

Mark Scheme January 2007

GCE

GCE O Level Economics (7120)

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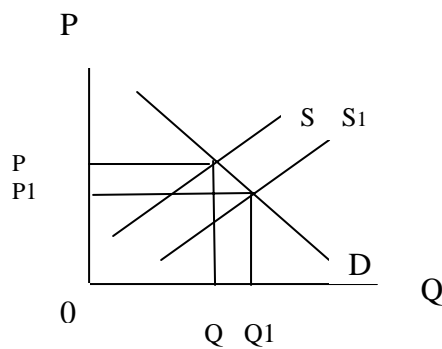
7120 O Level Economics Mark Scheme

Section A

1 (a) Durable, portable. No marks for functions of money. 1 correct = 0 marks, 2 or 3 correct = 1 mark, 4 correct = 2 marks. (2)
(b) Definition: exchanging goods for other goods (1 mark). Example: shoes for potatoes (1 mark). (2)

2 (a) Definition: firms which have their headquarters in one country but have manufacturing plants or outlets in others. Allow firm operating in several different countries. (2)
(b) Horizontal. (1)
(c) (i) Advantage 1 mark e.g. economies of scale.
Disadvantage 1 mark e.g. more bureaucracy. Diseconomies of scale. (2)
(ii) Advantage 1 mark e.g. could be cheaper if economies of scale passed on.
Disadvantage 1 mark e.g. less choice/more expensive steel. Accept effects of car producers merging. Accept $\uparrow P \downarrow P$ for 1 mark. Must explain for 2 marks. (2)

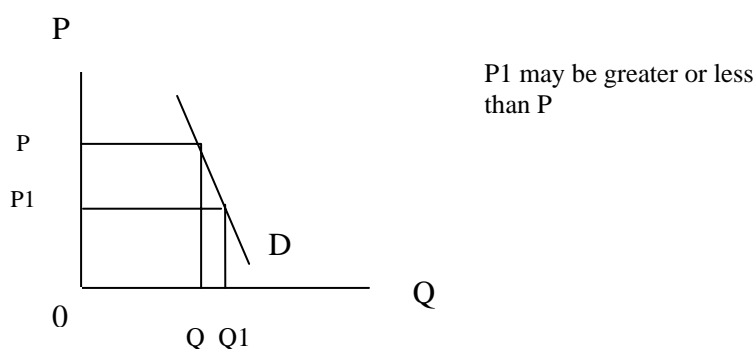
3 (a) Diagram:
correct axes and demand and supply curves, original price and quantity 1 mark
shift of supply to right 1 mark
new price lower 1 mark
(a small shift in the demand curve is optional)
Explanation: 2 marks
Diagram only 3 marks, explanation only 2 marks. (5)
Diagram:



Need some reference to change in $D <$ change in S for full marks either the diagram or explanation.

(b) Price of tea would fall, 1 mark. Explanation 2 marks e.g. substitute goods 1 mark, fall in price of one leads to fall in demand of the other thus lowering price, 1 mark. Reward valid use of diagram. (3)

- 4(a) Definition: goods which are thought to be harmful to consumers. Give 1 mark for example, negative externalities (1 mark). (2)
- (b) Each reason, 1 mark e.g. health costs, lost days at work. Accept "increase government revenue leads to betterment of citizen." (No mark for repeating answer for (a)). (2)
- (c) Diagram:
- Correct axes and inelastic demand curve 1 mark
- Original price and quantity demanded 1 mark
- Change in price showing less responsive change in quantity demanded 1 mark
- Explanation: 1 or 2 marks
- Explanation only, no diagram 2 marks. (4)



- (d) Identifying measure, 1 mark e.g. fines/restrictions outlets/age, development 1 mark. Also accept trade restrictions including tariffs. Don't accept 'loans' and 'indirect tax' - mentioned in question, but do accept tariffs. (2)

5. (a) GDP alone worth 1 mark. Increase/change (1 mark) in real (1 mark) GDP (1 mark) between time periods - optional extra (1 mark). Max 1 mark for PPC and right shift. (3)
- (b) 2000. (1)
- (c) (i) Recession/negative economic growth. (1)
- (ii) Each characteristic 1 mark e.g. high unemployment, low demand. (2)
- (d) Each way identified, 1 mark development 1 mark, e.g. increase expenditure on education increases productivity, decrease rate of interest stimulates demand. (4)

Section B

6. (a) (i) Definition: the alternative foregone, 1 mark. Example from text, 1 mark e.g. cost of holding gold is keeping money in bank/rate of interest. (2)
- (ii) Each reason 1 mark, development 1 mark. E.g. money in bank subject to inflation, gold won't lose value in inflation. 2 + 2 (4)
- (b) As the rate of interest increases (1 mark) the demand for capital equipment falls (1 mark) as it becomes more expensive (1 mark) and vice versa (1 mark). (4)

- (c)(i) Each effect 1 mark, development 2 mark. Can look at consumers, firms, government e.g. as borrowing becomes more expensive (1 mark) consumers spend less (1 mark) therefore there is a fall in aggregate demand (1 mark). Limit consumer demand (max 3). 2x3 marks (6)
- (ii) As interest rates rise more is earned on savings (1 mark). Foreign bodies (people, institutions) will demand more of the currency (1 mark) to take advantage of high interest rates (1 mark) and so exchange rates will rise (1 mark). (4)

- 7(a) (i) Visible exports (1 mark) less than (1 mark) visible imports (1 mark). 1 mark only for exports less than imports. Don't need 'visible' twice. Allow 'goods for 'visibles'. (3)
- (ii) Exchange rate = the cost of one currency in terms of another (2 marks) "Low" indicates more yuan to dollar (1 mark). (3)
- (b) Each dollar buys more yuan (1 mark) making exports from China (1 mark) cheaper (1 mark) than US goods (1 mark). (4)
- (c) Each measure identified, 1 mark, development up to 3 marks. E.g. measures to decrease imports and/or increase exports. (10)

8. (a)(i) Must have both size and age changes for maximum marks. If only size or age, maximum 3 marks. If indicate no change then must give figures. (5)
- (ii) Credit birth rate, death rate and migration changes. Max 3 marks for 1 reason. (5)
- (b) (i) Each problem identified, 1 mark, development 1 mark. E.g. increased demand for health care (1 mark) leads to increased government expenditure (1 mark). Accept Macro effects. (5)
- (ii) Each problem identified, 1 mark, development 1 mark. E.g. decrease in number of workers (1 mark) may lead to decrease in supply (1 mark). Don't accept duplication in (ii) of (i). i.e. government as employer is (b)(i). (5)

- 9 (a) Ownership = 2 marks
Control = 2 marks
Finance = 2 marks (6)

- (b) (i) Each effect 1 mark, development up to 2 marks. E.g. increased wage costs (1 mark) leads to increased prices (1 mark) decreased supply (1 mark). May lead to increased investment (1 mark) increased mechanisation (1 mark). Award marks for relevant diagram. (5)
- (ii) Each effect 1 mark, development up to 2 marks. Accept either advantages and/or disadvantages. Max 3 marks for one-sided effort. E.g. free trade will mean increased competition (1 mark) as barriers to trade fall (1 mark) and allow foreign car makers to sell at cheaper prices (1 mark) (5)
- (iii) Each effect 1 mark, development up to 2 marks. E.g. decreased demand for cars (1 mark), increased demand for economical cars (1 mark), increased costs of transporting cars (1 mark). (4)

- 10 (a) Each sector defined 1 mark, example 1 mark. 3 x 2 marks. (6)
- (b) (i) Each change identified, 1 mark explanation 1 mark. E.g. decrease in primary (1 mark) due to movement to towns and employment in factories (1 mark). (4)
- (ii) Each change identified, 1 mark, explanation 1 mark. E.g. industry moving to places with good transport facilities like ports (1 mark) for exporting goods (1 mark). (4)
- (c) Each policy 1 mark, development up to 3 marks. E.g. licences (1 mark), planning permission (1 mark) only given to firms which set up in areas of high unemployment (1 mark). Also accept grants and reduced taxes. (6)
11. (a) Direct: taxes on income and wealth (1 mark) e.g. income tax (1 mark).
Indirect: taxes on expenditure (1 mark) e.g. VAT (1 mark). 2 + 2 (4)
- (b) (i) Each valid change 1 mark, development up to 3 marks. E.g. decrease rate of income tax on low income earners (1 mark) will increase disposable income of poor (1 mark) so they have more to spend and their standard of living will improve (1 mark). Expect 2 x 4 marks or 4 x 2 marks. (8)
- (ii) Each valid change 1 mark, development up to 3 marks. E.g. decrease government expenditure (1 mark) on benefits (1 mark) to decrease demand (1 mark) leading to decrease in prices (1 mark). 2 x 4 marks or 4 x 2 marks. (8)
12. (a) (i) Definition: the number of people between school leaving age (1 mark) and retirement (1 mark) who are employed (1 mark) or actively seeking employment (1 mark). (4)
- (ii) Each method 1 mark, development 1 mark. E.g. decrease unemployment benefits (1 mark) to encourage voluntary unemployed people to seek work (1 mark). 3 x 2 marks. If candidate ignores voluntary unemployment, max 3 marks. (6)
- (b) Each valid reason 1 mark, development up to 2 marks e.g. length of training for airline pilots is longer than bus drivers as aeroplanes are more difficult to 'drive'. Qualifications to enter training courses is higher for pilots than for bus drivers therefore supply is limited. Need some mention of market mechanism (demand/supply) for maximum marks. If omitted then maximum marks = 8 marks. (10)

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