



Rewarding Learning

**General Certificate of Secondary Education
2013**

Economics

Paper 2

[G9272]

MONDAY 3 JUNE, MORNING

**MARK
SCHEME**

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

Section A

AVAILABLE
MARKS

- 1 (a) Examples could include Income Tax, VAT, Inheritance Tax, Capital Gains Tax, etc.

Award [1] for each tax correctly identified up to a maximum of [2].
(AO1: [2]) [2]

- (b) The opportunity cost could be the loss of £300 million in public expenditure.

Award [2] for a clear and accurate explanation [1] for a flawed or partial definition.
(AO1: [1], AO3: [1]) [2]

- (c) Possible reasons include:

- it might encourage a higher level of investment in the economy
- it might attract foreign firms into Northern Ireland which would create jobs
- to compete more effectively with the Republic of Ireland where the rate of Corporation Tax has been lower than in the UK.

(AO3: [2]) [2]

6

- 2 (a) A merger is when two companies come together to form one company.

Award [2] for a clear and accurate definition, [1] for a flawed or partial definition.
(AO1: [2]) [2]

- (b) This is a horizontal integration as the two companies are in the same industry and at the same stage of production.

Award [2] for a clear and accurate definition, [1] for a flawed or partial definition.
(AO2: [1], AO3: [1]) [2]

- (c) Other types of integration include:

- vertical integration – the businesses that merge together are at different stages of the production process, e.g. a food production company merging with a farm (backward vertical integration)
- lateral – firms in the same industry that are not direct competitors merge usually to diversify, e.g. a hotel chain may merge with a cinema chain to form a stronger presence in the entertainment and leisure industry
- conglomerate – firms merge where there is no connection between them. This is also usually to diversify and spread risk and some large corporations have a very diverse portfolio of business interests.

Award [2] if one of these types of mergers is clearly identified with a brief explanation, award [1] for a flawed or partial description.
(AO1: [2]) [2]

6

3 (a) Land; Capital or Enterprise.

Award [1] for each listed up to a maximum of [2].
(AO1: [2])

[2]

(b) The division of labour refers to production being split up into a number of highly specialised tasks with one worker specialising in one task.

Award [2] for a clear and accurate definition, [1] for a flawed or partial definition.
(AO1: [2])

[2]

(c) Possible advantages include:

- higher output from workers specialising in those tasks at which they do best
- production may be faster
- average costs of production are likely to fall.

Possible disadvantages include:

- workers may become bored by repetitive work
- quality of goods may fall if workers become bored
- some groups of workers may become deskilled.

Award [2] for each clear description of an advantage or disadvantage of the division of labour, award [1] for a flawed or partial description.
(AO1: [2], AO2: [1], AO3: [1])

[4]

8

Section A

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Section B

AVAILABLE
MARKS

- 4 (a) Allow [1] for each of the following:
- vertical axis chosen to show price of caravans and labelled [1]
 - horizontal axis drawn to show quantity of caravans per night and labelled [1]
 - demand curve correctly plotted [1]
 - supply curve correctly plotted [1]
 - equilibrium number of caravans shown at 500 [1]
 - market price shown at £25 [1].
- (AO2: [6]) [6]

- (b) Allow [2] for correctly plotting the new demand curve and allow [1] for indicating the new equilibrium price at £35 and [1] for the equilibrium quantity at 500.
- (AO2: [4]) [4]

- (c) Possible causes of a change in demand include:
- price of other goods – the price of substitute goods may have increased, e.g. holidays abroad, hotel accommodation
 - change in income – there may have been a fall in income so fewer people are taking holidays abroad causing the demand for rental caravans to increase
 - change in tastes and preferences – people prefer to holiday in Northern Ireland, perhaps due to a successful advertising campaign
 - population – the population of Northern Ireland has increased.

Award marks for any other reasonable suggestion, e.g. a major event taking place in Portrush, a change in exchange rates.

Award [2] for each valid reason outlined.
(AO1: [2], AO3: [2]) [4]

- (d) Two possible sources of business finance for Peter's idea include:
- business loan
 - mortgage
 - grant
 - share capital
 - own capital
 - borrow from friends or family.

Responses for which credit **should not** be given are overdraft, trade credit, leasing, and hire purchase.

Credit may be given for relevant suggestions that are no longer included in the specification, for example, Peter might form a partnership and invite other partners to contribute capital.

Award [1] for each valid
(AO2: [2]) [2]

- (e) The candidate has been asked to explain which of the sources of finance identified in part (d) would be the more suitable. A range of possible points could be made that highlight why one choice may be a more viable option than the other. To explain a choice, answers may include reference to:

The amount of money to be borrowed, the rate of interest, the length of time over which the money may have to be borrowed, the problems with borrowing money in the current credit squeeze, or the cost of borrowing, as well as demonstrating an understanding of the financial product, where appropriate. Possible points that may be made include:

- business loan – Peter could borrow a sum of money from the bank and repay it over a period of time with interest providing the bank considers that he has a good business idea and a guarantor
- mortgage – this is similar to a loan but is secured on property and is usually repaid over a longer period of time. This is a good option providing the business generates enough cash flow to meet the monthly payments
- grant – Peter might find it possible to get a grant from a government agency or possibly the EU, however, these are few and far between and it is not a very definite source to finance the project – it may provide some top-up cash
- share issue – Peter might decide to form a private limited company and issue shares to raise capital, however, this is a costly way to raise capital as there are legal costs involved
- own capital – Peter may have accumulated substantial savings or may have other assets he could sell to finance the caravan park, e.g. some farmland, building site
- borrow from friends or family – if either of these groups has spare capital, they may be prepared to lend this to Peter at a lower than market rate of interest.

Allow up to [3] for the discussion of relevant positive and negative aspects of the selected types of finance and allow [1] for reaching an informed decision that one would be better than the other.

(AO3: [4])

[4]

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- 5 (a) (i) The CPI is the Consumer Price Index. It is the official measure of inflation used in the UK, with the government's inflation target set at between 1% and 3%.

Award [3] marks for correct answer. Allow [2] for a brief definition and allow [1] for a flawed or partial definition.

(AO1: [3])

[3]

(ii) The base rate of interest refers to the rate of interest set by the Bank of England. In normal circumstances the rates of interest on savings and lending will move in line with the base rate.

Award [3] for correct answer. Allow [2] for a brief definition and allow [1] for a flawed or partial definition.

(AO1: [3]) [3]

(b) In January 2008 the CPI was at 2% which was in the target range. However, by September 2008, the CPI had risen to 5.1% which was above the government target. During 2009, CPI fell to a low for the period of 1% but by the end of that year it had risen again to just over 3%. During 2010, it fluctuated between 3 and 4% and by the end of 2010 and the start of 2011, it was in a slow but upward trend and reached approximately 4.5%.

Allow up to [4] for a comprehensive description of the trends in the rate of CPI.

(AO2: [4]) [4]

(c) A rise in the base rate will affect inflation in a number of ways:

- people may borrow less and so reduce their spending. This will reduce demand and so lower inflation
- if consumers have variable or tracker mortgages their repayments will rise leaving them less to spend. This will lower demand and so inflation will eventually fall
- consumers may save more and spend less. This will lower demand and so inflation will fall
- firms may decide to invest less as the cost of borrowing increases. This will lower demand and so inflation will fall.

Award [4] for a comprehensive explanation. Allow [3] for a good explanation and allow up to [2] for a flawed or partial definition.

(AO3: [4]) [4]

(d) The main possible effects on savers and borrowers of a low rate of interest at a time when there is significant inflation include:

- savers will be disadvantaged if interest rates remain low when there is inflation. Some savers, such as pensioners, may need an income from their savings and if interest rates remain low, their income will fall in real terms if there is inflation
- low rates of interest encourage borrowing by both consumers and firms. This should increase demand in the economy and stimulate growth and help further recovery from the recession and reduce unemployment.

Allow [1] for identification of a relevant point for each of savers and borrowers and allow up to [2] for the explanation of each point.

(AO2: [2], AO3 [4]) [6]

Section

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Section C

AVAILABLE
MARKS

- 6 (a) Unemployment refers to people who do not have a job but are willing and able to work. Unemployment has been measured using a claimant count system, namely those available for work and receiving benefit. The current official measure of unemployment is the Labour Force Survey. This includes everyone willing and able to work irrespective of whether they are claiming or eligible for unemployment benefit.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

Some understanding of unemployment but it is limited and not developed. Quality of written explanation is limited.

Level 2 ([3]–[4])

(AO1: [3], AO2: [1])

A good understanding of unemployment with limited development. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

(AO1: [4], AO2: [2])

There is clear understanding and well developed explanation of unemployment. Quality of written communication is of a high standard. [6]

- (b) There are a number of possible causes of unemployment. These include:
- changes in the structure of the economy causing certain skills to be no longer in demand, e.g. loss of certain manufacturing activities such as shipbuilding in N. Ireland and other parts of the UK
 - decrease in aggregate demand means there is less demand for goods and services, and the labour needed to produce these
 - loss of international competitiveness due to a range of factors such as changes in the exchange rate or lower productivity by workers
 - seasonal unemployment may occur in sectors such as tourism
 - relatively higher rate of National Minimum Wage (NMW) compared to the wages equilibrium or market rate hence employers may demand fewer workers.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[3])

(AO1: [1], AO2 [2])

There is some understanding of the causes of unemployment but it is limited and not well developed. Quality of written explanation is limited.

Level 2 ([4]–[6])

(AO1: [2], AO2: [3], AO3: [1])

There is a reasonable explanation of the causes of unemployment.

Quality of written communication is satisfactory.

Level 3 ([7]–[9])

(AO1: [3], AO2: [4], AO3: [2])

There is a well developed explanation of the causes of unemployment.

Quality of written communication is of a high standard. [9]

- (c) There are a range of possible policies the government could follow to reduce unemployment depending on the type of unemployment that they are trying to address. These include:
- frictional unemployment – improving information on job availability or reducing welfare benefits
 - seasonal unemployment – providing out of season employment opportunities
 - structural unemployment – providing retraining or policies to attract replacement industry
 - real wage unemployment – removal of restrictions on the labour market such as abolition of the minimum wage or reduction in benefits
 - cyclical unemployment – the government could boost aggregate demand by reducing taxes or increasing spending.
- Alternatively, an answer may be structured around the impact of monetary, fiscal and/or supply-side policies.

Level 0 ([0])

The response contains no content worthy of credit.

Level 1 ([1]–[5])

(AO1: [1], AO2: [1], AO3: [3])

There is some understanding of government policies to reduce unemployment. Quality of written explanation is limited.

Level 2 ([6]–[10])

(AO1: [2], AO2: [2], AO3: [6])

Good understanding of policies which government can use to reduce unemployment. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

(AO1: [3], AO2: [3], AO3: [9])

A comprehensive understanding of government policies to reduce unemployment. Quality of written communication is of a high standard.

[15]

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- 7 (a) The financial services industry makes a strong contribution to the UK economy. It employs large numbers of workers, particularly in the City of London. There is often criticism of the size of bonuses in the banking sector but as these earnings are ploughed back into the economy, they help to create demand for goods and services adding to aggregate demand and economic growth. The luxury goods market and the property market benefit from the spending of bonuses. The financial services sectors helps the UK's trade in services and this also contributes to the economic health of the country as this trade is usually in credit.

Level 0 ([0])

The response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

Some understanding of the contribution of the financial services industry but it is not developed. Quality of written explanation is limited.

Level 2 ([3]–[4])

(AO1: [3], AO2: [1])

There is some understanding of the contribution of the financial services industry with some development. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

(AO1: [4], AO2: [2])

There is a clear and well developed explanation of the contribution of the financial services industry to the UK economy. Quality of written communication is of a high standard.

[6]

- (b) There are a number of reasons why the financial services industry needs to be regulated:
- financial products are often complex and consumers may be confused by technical jargon or misleading figures
 - financial institutions have a conflict between liquidity and profitability and may lend even when it is not prudent for them to do so, e.g. sub prime mortgages, 125% mortgages
 - there have been a range of instances of malpractice in Financial Services, e.g. mis-selling of PPI policies
 - consumers may not purchase financial products if they feel the industry is not properly regulated
 - the market is dominated by a small number of very large financial institutions hence this restricts competition and could be described as an example of market failure.

Level 0 ([0])

The response contains no content worthy of credit.

Level 1 ([1]–[3])

(AO1: [1], AO2: [2])

One or two reasons are outlined but the explanation is limited. Quality of written explanation is limited.

Level 2 ([4]–[6])

(AO1: [2], AO2: [3], AO3: [1])

Two possible reasons are outlined and there is an attempt to explain in detail. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

(AO1: [3], AO2: [4], AO3: [2])

Two or more reasons are outlined and explained in detail. Quality of written communication is of a high standard. [9]

- (c) The banking crisis and credit crunch that commenced in 2007, raised very serious concerns about the way in which the UK's financial services sector had been regulated. The government set up the Financial Services Authority in 1997 and regulating the financial sector was one of its key functions.

The role of any regulator is to oversee the competition and to look after the interests of consumers in a market that could be subject to market failure due to limited competition and barriers to entry.

Banks and other sellers of financial products have not always run their profit making businesses safely and looked after the interests of their consumers. For example, Northern Rock was one of a number of important banks that over-extended its lending and would have failed if the government had not bailed it out and taken it into the public sector.

Other firms that sold financial services, such as insurance, were also criticised for selling products without giving the consumer full details of the risks and/or the type of product. Hence, this is a further example of poor regulation.

The government has been criticised for the quality of regulation, hence the powers of the FSA have been changed and there are plans to set up a new regulatory authority with changed powers and new ways to regulate financial services.

Level 0 ([0])

The response contains no content worthy of credit.

Level 1 ([1]–[5])

(AO1: [1], AO2: [1], AO3: [3])

Some understanding of the regulation of the financial services industry. Quality of written explanation is limited.

Level 2 ([6]–[10])

(AO1: [2], AO2: [2], AO3: [6])

Good understanding of some aspects of the regulation of financial services industry. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

(AO1: [3], AO2: [3], AO3: [9])

Thorough examination of some key aspects of the regulation of the financial services industry. Quality of written communication is of a high standard.

[15]

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- 8 (a) A monopoly exists when there is a single seller in a market which is able to keep other firms from entering the market. This is achieved through barriers to entry which may be legal, marketing or technological. In UK law if a firm has 25% of the market it is classified as a monopoly.

Level 0 ([0])

The response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

Some understanding of a monopoly. Quality of written explanation is limited.

Level 2 ([3]–[4])

(AO1: [3], AO2: [1])

A good understanding of what a monopoly is. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

(AO1: [4], AO2: [2])

There is a clear explanation of a monopoly with some understanding of barriers to entry. Quality of written communication is of a high standard.

[6]

- (b) There are a number of ways in which firms entering a market might compete with existing businesses. These may be grouped under the headings of price and non-price competition.
If a firm decides to compete on price, they will try to undercut the price that other suppliers in the market offer. For example, Airtricity entered Northern Ireland's domestic electricity market in approximately 2011 and advertised that their prices would save consumers 14% per annum.
Non-price competition may include marketing, product development, after sales service.

Level 0 ([0])

The response contains no content worthy of credit.

Level 1 ([1]–[3])

(AO1: [1], AO2: [2])

There is a limited explanation of the ways in which firms compete when entering new markets. Quality of written explanation is limited.

Level 2 ([4]–[6])

(AO1: [2], AO2: [3], AO3: [1])

There is a reasonable explanation of the ways in which firms compete when entering new markets. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

(AO1: [3], AO2: [4], AO3: [2])

There is a clear explanation of the ways in which firms compete when entering new markets. Quality of written communication is of a high standard. [9]

(c) Economists often argue that competition is better than monopoly for a number of reasons. These include:

- greater consumer choice which is often seen as a good thing in itself
- greater competition should lead to lower prices for consumers
- competition should improve the quality of the goods or service produced
- competition will lead to more innovation and development of new products.

However, monopoly also has advantages, these include:

- in some industries only a monopoly may be efficient (natural monopoly argument)
- monopolies can benefit from economies of scale which leads to lower costs and possibly lower prices for consumers
- monopolies may make more profit which can be used to fund research and development.

Level 0 ([0])

The response contains no content worthy of credit.

Level 1 ([1]–[5])

(AO1: [1], AO2: [1], AO3: [3])

Some understanding of the advantages and disadvantages of competition and monopoly. Quality of written explanation is limited.

Level 2 ([6]–[10])

(AO1: [2], AO2: [2], AO3: [6])

Good understanding of advantages and disadvantages of competition and monopoly. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

(AO1: [3], AO2: [3], AO3: [9])

Thorough examination of a range of advantages and disadvantages of competition and monopoly. Quality of written communication is of a high standard. [15]

- 9 (a) An ageing population is a situation where the average age of the population is rising and there is a change in age distribution with a higher proportion in the older age group.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

The response contains some understanding of an ageing population. Quality of written communication is limited.

Level 2 ([3]–[4])

(AO1: [3], AO2: [1])

There is a good understanding of an ageing population. The quality of written communication is satisfactory.

Level 3 ([5]–[6])

(AO1: [4], AO2: [2])

There is a clear understanding of an ageing population. The quality of written communication is of a high standard. [6]

- (b) The economic effects of an ageing population include:
- more experienced workers available to contribute to the workforce
 - increased demand for the consumer goods and services bought by an older age group, for example, the recent increase in demand for Kindles is linked with older (aged over 50) peoples' preferences
 - increased demand for age-related goods and services including health care, residential home/sheltered accommodation, and social services
 - additional tax burden on working population to pay for the higher level of demand on public services
 - increased pensions bill will put more strain on both the funds available for the State Pension and private pension funds.
- Other relevant examples are acceptable.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[3])

(AO1: [2], AO2: [2])

There is a limited explanation of the economic effects of an ageing population. The quality of written communication is limited.

Level 2 ([4]–[6])

(AO1: [2], AO2: [3], AO3: [1])

There is a reasonable explanation of the economic effects of an ageing population. The quality of written communication is satisfactory.

Level 3 ([7]–[9])

(AO1: [3], AO2: [4], AO3: [2])

There is a clear explanation of the economic effects of an ageing population. The quality of written communication is of a high standard. [9]

(c) There are a number of important factors that the government needs to consider to respond effectively to the challenges presented by an ageing population. These include:

- taxes may have to be increased or government spending reduced in order to have sufficient funds to pay for the increased demand on public services such as health care
- increasing the age of retirement to reflect the increase in life expectancy and reduce the demand on the State Pension
- encourage immigration from younger workers to make up any gaps in skills, e.g. construction workers
- adjust plans for schools/colleges and hospitals to reflect changes in need and demand
- reform pension schemes for public sector workers to reflect the change in age expectancy for example, introduction of average salary schemes and/or increase the contributions that workers must make
- encourage older workers to continue to work beyond their normal retirement age.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[5])

(AO1: [1], AO2: [1], AO3: [3])

There is a limited discussion of how the government should respond to an ageing population. The quality of written communication is limited.

Level 2 ([6]–[10])

(AO1: [2], AO2: [3], AO3: [6])

There is a reasonable discussion of how the government should respond to an ageing population. The quality of written communication is satisfactory.

Level 3 ([11]–[15])

(AO1: [3], AO2: [3], AO3: [9])

There is a clear explanation of discussion of how the government should respond to an ageing population. The quality of written communication is of a high standard. [15]

Section C

Total

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