

**General Certificate of Secondary Education**

**J320**

**Economics**

**Unit A592: *How the Economy Works***

**Specimen Paper**

Time: 1 hour

Candidates answer on the question paper.

**Additional materials:**

Candidate Forename		Candidate Surname	
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**INSTRUCTIONS TO CANDIDATES**

- Write your name in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each **question** carefully and make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do not write in the bar codes.
- Do not write outside the box bordering each page.
- Write your answer to each question in the space provided.

**INFORMATION FOR CANDIDATES**

- The number of marks for each question is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is 60.
- You will be awarded marks in questions 2(d) and 3(d) for the quality of written communication of your answer.

FOR EXAMINER'S USE	
<b>A</b>	
<b>B</b>	
<b>C</b>	
<b>TOTAL</b>	<b>TOTAL</b>

This document consists of **10** printed pages and **2** blank pages.

Section A

Answer **all** questions.

Fig. 1.

1

The Peugeot car plant at Coventry in the West Midlands closed in 2007. This followed the closure of both the MG Rover and Jaguar car factories, also in the West Midlands.

- (a) Circle the **two** types of unemployment which would be caused by the closure of the car factories in Fig. 1.

Cyclical      Technological      Regional      Structural      [2]

- (b) (i) Explain what is meant by unemployment.

.....  
.....  
.....  
..... [2]

- (ii) Explain **one** method of measuring unemployment.

Method.....  
.....  
Explanation.....  
..... [2]

- (c) Would the closure of the car factories referred to in Fig. 1, lead to problems for the West Midlands community? Give reasons for your answer.

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..... [6]

**(d) (i)** State **two** policies which the government could use to reduce unemployment.

1.....  
.....  
2.....  
..... [2]

**(ii)** Discuss how successful these policies might be in reducing unemployment.

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..... [6]

**Section A Total [20]**





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..... [8]

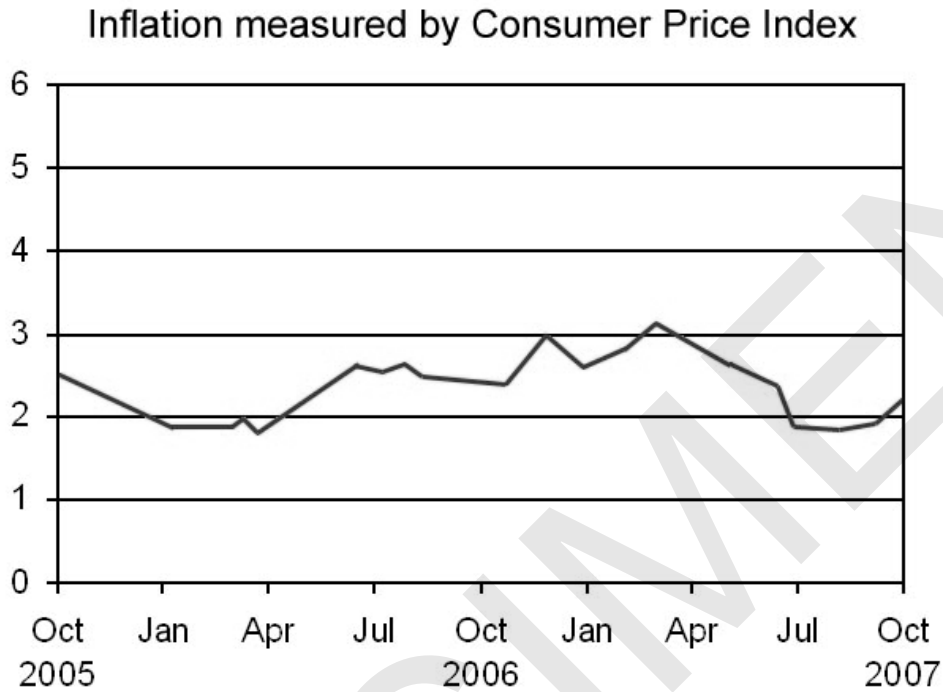
**Section B Total [20]**

SPECIMEN

## Section C

Answer **all** questions.

**Fig. 3.**



Source: National Statistics

**3** Fig. 3. shows the rate of inflation in the UK economy between October 2005 and October 2007, as measured by the Consumer Price Index (CPI).

**(a)** Using Fig. 3, state what was:

**(i)** the highest rate of inflation for the period?

.....  
 ..... [1]

**(ii)** the lowest rate of inflation for the period?

.....  
 ..... [1]







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*Copyright Acknowledgements:*

*Sources:*

**Fig. 3:** National Statistics website: [www.statistics.gov.uk](http://www.statistics.gov.uk)

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Unit A592: *How the Economy Works*

**Specimen Mark Scheme**

The maximum mark for this paper is 60.

SPECIMEN

Section A		
Question Number	Answer	Max Mark
1	<b>The Peugeot car plant at Coventry in the West Midlands closed in 2007. This followed the closure of both the MG Rover and Jaguar car factories, also in the West Midlands.</b>	
1(a)	<p><b>Circle the <u>two</u> types of unemployment which would be caused by the closure of the car factories in Fig.1.</b></p> <p><b>One mark</b> for each of two correct identifications</p> <p>Regional <b>one</b> mark</p> <p>Structural <b>one</b> mark.</p>	[2]
1(b)(i)	<p><b>Explain what is meant by unemployment.</b></p> <p><b>Two marks</b> for an accurate explanation, e.g. those able and willing to work are unable to find employment.</p> <p><b>One mark</b> for some understanding shown, e.g. people do not have jobs.</p> <p><b>0 marks</b> No evidence submitted or response does not address the question.</p> <p><b>Two marks maximum</b></p>	[2]
1(b)(ii)	<p><b>Explain <u>one</u> method of measuring unemployment.</b></p> <p><b>Two marks</b> for an accurate identification and explanation of a method, e.g. those registering as unemployed by claiming benefits or the ILO count taken from a survey.</p> <p><b>One mark</b> for the correct identification of a method with no explanation, e.g. the government does a survey.</p> <p><b>0 marks</b> No evidence submitted or response does not address the question.</p> <p><b>Two marks maximum</b></p>	[2]
1(c)	<p><b>Would the closure of the car factories referred to in Fig.1, lead to problems for the West Midlands community? Give reasons for your answer.</b></p> <p><b>Level 3</b></p> <p><b>4-6 marks</b></p> <p>Candidate analyses <b>(4/5 marks)</b> whether or not the closure of these car factories will lead to problems for the West Midlands communities.</p> <p>Candidate evaluates <b>(5/6 marks)</b> whether or not the closure of these car factories will lead to problems for the West Midlands communities.</p> <p>In Level 3 the candidate who demonstrates either excellent analysis or weaker analysis and some evaluation can obtain full marks. Knowledge and understanding should have been demonstrated and applied/understood.</p>	

Section A		
Question Number	Answer	Max Mark
1(c) cont'd	<p><b>Level 2</b> <b>1-3 marks</b></p> <p>Up to three costs (or benefits) identified or one or more problems (or benefits) explained.</p> <p><b>0 marks</b> No evidence submitted or response does not address the question.</p> <p><b>Indicative Content</b> Reasons why closure would lead to problems, could include: High unemployment and knock-on / multiplier effects on the region, local businesses will lose trade, some might close. Reward references to the supply chain (component firms). House prices could fall. Award marks for any possible benefits, e.g. reduction in external costs.</p>	[6]
1(d)(i)	<p><b>State <u>two</u> policies which the government could use to reduce unemployment.</b></p> <p><b>One mark</b> for each of two correct identifications.</p> <p>2 policies from: fiscal policy/budget deficit, lower interest rates, provision of training schemes, reducing state benefits.</p>	[2]
1(d)(ii)	<p><b>Discuss how successful these policies might be in reducing unemployment.</b></p> <p><b>Level 3</b> <b>4-6 marks</b></p> <p>Candidate analyses (<b>4/5 marks</b>) how successful these policies might be in reducing unemployment.</p> <p>Candidate draws conclusions and evaluates (<b>5/6 marks</b>) how successful these policies might be in reducing unemployment.</p> <p>In Level 3 the candidate who demonstrates either excellent analysis or weaker analysis and some evaluation can obtain full marks. Knowledge and understanding should have been demonstrated and applied/understood.</p> <p><b>Level 2</b> <b>1-3 marks</b></p> <p>Candidate demonstrates and applies knowledge of these policies.</p> <p>If the candidate only demonstrates the required skill in relation to one of the two policies, then only award a mark in the lower part of the band.</p>	

Section A		
Question Number	Answer	Max Mark
1(d)(ii) cont'd	<p><b>0 marks</b> No evidence submitted or response does not address the question.</p> <p><b>Indicative Content</b></p> <p>One mark for explanation plus marks for evaluation, so candidate could be awarded more evaluation marks for one of the methods than the other.</p> <p>E.g. fiscal policy: The government could budget for a deficit <b>[1]</b>. People will spend their extra money <b>[1]</b> so extra workers will be needed to produce extra goods <b>[1]</b>. However, people may buy more imports instead <b>[1]</b>.</p> <p>E.g. Training schemes: will provide workers with new skills <b>[1]</b>. Workers are more mobile <b>[1]</b> and can get jobs in expanding sectors <b>[1]</b>, but the workers may still be in the wrong place <b>[1]</b>.</p>	<b>[6]</b>
<b>Section A Total</b>		<b>[20]</b>



Section B		
Question Number	Answer	Max Mark
2	<p><b>Fig.2. shows the percentage of the price of a packet of cigarettes which is made up of taxation.</b></p>	
2(a)	<p><b>Circle the <u>two</u> taxes which the government puts on cigarettes.</b></p> <p><b>One mark</b> for each of two correct identifications.</p> <p>Excise duties <b>one</b> mark</p> <p>VAT <b>one</b> mark.</p>	[2]
2(b)	<p><b>Explain, with examples, the difference between a <u>direct tax</u> and an <u>indirect tax</u>.</b></p> <p><b>One mark</b> for a correct identification of an example e.g. income tax / VAT.</p> <p><b>Two marks</b> for two correct identifications of an example.</p> <p><b>One mark</b> for an accurate explanation of the difference between a direct and indirect tax e.g. a direct tax is a tax on income or wealth/ an indirect tax is a tax on spending/expenditure/on goods and services.</p> <p><b>Two marks</b> for two accurate explanations of the differences between a direct and indirect tax.</p>	[4]
2(c)	<p><b>The government planned to raise over £550 billion in taxes in 2007/08. Is the government right to raise such a large sum from taxes? Give reasons for your answer.</b></p> <p><b>Level 3</b></p> <p><b>5-6 marks</b></p> <p>Candidate analyses whether or not the government is right to raise such a large sum from taxes.</p> <p>In Level 3 the candidate who demonstrates either excellent analysis or weaker analysis and some evaluation can obtain full marks. Knowledge and understanding should have been demonstrated and applied/understood.</p> <p><b>Level 2</b></p> <p><b>3-4 marks</b></p> <p>Candidate demonstrates an understanding as to why the government needs to raise such large amounts of revenue. A basic knowledge and understanding should have been demonstrated.</p> <p><b>Level 1</b></p> <p><b>1-2 marks</b></p> <p>Candidate demonstrates knowledge of why taxes need to be raised.</p> <p><b>0 marks</b> No evidence submitted or response does not address the question.</p>	

Section B		
Question Number	Answer	Max Mark
2(c) cont'd	<p><b>Indicative content</b></p> <p>Main areas of government spending such as social protection, health and education.</p> <p>Candidates could give arguments for state provision of health or education or for a system of social protection. On the other hand, candidates may argue against high taxes, e.g. disincentive effects of taxes or of social security benefits.</p>	[6]
2(d)	<p><b>Is it fair that the government puts such a high tax on cigarettes? Give reasons for your answer.</b></p> <p><b>Level 4</b> <b>7-8 marks</b></p> <p>Candidate evaluates whether or not it is fair that the government puts such high taxes on cigarettes.</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the subject matter. There may be a few, if any, errors of spelling, punctuation and grammar. Candidates have been able to demonstrate and apply knowledge and understanding. The candidate should have analysed with reference to the question.</p> <p><b>Level 3</b> <b>5-6 marks</b></p> <p>Candidate analyses the reasons why the government does put such high taxes on cigarettes.</p> <p>In Level 3 the candidate who demonstrates either excellent analysis or weaker analysis and some evaluation can obtain full marks.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. Knowledge and understanding should have been demonstrated and applied/understood.</p> <p><b>Level 2</b> <b>3-4 marks</b></p> <p>Candidate demonstrates an applied understanding as to why the government puts such high taxes on cigarettes.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive. A basic knowledge and understanding should have been demonstrated.</p>	

Section B		
Question Number	Answer	Max Mark
2(d) cont'd	<p><b>Level 1</b> <b>1-2 marks</b></p> <p>Candidate demonstrates knowledge of why the government puts such high taxes on cigarettes.</p> <p>May be in the form of a list. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</p> <p><b>0 marks</b> No evidence submitted or response does not address the question.</p> <p><b>Indicative Content</b></p> <p>Arguments for: the revenue argument especially as there is an inelastic demand; the demerit good argument; costs imposed by smokers on the NHS; benefits of other taxes being lower.</p> <p>Arguments against: the equity argument – it is a regressive tax; effects on employment in the industry; the incentive to smuggle leading to less government revenue.</p>	[8]
<b>Section B Total</b>		<b>[20]</b>

Section C		
Question Number	Answer	Max Mark
3	<b>Fig.3. shows the rate of inflation in the UK economy between October 2005 and October 2007, as measured by the Consumer Price Index.</b>	
3(a)	<b>Using Fig. 3. state</b>	
3(a)(i)	<b>What was the highest rate of inflation for the period?</b> <b>One mark</b> for the correct identification 3.1% <b>one mark</b>	[1]
3(a)(ii)	<b>What was the lowest rate of inflation for the period?</b> <b>One mark</b> for the correct identification 1.8% <b>one mark</b>	[1]
3(b)(i)	<b>Explain what is meant by inflation.</b> <b>Two marks</b> for an accurate explanation, e.g. a rise in the general price level over time. <b>One mark</b> for some understanding e.g. rising prices. <b>Two marks maximum</b>	[2]
3(b)(ii)	<b>Explain what is meant by rate of interest.</b> <b>Two marks</b> for an accurate explanation, e.g. the price of money or the reward for saving and the cost of borrowing. <b>One mark</b> for some understanding e.g. through an example. <b>Two marks maximum</b>	[2]
3(c)	<b>Explain how a rise in the rate of interest may help to control the future rate of inflation.</b> <b>Level 2</b> <b>4 – 6 marks</b> Candidate demonstrates an understanding of how a rise in the rate of interest may help to control the future rate of inflation. A basic knowledge and understanding should have been demonstrated.  <b>Level 1</b> <b>1 -3 marks</b> Candidate demonstrates knowledge of how a rise in the rate of interest may help to control the future rate of inflation.	

Section C		
Question Number	Answer	Max Mark
3(c) cont'd	<p><b>0 marks</b> No evidence submitted or response does not address the question.</p> <p><b>Indicative Content</b></p> <p>Use a flexible mark scheme so there are different routes to <b>6 marks</b>.</p> <p>Higher rates reduce demand [1] and so there is less pressure on prices [1]. Saving is more rewarding [1] so people save more and spend less [1]; borrowing is more expensive [1] so people buy less on credit [1]; mortgage interest rises [1] so mortgage holders have less to spend [1]; The cost of investment rises [1] so businesses invest less [1].</p>	[6]
3(d)	<p><b>Discuss the effects of a high rate of inflation on the economy.</b></p> <p><b>Level 4</b> <b>7-8 marks</b></p> <p>Candidate evaluates the effects of a high rate of inflation on the economy.</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the subject matter. There may be a few, if any, errors of spelling, punctuation and grammar. Candidate has been able to demonstrate and apply knowledge and understanding. The candidate should have analysed with reference to the question.</p> <p><b>Level 3</b> <b>5-6 marks</b></p> <p>Candidate analyses the effects of a high rate of inflation on the economy.</p> <p>Relatively straightforward ideas have been expressed with some clarity and fluency. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. Knowledge and understanding should have been demonstrated and applied/understood</p> <p><b>Level 2</b> <b>3-4 marks</b></p> <p>Candidate demonstrates an understanding of the effects of a high rate of inflation on the economy. A basic knowledge and understanding should have been demonstrated</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p>	

Section C		
Question Number	Answer	Max Mark
3(d) cont'd	<p><b>Level 1</b> <b>1-2 marks</b></p> <p>Candidate demonstrates knowledge of the effects of a high rate of inflation on the economy.</p> <p>May be in the form of a list. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</p> <p><b>0 marks</b> No evidence submitted or response does not address the question.</p> <p><b>Indicative content</b></p> <p>Adverse effects on employment, balance of payments, distribution of incomes. Shoe leather and menu costs. The danger of hyperinflation.</p>	[8]
	<b>Section C Total</b>	[20]
	<b>Paper Total</b>	[60]

## Assessment Objectives Grid (includes QWC)

Question	AO1	AO2	AO3	Total
1(a)	2			2
1(b)(i)	1	1		2
1(b)(ii)	1	1		2
1(c)		3	3	6
1(d)(i)	2			2
1(d)(ii)		3	3	6
2(a)	2			2
2(b)	2	2		4
2(c)	2	2	2	6
2(d)	2	2	4	8
3(a)(i)	1			1
3(a)(ii)	1			1
3(b)(i)	1	1		2
3(b)(ii)	1	1		2
3(c)	2	4		6
3(d)	2	2	4	8
<b>Totals</b>	<b>22</b>	<b>22</b>	<b>16</b>	<b>60</b>

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