



# General Certificate of Secondary Education

## Economics 3144

*3144/1H Paper 1 Higher Tier*

# Mark Scheme

*2005 examination – June series*

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

### **Quality of Written Communication**

Information is clearly and logically presented using an appropriate form. The text is legible. Candidates spell, punctuate and use the rules of grammar accurately, enabling the meaning to be clearly understood. 6-7 marks

Information is presented in an appropriate form. The text is legible. Candidates generally spell, punctuate and use the rules of grammar accurately, although there may be some errors. The meaning is clear. 3-5 marks

Some of the information presented is in an appropriate form. Generally the text is legible. Although there are errors in spelling, punctuation and grammar, candidates' meaning can be understood. 1-2 mark

Candidates have failed to reach the standard required for the award of a mark. 0 marks

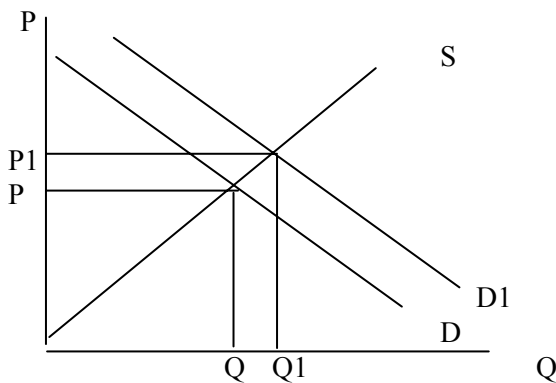
1

**Total for this question: 28 marks**

(a) State **two** factors, other than a change in population, which could lead to a shift in a demand curve. *(2 marks)*

Advertising/marketing/promotion, income level, taste and fashion, prices of complements and substitutes. 2x1

(b) (i) On the diagram below, show how an increase in the number of retired people ‘with more buying power’ would be likely to affect the market for new healthcare products. *(2 marks)*



Give 1 mark for the correct shift of the demand curve.  
 Give 1 mark for correctly showing the rise in P and Q.  
 No labelling of changes = 1 mark.

(ii) Explain the change that you have shown on the diagram above. *(2 marks)*

‘More buying power’ will mean that they can buy more at all prices leading to an increase in demand (1) leading to greater quantity at a higher price (1). Give marks, along these lines, for a reasoned answer. If an incorrect shift is shown, then OFR applies.

(c) (i) Explain why a firm would put more resources into producing goods and services for retired people. *(2 marks)*

Candidates may answer in terms of: ‘because the market answers what to produce based on consumer demand and for whom to produce based on buying power’. Candidates may also mention profit. Give the marks for a reasoned answer with 1 mark for a basic idea and 1 mark for development.

(ii) What effect could this have on the production of other goods and services? *(2 marks)*

Production of other goods would fall (1) as resources are moved away (1).  
 If candidates argue that it depends on the strength of different groups or on the size of the elderly market as against other markets or on economic growth etc, then allow giving marks on the basis of 1 for a simple statement and 1 for development.

(iii) A firm produces high quality expensive clothes. It targets these at those with high spending power. Using your knowledge of economics, discuss whether this firm should try to supply more products for the growing market of retired people. *(6 marks)*

The simple answer is 'yes', but this will depend on factors such as: ability to change production; ease of adaptation; the size of the elderly market; buying power, etc. 'No' is also acceptable if explained.

<b>Level 3</b>	Candidates are able to offer a number of points and to discuss whether the firm would or would not.	<b>5-6marks</b>
<b>Level 2</b>	Candidates are able to explain one or more points.	<b>3-4 marks</b>
<b>Level 1</b>	Candidates offer a few points without explanation.	<b>1-2 marks</b>

(d) Explain **two** effects that an increase in the number of retired people could have on the labour market. *(4 marks)*

Candidates may mention: lead to a reduction in the number of people available; make it less adaptable to change; increase the number of part-time workers; increase the wage rates; more over 60's have to work, etc. Candidates who adopt a supply and demand approach will also gain credit.

Give 1 mark for each basic point and 1 mark for some development. 2x2

(e) Discuss what effects an increase in the number of retired people might have on government expenditure and revenue. *(8 marks)*

Candidates offer:

- Government revenue – fall because they have less income; could argue that VAT/Excise duties might rise via more spending power.
- Government expenditure – increase on eg health, social services, but fall on education, etc. Could argue that health and defence are unknown.

<b>Level 3</b>	Candidates are able to offer some effects and to discuss them. Answers which only offer either expenditure or revenue will be at the bottom of the level.	<b>6-8marks</b>
<b>Level 2</b>	Candidates are able to explain some effects. Answers which only deal with extra revenue or expenditure, max 4.	<b>3-5 marks</b>
<b>Level 1</b>	Answers consist of a list or simply describe.	<b>1-2 marks</b>

2

**Total for this question: 28 marks**

(a) What is meant by the following terms?

(i) Public sector.

*(1 mark)*

Public sector is ownership by the state/government.

(ii) Privatisation.

*(2 marks)*

Privatisation is the transference of firms in public/state ownership into private sector ownership.

Award the marks for the idea of public to private sector.

Give 2 marks for a clear idea. Give 1 mark for a limited attempt.

(b) What would be the likely effect on the **price** of a good or service if a firm became a private monopoly?  
*(1 mark)*

Increase it.

(c) Why do the UK government and the European Union (EU) have policies that seek to control monopoly power?  
*(4 marks)*

Candidates may mention: to control monopolies; to regulate monopolies; to protect consumers against high prices, etc; to prevent cartels being set up, etc. Give up to 2 marks for points and up to 3 marks for development, ie 2x2 or 1x4.

(d) Discuss whether competition is of benefit to stakeholders. (You should consider no more than **three** types of stakeholder.)  
*(6 marks)*Do **not** expect every possible stakeholder to be discussed. Candidates will hopefully mention: consumers; shareholders; workers, etc.

<b>Level 3</b>	Candidates are able to explain and discuss at least two stakeholders and the different effects of competition. Any candidate who suggests that it depends on the outcome will be at the top.	<b>5-6marks</b>
<b>Level 2</b>	Candidates are able to explain the effects on one or more stakeholders.	<b>3-4 marks</b>
<b>Level 1</b>	Candidates can define stakeholders or offer a list of points.	<b>1-2 marks</b>

(e) Explain how large economies of scale could be good for a monopoly.  
*(6 marks)*The key here is 'good for a **monopoly**'. Candidates may mention: increased efficient use of resources; lower prices and higher quantities; more competitive in world markets; stronger firms, etc.

<b>Level 3</b>	Candidates are able to explain, clearly, two or more ways in which large economies of scale could be beneficial.	<b>5-6marks</b>
<b>Level 2</b>	Candidates either explain only one point or explain a number briefly.	<b>3-4 marks</b>
<b>Level 1</b>	Candidates describe or list some economies of scale.	<b>1-2 marks</b>

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(f) Discuss why it is important for a <b>country</b> to compete on world markets.	(8 marks)
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Candidates may mention: to improve standard of living; reduce unemployment; improve the balance of payments; to make the best use of its resources, etc.

<b>Level 3</b>	Candidates will explain two or more points and will offer supported discussion. Answers with only one point discussed will be at the bottom of the level.	<b>6-8marks</b>
<b>Level 2</b>	Candidates will explain one or more points. Answers with only one point will gain a max of 4 marks.	<b>3-5 marks</b>
<b>Level 1</b>	Answers will consist of a list of points or a description of competitiveness.	<b>1-2 marks</b>

3

**Total for this question: 30 marks**

(a) (i) What is meant by <b>Gross Domestic Product (GDP)</b> ?	<i>(2 marks)</i>
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GDP is the total value added of goods and services (produced in a country in a year). Give 2 marks for this, or similar. Give 1 mark for total output, or similar, or for stating that it measures economic growth.

(ii) Why do economists prefer to measure GDP in real income?	<i>(2 marks)</i>
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Give 2 marks for the idea that this allows direct comparisons because it removes inflation (adjusted for the value of money).

Give 1 mark for 'it doesn't include inflation'.

(b) (i) Using <b>Item E</b> , explain what has happened to living standards in the UK.	<i>(2 marks)</i>
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Risen (1) by 5.5% since 1995 (1) or by varying rates (1) or slowly (1).

Must state risen (1) then any other point for 1 more mark.

(ii) Apart from GDP, give <b>two</b> other pieces of information that could help assess the level of living standards in a country.	<i>(2 marks)</i>
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Candidates may mention: number of doctors; level of education/literacy; infant mortality; externalities; working hours, etc.

Allow any two valid points.

(iii) Discuss how useful the information that you have given in (b) (ii) above would be in judging living standards.	<i>(6 marks)</i>
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The answer will depend on the points made in (b) (ii).

<b>Level 3</b>	Candidates can explain how the 2 points could be used to help decide on living standards and are able to discuss the extent to which they do.	<b>5-6marks</b>
<b>Level 2</b>	Candidates are able to clearly explain the relevance of the points to living standards. If only 1 point is used, max 3.	<b>3-4 marks</b>
<b>Level 1</b>	Candidates are able to show that the points are relevant for living standards.	<b>1-2 marks</b>

(c) Discuss how widening EU membership could affect living standards in the UK.	<i>(8 marks)</i>
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Candidates may mention: effects on agriculture [negative?]; greater choice of goods and cheaper; loss of jobs to E. Europe; more exports and thus jobs; inflow of people from E. Europe, etc

Do **not** expect too much detail, but look for application of economic ideas.

<b>Level 3</b>	Candidates are able to offer one or more points, explain the effects on UK living standards and offer discussion of what they have said.	<b>6-8 marks</b>
<b>Level 2</b>	Candidates can explain one or more effects on UK living standards.	<b>3-5 marks</b>
<b>Level 1</b>	Candidates show some knowledge of EU enlargement.	<b>1-2 marks</b>

(d) Discuss how a government could try to increase both economic growth and living standards.  
(8 marks)

Candidates may mention: fiscal, monetary and supply side policies, as well as exchange rates, protectionism, etc. They might, also, pick up on part (c) and advocate membership of the euro, etc.

Long term policies eg educational improvements, redistribution of wealth.

<b>Level 3</b>	Candidates offer discussion of measures designed to increase both economic growth and living standards. Answers which only consider one of these will be at the bottom of the level.	<b>6-8marks</b>
<b>Level 2</b>	Candidates can explain one or more ways of increasing both. Answers that consider only one of these, max 4.	<b>3-5 marks</b>
<b>Level 1</b>	Answers describe the concepts or list or describe measures.	<b>1-2 marks</b>



4

**Total for this question: 29 marks**

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| (a) Using <b>Item G</b> , explain <b>two</b> ways in which ‘becoming a centre for cruise ships’ would benefit the North-East. <span style="float: right;"><i>(4 marks)</i></span> |
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NB, it says ‘using Item G’, eg: ‘spend millions of pounds’; ‘create hundreds of jobs’; ‘firms would benefit from providing services’; ‘make better use of resources’; ‘social benefits would far exceed social costs’.

Any 2 of the above, 1 mark per point plus 1 mark for each development. 2x2

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| (b) Discuss whether passengers spending ‘millions of pounds on goods and services’ would ‘create hundreds of jobs’ in the North-East. <span style="float: right;"><i>(6 marks)</i></span> |
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Do **not** expect either the multiplier or AS/AD analysis, but do look for a logical connection between expenditure and job creation. This could be in terms of spending requires more production and/or that spending means more jobs in service industries, etc.

<b>Level 3</b>	Candidates provide a logical explanation with a realisation that either some expenditure will be more effective than other expenditure or that not all spending will benefit the North-East, but may go to other regions or abroad. Candidates who do use the multiplier, etc should be awarded along these lines.	<b>5-6marks</b>
<b>Level 2</b>	Candidates start to offer a logical explanation.	<b>3-4 marks</b>
<b>Level 1</b>	Candidates either fail to offer a logical answer or offer a list of points.	<b>1-2 marks</b>

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| (c) Explain <b>two</b> ways in which governments could try to reduce unemployment. <span style="float: right;"><i>(4 marks)</i></span> |
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Candidates may mention: fiscal policy – increase government expenditure and cutting taxes will count as 2 ways; monetary policy – again count interest rates and money supply as 2 ways; supply side – each separate method counts; minimum wage etc.

Give 1 mark for each identified way plus 1 mark for some explanation. 2x2

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|---|
| (d) Apart from creating jobs, explain how attracting tourists might benefit a regional economy, such as the North-East. <span style="float: right;"><i>(5 marks)</i></span> |
|---|

Candidates may mention: use of under-used resources; resources are attracted to the more profitable areas; greater specialisation; multiplier-style effects re income, output and employment, etc.

<b>Level 2</b>	Candidates are able to explain how more tourists help to improve resource allocation. Answers at the top will show a good understanding of one or more issues.	<b>3-5 marks</b>
<b>Level 1</b>	Candidates can offer some ideas, but these lack development.	<b>1-2 marks</b>

(e) (i) Give <b>two</b> examples of external costs that could result from increased tourism. <span style="float: right;"><i>(2 marks)</i></span>
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Candidates may mention: increased pollution; more congestion; more crime; greater wear and tear on facilities; etc. Allow valid ideas. 2x1

(ii) Discuss whether the social benefits would exceed the social costs of tourism. <span style="float: right;"><i>(8 marks)</i></span>
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Social benefits could include: more jobs across the area; increase in income; provision of facilities for tourists and residents, etc.

<b>Level 3</b>	Candidates are able to explain a number of social benefits and costs and discuss whether the former outweigh the latter.	<b>6-8marks</b>
<b>Level 2</b>	Candidates can explain the social benefits and costs of tourism.	<b>3-5 marks</b>
<b>Level 1</b>	Candidates can list some social benefits/costs.	<b>1-2 marks</b>

5

**Total for this question: 25 marks**

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|---|
| (a) Using <b>Items H, I and J</b> and your knowledge of economics, discuss whether charging for using roads should be introduced in all large towns. <span style="float: right;"><i>(10 marks)</i></span> |
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Item H – real cost of buses up 31% and rail 37%, car hardly at all.

Road traffic up 70%, vehicles up from 19.2m to 29.7m.

Charging for car use would reduce the numbers of cars and pollution and benefit walkers/cyclists.

Item I – eg congestion £19.1bn; air pollution £2.4bn, etc. Costs £31.5bn, but Revenue £27.3bn.

Item J – road charging leads to a fall in trade for shops; encourages out-of-town shopping; small businesses especially hard hit.

<b>Level 3</b>	Candidates will use all three items and their own knowledge to discuss whether road charging should be introduced. Answers with good supported conclusions will be at the top of the level. A maximum of 8 marks if only 2 items are used.	<b>7-10marks</b>
<b>Level 2</b>	Candidates use 1 or more items to explain the case for and/or against road charging. Answers using all 3 items will be at the top of the level.	<b>4-6 marks</b>
<b>Level 1</b>	Answers ignore the items or just list points with no attempt at the question.	<b>1-3 marks</b>

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| (b) Pollution is an example of market failure. Discuss whether the best way to deal with pollution is through the use of taxes and subsidies. <span style="float: right;"><i>(15 marks)</i></span> |
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Candidates may mention: taxes – increases price and reduces quantity; moves quantity to social optimum; - all depends on elasticity.

Subsidies – encourages firms by paying part of the cost and may directly benefit consumers eg lower prices. Candidates may also mention regulation, pollution permits, etc.

NB This is about pollution so do not allow repetition of part (a).

<b>Level 3</b>	Candidates are able to analyse how taxes and subsidies affect pollution control and to discuss which is preferable or whether another method is better. Candidates who do not consider any other method will gain a max of 13 marks.	<b>11-15 marks</b>
<b>Level 2</b>	Candidates will explain how taxes and subsidies can control pollution. Answers that also explain other methods will be at the top of the level.	<b>6-10 marks</b>
<b>Level 1</b>	Candidates describe and explain taxes and subsidies but ignore pollution.	<b>1-5 marks</b>

6

**Total for this question: 25 marks**

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| (a) Using <b>Items K, L and M</b> and your knowledge of economics, discuss whether the UK economy is doing well. <span style="float: right;"><i>(10 marks)</i></span> |
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Item K – service sector and construction are doing well, but manufacturing is struggling; high levels of consumer spending, but high levels of borrowing; public sector investment rising, but private sector investment stagnating?; unemployment low, but inflation above the target.  
Base rate has risen by 0.25%.

Item L – Base Rate is lowest for 4 years.

Item M - The UK service sector in November grew at its fastest rate for six years; Christmas shoppers are not spending as much as expected; taxes will have to rise to pay for increased government spending; the UK economy has done better than almost any other major economy in recent years; a sharp rise in interest rates to control inflation could lead to a housing market crash.

<b>Level 3</b>	Candidates will use all three items and their own knowledge to discuss whether the UK economy is doing well. Answers with good supported conclusions will be at the top of the level. A maximum of 8 marks if only 2 items are used.	<b>7-10marks</b>
<b>Level 2</b>	Candidates use 1 or more items to explain how well the UK economy is doing. Answers using all 3 items will be at the top of the level.	<b>4-6 marks</b>
<b>Level 1</b>	Answers ignore the items or just list points with no attempt at the question.	<b>1-3 marks</b>

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| (b) Discuss whether using the rate of interest is the best method of controlling the UK economy. <span style="float: right;"><i>(15 marks)</i></span> |
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This is an invitation to candidates to discuss alternative government policies so they are likely to consider: monetary – interest rates; fiscal – government revenue and expenditure; and supply side – education and training, privatisation, monopoly control, etc. They may, also, consider regional policy, etc.

<b>Level 3</b>	Candidates are able to explain how the rate of interest and other policies can help the UK economy and offer a discussion. Better answers may mention the fact that the rate of interest is primarily for inflation and that other policies are required for growth, etc. A supported discussion will be in the top half of the level.	<b>11-15marks</b>
<b>Level 2</b>	Candidates are able to explain how the rate of interest helps the UK economy. Better answers will consider other policies as well.	<b>6-10 marks</b>
<b>Level 1</b>	Candidates describe the rate of interest and may link it to inflation, but will not explain how it helps the UK economy. They may describe other policies without explaining them vis-à-vis the UK economy.	<b>1-5 marks</b>