

## ECONOMICS 7120, JANUARY 2006, MARK SCHEME

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1. (a) (b) (c) each opportunity cost 1 mark.  
E.g. (a) spending more on education also accept keeping lower taxation.  
E.g.(b) decreasing expenditure on new machines.  
E.g.(c) time spent on recreation. 3
2. (a) (i) Original demand and supply (1 mark), price and quantity and axes (1 mark). 2
- (ii) 1 mark for shift to the left of the demand curve or shift to right of supply curve. Only 1 mark for both and must be moving in correct directions. 1
- (iii) Must have new lower price and new quantity for 1 mark. 1
- (b) Each reason 1 mark. E.g. unemployment of apple growers, possible health problems - insecticides. Accept macro-economic reasons e.g. Balance of payments 2
- (c) (i) Method identified 1 mark, explanation 1 mark.  
E.g subsidy 1 mark, reduces price 1 mark. 2
- (ii) Method identified 1 mark, explanation 1 mark.  
E.g. advertising campaign 1 mark, persuades people to buy apples 1 mark. 2

3. (a) Savings - amount of income not spent (1 mark) e.g. money put in bank (1 mark).  
Investment - creation of capital goods (1 mark) e.g. firm buys machinery (1 mark). Credit savings = withdrawal (1 mark) Investment = injection (1 mark) 4
- (b) (i) Savings may fall (1 mark) amount earned by savings will fall (1 mark) 2
- (ii) Investment may rise (1 mark), the cost of borrowing will fall (1 mark) 2
4. 2 x 2
- Horizontal merger - firms producing the same good / service at the same stage of production (1 mark) Example (1 mark)
- Vertical merger - firms at stage forwards or backwards in the production process ( 1 mark) Example (1 mark) 4
5. (a) (i) Supply of labour: each factor 1 mark e.g. size of population, age distribution, female participation. 2
- (ii) Demand for labour: each factor 1 mark. E.g. demand for product, substitutes (machinery). 2
- (b) Each consequence 1 mark, explanation 1 mark e.g. higher wages (1 mark), workers have higher bargaining power (1 mark). More investment (1 mark) in labour saving machinery (1 mark). 4

6. (a) GDP - amount of goods and services produced in a country (1 mark) in a period of time (1 mark). 2
- (b) (i) secondary 1
- (ii) primary 1
- (iii) tertiary 1
- (c) (i) secondary 1
- (ii) primary 1

## Section B

7. (a) (i) ownership: public - state owned (1 mark), private sector - owned by individuals or groups of individuals (1 mark). 2
- (ii) aims: public -e.g. provide a service or goods not provided by private sector (1 mark), private sector - profit (1 mark). 2
- (iii) finance: public - e.g. from government (1 mark), private - e.g. loans, shares etc. (1 mark) 2
- (b) Sale of public owned industry (1 mark) to the private sector (1 mark). 2
- (c) (i) Each effect identified 1 mark development 1 mark. E.g. increased efficiency (1 mark) may lead to more exports (1 mark). "unemployment" needs to be explained before any marks can be awarded. 2 x 2marks 4
- (ii) Each effect identified 1 mark development 1 mark. E.g. lower prices and more variety due to competition. 4
- (iii) Government expenditure effect: expenditure will fall (1 mark) as firms are funded by private sector (1 mark). Government revenue effect: revenue will increase (1 mark), due to sale of industries (1 mark). Accept: possible loss of revenue (1 mark) if profitable industries are sold (1 mark). Need both expenditure and revenue effects for full marks. 4

8. (a) The rate of inflation has been taken into account. 2
- (b) Each factor identified 1 mark, development 2 marks. E.g. increase in population (1 mark) leads to increased demand (1 mark) if no more houses are built (1 mark). Decrease in interest rates (1 mark), makes borrowing to buy a house less expensive (1 mark) so demand will rise (1 mark) 2 x 3 marks 6
- (c) (i) Diagram showing demand and supply curves, equilibrium rent and quantity and axes (1 mark), maximum rent imposed (1 mark), new equilibrium rent and quantity demand and supplied (1 mark) i.e. 3 marks for diagram. Explanation - describing notation on diagram up to 3 marks. 6
- (ii) Each effect identified 1 mark, development up to 2 marks. E.g. cheaper rents (1 mark), more affordable housing (1 mark), improved standard of living (1 mark). Less rented housing available (1 mark), landlords sell housing (1 mark), decrease standard of living (1 mark). 2 x 3 marks or 3 x 2 marks. 6
9. (a) Group of countries (1 mark), join together to reduce internal trade barriers (1 mark) and erect a common external tariff (1 mark), example (1 mark). Accept custom union as example. 4
- (b) Each barrier identified 1 mark development up to 2 marks. E.g. tariffs (1 mark), increase price (1 mark), decrease demand (1 mark). Quotas (1 mark), limit supply (1 mark), increase price/decrease demand (1mark). Subsidies (1mark) - make domestic goods cheaper (1 mark) decrease demand for imports (1 mark). Reward recognition that tariffs are against W.T.O. 9
- (c) Each advantage identified 1 mark development up to 2 marks. E.g. to firms - larger markets (1 mark) leading to economies of scale (1 mark) and increased profits (1 mark).  
to consumers - greater choice (1mark), benefits of increased competition ( 1mark),  
to economies - advantages of specialisation (1 mark) and protection from countries outside of bloc ( 1mark). 7

10. (a) Dependency ratio: formula = 2 marks: number of dependants (1 mark) to the working population (1 mark) Reference to New Zealand (1 mark). "ratio of dependants to working population" = 2 marks. 3
- (b) High birth rate 1 mark explanation/reason 1 mark, low death rate 1 mark explanation/reason 1 mark. Also accept change in school leaving age and change in retirement age. 2 x 2 marks 4
- (c) (i) a government: Each problem identified 1 mark, development up to 2 marks e.g. increase in government expenditure (1 mark) on schools (high birth rate) (1 mark), health care (low death rate) (1 mark). Other problems include decrease in revenue from income tax (1 mark), balance of payments problems (1mark) due to decrease home production (1 mark) and increased imports (1 mark). 5
- (ii) firms: Each problem identified 1 mark, development up to 2 marks e.g. fewer workers (1 mark), increase in wages (1 mark), decrease in profits. Other problems include change in demand for goods and services (1mark), problems of ageing population being reluctant to adopt to new ideas (1 mark). 5
- (iii) the growth of the economy: Each problem identified 1 mark, development up to 2 marks. e.g. fewer workers (1 mark), less production (1 mark), lower GDP (1 mark). Other problems include less innovation (ageing population). 3

11. (a) (i) Monetary policy: the use of the money supply or interest rates (1 mark) to influence the level of aggregate demand (1 mark) or to regulate economy (1 mark). 2
- (ii) Fiscal policy: the use of government expenditure and revenue (1 mark) to influence demand (1 mark) or to regulate economy (1 mark). 2
- (b) Monetary policy measure identified 1 mark. Development 3 marks. E.g. decrease interest rates (1 mark) to increase investment by firms (1 mark), increase borrowing of consumers (1 mark), and increase consumer expenditure (1 mark).  
Fiscal policy measure identified 1 mark. Development 3 marks. E.g. decrease income tax (1 mark), to increase disposable income (1 mark), and increase consumer expenditure (1 mark) which will increase demand (1 mark).  
2 x 4 marks 8
- (c) Each other measure identified 1 mark, development up to 3 marks. E.g. retraining (1 mark), workers can learn new skills (1 mark) and move to different industries (1 mark) becoming more occupationally mobile (1 mark).  
Also acceptable are measures which will reduce the problems arising from unemployment e.g. poverty (1 mark) can be reduced by welfare benefits (1 mark), free health care (1 mark) and housing/education (1 mark).  
2 x 4 marks 8

12. (a) Explaining difference i.e. location - where a firm is sited, localisation - firms producing same product grouped together 3 marks. 1 mark for each example. Max 2 marks for one correct definition and example. 5
- (b) (i) Advantages to firms: External economies of scale 1 mark . Up to 4 marks for development/examples. E.g. pool of skilled labour (1 mark) reduces costs of training for firm (1mark). 5
- (ii) Disadvantages to country - each disadvantage identified 1 mark up to 1 mark for development e.g. if the industry declines (1 mark) it may result in structural unemployment (1mark), too many firms in one area (1 mark) may lead to congestion (1 mark) and pollution (1 mark). 5
- (c) Each policy identified 1 mark, development/example 1 mark. E.g. Incentives to locate elsewhere - grants. Limiting location in certain areas - licences, limiting pollution - taxation. Incentives for different/contrary firms to locate in the area - grants etc. 5
13. (a) Increase in real output (2 marks) per period of time (2 marks) or production possibility curve showing economic growth (4 marks). 4
- (b) Each factor identified 1 mark, 3 marks for development e.g. increasing the factors of production (1 mark) e.g. reducing the rate of interest (1 mark) may lead to investment in capital goods (1 mark) will increase ability to produce more goods (1mark). Changes in total population (1mark) will effect economic growth depending on whether the country is under or over populated (1mark). Changes in human capital (education) (1 mark) will make labour more productive (1 mark) 4 x 4 marks

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TOTAL FOR PAPER = 100