Mark Scheme (Results)

January 2008

GCE O-Level Economics (7120)

A PEARSON COMPANY

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.

Contents

7120/01 Section A Mark Scheme January 2008

Question Number	Answer	Mark
1(a)	Land, labour, capital and enterprise. 4 correct = 2 marks, 2/3 correct = 1 mark, 1 correct = 0 marks.	(2)

Question Number	Answer	Mark
1(b)(i)	Amount paid by borrower (1 mark) to lender for a loan (1 mark). Reward (1 mark) to saver (1 mark).	(2)

Question Number	Answer	Mark
1(b)(ii)	Accept TR-TC (2 marks) or amount left over after all costs have been paid (2 marks) or payment to entrepreneur (1 mark) for bearing the risk (1 mark). Vague response (1 mark).	(2)

Question Number	Answer	Mark
2(a)(i)	1 mark for correct axes, 1 mark for demand and supply curves, 1 mark for equilibrium price and equilibrium quantity.	(3)

Question Number	Answer	Mark
2(a)(ii)	1 mark for new supply curve shifting to left, 1 mark for new equilibrium price and new equilibrium quantity.	(2)

Question Number	Answer	Mark
2(b)(i)	Accept "the responsiveness of quantity demanded (1 mark) to a change in price (1 mark). Also accept equation 2 marks. 1 mark for definition of elastic / inelastic price elasticity of demand.	(2)

Question Number	Answer	Mark
2(b)(ii)	Revenue will rise (1 mark). The rise in price will bring about a less than proportionate change in quantity demanded.	(3)

Question Number	Answer	Mark
3(a)	$, 1mark.	(1)

Question Number	Answer	Mark
3(b)(i)	Icelandic krona 700,000	(1)

Question Number	Answer	Mark
3(b)(ii)	Icelandic krona 630,000	(1)

Question Number	Answer	Mark
3(c)	Each effect identified, 1 mark, explanation 1 mark. E.g. exports become more expensive (1 mark) so balance of payments worsen (1 mark). Imports become cheaper so balance of payments worsen.	(4)

Question Number	Answer	Mark
4(a)	Total output of a country (1 mark) over a period of time/year (1 mark).	(2)

Question Number	Answer	Mark
4(b)(i)	Extractive industries (1 mark) – e.g. farming, fishing, mining (1 mark). Accept first stage of production (1 mark).	(2)

Question Number	Answer	Mark
4(b)(ii)	Services (1 mark) –e.g. retail, banking, tourism.	(2)

Question Number	Answer	Mark
4(c)(i)	Tertiary.	(1)

Question Number	Answer	Mark
4(c)(ii)	Primary.	(1)

Question Number	Answer	Mark
4(d)	Bulgaria (1 mark). Reason identified (1 mark) explanation, (1 mark). E.g. tertiary sector large/rising but secondary and primary small/falling or reference to changes in Cambodia.	(3)

Question Number	Answer	Mark
5(a)(i)	Trade in goods (1 mark) e.g. potatoes.	(2)

Question Number	Answer	Mark
5(a)(ii)	Trade in services (1 mark) e.g. transport.	(2)

Question Number	Answer	Mark
5(b)	Visible exports – visible imports. Exports = imports (1 mark)	(2)

Question Number	Answer	Mark
6(a)	Each cause identified: birth rate, death rate migration , 1 mark, explanation, 1 mark e.g. contraception, medical facilities, 3x2 or 1 cause well developed max. 4 marks	(6)

Question Number	Answer	Mark
6(b)	Each problem identified, 1 mark, explanation 2 marks. E.g. lack of workers (1 mark) production will fall (1 mark) so prices might rise (1 mark). Accept full in govt. Revenue.	(6)

Question Number	Answer	Mark
6(c)	Each measure identified, 1 mark development up to 3 marks. e.g. problem = lack of workers: encourage immigrant workers (1 mark) by advertising in foreign countries (1 mark) reducing barriers to working within country for foreigners (1 mark) and setting up agencies to help them find work and housing (1mark). 2x4 Accept ways to increase size of population.	(8)

Question Number	Answer	Mark
7(a)	Government expenditure greater than government revenue / govt. income.	(2)

Question Number	Answer	Mark
7(b)	Advantage identified, 1 mark, explanation, 1 mark. E.g. population becomes more skilled (1 mark), economy becomes more efficient (1 mark). Disadvantage identified, 1 mark, explanation, 1 mark. E.g. opportunity cost of spending on education (1 mark) money could be spent on health service (1 mark).	(4)

Question Number	Answer	Mark
7(c)(i)	Each method identified, 1 mark e.g. increasing direct taxes, increasing indirect taxes, borrowing, fines, privatisation.	(2)

Question Number	Answer	Mark
7(c)(ii)	Mark each method of funding separately. 2x6 marks. Each advantage identified, 1 mark development up to 2 marks. e.g. method- increasing direct taxes: may be progressive (1 mark), based on ability to pay (1 mark), poor pay less than rich (1mark). Each disadvantage identified, 1 mark development up to 2 marks. e.g. may be disincentive to work (1 mark), so there may be voluntary unemployment (1 mark) as people prefer to live on benefits (1 mark). Must have advantage and disadvantage for maximum marks. If only advantages or disadvantages given maximum 4 marks.	(12)

Question Number	Answer	Mark
8(a)(i)	Horizontal.	(1)

Question Number	Answer	Mark
8(a)(ii)	Each advantage identified, 1 mark, development, 1 mark. E.g. economies of scale (1 mark), average costs will fall (1 mark). 2x2 marks.	(4)

Question Number	Answer	Mark
8(b)	Each reason identified, 1 mark development up to 2 marks. E.g. cheap labour (1 mark), lower costs (1 mark), more profit (1 mark). 3x3 marks.	(9)

Question Number	Answer	Mark
8(c)	Each advantage identified, 1 mark development up to 2 marks. E.g. increases GDP of country (1 mark) which might increase employment (1 mark) and standard of living (1 mark). Each disadvantage identified, 1 mark development up to 2 marks. E.g. Profits of foreign company will leave country (1 mark), this will lead to increase in invisible imports (1 mark) and adverse balance of payments (1 mark).	(6)

Question Number	Answer	Mark
9(a)(i)	Income after deductions (1 mark) e.g. income tax (1 mark).	(2)

Question Number	Answer	Mark
9(a)(ii)	Income which takes into account inflation (2 marks). Also purchasing power of money income (2 marks).	(2)

Question Number	Answer	Mark
9(b)(i)	Effect (1 mark) explanation, (3 marks). e.g. Imports will appear cheaper (1 mark), exports more expensive (1 mark), so imports rise, exports fall (1 mark) therefore balance of payments worsen (1 mark).	(4)

Question Number	Answer	Mark
9(b)(ii)	(ii) Effect (1 mark) explanation, (3 marks). e.g. Borrowers win (1 mark) as in real terms they pay back less (1 mark). Lenders lose (1 mark) as the purchasing power of money loaned decreases in value (1 mark).	(4)

Question Number	Answer	Mark
9(c)	Each instrument identified, 1. Increasing the rate of interest can achieve full marks if well explained. Maximum for development of other instruments of monetary policy up to 3 marks. E.g. increasing interest rates (1 mark), directives from central bank to commercial banks to control credit (1 mark). Development: increasing interest rates will make credit/loans more expensive (1 mark) so people will borrow less (1 mark) this will reduce spending/demand in the economy (1 mark). 2 x 4 marks or well developed rate of interest 8 marks.	(8)

Question Number	Answer	Mark
10(a)	Public limited company: owned by shareholders (1 mark). Sole trader: Owned by one person (1 mark) Public limited company: Finance: issuing shares or debentures (1 mark) Sole trader: Finance: loans, savings (1 mark) As the question asks "distinguish" – if candidates state bank loans as a form of finance for both then award only one mark. Public limited company: Control: board of directors appointed by shareholders (1mark) No mark for "shareholders". Sole trader: Control: owner has control. (1 mark)	(6)

Question Number	Answer	Mark
10(b)	Each factor identified, 1 mark, development 1 mark. E.g. near market (1 mark) customers won't want to travel very far. (1 mark) 3x2 marks. Low costs e.g. rent/ business rate / transport costs.	(6)

Question Number	Answer	Mark
10(c)(i)	Each reason why identified 1 mark, development 1 mark. e.g. to increase employment (1 mark), small firms will employ workers (1 mark).	(4)

Question Number	Answer	Mark
10(c)(ii)	Each measure identified 1 mark, development 1 mark. e.g. financial help to small businesses (1 mark) e.g. tax holidays (1 mark).	(4)

Question Number	Answer	Mark
11(a)	Diagram: 1 mark for axes and original demand and supply. 1 mark for original wage rate and number employed. 1 mark for minimum wage rate 1 mark for number employed at minimum wage rate. Each effect identified, 1 mark development up to 2 marks. E.g. unemployment (1 mark), the increase in wages will lead to higher total wage bills (1 mark) so firms will cut back their workforce (1 mark). Need reference to diagram for maximum marks. Also accept increase costs, may lend to inflation.	(7)

Question Number	Answer	Mark
11(b)	Diagram: 1 mark for axes and original demand and supply. 1 mark for original price and quantity 1 mark for new supply curve (shift to left) 1 mark for new equilibrium price and quantity. Each effect identified, 1 mark development up to 2 marks. e.g. decreased subsidies will be similar to increasing costs for farmers (1mark), the price will rise and farmers will become less competitive (1 mark) and more will be imported (1 mark). Need reference to diagram for maximum marks.	(7)

Question Number	Answer	Mark

11(c)	Diagram: this could be a production possibility curve or a diagram of the demand and supply of oil.
	Production possibility curve: 1 mark for axes
	        1 mark for original curve
	        1 mark for outward movement of curve.
	Each effect identified, 1 mark development up to 2 marks. e.g. oil is a natural resource and its discovery adds to the resources in a country (1 mark), this would increase GDP (1 mark) and thereby increasing economic growth. (1 mark)
	Demand and supply of oil diagram: 1 mark for axes and original demand and supply.
	        1 mark for original price and quantity
	        1 mark for new supply curve (shift to right)
	        1 mark for new equilibrium price and quantity.
	Each effect identified, 1 mark development up to 2 marks. e.g. price of oil would fall, (1 mark) leading to a fall in costs of production (1 mark), increase economic growth, decrease unemployment.
		(6)

Question Number	Answer	Mark
12(a)(i)	A worker concentrates/becomes skilled (1 mark) in one job or part of job (1 mark). Example 1 mark e.g. a heart surgeon. Accept "specialised" (1 mark) in one job (1 mark).	(3)

Question Number	Answer	Mark
12(a)(ii)	a country concentrates its production (1 mark) on one product (1 mark). Example 1 mark e.g. Venezuela: oil, Argentina: beef.	(3)

Question Number	Answer	Mark
12(b)	Each advantage identified, 1 mark, development up to2 marks. e.g. can reduce costs (1 mark) due to economies of large scale production (1 mark) – can enjoy bulk buying of machinery, increases trade with other countries (1mark). Each disadvantage identified, 1 mark, development up to 2 marks e.g. if demand for product falls (1 mark) it could lead to mass unemployment (1 mark) and lower standard of living (1 mark). Must have advantages and disadvantages for maximum marks. If one sided then maximum of 6 marks.	(8)

Question Number	Answer	Mark
12(c)	Each method identified, 1 mark development up to 2 marks. e.g. trade talks (rounds) (1 mark) help to bring down barriers to trade (1 mark) so developing countries goods can enter developed economies more easily (1 mark).	(6)