



General Certificate of Secondary Education

Economics 3144

3144/1F Paper 1 Foundation

Mark Scheme

2006 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. 4-5 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. 2-3 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 mark

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

1

Total for this question: 18 marks

(a) (i) Using **Item A**, state **one** reason that led to an increase in the demand for oil. *(1 mark)*

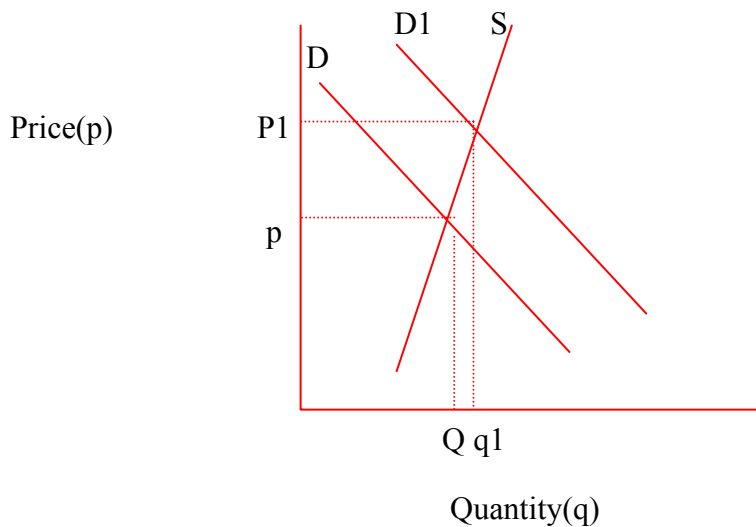
“(Great) increase in demand by China as its (economy) expands”
 Candidates are referred to Item A so expect an accurate answer as above.

(ii) Describe what happened to the price of oil between 2003 and 2005. *(3 marks)*

Rose (1) but fluctuated (1) to a high of \$55/56 (1) thus roughly doubling (1).

Give 1 mark for rose and then 2 marks for any other sensible comments as above.

(b) (i) On the diagram below, draw a line to show how an increase in the demand for oil will affect the position of the demand curve (D), and the price and quantity of oil. Label all the changes, including price and quantity. *(4 marks)*



Give 1 mark for the shift in demand to the right.
 Give 1 mark for labelling this line D1.
 Give 1 mark for showing the new price (P1).
 Give 1 mark for showing the new quantity (Q1).

- (ii) Explain the changes to price and quantity that you have shown in the diagram above. (2 marks)

Increase in demand has led to a large change in price (1) and a small change in quantity (1) or similar. OFR applies.

Give 1 mark for a general reference to change in both price and quantity.

- (c) Profits are one way of measuring business performance.

- (i) Complete the statement.

Total Revenue minus **Total** = **Profit**. (1 mark)

Cost or expenditure.

- (ii) State **one** other way of measuring business performance. (1 mark)

Productivity, market share, sales revenue, level of consumer satisfaction, etc. Allow any other valid answer.

- (d) (i) Stakeholders are groups that have an interest in a business.
Apart from shareholders, directors and motorists, state **one** other example of a stakeholder in BP. (1 mark)

Candidates may offer: managers, workers; the government; suppliers; etc.

Allow any valid idea, but do not allow consumers unless it is clear they are not motorists.

- (ii) Explain why some motorists ‘will be angry’ about the large profit that BP is making. (2 marks)

One possible answer is: ‘the profits are a result of the high price of petrol (1) which takes money from motorists (1) and reduces their ability to buy other goods (1)’ Max 2.

Give 1 mark for the basic point plus 1 mark for development. Allow any sensible approach.

(e) Discuss what might happen to the price of oil if oil production was increased. (4 marks)

Candidates will probably say the price will fall. They may point out that the amount of the fall will depend on the size of the increase and/or what is happening to demand, some may refer back to Item A. Others may refer to elasticity.

Level 2 (3-4 marks)

Candidates are able to go beyond a fall in price to offer some analysis and comment on the likely effects.

Level 1 (1-2 marks)

Candidates just make basic reference to the changes in price and quantity.
A correct diagram on its own is worth 2 marks.

2

Total for this question: 18 marks

- (a) (i) Apart from income tax, state **one** other tax that the Government uses to raise revenue. *(1 mark)*

Candidates may mention: VAT; corporation tax; alcohol / tobacco taxes; etc – allow any central government tax other than income tax, but allow national insurance.

- (ii) Using **item C**, complete the following sentence.
Fiscal policy is the use of changes in and to control the economy. *(2 marks)*

‘changes in **expenditure** and **revenue**’ (allow spending and taxation) 1 mark for each. 2x1

- (b) (i) Explain how a cut in income tax could lead to an increase in the number of people willing to seek work. *(2 marks)*

People will not pay as much tax (1) and thus be willing to take a job as it is worth more (1).

Allow any sensible suggestion.

Give 1 mark for the basic idea and 1 mark for some development.

- (ii) Explain how an increase in government spending could lead to an increase in employment. *(2 marks)*

Increase in spending will result in more demand (1) leading to more workers being needed (1).

Give 1 mark for the basic idea and 1 mark for some development as in the example above, or similar.

- (c) (i) What is meant by the term ‘inflation’? *(1 mark)*

Allow either a fall in the value of money or a rise in the price level.

- (ii) Explain **two disadvantages** of inflation for an economy. *(4 marks)*

Candidates may mention: rise in prices, or specific prices, eg housing; difficulties for those on fixed incomes; possible fall in the exchange rate; balance of payments deficit/fall in exports, rise in imports; rise in unemployment; etc.

Allow any valid suggestion.

Give 1 mark for each point, plus 1 mark for each development.

2x2

(d) Discuss how a fall in the rate of interest might affect:

(i) The consumer

(4 marks)

Answers may include easier to borrow money, can buy more, but could lead to inflation and increased debt.

Allow any valid suggestions.

(ii) Business

(4 marks)

Answers may include cheaper to borrow for investment, consumers will buy more, higher profits, but inflation, rises in rents.

Allow any valid suggestions.

For both parts

Level 3 (4 marks)

Candidates are able to offer some comment or discussion.

Level 2 (2–3 marks)

Candidates are able to explain some of the possible effects of a fall in the rate of interest.

Level 1 (1 mark)

Candidates can offer some understanding of the rate of interest relevantly applied.

3

Total for this question: 18 marks

- (a) Explain why it could be an advantage to AMN Limited to have only a ‘few other companies’ providing the same service. *(3 marks)*

Candidates may mention: monopoly power; less competition; able to charge higher prices; make more profit; have a large market share; more inelastic demand; etc.

There is 1 mark for knowledge, 1 mark for some application and 1 mark for some further development/explanation/analysis applied to AMN.

- (b) (i) What is meant by the term ‘economies of scale’? *(2 marks)*

Candidates may state that ‘it is where as a result of an increase in size there is a fall in the cost per unit of output/average cost’. This is worth 2 marks.

If they have a basic idea and give a sensible example award 2 marks. 1+1

A list of economies of scale or an example alone is worth zero.

- (ii) Discuss how economies of scale could benefit the customers of a firm. *(4 marks)*

Candidates may mention: lower prices; higher profits lead to more R & D; etc.

Level 2 (3-4 marks)

Candidates offer some discussion of how economies of scale could benefit customers.

Level 1 (1-2 marks)

Candidates can apply economies of scale and offer some development of the point.

- (c) (i) From the three diagrams below, select the one that shows that skilled workers are in short supply. *(1 mark)*

Fig 3 only.

- (ii) Explain your answer. *(2 marks)*

A possible answer is Fig 3 because workers will be able to gain high wages (1) as a rise in wages attracts few new workers (1) because supply is inelastic (1) Max 2.

Award marks along these lines.

OFR applies where candidates get Question (c)(i) wrong.

(d) Discuss why the Government would want a better trained workforce. (6 marks)

Candidates may draw on their own knowledge/experience.

Points which may be made include: reduce unemployment; improve productivity; increase chances of people getting jobs; supplement school education; more flexible re new technology; etc.

Level 3 (4-6 marks)

Candidates are able to discuss why. At the bottom any comment is likely to be brief while at the top it should be well developed and/or a conclusion should be reached. A comment on long run versus short run is likely to be at this level.

Level 2 (2-3 marks)

Candidates can offer some application and analysis in terms of explanation.

Level 1 (1 mark)

Candidates show some undeveloped knowledge, eg a list of points.

4

Total for this question: 21 marks

- | |
|---|
| (a) Describe what happened to rail passenger numbers between 1999-2000 and 2003-2004. <i>(2 marks)</i> |
|---|

Increased (1) by c100m (1).

Give 1 mark for increase and then 1 mark for another valid comment.

- | |
|---|
| (b) Discuss why the number of rail passengers might increase in the future. <i>(6 marks)</i> |
|---|

Candidates may offer; higher incomes; better services; more business travel; taxes on car use; etc.

Allow any sensible suggestion.

Level 3 (4-6 marks)

Candidates can discuss why passenger numbers would increase. At the top it should be well developed and a conclusion reached. At the bottom any comment is likely to be a brief. A discussion of 'whether' will be at the bottom.

Level 2 (2-3 marks)

Candidates can explain why passenger numbers might increase.

Level 1 (1 mark)

Candidates can suggest relevant factor(s) or mention trend.

- | |
|--|
| (c) (i) What is meant by the term 'subsidy'? <i>(2 marks)</i> |
|--|

Money given by government to a firm (1) in order to reduce the cost of production/cut the price to the consumer/increase output/cut negative externalities/improve quality of the product/etc (1). If no mention of government a max of 1 mark.

- (ii) Discuss whether the subsidising of rail services is the best way to reduce road congestion and pollution. *(8 marks)*

Subsidy will make rail travel cheaper and, possibly, more available thus reducing car use. This will depend on both price elasticity and cross elasticity. It is also costly drawing resources from other uses.

Other possibilities could be: subsidising buses; road charges; congestion charges; park and ride; pedestrianisation; etc.

Level 4 (6-8 marks)

Candidates are able to discuss whether or not subsidising rail services is best. Candidates will consider at least one alternative and at the top will use elasticity. A conclusion will be reached.

Level 3 (4-5 marks)

Candidates will discuss whether or not subsidising rail is best, but may not discuss alternatives and/or there is no conclusion.

Level 2 (2-3 marks)

Candidates are able to explain how subsidising rail services would or would not reduce road congestion and pollution.

Level 1 (1 mark)

Candidates offer some relevant knowledge.

5

Total for this question: 25 marks

- | |
|---|
| (a) Using Items I, J and K and your knowledge of economics, discuss whether house prices will continue to rise. <i>(10 marks)</i> |
|---|

The letters I, J and K should be clearly shown on the scripts where reference has been made to the items.

For house prices to rise:

- I** Over the past year, house prices have increased by 16.8%.
The high levels of employment will support housing demand.
Beyond 2005, we expect the market to record small price increases.
- J** Candidates will refer to large increases both in the past and forecast the future: do NOT expect detail.
- K** The proportion of mortgages taken out by single women has risen from 9.8% in 1983 to 23.1% in 2003.
Women now make up 51% of the population and are also continuing to live longer than men.

Will not rise:

- I** We predict that house prices in the UK will fall by 2% in 2005.
Due to the Bank of England's interest rate rises.
- J** Rate of increase falling especially in Greater London.

Level 3 (7-10 marks)

Candidates are able to offer some points from both sides and come to a conclusion. It is likely that they will conclude that house prices will rise, but they may have evidence from outside. Answers at the top will use all 3 items (not equally) and show evidence of using knowledge of economics. Answers that discuss, but do not do this can get a max of 8.

Level 2 (4-6 marks)

Candidates use the items and can explain some points. Answers that do NOT use all three times (not equally) can get a max of 5.

Level 1 (1-3 marks)

Candidates do not refer to the items or only list them with no explanation or development.

- (b) Identify **one** group of people and explain why rapidly rising house prices might be a problem for them. Discuss how the problem of rapidly rising house prices could be dealt with. *(15 marks)*

Groups – Candidates may identify – first time buyers, women, divorcees etc.

Problem – New buyers cannot afford to buy; rents rise for those unable to buy, etc – allow any sensible group. Problems include - availability of housing, impedes labour mobility; inflation; etc.

Control: Government – subsidise housing etc; impose price ceilings (pass laws to prevent price rises); release more land for building; increase interest rates (technically the Bank of England); increase taxes; etc.

Market – people sell more land/more houses are built; but allow ideas such as more people live at home/stay together etc leading to fall in demand; etc. Allow a rise in interest rates.

Level 3 (11-15 marks)

Candidates are able to explain the problems and to offer discussion of how this could be controlled. At the top they come to a supported conclusion.

Level 2 (6-10 marks)

Candidates are able to explain one or more problems. There is a max of 8 marks for only one problem.

Level 1 (1-5 marks)

Candidates list some points or only offer description.

6

Total for this question: 25 marks

- (a) Using Items **L**, **M** and **N** and your knowledge of economics, discuss how well the UK economy is performing. *(10 marks)*

The letters L, M and N should be clearly shown on the scripts where reference has been made to the items.

Good

- L** Continuing strong growth of services.
Increasing consumer demand.
- M** Consumer price index remains low/stable.
- N** Britain has grown for each of the past 12 years.
Unemployment rate is much less than the EU average.
Per capita gross domestic product in Britain is higher at \$30,200.
(£16,440), than Germany's \$29,200 or France's \$28,500.

Poor

- L** The UK's current account position became worse with the deficit on trade in goods rising from £9.6bn in the previous quarter to 10.2bn.
Slower economic growth.
- M** rising rate of interest.

Level 3 (7-10 marks)

Candidates are able to offer some points from both sides and come to a conclusion. Answers at the top will use all 3 items (not equally) and show evidence of using knowledge of economics and address the issue of how well.

Answers that discuss, but do not do this can get a max of 8.

Level 2 (4-6 marks)

Candidates use the items and can explain some points. Answers that do NOT use all three items (not equally) can get a max of 5.

Level 1 (1-3 marks)

Candidates do not refer to the items or only list them with no explanation or development.

- (b) Identify and explain **two** problems that rising unemployment might cause in the UK economy. Discuss how the problem unemployment could be dealt with by the government. *(15 marks)*

Problems – falling living standards; more people in poverty; greater need for government expenditure when revenue is falling; lower demand for “luxury” goods affecting business; etc.

Controlled – fiscal policy, ie lower taxation, higher government expenditure; monetary policy, ie cuts in interest rates; supply side, ie grants for investment, more expenditure on education/training, etc; direct controls, ie import controls, prices and incomes policies, etc.

Level 3 (11-15 marks)

Candidates are able to explain the problems and to offer discussion relevant to control. Candidates may consider as many or as few policies as they wish. At the top they come to a supported conclusion.

Level 2 (6-10 marks)

Candidates are able to explain two problems. There is a max of 8 marks for only one problem.

Level 1 (1-5 marks)

Candidates list some points or only offer description.