

**Edexcel International
London Examinations
GCE Ordinary Level**

Mark Scheme with Examiners' Report

**London Examinations Ordinary Level GCE in
Economics (7120)**

January 2004

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ECONOMICS (7120), MARK SCHEME

Section A

Question 1

- (a) Number of deaths(1 mark) (do not accept “rate” for “number”) per thousand of the population (1 mark) in a year (1 mark). Equation is acceptable. (3)
- (b) India (1)
- (c)
- (i) Each reason 1 mark e.g. birth control, less infant mortality, “better educated” with no development not worth full mark. (2)
- (ii) Each reason 1 mark e.g. improved medical facilities, nutrition (2)
- (d) Each reason 1 mark, explanation 1 mark, e.g. ageing population problems, underpopulated - increase economic growth (4)

Total 12 marks

Question 2

- (a) (2)
- (i) Tax B (1 mark)
- (ii) Tax C (1 mark)
- (b) Advantage identified (1 mark), development (1 mark) e.g. equity. Revenue for government not worth mark. Disadvantage identified (1 mark), development (1 mark) e.g. disincentive (4)

Total 6 marks

Question 3

- (a) 1 mark for correct formula or in words, 2 marks for correct answer = + 5 (do not need + sign for 3 marks). Accept 5% = 2 marks. 1 mark if equation is correct but final answer incorrect. If income is related to demand 1 mark only (3)
- (b) Normal good = demand increases as income increases (1 mark), therefore positive (1 mark), Inferior good = demand falls as income rises (1mark), therefore negative (1 mark) 1 mark for 2 correct examples (5)

Total 8 marks

Question 4

- (a) 1 mark for explanation of secondary, 1 mark for explanation of tertiary, 1 mark for two examples. Only one example correct = 0 marks (3)
- (b) Growth in tertiary industry greater than growth in secondary industry 2 marks, examples from chart 1 mark (3)

Total 6 marks

Question 5

- (a) Each advantage 1 mark e.g. During inflation value may not fall, may be more easily acceptable (should be relating it to how functions of money fail during inflation). Where the advantage is implied and not stated award mark. (2)
- (b) Each disadvantage 1 mark (probably relate to characteristics of money) e.g. difficult to carry, not divisible. (2)
- (c) Savings = money not spent (1 mark) by households / firms (1 mark), investment = purchase of capital equipment (1 mark) by firms/government (1 mark)
savings = withdrawal/leakage 1 mark, investment = injection (1 mark) (4)

Total 8 marks

Section B

All questions in section B total 20 marks.

Question 6

- (a) Correct diagram should show: Demand and supply of labour/correct axes/and equilibrium wage and level of employment (2 marks). If £3.70 minimum wage is shown = 1 mark, if £4.10 wage = 1 mark. If reduction in employment indicated = 1 mark. Up to 5 marks for correct diagram. If supply curve shifts to left maximum marks = 7. Up to 3 marks for written explanation (8)
- (b) Each effect identified = 1 mark, up to 2 marks for explanation, e.g. government income and expenditure, inflation, export prices and balance of payments. Possibly 3 x 4 marks or 4 x 3 marks. (12)

Question 7

- (a) More money coming into the country than going out. Exports greater than imports. (2)
- (b) Each problem identified = 1 mark, up to 2 marks for development e.g. interest payments take up much of earnings from exports and development aid, countries in need becoming more in debt/poorer. Opportunity cost of interest payments. Rich countries benefiting. (8)
- (c) Each measure identified 1 mark, development up to 2 marks, e.g. increase net inflow of foreign currency by increasing exports and/or decreasing imports. Other measures could include structural adjustment programmes, default on repayments, encourage direct foreign investment. (10)

Question 8

- (a) Each way identified 1 mark, development 1 mark, e.g. Grants, low interest rate loans, low taxation. (4)
- (b) Each reason 1 mark development up to 2 marks, e.g. lower costs of production, proximity to market - lower transport costs. List = maximum 5 marks. (10)
- (c) Each disadvantage identified 1 mark, development 1 mark, e.g. pollution, competition for local firms, exploitation, political influence. 3 x 2 marks. (6)

Question 9

- (a) Each method of finance 1 mark, development up to 2 marks, e.g. increase taxation - direct and indirect, borrowing, seek private sector funding. List of sources of finance without reference to question, maximum 4 marks. (8)
- (b) Diagram - up to 8 marks. Households & firms = 1 mark, G & T = 1 mark, M & X = 1 mark. Correct flows to and from circular flow 2 marks. Indication of effects 3 marks - expect increase in G, increase in T, increase in X. Explanation up to 8 marks. Must have both for full marks. Combinations of marks could be 8 + 4, 4 + 8, 8 + 2 etc. (12)

Question 10

- Sole trader - 1 person owns (1 mark) controls (1 mark)
PLC - shareholders own (1 mark) control with board of directors (1 mark) (4)
- (a) Each source identified 1 mark, description 1 mark. Loans, share issues, debentures etc. (6)
- (b) Each advantage 1 mark development up to 2 marks. Revenue for government, increased efficiency, price changes. Could include advantages to workers. (10)

Question 11

- (a) Numerical example showing comparative advantage = 4 marks, example showing only relative advantage maximum 2 marks. Written explanation up to 2 marks. **(6)**
- (b) Each disadvantage 1 mark, development/example up to 2 marks, e.g. if demand falls on the international market or there is an increased number of substitutes then exports decrease, balance of payments difficulties. Agricultural products are subject to changes in supply e.g. cotton. **(6)**
- (c) Each benefit 1 mark. Development up to 2 marks, e.g. larger market, more competition, free movement of goods, capital and labour. **(8)**

Question 12

- (a) Diagram of outward movement of the production possibility curve 3 marks. Axes should be labelled consumption and capital goods not good X and good Y, only 2 marks if labelled incorrectly. Definition of economic growth 3 marks. Increase in real output (2 marks) per period of time (1 mark). **(6)**
- (b) (i) 1 mark for identification of effect, up to 2 marks for development, e.g. fewer in working population therefore decrease economic growth, less savings possibly less investment. **(5)**
- (ii) 1 mark for identification of effect, up to 2 marks for development, e.g. effect on investment (capital goods), effect on consumer goods. No credit given for increase in demand. **(5)**
- (iii) 1 mark for identification of effect, up to 2 marks for development, e.g. education and training can lead to increased skills and productivity. **(4)**

ECONOMICS (7120), CHIEF EXAMINER'S REPORT

General Comments

Whilst reading through scripts the Chief Examiner is in a unique position to identify common mistakes and to try to find the underlying reasons for them. This report should enable teachers to build upon their strengths and then pass on the benefits of this to their students. This should lead to increased confidence in the teachers' own abilities and the subsequent improvement in the performance of their students.

It is normal for the Chief Examiner in this report to include examples of good practice but this time some examples of incorrect responses have been included which teachers may like to use to help their students. The latter examples show just how confused students can become and that they need to learn precise definitions in class rather than try to work them out in examination conditions.

Some of the most common mistakes on this paper occurred because candidates were not answering the question set. This was usually caused by their failure to read the question correctly. Instances of this appeared in Question 1(c)(i) where candidates gave reasons for an "increase" in death rate not the "decrease" stated in the question. The same mistake occurred with the birth rate in Question 1(c)(ii). When asked to "explain" or "distinguish between" in a question it is necessary to do so without simply repeating the question. In Question 5(c) and Question 12(a) candidates simply repeated the terms that they should have been defining e.g. Question 5(c) "*savings is how much is saved. Investment is the amount invested*".

The ability to interpret and use data is an essential part of modern economics. Charts, tables and statistics appear in almost every economic publication and on the Internet. The data on the examination paper always appears in a simple format so that candidates do not become confused. However, it is necessary that candidates are taught some basic techniques to enable them to understand data when confronted with it. Question 4 highlighted this need. Candidates should always look at the headings of the data, in this case the chart title and the axes. Too many did not grasp the meaning of the statistics shown and therefore did not gain the marks available.

Teachers must provide simple data in a variety of formats so that their students can understand this essential tool. The benefits of being able to understand this will not only improve their examination performance but will also help them to decipher the wealth of statistics they will encounter in their everyday lives.

Section A

Question 1

Population has always proved a popular question in Section B of this paper but here it appears in the compulsory section. The data shows the birth rate and death rate in two countries, Norway and India, for two different years. The first question asks for a simple definition of death rate. The answer is *“the number of deaths per thousand of the population in a year”*. However, the responses varied and those which were incorrect emphasise the need for accurate definitions to be taught and learnt by candidates. Some of these incorrect examples are listed below:

“Number of deaths per person per day.”

“It can also be said it is the rate at which the population at the older age is living.”

“Death rate is the number of people not alive.”

Part (b) caused few problems as candidates correctly calculated that India had the highest annual rate of growth. In (c) too often candidates did not explain the relevance of one of their points and often left their answer as, for example “improved education”. If they added a little more, for instance *“the increase in education makes people aware of the benefits of a smaller family size”* then it is a valid point. A little amendment and the same reason can also be used for explaining the reason for the decrease in the death rate, *“the increase in education makes people aware of the importance of a healthy diet”*.

In (d) a variety of correct reasons were given, including those that related to the problems of an ageing population and to under-utilisation of resources leading to low economic growth.

Question 2

The majority of candidates correctly identified the progressive and regressive rates of taxation from the diagram. *“Government revenue increases”* as an answer to part (b) was insufficient to gain a mark as a change in the tax may bring about a fall in revenue. The most common correct responses referred to progressive taxes overcoming inequalities in income and wealth (advantage) and being a disincentive to earning more (disadvantage).

Question 3

It is not the purpose of this examination to test the mathematical ability of the candidates. However, elasticity is an important concept in economics and candidates should be able to produce a formula and perform a simple calculation. The following calculation would have gained maximum marks in part (a):

Income elasticity of demand = $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$

% change in quantity demanded = $100/100 \times 100 = 100\%$

% change in income = $1000/5000 \times 100 = 20\%$

Income elasticity of demand = $100/20 = 5$

Unfortunately many candidates tried to calculate price elasticity of demand, not income elasticity of demand, and therefore lost marks.

In part (b) there was confusion between inferior and demerit goods. The differences between normal and inferior goods seldom mentioned the relationship between a change in demand and a change in income. The following is a correct response:

“The demand for a normal good increases as income increases and is therefore positive e.g. cars. The demand for an inferior good decreases as income increases and is therefore negative e.g. bus travel.”

Some of the incorrect responses for normal goods included:

“A good which is not required every day.”

“A good which acts “normally” when a change in price takes place.”

“Goods which are good for you.”

Incorrect responses for inferior goods included:

“Those the economy can do without e.g. cigarettes, alcohol and fuel.”

“Goods which are not good for them.”

Teachers could use the above examples to emphasise the difference between a response where the candidate has learnt and understood the definition and a response where the candidate has simply guessed.

Question 4

The majority of candidates gained maximum marks for part (a). However, part (b) required candidates to interpret the data. Too often the chart was seen as representing the annual output of the tertiary and secondary sectors, not the percentage change. With this misinterpretation, the data appeared to show the secondary sector in 1999 having an output of zero instead of no change in annual output! Candidates also tried to give reasons for the changes and related these to profits, revenue, employment and economic growth. All that was necessary was a simple description of the changes shown in the chart e.g.

“From 1996 to 2000 the tertiary industry grew more than the secondary industry. The highest annual change in tertiary output occurred in 1997 (4.3%) and the lowest in 1999 (2.9%). The secondary industry’s change in output was highest in 2000 (1.5%) but in 1999 there was no change.”

Question 5

Questions concerning the attributes of money usually ask for its characteristics and functions. Parts (a) and (b) were no exception but they were phrased so that money was compared to gold and the candidates had to assess its advantages and disadvantages. The most common advantages identified were “in times of inflation gold retains its value whereas money loses its value and therefore gold is not good as a unit of exchange and savings”. The disadvantages usually mentioned were the difficulties in dividing gold into small units of account and in assessing the value of goods. A common mistake occurred when candidates decided that “gold can be stolen” but failed to remember that money too bears this risk!

In part (c) the terms savings and investment were seldom defined and most attempts to distinguish between them resulted in repetition of the words themselves. Neither did candidates identify that households and sometimes firms save but it is firms and governments who invest.

Section B

Question 6

The diagram for part (a), which shows the effects of an increase in minimum wage, is contained within the mark scheme. The principal effect, which is shown on the diagram, is the fall in employment by firms, shown by a movement along the demand curve and the increase in the amount of labour willing to work at the higher wage, shown by a movement along the supply curve. At no time is there a shift in either the supply or demand curve. Whilst many candidates did not produce a correct diagram there were some who produced excellent diagrams and written explanations.

In part (b) many candidates ignored the phrase in the question “*apart from its effect on employment*” and went on to repeat the fact that the new minimum wage would decrease employment. A good response mentioned several points and also explained them.

“An increase in the wage rate will increase costs and prices resulting in cost push inflation. This increase in prices would make exports less competitive and have an adverse effect on the balance of payments. Some workers, the ones still in employment, would be better off but those who lost their jobs would suffer a decline in their standard of living. Government expenditure might rise as its own workers would receive the higher wage rate whilst at the same time the government would have to pay out more in unemployment benefits.”

Question 7

International trade questions in this section of the paper are not popular with candidates. When they are attempted the standard is often weak, and this question was no exception. In part (a) to say that a strong balance of payments means a “*surplus*” is insufficient as it could mean a lower deficit. Similar poor responses were frequent in part (b) but there were some excellent responses, for example:

“On the repayment of these loans a large amount of foreign exchange is spent. Thus this export of foreign exchange adversely affects the balance of payments. The resources, which are being diverted for repayment of the loan, could be used for economic development. Thus foreign debts are a great barrier to economic growth. If the loans are not used to develop export orientated industries then the country would be unable to generate foreign exchange and would then have to borrow more, further increasing the debt burden. The burden of the debt would be automatically transferred to the next generation without any fault of their own. The country might reach a stage at which it would be unable to repay the debt. At this stage it is said to “default” and afterwards no economic investor would be prepared to invest in the country.”

Problems also occurred in part (c) but a minority of candidates who attempted this question did look at both short term and long term policies. The short term policies included debt rescheduling (repaying over a longer period of time at a lower rate of interest). Long term measures included policies to improve the balance of payments and earn more foreign exchange through increasing exports and decreasing imports and incentives for foreign firms to invest in the country. It was interesting to see that many referred to and explained the “*debt for nature swap*” and the hope that the richer countries would cancel the debts to developing countries in difficulties.

Question 8

This was a very popular and well-attempted question but in part (a) a simple mistake cost many candidates marks. Instead of giving ways in which governments could encourage firms, candidates identified reasons why they would want to encourage them. In (b) the phrase “other reasons” was ignored as candidates repeated the points they had written about in (a). There were some excellent responses with candidates using real examples to illustrate points. This practice should be encouraged by centres. Yet again in (c) misreading the question cost many marks when candidates spent time on giving advantages rather than the disadvantages asked for in the question.

Question 9

This was the least popular question on the paper. Part (a) required knowledge of how the government of a country could raise money to finance an event like the World Cup finals. In this Olympic year economists could look at Greece and consider how the money to build the stadiums and other sporting arenas has been raised. Money from ticket sales and tourism will only be available in the future when the infrastructure is already in place so other means of financing such an event must be found. Government income from taxation either by raising taxes or reducing spending in other areas is a possibility. So, too, is government borrowing. Finance from the private sector in return for sponsorship deals and profit sharing is also a possibility.

The circular flow of income diagram shown below helps to explain the effect on the national income of the country.

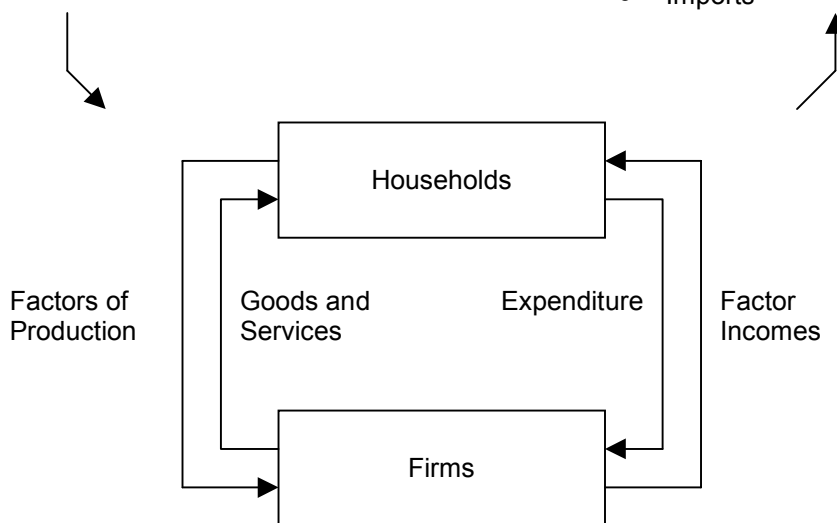
Injections

(an increase will increase national income)

- Investment: by firms e.g. stadiums
- Government expenditure e.g. improved transport
- Exports e.g. tourism, visiting teams

Withdrawals

- Savings
- Taxation
(to pay for government expenditure)
- Imports



Injections into the circular flow of income increase national income. The building of stadiums and the other infrastructure, such as improved transport networks, is regarded as investment, which is an injection. Similarly, government expenditure on these items and the subsequent increased exports, e.g. tourism, are injections. However, an increase in taxation might reduce the national income, as it is a withdrawal from the flow. As there is always competition from countries to hold international events like the World Cup and the Olympics it would appear that the governments of these countries feel that the overall effect on the national income would be favourable i.e. injections are greater than withdrawals.

Question 10

This was a very popular question and one that produced marks spread across the whole range. It also highlighted a very common mistake: 'public limited company' does not mean the same as 'public sector'. This mistake occurred in part (a) yet seldom in (b) where the candidates correctly identified shares, debentures and bank loans as the most common form of finance for public limited companies.

Many candidates gained maximum marks for part (c). However, the benefits of privatisation needed to be explained, not just listed. A brief and explanatory introduction is a necessary aid to this part of the question.

"Privatisation is the movement of public enterprises to the private sector. People might benefit from privatisation because of competition between firms."

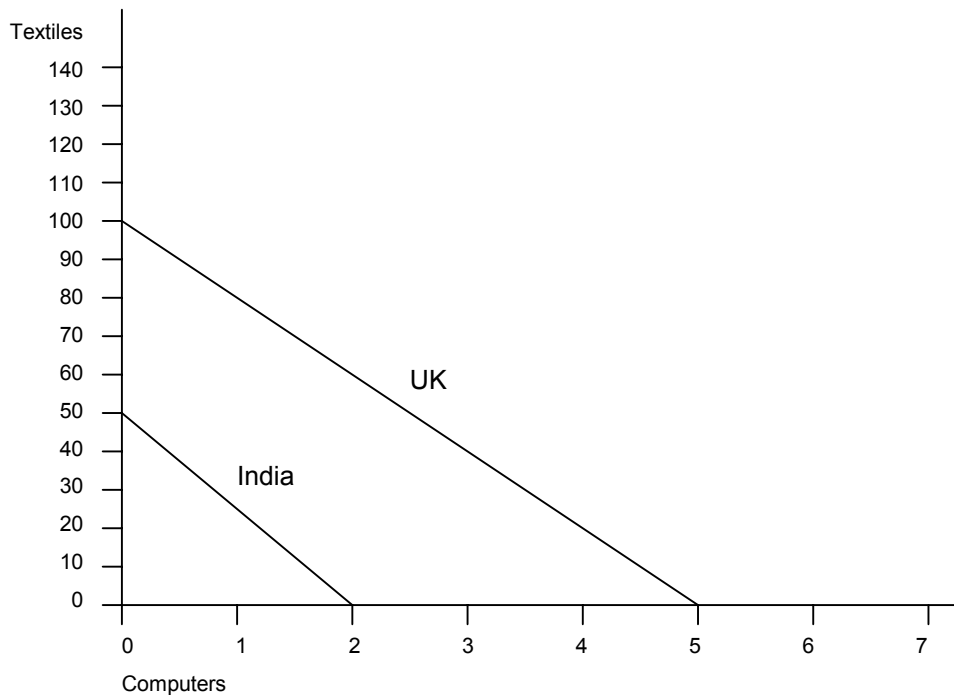
The link between privatisation and competitiveness is essential. This candidate went on to describe and explain the benefits including higher quality, incentives to find better and cheaper ways to produce and therefore lower prices, innovation, new types of goods, better utilisation of resources, increased choice. Without mentioning the possible increase in competition, the references to increasing exports and falling inflation indicated only vague and unsubstantiated benefits. The falling prices which might occur as a result of the increase in competition and increased efficiency can lead to falling inflation and increased exports. In the case of exports lower prices might lead to increased international competitiveness and improve the current account on the balance of payments.

Too often candidates stated that an increase in employment would be an advantage of privatisation but failed to give reasons. Because employment may be increased due to falling prices and increasing sales, or decreased due to increased efficiency and firms becoming more capital intensive, it was essential that the points were explained, otherwise marks could not be awarded.

Question 11

It is not necessary to give a very complicated mathematical example of comparative costs. The more complicated the easier it is to make mistakes. Some candidates, to their advantage, used a diagram to show the opportunity costs facing the two countries. Often figures were given but they simply showed absolute advantages or sometimes there was no indication of which country should specialise in which commodity. The following shows both the diagrammatical and the numerical representation of comparative costs.

	Textiles	Computers
UK	100	5
India	50	2



It can clearly be seen that the UK has an absolute advantage in the production of both textiles and computers.

The opportunity cost of producing 1 computer in the UK is 20 units of textiles.

The opportunity cost of producing 1 computer in India is 25 units of textiles.

Therefore the UK should specialise in computers and India in textiles.

In part (b) candidates were often confused between international specialisation and division of labour. Some incorrectly gave the advantages of international trade. An excellent response is shown below:

“One disadvantage of international specialisation is that a country can over specialise in one product and if, for some reason, demand falls in the market the country will be badly affected and the country’s revenue will fall. In times of war or conflict e.g. India and Pakistan the trade between the countries will stop e.g. Pakistan used to import minerals from India like mica but during the conflict the trade between the two stopped. Most of the developing third world countries specialise in primary products and prices of these are not increasing or they are increasing slowly so the developing country will get little revenue from the export of the primary product. At the same time the developing country is importing goods from the developed countries and this will create a balance of payments deficit.”

Most candidates correctly identified benefits of becoming a member of a trading bloc. Perhaps because of the wording of the question there was a little confusion between a trading bloc e.g. EU and a trading block e.g. tariff.

Question 12

Economic growth refers to the increase in real output of a country in a period of time. It is correct to relate it to an increase in Gross Domestic Product (GDP) but not to Gross National Product (GNP). The production possibility curve diagram should show the combinations of capital and consumer goods which a country can produce with a given amount of resources. Too often the production possibility curve became the focus of this part of the question not economic growth.

The second part of the question related to three items which can effect economic growth. The first, an ageing population, was taken by some to mean “write all you know about an ageing population”. The relationship between economic growth and an ageing population was ignored as candidates wrote of an increase in demand for walking sticks and wheel chairs. A correct response should have emphasised the effect on the labour supply, the opportunity cost of increased government expenditure on the ageing population, and the effects on savings and investment.

The relationship between the rate of interest and economic growth highlighted a common misunderstanding: that savings must always equal investment. When national income is in a state of equilibrium (no tendency to change) then injections will equal withdrawals but this does not mean that savings will always equal investment. If the rate of interest is high then savings will increase but investment will decrease and so national income will fall. Increased investment will lead to an increase in economic growth as firms and governments spend more on capital projects because loans are cheaper. The opposite will occur when the rate of interest is low.

The term human capital was not understood by the majority who attempted this question. Some confused it with capital or capital-intensive and sometimes labour-intensive projects. Education and training by the state and firms leads to an increase in human capital. As the workforce becomes more skilled then economic growth may occur. Some of the better responses mentioned “*food for education programmes*” and gave accounts of how these work in their own countries.

ECONOMICS 7120, GRADE BOUNDARIES

Grade	A	B	C	D	E
Lowest mark for award of grade	57	47	37	33	30

Note: Grade boundaries may vary from year to year and from subject to subject, depending on the demands of the question paper.

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