

Mark Scheme (Results)

Summer 2007

GCE O Level

GCE O Level Economics (7120) Paper 1

Section A

1. (a) Leakage identified e.g. savings, taxation, imports, 1 mark. (1)
- (b) Injection identified e.g. investment, government spending, exports, 1 mark. (1)
- (c) National income will fall, decline, go down. 1 mark. (1)

Total 3 marks

2. (a) Example of consumer good e.g. car, 1 mark. Example of capital good e.g. machinery or more specific - tractor, 1 mark Do not accept factory. (2)

(b) Loss of OD to OC in consumer goods. Also accept CD and less production of consumer goods. (1)

(c)(i) Economic growth = OB/OC , 1 mark. More capital (than consumer) goods produced, 1 mark, so in the (future) total production will be able to increase, 1 mark. Candidates can be awarded up to 2 marks if state OA/OD (incorrect) but give correct explanation i.e. capital goods increase etc. (3)

(ii) Each method identified, 1 mark e.g. improve education, infrastructure, encourage investment. Also accept vague methods e.g. increase efficiency of factors of production and encourage investment. Accept raw materials. (2)

Invests (1). Lowers interest rate (1). Cut income tax.

Total 8 marks

3. (a) Firms in an industry, 1 mark, are set up in the same area, 1 mark. Example, 1 mark e.g. the car industry in Detroit, USA, 1 mark. Must be localisation of particular industry not industry as a whole. Must say where (3)

(b)(i) Advantage identified, 1 mark e.g. subsidiary firms locate in same area, skilled labour supply, also accept "reduced costs of production". External ads of scale (1)

(ii) Disadvantage identified, 1 mark e.g. congestion, fear of closure. Not unemployment. (1)

(iii) Measure identified, 1 mark, explanation 2 marks e.g. Disadvantage congestion: incentives to set up firms elsewhere, 1 mark, the government could give grants, 1 mark, for firms to go elsewhere and this would relieve congestion on area with localised industry, 1 mark. Accept anti pollution measures e.g. impose fines, restrict pollution levels. Regional policy (1). (3)

Total 8 marks

4. (a) Shareholders, 1 mark. (1)
- (b) To make profits, obtain greater market share/expand 1 mark. Act in interests of shareholders. (1)
- (c)(i) Form identified, 1 mark e.g. bank loans, issuing shares, debentures. Reinvested profits, govt grants. (1)
- (ii) Advantage, 1 mark, disadvantage, 1 mark e.g. an advantage of bank loans is that they are fairly quick to organise, a disadvantage is that interest has to be paid. Do not accept general phrase "inflow of capital" as advantage for firm. Accept advantages to shareholders e.g. limited liability and disadvantage e.g. lose money if firm goes out of business/shares may go up or down in value. Ads - shares don't pay interest. (2)
- Total 5 marks

5. (a) Between 2002 - 2006. (1)
- (b) Reason, 1 mark, explanation, 2 marks e.g. economy might have been in recession, 1 mark. A lower interest rate would encourage consumer borrowing and investment, 1 mark and this would increase demand, 1 mark. (3)
- (c)(i) Valid problem identified, 1 mark e.g. inflation or a problem associated with inflation e.g. people on fixed incomes suffer. Not unemployment unless justified in c(ii). (1)
- (ii) Each way explained, 2 marks. Example: An increase in interest rates would increase the cost of credit, 1 mark, and reduce thereby consumer spending, 1 mark. It might also increase savings as the return would be more, 1 mark, so people would spend less, 1 mark. (4)
- Total 9 marks

6. (a) As incomes increases/decreases, the percentage paid in tax increases/decreases 1 mark. Example 2 marks e.g.
- | | | |
|-----------------|------------------|-------|
| Income: \$20000 | Tax paid: \$2000 | 10% |
| Income: \$40000 | Tax paid: \$5000 | 12.5% |
- Must have Income change and either tax paid or % for 2 marks. (3)
- (b) Advantage identified, 1 mark, explanation 1 mark. E.g. based on ability to pay, (1 mark) those on higher incomes will pay proportionately more than those on lower incomes (1 mark). As more is earned, more tax is paid. Do not accept "increase government revenue" as this is true of all forms of taxation. Disadvantage identified, 1 mark, explanation 1 mark. E.g. disincentive to work effort (1 mark). As more is earned more tax paid. So workers don't want to earn more. (1 mark). (4)
- Total 7 marks

Total: Section A: 40 marks

Section B

7. (a)(i) Resources are allocated by the state/government, 2 marks. Also accept state sets prices 1 mark, state sets production levels 1 mark. (2)

(ii) Resources are allocated by state and private sector (price mechanism), 2 marks, (must have both state **and** private). Also accept state and price mechanism set prices 1 mark, state and price mechanism sets production levels 1 mark. Accept govt for state. (2)

(b)(i) Consumers: Each effect identified, 1 mark, up to 2 marks for development. E.g. consumers may face lower prices (1 mark) as privatisation leads to increased competition (1 mark) so firms reduce prices to increase market share (1 mark). 1 mark only for candidates who state prices may fall, prices may rise with no explanation of either. Expect 2+3 or 2+2 +1. But if add explanation then go to (4) marks.
Maximum 3 marks for effects identified with no explanation. (5)

(ii) Firms: Each effect identified, 1 mark, up to 2 marks for development. E.g. Firms may face increased competition (1 mark) which may lead to increased efficiency (1 mark) as they try to reduce costs (1 mark). Expect 2+3 or 2+2 +1
Maximum 3 marks for effects identified with no explanation. (5)

(iii) Government: Each effect identified, 1 mark, up to 2 marks for development. E.g. Government revenue will increase (1 mark) from the proceeds of the sales of the privatised firms (1 mark). The increase in revenue could be used to improve the standard of living (1 mark). Allow only one mark for ways in which government could use increased revenue for increased expenditure. Expect 2+3 or 2+2 +1
Maximum 4 marks for effects identified with no explanation. (6)

Total 20 marks

8. (a) (i) Definition 2 marks: the dependency ratio shows the relationship between the working population and those above and below working age. Also accept equation, 2 marks:

dependent population (under school leaving age + over retirement age)
working population

or

Total dependents
working population

(2)

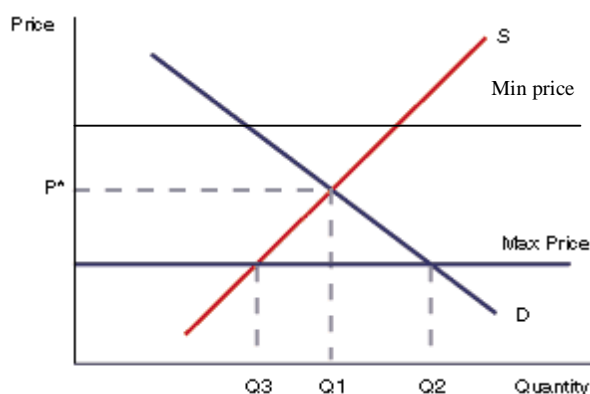
(ii) Each cause identified, 1 mark, development up to 2 marks. Expect 3 x 2 marks or 2x3 marks. E.g. If there is a decrease in the death rate (1 mark) this will lead to more older, retired people (1 mark). This could be brought about by improved medical treatment (1mark). Accept migration/emigration. List is max 3.

(6)

(b) Each consequence identified, 1 mark, development up to 3 marks. Expect 3 x 4 marks or 4 x 3 marks. E.g.1 Insufficient resources (1 mark) so country borrows (1 mark). This will lead to international debt (1 mark).E.g.2 The government may have to spend more on education if birth rate increases (1mark) so taxes may have to be raised (1 mark) or spending on other things like new roads reduced (1 mark).
 Accept answers which look at the three different age categories, increase in young, increase in working, increase in old and consider problems of each.
 If look at just one of these, say ageing pop, then max 6.
Max 8 Economy or just environment

(12)
 Total 20 marks

9. (a) Diagram: 4 marks: Doesn't matter if they use 2 diagrams.



1 mark for correct axes
 1 mark for original D, S, P, Q
 1 mark for maximum price,
 1 mark for minimum price.
 Key is min'n above, max below
 If no diagram then max (2).

2 marks for explanation which states that maximum prices are set below equilibrium price (1mark), that minimum prices are set above equilibrium price (1mark).

(6)

(b) (i) Each effect, 1 mark, explanation 1 mark. E.g. decrease in supply, 1 mark as landlords sell the rented accommodation. 2+2 marks

(4)

(ii) Each effect, 1 mark, explanation 1 mark. E.g. decrease demand for labour 1 mark, as wage bill of firms increases, 1 mark. 2+2 marks

(4)

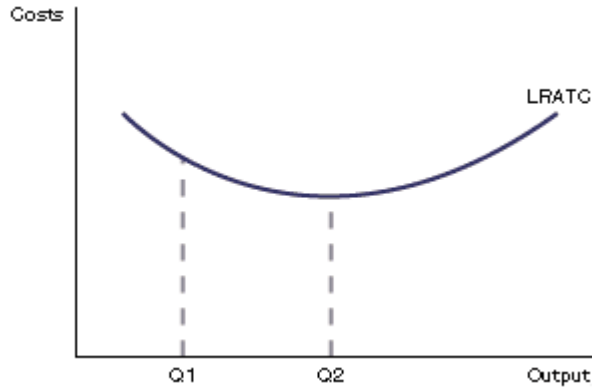
(c) Each factor identified, 1 mark, development up to 2 marks. E.g. demand for finished product, 1 mark. If the demand for the product increases/decreases (1 mark) then the demand for workers will increase/decrease. 2x3 marks

(6)

Total 20 marks

10. (a)(i) Diagram: up to 3 marks. 1 marks for axes, 1 mark for curve, 1 mark for indicating economies of scale. Explanation: average costs are falling as output increases (1 mark) Award up to 2 marks for explanation/examples of economies of scale. No diagram max 2.

(4)



(ii) Each economy of scale identified, 1 mark. Explanation, 2 marks. E.g. bulk buying (1 mark). The supermarket can buy in large amounts from producers (1mark). No to external. 2+2

(4)

(b)(i) Each reason identified, 1 mark. Explanation 1 mark. E.g. balance of payments problem (1 mark) as profits flow out of country (1 mark). 2x3 marks

(6)

(ii) Each benefit identified, 1 mark, development up to 2 marks. E.g. firm's costs may be lower(1 mark) due to cheap labour and land (1 mark) and so profits will rise (1 mark). 2x3 marks.

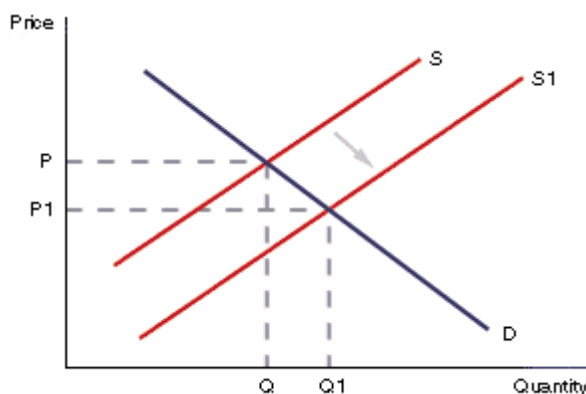
(6)

Total 20 marks

11. (a) Function identified, 1 mark, development, 1 mark. E.g. to promote free trade (1 mark) by organising trade talks between nations (1 mark). Increase economic growth etc. Helping LDC to trade more.

(2)

(b) Diagram: 3 marks.



1 mark for axes, D and S,
and original P and Q
1 mark for new S
1 mark showing lower P

A subsidy (reduces costs) so increases supply (1 mark) price falls (1 mark) makes home produced goods cheaper than imports. (1 mark).

(6)

(c)(i) Tariffs: tax on imports (1 mark), increases price.
Quotas: limit on quantity (1 mark) reduces supply increases price (1 mark). (4)

(ii) Each effect identified, 1 mark development up to 2 marks. E.g. tariffs will lead to a fall in imports (1 mark) and this improve the current account of the balance of payments (1 mark). Tariffs will increase prices (1 mark) and this could lead to inflation (1 mark). Expect 3+3+2 or 3x2 marks. Max 4 marks for each effect identified. (8)

Total 20 marks

12. (a)(i) Cyclical: cause: fall in total demand in an economy (1 mark) due to recession (1 mark). This can be caused by e.g. political instability (1 mark) or increased price of oil (1 mark). Also accept long term... (4)

(ii) Structural: cause: (long term) unemployment caused by decline in demand for products (1 mark) of an industry (1 mark). This can be due to e.g. substitutes or foreign competition. (4)

(b)(i) Cyclical unemployment. Each policy identified, 1 mark development up to 4 marks. The government could use fiscal policy (1 mark). By increasing its expenditure (1 mark) on improving infrastructure it could employ more people (1 mark). It could also use monetary policy (1 mark) and reduce interest rates (1 mark) to try to stimulate demand (1 mark). (6)

(ii) E.g. Structural unemployment: government could set up retraining centres (1 mark) so that the unemployed could learn new skills (1 mark) to make them more occupationally mobile (1 mark). It could also set up job centres (1 mark) which would give the unemployed information about jobs in their own area (1 mark) and help to find jobs in other areas making them more geographically mobile (1mark). Do not accept ways of increasing demand for failing industry. (6)

Total 20 marks

13. (a) (i) GDP divided by total population (2 marks) Also accept total income divided by population for 2 marks. Total income (1) divided by population (1). (2)

(ii) Amount of goods and services consumed by an individual (1 mark) in a period of time (1 mark). Accept quality of life, HDL, Must have time (2)

(iii) Must have both reasons for and against why income per head can be used to indicate an increase in the standard of living for full marks. Each reason identified, 1 mark development up to 2 marks. E.g. reason for: GDP has increased so people have more to spend (1 mark) so consumption of goods and services will increase for the individual (1 mark). Against: it is not taking into account inflation (1 mark) so prices may have risen so consumers can buy less (1 mark). Expect more reasons against than for. (8)

(b) Each problem identified, 1 mark development up to 2 marks. E.g. the loans have to be repaid (1 mark) and if the rate of interest rises (1 mark) the country may not be able to afford repayment (1 mark). (8)

Total 20 marks

