



*Rewarding Learning*

**General Certificate of Secondary Education  
2015**

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**Economics**

Paper 1

**[G9271]**

**MONDAY 1 JUNE, AFTERNOON**

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**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.

## Introduction

[60] marks are allocated to the report-writing task for Paper 1. Candidates' reports will be marked holistically by examiners according to the following criteria. Candidates will be assessed on their ability to:

- recall, select and communicate their knowledge and understanding of economic concepts, issues and terminology [15];
- apply skills, knowledge and understanding to the context of the pre-released case study [18];
- analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions [27].

For each of the above assessment criteria there are four levels of response. If no success has been demonstrated for any criterion then no mark should be awarded for that criterion.

A level 1 response indicates a limited performance.

A level 2 response indicates a fair performance.

A level 3 response indicates a good performance.

A level 4 response indicates an excellent performance.

### Report-writing task: anticipated responses

The following is an indication of the areas that candidates might be expected to cover in their report.

#### ***Explain two financial products that people are likely to be used by those planning for their retirement.***

People have changing financial needs as they progress through different stages of life. The need to plan for retirement is highlighted in Sources 2 and 7. Life expectancy has increased and in recognition of this, the government has raised the age at which people will receive the state pension. Therefore the government is expecting people to make adequate private provision for their retirement in some form of savings if they want to retire earlier than the state pension age, and if they want to have an additional source of income than just the state pension.

Source 2 outlines a number of financial products and the age groups of those who use these services. Of these, the most appropriate savings products for those planning for their retirement are:

- 1) Individual Savings Accounts (ISAs) – these have a particular attraction as having a favourable tax status. There are two types: cash; and stocks and shares and there are annual limits set by HMRC about how much can be paid into each in order to benefit from their tax status.
- 2) Savings account at a bank – generally low interest rates have meant that savings of any kind receive very low rates of interest. However, if savers are prepared to open an account which limits their access to their funds, for example for up to six months, they should receive a higher rate of interest.
- 3) Stocks and shares – this may also be a good investment and provide a good return depending on the individual portfolio. However, investing in shares can

also be high risk and this may not be good investment for everyone. Also, people who invest in shares tend to have more surplus cash so it is not an option for many struggling households.

Reference to other valid financial products is acceptable but the explanation as to how they would be a good investment for someone planning for their retirement needs to be clear. Credit will be given where a candidate clearly demonstrates the link between risk and return. Some may also make reference to the challenge of trying to plan for retirement when they are currently struggling to make ends meet but they still need to give a clear explanation of two suitable financial products.

***Describe the main changes in consumer spending and savings from 2012 until 2014.***

Source 2 outlines how consumer spending started to increase rapidly at the start of 2013 after a generally depressed period during 2012. Candidates may draw the following specific points from the graphs that show consumer spending and saving for 2012–2014.

Consumer spending

- Throughout 2012, consumer spending increased from nearly £262 billion in the first quarter to approximately £264 billion in the final quarter
- In 2013, consumer spending increased to just over £268 billion. This was an increase of approximately 2.3% since the start of 2012
- In 2014, consumer spending further increased to £272 billion, an increase of 3.8% since 2012
- As real wages have fallen, and many families are struggling to make ends meet (Source 5) increases in consumer spending are due to other factors
- This reflects growing consumer confidence and/or may have been possible due to the £12 billion of PPI compensation payments (Source 8). Improvement in house prices may also have added to consumer confidence to increase their spending
- Increases in consumer spending may also have been fuelled by increased borrowing and/or the use of credit.

Savings

- During the first nine months of 2012, the savings ratio (the percentage of savings as a percentage of disposable income) rose from 7% to 7.9%.
- By the end of 2012, savings fell back to 5.9%
- In 2013, savings improved initially to 6.2% but by the end of the year they fell back to 4.4%
- In the first six months of 2014, savings improved to 6.7%, close to the January 2012 level
- The general trend between 2012 and 2013 is for people to save a lower proportion of their disposable income. It is possible that the increases in consumer spending are due to the reductions in savings
- In January 2013 the proportion saved was the lowest shown at 4.4%. This may reflect post-Christmas season expenses of paying off credit card bills
- The gradual improvement in the savings ratio in 2014 may indicate that consumers are more able to save and economic conditions stabilised.

***Explain why the levels of consumer debt in the UK have been increasing.***

The graph in Source 4 sets out the upward increase in consumer debt over the past ten years from 2004 until 2013. In 2005, total debt was just below £1200 billion and by 2013 this had increased steadily to reach £1400 billion. The ratio of unsecured debt to secured (mortgage) debt seems to have remained steady at approximately £200 billion. However, it is the secured mortgage debt that appears to have caused the steady year on year increase. Poor financial regulation during the credit crunch may have contributed to a period of easier credit and many people took out mortgages that they later found difficult to repay.

Source 4 outlines the findings from the Money Advice Service's report that 8.8 million people in the UK have serious debt problems and that many people are struggling to pay basic bills. Families appear to be the most affected with groups 4 to 7 identified in the report (low wage families, stretched families, worried working families and benefit dependent families) accounting for 5.7 million (75%) of the total.

The introduction to the case study sets out the change in attitude to buying using credit where it states that borrowing has become commonplace for consumers who want to consume goods or services for which they have insufficient cash resources or savings. The easy availability of credit in a variety of forms such as making payments using credit cards, or negotiating short term loans to buy goods such as sofas or cars, has allowed people to extend their purchasing power beyond their income and savings. Some people also use pay-day loans. These are strongly marketed but recently there has been increasing scrutiny of this type of borrowing and the law has changed to ensure more regulation of this sector of the market and that lenders assess applicants' ability to repay before providing loans.

***Discuss some of the main challenges facing consumers in managing their everyday finances while also trying to plan for the future.***

All consumers face the basic economic problem of having unlimited wants but limited resources in the form of earnings from work, income from any benefits to which they are entitled, and their stock of savings and any income earned on savings.

Source 5 outlines that consumers' living standards have been squeezed because of the hikes in prices of essential goods and services over the past 5 years such as energy costs (up 40%), food (up 24%) and transport costs (up 30%). This has happened at a time when real wages have not been increasing, in other words, any money increases in wages are lower than the rate of inflation so their real purchasing power has fallen. This is making it difficult for people to save and to plan for the future. Source 3 shows that there are concerns about levels of saving in the UK.

Source 5 also highlights that government fiscal policy measures aimed at helping families, changes to taxes and benefits, are being cancelled out by the effects of public spending cuts and rising prices.

Source 2 highlights issues surrounding the relatively new credit-funded lifestyle that is available to consumers if they want to use certain financial products and services. It also states that many of the financial options and choices available are complex and that young people in particular need knowledge and skills to help them manage their everyday finances in relation to items such as mobile phone tariffs, to avoid unmanageable debt and to encourage saving for the future.

Source 7 indicates that the state pension age has risen and is expected to continue to rise in line possibly with life expectancy. If this is the case, young people currently sitting this examination may be in their mid to late 70s before they are eligible to receive a state pension. This means that they need to start thinking about saving at an early age as it is unlikely that many people will want to work full-time until they are that age. Data in Source 7 also shows that on average in 2011–2012, only 37% of men and 40% of women between the ages of 16 and 64 were contributing to a private pension. The government would like to see more people take out a private pension and have recently changed the law to make employees opt out of employer schemes rather than making them opt in. To save for the future means having to forego consumer spending now and if finances are already stretched, it will be increasingly hard to find spare cash to put aside in a savings scheme.

For those people who have saved, the real value of these savings has fallen in the context of: low interest rates that pay low rates of return; and rising inflation. For those who depend on income from their savings, this has caused them financial hardship.

***Evaluate the possible impact on individuals and the UK economy of a rise in interest rates.***

Source 6 shows that from March 2009, the base rate of interest was held at 0.5%, a historically low level. If this rate is to rise and/or if inflation starts to rise, it is likely to have a serious knock-on effect on the cost of repaying loans and mortgages. Those who have fixed terms on their mortgage agreements will be protected but those on tracker or variable rates will see their repayments rising and this will place even greater pressure on household finances. Some charities and other commentators predict that households have not adequately factored in the possible cost of a rise in interest rates to their budgeting and are fearful that levels of household debt and possible defaults on loan and mortgage repayments are likely to soar. If loans and mortgages become more expensive, consumer spending will have to fall and this could have very serious consequences for the UK economy. Source 6 highlights that economic growth was 0.7% in the second quarter of 2013 and the Chancellor is linking this to UK economic recovery. Critics state that any economic recovery is weak and too dependent on consumer spending so anything that threatens consumer confidence and squeezes their finances may have a negative impact on economic recovery. People may also be attracted by the increasing returns on savings and decide to save more and consume less reducing levels of aggregate demand.

For those people with savings, any increase in interest rates will be good news providing inflation remains low. Higher interest rates may also attract more inward investment and add to pressure on the pound. Depending on the magnitude of any change, a rising pound may decrease exports and increase levels of imports.

**Levels of response: guidelines for examiners**

The following guidelines are provided for examiners in identifying levels of response for each assessment criterion:

**(AO1) Recall, select and communicate their knowledge and understanding of economic concepts, issues and terminology:**

<b>Level of response</b>	<b>Description</b>	<b>Mark</b>
<b>0</b>	No relevant concepts, issues and terms are included in the report.	<b>[0]</b>
<b>1</b>	Few relevant concepts, issues and terms are included in the report. There is only very restricted evidence of understanding. Quality of written communication is limited.	<b>[1]–[5]</b>
<b>2</b>	Relevant concepts, issues and terms are included in the report. There is some evidence of understanding. Quality of written communication is satisfactory.	<b>[6]–[9]</b>
<b>3</b>	Most of the report makes effective use of relevant concepts, issues and terms. There is evidence of good understanding. Quality of written communication is of a high standard.	<b>[10]–[12]</b>
<b>4</b>	The report makes extensive and skilful use of a wide range of relevant concepts, issues and terms. There is clear evidence of highly developed understanding. Quality of written communication is excellent.	<b>[13]–[15]</b>

**AVAILABLE  
MARKS**

15

**(AO2) Apply skills, knowledge and understanding to the context of the pre-released case study:**

**AVAILABLE  
MARKS**

<b>Level of response</b>	<b>Description</b>	<b>Mark</b>
<b>0</b>	No relevant skills, knowledge and understanding are applied to consumer spending, saving, borrowing and debt.	<b>[0]</b>
<b>1</b>	A restricted range of basic skills, knowledge and understanding are applied to consumer spending, saving, borrowing and debt. Quality of written communication is limited.	<b>[1]–[6]</b>
<b>2</b>	Some relevant skills, knowledge and understanding are applied to consumer spending, saving, borrowing and debt. Quality of written communication is satisfactory.	<b>[7]–[10]</b>
<b>3</b>	A good range of relevant skills, knowledge and understanding are effectively applied to consumer spending, saving, borrowing and debt. Quality of written communication is of a high standard.	<b>[11]–[14]</b>
<b>4</b>	A wide range of relevant skills, knowledge and understanding are successfully applied to consumer spending, saving, borrowing and debt. Quality of written communication is excellent.	<b>[15]–[18]</b>

18



**(AO3) Analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions:**

<b>Level of response</b>	<b>Description</b>	<b>Mark</b>
<b>0</b>	No relevant analysis, evaluation, judgement or conclusion provided.	<b>[0]</b>
<b>1</b>	Evidence is only superficially analysed and there is little attempt at evaluation. Basic judgements are made but tend to lack reasoning. Conclusions and recommendations are unsupported. Quality of written communication is limited.	<b>[1]–[9]</b>
<b>2</b>	Evidence is partially analysed and evaluated. Some relevant judgements are made but inadequately explained. Conclusions and recommendations are presented but insufficiently supported. Quality of written communication is satisfactory.	<b>[10]–[15]</b>
<b>3</b>	Most evidence is analysed and evaluated. Relevant and reasoned judgements are made. Conclusions and recommendations are appropriately presented and adequately supported. Quality of written communication is of a high standard.	<b>[16]–[21]</b>
<b>4</b>	Nearly all evidence is comprehensively analysed and evaluated. All judgements are well reasoned and consistent. Conclusions and recommendations are clearly presented and well supported. Quality of written communication is excellent.	<b>[22]–[27]</b>

**Total**

**AVAILABLE MARKS**

27

**60**





