possibility of fall in aggregate demand, leading to fall in real incomes (use of AD/AS analysis) • Pressure on domestic firms to reduce costs to remain competitive • Downward pressure on the exchange rate of the £ <p>Evaluation could include:</p> <ul style="list-style-type: none"> • Prioritisation of effects • Trade in goods and services deficit not a problem if there are inflows into investment income and financial accounts • Unemployment in manufacturing might be offset by employment gains in services sector • AD might not fall if rise in consumption and investment outweighs rise in imports <p>2 marks for identification; 2 for application (use of data in Figure 1); 2 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
5(b)(i)	Positive correlation expected (1 mark) An increase in interest rates (relative to those in other countries) is likely to cause a rise in 'hot money' flows as investors seek the highest return on their cash. This could be illustrated with a supply and demand diagram - showing an increase in demand for the currency. (Up to 3 marks)	(4)

Question Number	Answer	Mark
5(b)(ii)	Use of data to show periods of correlation and years when relationship is weak. (2 + 1 marks) Commenting that there is no precise relationship (1 mark) but overall trend is similar (1 mark). 1 mark for specific data reference.	(3)

Question Number	Answer	Mark
5(b)(iii)	Factors include: <ul style="list-style-type: none"> • Relative inflation rates <i>But... may not be significant in the short term - other factors more significant</i> • Current account balance (may be linked to international competitiveness) <i>But... may have little impact if there are substantial flows into financial account</i> • State of economy relative to those of major competitors <i>Might be regarded as the most significant factor: people wish to hold the currency of a strong economy</i> • Speculation relating to future state of economy, political uncertainty • FDI <p>2 marks for identification; 4 for application and analysis; 2 for analysis and 4 for any two evaluation points (2 + 2; 1 + 3; 3 + 1).</p>	(10)

Question Number	Answer	Mark
5(c)	<p>Analysis could include:</p> <p>For Inflation:</p> <ul style="list-style-type: none"> • Increase value of the pound could result in a lower rate of inflation because imported raw materials will cost less. • Also exporters will try to reduce costs to remain competitive • Imported manufactured goods will also cost less <p><i>But.... other factors might bring inflationary pressures e.g. external shocks; AD rising faster than AS</i></p> <p>For Economic growth:</p> <p>Growth could slow down if imports (leakages) are rising faster than exports (injections)</p> <p><i>But... other factors could be causing growth rates to be maintained e.g. higher investment or FDI</i></p> <p>For full employment:</p> <p>Lower import prices could result in unemployment</p> <p><i>But... rising real income might result in employment creation in other sectors of the economy.</i></p> <p>2 marks for identification; 1 for application to UK economy; 4 for analysis and 5 for any two evaluation points (3 + 2; 2 + 3). Maximum 3/5 if no reference to simultaneous achievement of objectives.</p>	(12)

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Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
A					
Qu.1(a)	10	10	10	10	40
Qu.1(b)	10	10	20	20	60
Total	20	20	30	30	100
Qu.2(a)	10	10	10	10	40
Qu.2(b)	10	10	20	20	60
Total	20	20	30	30	100
Qu.3(a)	10	10	10	10	40
Qu.3(b)	10	10	20	20	60
Total	20	20	30	30	100
B					
Qu.4(a)(i)	2	0	0	0	2
Qu.4(a)(ii)	1	2	1	0	4
Qu.4(a)(iii)	2	2	0	0	4
Qu.4(b)	2	1	4	5	12
Qu.4(c)	1	2	3	4	10
Qu.4(d)	1	2	3	4	10
Qu.4(e)	1	1	4	2	8
Total	10	10	15	15	50
Qu.5(a)(i)	2	1	0	0	3
Qu.5(a)(ii)	1	1	4	2	8
Qu.5(a)(iii)	2	2	2	4	10
Qu.5(b)(i)	1	0	3	0	4
Qu.5(b)(ii)	0	3	0	0	3
Qu.5(b)(iii)	2	2	2	4	10
Qu.5(c)	2	1	4	5	12
Total	10	10	15	15	50

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