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Mark Scheme Summer 2009

IGCSE

IGCSE Economics (4350)

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Contents

General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)(i)	Vertical supply curve moves to left, 1 mark, correctly labelled, 1 mark.	**(2)**

Question Number	Answer	Mark
1(a)(ii)	1 mark for P 1 mark for 1.5 They can also get 2 marks for indicating price, P or 1.5 and quantity! Quantity should be indicated by Q or 2007 on horizontal axis = 1 mark.	**(2)**

Question Number	Answer	Mark
1(a)(iii)	Supply does not change (1 mark) when price changes (1 mark).	**(2)**

Question Number	Answer	Mark
1(a)(iv)	Reason, 1 mark. Explanation, 1 mark. For example it takes time (1 mark) for new orange tree to grow so supply can't be increased quickly (1 mark). Also accept lack of stocks (1 mark) as oranges are perishable (1 mark).	**(2)**

Question Number	Answer	Mark
1(a)(v)	Each factor identified, 1 mark, development, 1 mark. For example health advice (1 mark), doctors may say you'll live longer if you eat oranges (1 mark) = 2 + 2.	**(4)**

Question Number	Answer	Mark
1(a)(vi)	Incomes will fall, 1 mark.	**(1)**

Question Number	Answer	Mark
1(a)(vii)	Explanation 2 marks. Reference to total revenue/income (not profits) falling as price rises (1 mark) due to elastic demand curve (1 mark). For example as price rises incomes fall because the demand curve is elastic = 2 marks. Only 1 mark for definition of elastic demand curve, for example it is elastic so a rise in price brings about a more than proportionate change in quantity demanded.	**(2)**

Question Number		Indicative content
1(b)		
Level	Mark	Descriptor
Level 1	1-2	Each benefit or disadvantage identified, 1 mark. For example improve wage levels/standard of living, increase costs/unemployment.
Level 2	3-4	Benefit or disadvantages explained. Must have both benefit and disadvantage for 4 marks.
Level 3	5	Must have evaluative statement for full marks, such as the minimum wage may improve the wages (1 mark) of the lower paid workers (1 mark) but at the same time may increase the firm's costs (1 mark). This may lead to higher prices (1 mark) which will outweigh the original advantage of higher wages (1 mark).

Question Number	Answer	Mark
2(a)(i)	Tertiary	**(1)**

Question Number	Answer	Mark
2(a)(ii)	Primary	**(1)**

Question Number	Answer	Mark
2(a)(iii)	Service sector, 1 mark. Examples such as retailing, financial, tourism, transport. Also accept specific examples of financial, transport etc such as HSBC, Emirates airline.	**(2)**

Question Number	Answer	Mark
2(a)(iv)	Amount produced (1 mark) by a worker (1 mark) Also accept formula: amount produced / number of workers.	**(2)**

Question Number	Answer	Mark
2(a)(v)	Sector = primary 1 mark Explanation = only about 13% of GDP produced by over 50 % of workforce. Only 1 mark if no reference to data.	**(1)** **(2)**

Question Number	Answer	Mark
2(a)(vi)	Factor identified, 1 mark. Explanation, 1 mark. For example investment in capital so that workers have more machines. Also accept training, motivation techniques – financial and non financial, improved management, piece rates.	**(2)**

Question Number	Answer	Mark
2(b)(i)	Oligopoly 1 mark. Explanation = 5 firms have over 60% of market share. Must have reference to data for 2 marks, for example accept reference to "5" firms or the "%" market share for reference to data. Small number of firms that dominate supply = 1 mark 5 firms dominate supply = 2 marks.	**(1)** **(2)**

Question Number	Answer	Mark
2(b)(ii)	Reason identified, 1 mark, for example takeovers / mergers, small firms going out of business.	**(1)**

Question Number		Indicative content
2(b)(iii)		
Level	Mark	Descriptor
Level 1	1-2	Each disadvantage or advantage identified, 1 mark. For example less competition/higher prices/collusion or intense competition/non price competition.
Level 2	3-4	Disadvantages and/or advantages explained. Must have both disadvantage and advantage explained for 4 marks.
Level 3	5	Must have evaluative statement for full marks. For example it means the industry has few firms so consumers have little choice (2 marks). The firms may work together like a monopoly and charge high prices. On the other hand there can be intense competition (1 mark) and firms may offer non price competition like good after sales service (1 mark) so the consumer benefits. Whether or not it is good for consumers depends on the type of industry and to what extent the firms compete (1 mark).

Question Number	Answer	Mark
3(a)(i)	1. The total amount/value/output of goods and services (products) produced in a country (1 mark) in a year or period of time (1 mark). 2. The % change in the real GDP (1 mark) of a country in a year (1 mark). Also accept: an increase in the productive potential of a country (1 mark).	**(4)**

Question Number	Answer	Mark
3(a)(ii)	GDP increased (1 mark) reference to data (1 mark).	**(2)**

Question Number	Answer	Mark
3(a)(iii)	Inflation	**(1)**

Question Number	Answer	Mark
3(b)(i)	The creation of capital by firms (1 mark), example 1 mark, such as buying machinery. Do not accept buying shares, taking loans, savings.	**(2)**

Question Number	Answer	Mark
3(b)(ii)	1. 2005-2006 1 mark 2. 2004-2005 1 mark	**2)**

Question Number	Answer	Mark
3(b)(iii)	Decrease the rate of interest (1 mark). This makes borrowing cheaper (1 mark) so firms will take out more loans to improve their firms (1 mark) and satisfy increase in demand due to falling interest rates (1 mark). Accept decrease will encourage multinationals to invest in country.	**(4)**

Question Number		Indicative content
3(b)(iv)		
Level	Mark	Descriptor
Level 1	1-2	Each advantage or disadvantage identified, 1 mark, for example increases economic growth, increases machinery.
Level 2	3-4	Advantages and/or disadvantages explained. Must have both disadvantage and advantage explained for 4 marks. Accept investment by multinationals but maximum 3 marks.
Level 3	5	Must have evaluative statement for full marks, for example investment leads to economic growth (1 mark) which usually leads to an improvement in the standard of living in a country (1 mark). However, if investment is used to buy machinery (1 mark) this could result in unemployment (1 mark). It is therefore not always the case that investment benefits the people of a country – it depends what type of investment and its effects which can be negative such as pollution (1 mark).

Question Number	Answer	Mark
4(a)(i)	Goods	**(1)**

Question Number	Answer	Mark
4(a)(ii)	Less	**(1)**

Question Number	Answer	Mark
4(a)(iii)	Goods	**(1)**

Question Number	Answer	Mark
4(a)(iv)	Value	**(1)**

Question Number	Answer	Mark
4(a)(v)	Currency	**(1)**

Question Number	Answer	Mark
4(a)(vi)	Too cheap	**(1)**

Question Number	Answer	Mark
4(b)(i)	Diagram: Supply curve shifts to right, 1 mark. Lower price, 1 mark. Increased quantity demanded, 1 mark. Explanation: subsidy reduces costs, 1 mark. Supply increases so price falls leading to an increase in demand for exports 1 mark.	**(5)**

Question Number	Answer	Mark
4(b)(ii)	Tariff is a tax (1 mark) which increases price of imports/makes them more expensive (1 mark) or example for 1 mark. Do not accept "tax on cars from USA", do accept "10% tax on cars". Quota is a restriction on the number of items imported (1 mark) over a period of time (1 mark). Also accept for second mark reference to "reduce supply" and/or "increase the price" or an example for 1 mark relating to amount. Do not accept "quota on cars from USA" do accept "100,000 cars from USA".	**(4)**

Question Number		Indicative content
4(b)(iii)		
Level	Mark	Descriptor
Level 1	1-2	Do not accept “multinationals” in the country as “foreign competition”. Each advantage or disadvantage identified, 1 mark, for example protects employment and balance of payments.
Level 2	3-4	Advantages and/or disadvantages explained. Must have both disadvantage and advantage explained for 4 marks.
Level 3	5	Must have evaluative statement for full marks, such as by protecting domestic firms the government is safeguarding jobs as consumers will buy domestic products rather than imported ones. On the other hand protection might lead to inefficiency and the country may have poor economic growth. There is a case for some protection such as infant industries but firms must not rely on it forever. Also accept effect of protection on price level – inflation.

Question Number	Answer	Mark
1(a)(i)	Vertical supply curve shift to left, 1 mark, correctly labelled, 1 mark. Must have shift to left or 0 marks.	**(2)**

Question Number	Answer	Mark
1(a)(ii)	Due to horizontal axis being labelled “quality” candidates can get 2 marks for correctly indicating price as follows: 1 mark for P 1 mark for 1.5 They can also get 2 marks for indicating price, P or 1.5 and quantity! Quantity should be indicated by Q or 2007 on horizontal axis = 1 mark.	**(2)**

Question Number	Answer	Mark
1(a)(iii)	Incomes will fall, 1 mark.	**(1)**

Question Number	Answer	Mark
1(a)(iv)	Explanation 2 marks. Reference to total revenue/income (not profits) falling as price rises (1 mark) due to elastic demand curve (1 mark). For example as price rises incomes fall because the demand curve is elastic = 2 marks. Only 1 mark for definition of elastic demand curve for example it is elastic so a rise in price brings about a more than proportionate change in quantity demanded.	**(2)**

Question Number	Answer	Mark
1(a)(v)	Each reason identified, 1 mark, development, 1 mark, for example orange juice is made from an agricultural good/natural good (1 mark) which cannot be increased in supply quickly / takes time to respond to changes in price/demand (1 mark). Soft drinks like cola are manufactured/artificial (1 mark) and the raw materials can easily be obtained to increase supply (1 mark).	**(4)**

Question Number	Answer	Mark
1(b)(i)	1 mark for minimum wage rate drawn above equilibrium. 1 mark for new quantity of labour demanded. 1 mark for quantity of labour supplied. 1 mark for an indication that supply is now greater than demand. Accept unemployment from old equilibrium to new equilibrium or Qd to Qs.	**(4)**

Question Number		Indicative content
1(b)(ii)		
Level	Mark	Descriptor
Level 1	1-2	Each benefit or disadvantage identified, 1 mark, for example improve wage levels/standard of living, increase costs/unemployment.
Level 2	3-4	Benefit or disadvantages explained. Must have both benefit and disadvantage for 4 marks.
Level 3	5	Must have evaluative statement for full marks, such as the minimum wage may improve the wages (1 mark) of the lower paid workers (1 mark) but at the same time may increase the firm's costs (1 mark). This may lead to higher prices (1 mark) which will outweigh the original advantage of higher wages (1 mark).

Question Number		Indicative content
1(c)		
Level	Mark	Descriptor
Level 1	1-2	Each factor affecting supply or demand of either doctors or agricultural workers, 1 mark, for example doctors require skills, training, vocation. Agricultural workers are unskilled.
Level 2	3-4	Factor identified and explained, for example doctors are limited in supply because you need qualifications and training whereas almost anyone can be an agricultural worker as they don't need any special skills. For 4 marks must have reference to another factor apart from supply, such as demand. Maximum 3 marks if only mention supply.
Level 3	5	Must have evaluative statement for 5 marks, for example doctors are limited in supply because you need qualifications and training (1 mark) whereas almost anyone can be an agricultural worker as they don't need any special skills (1 mark). Demand (1 mark) also plays a part in wage rates – everyone needs a doctor at some time (1 mark). Reference to supply factors being more important than demand factors (1 mark).

Question Number	Answer	Mark
2(a)(i)	Tertiary	**(1)**

Question Number	Answer	Mark
2(a)(ii)	Primary	**(1)**

Question Number	Answer	Mark
2(a)(iii)	Service sector (1 mark). Examples such as retailing, financial, tourism, transport. Also accept specific examples of financial, transport etc. for example HSBC, Emirates airline.	**(2)**

Question Number	Answer	Mark
2(a)(iv)	The work is divided up (1 mark) so that each worker performs a particular task (1 mark). Specialisation on its own = 0 but if developed maximum 1 mark, for example the worker will be specialised – he will perform one part of job.	**(2)**

2(a)(v)		
Level	Mark	Descriptor
Level 1	1-2	Each advantage or disadvantage identified, 1 mark. Advantages and disadvantages can be from view of worker / firm or even consumer.
Level 2	3-4	Each advantage or disadvantage identified and explained, 2 marks. Must have both advantage(s) and disadvantage(s) for 4 marks.
Level 3	5	Must have evaluative statement for 5 marks. Division of labour is advantageous to firms. It helps the workers save time and enables the greater use of machinery (1 mark) as the tasks are broken down which all leads to increased productivity (1 mark). However there are some disadvantages like workers becoming bored (1 mark) by repetitive tasks (1 mark), but these are not great enough to outweigh and stop most firms using division of labour (1 mark).

Question Number	Answer	Mark
2(a)(vi)	Factor identified, 1 mark, explanation, 1 mark, for example investment in capital so that workers have more machines. Also accept training, motivation techniques – financial and non financial, improved management, piece rates.	**(2)**

Question Number	Answer	Mark
2(b)	1 mark for primary falling and/or secondary stays the same. 1 mark for tertiary increasing. 1 mark for data. 1 mark for stating developing economy because fall in primary, increase tertiary. For example there has been a movement away from primary industry (a fall from 19% in 2002 to about 12% in 2006) (1 mark). As economies develop the secondary and tertiary sectors make up more of the GDP (1 mark). Although the secondary sector has remained constant about 25% the tertiary sector has grown indicating a developing economy (1 mark). 1 mark for use of data.	**(4)**

Question Number	Answer	Mark
2(c)(i)	Oligopoly (1 mark). Explanation = 5 firms have over 60% of market share. Must have reference to data for 2 marks – for example accept reference to "5" firms or the "%" market share for reference to data. Small number of firms that dominate supply = 1 mark. 5 firms dominate supply = 2 marks.	**(1)** **(2)**

Question Number		Indicative content
2(c)(ii)		
Level	Mark	Descriptor
Level 1	1-2	Each disadvantage or advantage identified (1 mark), for example less competition/higher prices/collusion or intense competition/non price competition. Zero for "monopoly" but accept "compared to monopoly" etc.
Level 2	3-4	Disadvantages and/or advantages explained. Must have both disadvantage and advantage explained for 4 marks.
Level 3	5	Must have evaluative statement for full marks, such as it means the industry has few firms so consumers have little choice (2 marks). The firms may work together like a monopoly and charge high prices. On the other hand there can be intense competition (1 mark) and firms may offer non price competition like good after sales service (1 mark) so the consumer benefits. Whether or not it is good for consumers depends on the type of industry and to what extent the firms compete (1 mark).

Question Number	Answer	Mark
3(a)(i)	The total amount/value/output of goods and services (products) produced in a country (1 mark) in a year or period of time (1 mark).	**(2)**

Question Number	Answer	Mark
3(a)(ii)	The creation of capital by firms (1 mark), for example buying machinery. Do not accept buying shares, taking loans, savings.	**(2)**

Question Number	Answer	Mark
3(a)(iii)	1 mark for GDP rose. 1 mark for investment rose. Also accept "Both rise" for 2 marks. 1 mark for some reference to data. For example between 2001 – 2006 (1 mark) the level of investment rose (1 mark). 1 mark for reference to increased investment led to increase in GDP or increased GDP led to increased investment.	**(4)**

Question Number	Answer	Mark
3(a)(iv)	Decrease the rate of interest (1 mark). This makes borrowing cheaper (1 mark) so firms will take out more loans to improve their firms (1 mark) and satisfy increase in demand due to falling interest rates (1 mark). Accept decrease will encourage multinationals to invest in country.	**(4)**

Question Number	Answer	Mark
3(a)(v)	Measure identified, 1 mark, development 1 mark. For example grants for machinery (1 mark) firms don't have to pay back the money (1 mark). Also accept fiscal measure such as reduce income tax, increases demand so firms expand/invest.	**(2)**

Question Number		Indicative content
3(a)(vi)		
Level	Mark	Descriptor
Level 1	1-2	Each advantage or disadvantage identified, 1 mark, for example increases economic growth, increases machinery.
Level 2	3-4	Advantages and/or disadvantages explained. Must have both disadvantage and advantage explained for 4 marks. Accept investment by multinationals but maximum 3 marks.
Level 3	5	Must have evaluative statement for full marks, for example investment leads to economic growth (1 mark) which usually leads to an improvement in the standard of living in a country (1 mark). However, if investment is used to buy machinery (1 mark) this could result in unemployment (1 mark). It is therefore not always the case that investment benefits the people of a country – it depends what type of investment and its effects which can be negative such as pollution (1 mark).

Question Number	Answer	Mark
3(b)(i)	Improved	**(1)**

Question Number		Indicative content
3(b)(ii)		
Level	Mark	Descriptor
Level 1	1	Measure identified, 1 mark, for example increase income tax, increase indirect taxes on imports (tariffs).
Level 2	2-3	Explanation 1 mark, development 1 mark e.g. increasing income tax will reduce disposable income (1 mark) and this may include demand for imports (1 mark).
Level 3	4-5	Must have evaluative statement for full marks referring to limitations of fiscal measures for 5 marks, for example an increase in income tax (1 mark)will reduce consumption (1 mark), including the demand for imports (1 mark). However, the extent to which imports will fall depends on their price elasticity of demand (1 mark). If the import is essential such as oil then it will still be purchased (1 mark).

Question Number	Answer	Mark
4(a)(i)	Value	**(1)**

Question Number	Answer	Mark
4(a)(ii)	Currency	**(1)**

Question Number	Answer	Mark
4(a)(iii)	Too cheap	**(1)**

Question Number	Answer	Mark
4(a)(iv)	Tariff is a tax (1 mark) which increases price of imports/makes them more expensive (1 mark) or example for 1 mark. Do not accept "tax on cars from USA" do accept "10% tax on cars". Quota is a restriction on the number of items imported (1 mark) over a period of time (1 mark). Also accept for second mark reference to "reduce supply" and/or "increase the price" or an example for 1 mark relating to amount. Do not accept "quota on cars from USA" do accept "100,000 cars from USA".	**(4)**

Question Number		Indicative content
4(a)(v)		
Level	Mark	Descriptor
Level 1	1-2	Do not accept "multinationals" in the country as "foreign competition". Each advantage or disadvantage identified, 1 mark, for example protects employment and balance of payments.
Level 2	3-4	Advantages and/or disadvantages explained. Must have both disadvantage and advantage explained for 4 marks.
Level 3	5	Must have evaluative statement for full marks, for example by protecting domestic firms the government is safeguarding jobs as consumers will buy domestic products rather than imported ones. On the other hand protection might lead to inefficiency and the country may have poor economic growth. There is a case for some protection such as infant industries but firms must not rely on it forever.

Question Number	Answer	Mark
4(b)(i)	Overseas investment into a country by multinational enterprises.	**(1)**

Question Number	Answer	Mark
4(b)(ii)	Each method identified, 1 mark, for example lower taxes, grants subsidies, improve infrastructure, create export zones, skilled labour force, cheap rents, cheap loans, remove trade barriers/improve free trade/join trade bloc.	**(2)**

Question Number		Indicative content
4(b)(iii)		
Level	Mark	Descriptor
Level 1	1-2	Each advantage and disadvantage identified, 1 mark, for example creates employment, forces domestic firms out of business.
Level 2	3-4	Each advantage and/or disadvantage identified and explained 2 marks. List with both advantages and disadvantages but no explanation maximum 3 marks.
Level 3	5-6	Must have both advantages and disadvantages and more than one of either advantages and disadvantages for 5 marks. Must have evaluative statement for 6 marks, for example FDI can lead to increased employment for domestic workers as multinationals require workers. However, multinationals may force domestic industries to close as they can't compete with the larger firms. Overall FDI can be very advantageous to developing countries as they benefit from the transfer of skills and technology (1 mark) which might help their economy to grow (1 mark).

Question Number	Answer	Mark
4(c)	Advantage identified, 1 mark, explanation 1 mark, for example aid does not have to be repaid (1 mark). It can be used for a variety of things and can increase economic growth (1 mark). Don't accept "more money to spend". Disadvantage identified, 1 mark, explanation 1 mark; it can lead to the donor country influencing the policies of the domestic government and this might lead to the country receiving the aid becoming dependent upon the other country. Accept "money may not be of use due to corruption". Maximum 1 mark for reference to paying back aid.	**(4)**

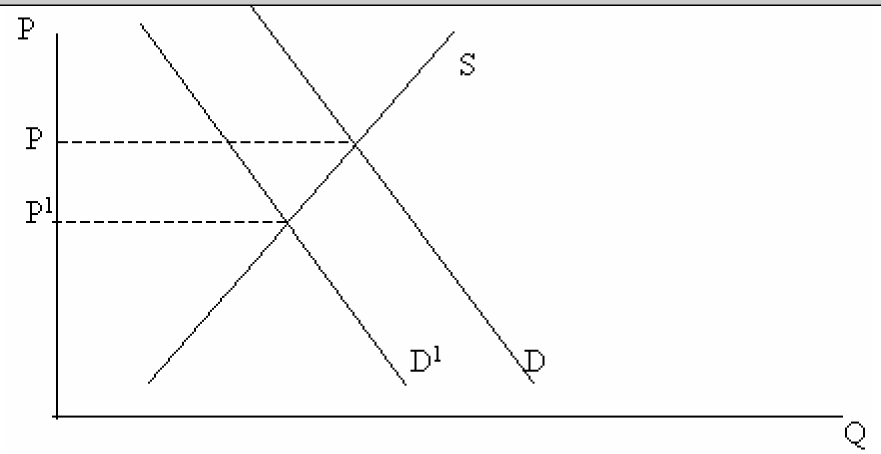
Question Number	Answer	Mark
1(a)	Give 1 mark for 'the fall in the value of money' Give 1 mark for 'a (general/persistent) rise in prices' Give 1 mark for an example from Source A 'Inflation is the fall in the value of money [1] eg prices in Ghana rose by 27% in 2003 [1].'	**(2)**

Question Number	Answer	Mark
1(b)	Give 1 mark for each of the statements below to a max of 4 marks: • (Over the period) Ghana's inflation falls • India's rises • From 26.7 to 9.4 and from 3.8 to 6.2 – approx. figures only required. • Ghana had a large fall while India only rose a little • At the start Ghana's inflation was roughly 7x that of India's • Ghana's fall was broken by a rise in 2005/irregular fall etc while India had a steady increase • By 2007 Ghana's inflation was only a slightly higher [c9%] compared to India [c7%] • India's inflation is constant in 2006-7 • Give 1 mark for year by year quote of figures eg 2005 • Ghana's inflation higher than India • Writing out the figures with no other statement is worth 1 mark. • One-sided answer max 2. No figures max 2.	**(4)**

Question Number		Indicative content
1(c)		
Level	Mark	Descriptor
Level 1	1-2	Candidates can offer some knowledge, eg reiterate the sources or define very low inflation; and application to the question. These answers are likely to be very brief.
Level 2	3-4	Candidates are able to offer some economic analysis. Answers that make reasonable use of the sources or use economic ideas clearly or refer directly to their country are likely to be at the top of the level. An entirely one-sided answer will be at this level. Answers that consist largely or wholly of economic theory re inflation will be at the bottom. Answers that talk in terms of falling prices max 4.
Level 3	5-6	Candidates start to give reasons as to why, or why not, very low inflation would be good for their country. Reference to their country is likely to be very limited, and at the bottom it is not clear as to which country they mean. A very unbalanced answer will be at this level as will one where the judgement is based on assertions. There may be some misconceptions/unsupported assertions.
Level 4	7-8	Candidates will clearly consider whether or not very low inflation would be good for their country. Judgement will be supported by the points made. Answers that ask what is meant by very low inflation may be at this level as will answers that refer correctly to elasticity.

Question Number	Answer	Mark
2	Source B • A rising standard of living, and higher wages, in these countries means that people are demanding more housing, food and oil driving up prices both of these goods and of the low-priced exports. Source C • Demand pressures: caused by demand exceeding actual output Source D • domestic-demand inflation caused by excess demand in export industries Candidates should use the sources to explain demand-pull inflation. 'Demand pressures mean that demand increases faster than supply [Level 1]. In China excess demand for exports [Source D] has led to a shortage of supply at home driving up prices [Level 2]. Rising wages [Source B] means that people have more money leading to more demand, but no more supply forcing prices up [Level 3].'	**(6)**

Level	Mark	Descriptor
Level 3	5-6	Candidates are able to explain and analyse how demand pressures can cause inflation. At the top candidates will use two or more sources and offer a clear analysis.
Level 2	3-4	Candidates are able to show application by linking one or more of the sources to economic concepts and ideas. Max 3 if source is unclear.
Level 1	1-2	Candidates show knowledge of the sources or of economic concepts and ideas.

Question Number	Answer	Mark
3(a)	 Give marks as below: • A correctly drawn and labelled demand line – 1 mark • A correctly drawn and labelled supply line – 1 mark • A shift in the demand to the left, labelled – 1 mark • Original price correctly shown and labelled – 1 mark • New price correctly shown and labelled – 1 mark Ignore mislabelling in terms of AS/AD	**(5)**

Question Number	Answer	Mark
3(b)	Source D • China is dealing with this inflation by relying solely on tighter domestic monetary policy. It has raised interest rates and reserve requirements on bank deposits to reduce domestic demand for goods and services. Source E • An increase in interest rates will make saving more attractive and borrowing less so. This will tend to reduce current spending, by both consumers and firms. • Higher interest rates and mortgage interest payments are likely to reduce the demand and price of houses and other expensive items. • A rise in interest rates relative to those in other countries may result in an increase in the amount of funds flowing into the UK. This would result in an appreciation of the exchange rate against other currencies [leading to greater demand for cheap imports] NB there are no marks for knowledge or application gained in part (a). 'A rise in interest rates will reduce spending on goods and services because people will be able to borrow less money, as it costs more to do so, and can thus buy fewer goods. It will also encourage people to save more thus reducing the income available for spending cutting demand. A second effect will be an increase in demand for imports as our currency rises making imports cheaper than home produced goods.' *[This covers 2 effects, but fails to make a real reference to a country – Level 2]*	**(6)**

Level	Mark	Descriptor
Level 1	1-2	Candidates will make some reference to the sources and/or diagram and offer some application/analysis in relation to a rise in the rate of interest and demand. At the top candidates will clearly refer to at least one source and/or their diagram.
Level 2	3-4	Candidates are able to make some use of the sources and/or their diagram to examine at least one possible effect of a rise in interest rates on demand and may refer to a country. To reach the top two effects will be mentioned.
Level 3	5-6	Candidates are able to make good use of both sources and/or

		their diagram to examine two possible effects of a rise in interest rates on demand. They may consider the fact that a rise can have different effects on consumers, firms etc. They will clearly refer to a country.

Question Number	Answer	Mark
4	Source B • Raising prices can lead to lower growth. • Many economists think that inflation in Western Europe and the United States could hit 4 to 5 percent quite quickly, enough to halve the purchasing power of their currencies in about 15 years. Source D • Inflation could lead to: imported, domestic demand and asset inflation. Source F • If you borrow money to buy property, then inflation will mean that the rise in the value of the property will exceed the cost of paying for it. • Keeping food prices down drives farmers out of business forcing prices up in the future. • Inflation creates profits for business which can be used for further investment and growth. • If the demand for a country's exports is inelastic, then it will probably bring about a current account surplus since trade partners still import goods from the country though goods are more expensive. In addition candidates should use their own knowledge of their country and economics. Candidates may also ask 'what is meant by very low inflation?' 'Although Source F says that very low inflation might not be good for my country because it can drive farmers out of business while normal inflation: helps business by higher profits and investment; keeps farmers in business; encourages property ownership; and can lead to a current account surplus, but India, a very successful country has had low inflation for most of the period while Ghana has been reducing inflation successfully. Rising prices can half the purchasing power of the £ in 15 years and can lead to lower economic growth. Source D mentions that dealing with moderate inflation 'could lead to financial collapse and further inflation'. It is clear, therefore, that my country cannot afford inflation for fear of economic collapse. The so called good points are also true of low inflation which has been the target central banks such as the Bank of England leading to growth and an increase in the standard of living. Low inflation, below 5%, is therefore best as it protects the economy and can make it more competitive. This	**(8)**

	can be shown by the anxiety in the sources caused by rising inflation.'	

Question Number	Answer	Mark
5	Source C Candidates may refer to the types, a type, of inflation mentioned here: • demand pressures: caused by demand exceeding actual output • excess money supply: caused by government expenditure exceeding revenue leading to the issuing of excess money • supply shocks: caused by changes in the terms of trade, drought, or conflict leading to rises in the price level • inertia: caused by people being slow to adjust their expectations or the existence of staggered wage contracts. Source D Refers to: • monetary policy – raising interest rates and reserve requirements • exchange rate policy. Source E This may be the main source used: • An increase in interest rates will make saving more attractive and borrowing less so. This will tend to reduce current spending, by both consumers and firms. • Higher interest rates increase the return on savings in banks which might encourage savers to invest less in alternatives, such as property and company shares. Any fall in demand for these assets is likely to reduce their prices. This reduces the wealth of people holding these assets so they are less willing to spend. • A rise in interest rates relative to those in other countries may result in an increase in the amount of funds flowing into the UK. This would result in an appreciation of the exchange rate against other currencies. Source F • Keeping food prices down. In addition candidates may refer to Fiscal policies, supply side policies, etc. 'My country has tried both fiscal and monetary policies to control inflation. Fiscal policy, use of government revenue and expenditure was a failure because my government was unable to control expenditure. This meant that demand was greater	

	than supply even when they tried to raise taxation. Monetary policy, the use of interest rates has been more successful because it affects both the private sector and the state. Rising interest rates means that people spend less and save more, some of it with the government. This reduces demand while increasing government revenue to help its expenditure thus controlling inflation. It is clear from this that my government should continue to use interest rates and not fiscal policy to control inflation.'	**(9)**

Level	Mark	Descriptor
Level 1	1-2	Candidates can offer some knowledge, eg name, define some policies; and application to the question. These answers are likely to be very brief.
Level 2	3-5	Candidates are able to offer some economic analysis. Answers that make reasonable use of the sources or use economic ideas clearly or refer directly to their country are likely to be at the top of the level. Answers that consist largely or wholly of economic theory re inflation policies will be at the bottom. Good descriptions of for example interest rates affecting consumers, firms etc will gain a max of 4.
Level 3	6-7	Candidates start to offer a discussion and to reach a conclusion which will not be well supported. Reference to their country is likely to be very limited, and at the bottom it is not clear as to which country they mean. Answers that only look at one policy will be at this level.
Level 4	8-9	Candidates will offer clear discussion and will come to a supported conclusion. Answers that make good reference to their country will be at the top as will those that indicate that the policy needed may depend on the type of inflation.

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