

Mark Scheme Summer 2008

GCE O Level

GCE O Level Economics (7120/01)

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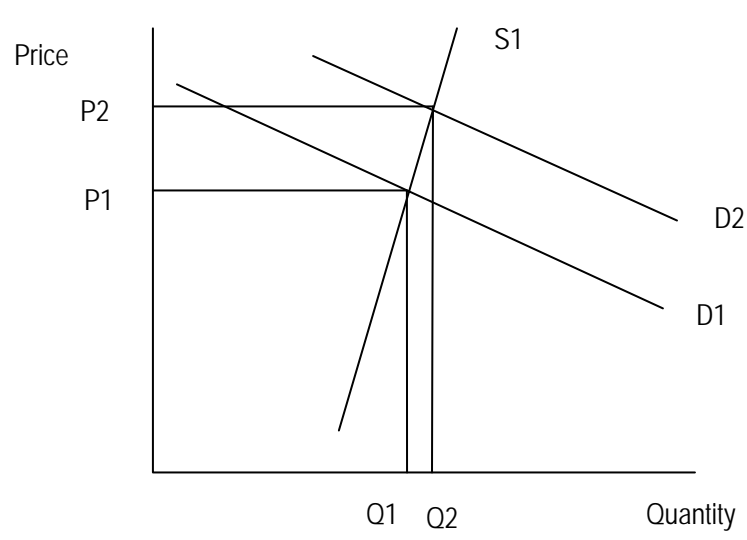
General Marking Guidance

- 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.

Section A

Question Number	Answer	Mark
1(a)	Horizontal integration: firms at the same stage of production joining together (1 mark) Example (1 mark)	(2)

Question Number	Answer	Mark
1(b)	Vertical integration: firms at different stages of production joining together (1 mark) Example (1 mark)	(2)

Question Number	Answer	Mark
2(a)	1 mark for correct movement to right of demand curve labelled D2. 1 mark for new price, P2 and new quantity, Q2. 	(2)

Question Number	Answer	Mark
2(b) (i)	Definition: the responsiveness of quantity supplied to a change in price. Also accept formula: % change in change in quantity supplied / % change in price.	(2)

Question Number	Answer	Mark
2(b) (ii)	Inelastic	(1)

Question Number	Answer	Mark
2(c)	Each reason identified 1 mark. Explanation, 1 mark. E.g. Cocoa beans are agricultural/primary product (1 mark) whereas chocolate bars are manufactured goods (1 mark). Primary products take time to grow so are less responsive to changes in price (1 mark) whereas manufactured goods can change their supply more easily especially if they have stocks of goods (1 mark).	(4)

Question Number	Answer	Mark
3(a)	Visible: goods (1 mark), example (1 mark). Invisible: services (1 mark), example (1 mark).	(4)

Question Number	Answer	Mark
3(b)	Answer = +\$15bn	(1)

Question Number	Answer	Mark
3(c)	Method identified, 1 mark and explanation 1 mark. E.g. increase exports by giving advice to firms (1 mark) so that they feel confident when trading with other countries (1 mark). Also accept other valid methods e.g. subsidies, reducing taxes on exporting firms (direct and indirect).	(4)

Question Number	Answer	Mark
4(a) (i)	Shareholders.	(1)

Question Number	Answer	Mark
4(a) (ii)	State/Government.	(1)

Question Number	Answer	Mark
4(a) (iii)	Accept relevant example e.g. issues shares, debentures, loans.	(1)

Question Number	Answer	Mark
4(a) (iv)	Accept relevant example e.g. loans, tax revenues.	(1)

Question Number	Answer	Mark
4(b) (i)	Definition: transfer of ownership from public sector to private sector.	(2)

Question Number	Answer	Mark
4(b) (ii)	Advantage identified 1mark, explanation, 1 mark e.g. price may fall (1 mark) as industry is opened up to competition (1 mark). Disadvantage identified 1mark, explanation, 1 mark e.g. non profitable services may no longer be supplied (1mark) - local bus services (1 mark). If candidate states "price may fall" (advantage), "price may rise" (disadvantage) then only 1 mark. Full marks can be given only if price changes are explained.	(4)

Question Number	Answer	Mark
5(a)	Geographical immobility: reluctance or inability of workers to move from one place to another (1 mark). Example 1 mark e.g. a worker in Colombo won't move to Kandy. Occupational immobility: reluctance or inability of workers to move from one type of occupation/job to another (1 mark) e.g. a shop assistant can't become a computer programmer.	(4)

Question Number	Answer	Mark
5(b) (i)	Method identified, 1 mark, explanation, 1 mark. E.g. government can offer financial incentives (1 mark) like cheap housing (1 mark).	(2)

Question Number	Answer	Mark
5(b) (ii)	Method identified, 1 mark, explanation, 1 mark. E.g. government can train workers (1 mark) so that they have new skills to do different jobs (1 mark).	(2)

Section B

Question Number	Answer	Mark
6(a) (i)	Income elasticity of demand likely to be less than 1, or even negative (1 mark). 3 marks for development. Likely to include - definition e.g. responsiveness of a change in demand due to a change in income (1 mark), reference to inferior good (1 mark) and relationship between income and demand e.g. as when incomes rise, demand falls (1 mark). Also accept income elasticity of demand likely to be more than 1 if linked to coherent explanation.	(4)

Question Number	Answer	Mark
6(a) (ii)	Cross elasticity of demand - positive (1 mark) / likely to include - definition e.g. responsiveness of a change in demand of one good due to the change in price of another good (1 mark). Public transport services and private cars are substitutes (1 mark) as price of cars falls demand for public transport falls (1 mark).	(4)

Question Number	Answer	Mark
6(b)	Each argument for and against, 1 mark, development up to 2 marks. Arguments for e.g. lower prices, less congestion, benefits poorer sector of economy. Arguments against e.g. opportunity cost - some other items of expenditure may have to cut, may have to raise taxes to pay for it.	(12)

Question Number	Answer	Mark
7(a) (i)	Exporting (1 mark) at below the cost of production (1 mark).	(2)

Question Number	Answer	Mark
7(a) (ii)	Each reason, 1 mark development, 1 mark. Reasons: protect domestic industries, protect employment, balance of payments problems. 3 x 2 marks.	(6)

Question Number	Answer	Mark
7(a) (iii)	Each restriction identified, 1 mark, development, 1 mark. E.g. quotas (1 mark) restrict the number of items imported (1 mark).	(4)

Question Number	Answer	Mark
7(b)	WTO promotes free trade (1 mark). Each advantage of free trade identified, 1 mark development up to 2 marks. E.g. promotes jobs and growth. Credit comparative costs answers and those which argue in favour of helping developing countries.	(8)

Question Number	Answer	Mark
8 (a)	Each cause identified, 1 mark, development 1 mark. E.g. fall in birth rate (1 mark) due to increased use of contraceptives (1 mark). Other causes include; fall in death rate and migration of young out of country and old into country. 3 x 2 marks.	(6)

Question Number	Answer	Mark
8(b) (i)	Each effect, 1 mark, development up to 2 marks. E.g. expenditure will rise (1 mark) if there has been an increase in pensioners (1 mark) but fall (1 mark) if there has been a fall in school aged population (1 mark). Revenue will fall (1 mark) if there are fewer people in the working age group so tax rates may have to be increased (1 mark). Must have expenditure and revenue for maximum marks. If only one considered maximum 5 marks.	(7)

Question Number	Answer	Mark
8(b) (ii)	Each effect, 1 mark, development up to 2 marks. E.g. an ageing population may lead to a fall in the number of workers (1 mark) which will reduce production (1 mark) and economic growth might become negative (1 mark). Older workers may be less likely to adapt to modern working methods (1 mark) so economic growth may not be able to take place (1 mark). However, firms might be forced to invest in new machinery (1 mark) as the number of workers falls and this might lead to greater efficiency and higher economic growth (1 mark).	(7)

Question Number	Answer	Mark
9(a)	Demand is greater than supply of nurses.	(2)

Question Number	Answer	Mark
9(b) (i)	Each main feature 1 mark. Public sector is owned (1 mark) and controlled (1 mark) by the state.	(2)

Question Number	Answer	Mark
9(b) (ii)	Each reason, 1 mark. Development, 1 mark. E.g. wages might be higher in the private sector as private firms may charge more for services. Working conditions may be better as private firms try to attract rich patient, e.g., by higher staffing ratio.	(4)

Question Number	Answer	Mark
9(c) (i)	Each measure identified, 1 mark. Development, 1 mark. E.g. spend more on education/training (1 mark) so that more people will have the qualifications to become nurses (1 mark). Raise wage rates of nurses in public sector (1 mark) so that more people will want to become nurses (1 mark). Recruit nurses from abroad (1 mark) by offering more than they get in their home country (1 mark). Offer better prospects of promotion (1 mark) so that people will stay in nursing (1 mark). 3 x 2 marks.	(6)

Question Number	Answer	Mark
9(c)(ii)	Each problem identified, 1 mark development, 1 mark. E.g. increased expenditure on education will mean that the government will need to raise more money from taxation (1 mark) or spend less on other items - opportunity cost (1mark). Raising wages will add to government expenditure (1 mark) and this may mean increasing taxes or reducing expenditure on other items (1 mark). If nurses are recruited from other countries it will leave those other countries with a shortage (1 mark). The foreign nurses will need help to find housing and this may lead to increased government expenditure (1 mark).	(6)

Question Number	Answer	Mark
10 (a)	Primary - extractive (1 mark). Example, 1 mark e.g. farming Secondary - manufacturing (1 mark). Example, 1 mark e.g. car factory.	(4)

Question Number	Answer	Mark
10 (b)	Each factor identified, 1 mark. Development, 1 mark. E.g. government incentives (1 mark) e.g. tax holidays for locating in a particular area (1 mark). Accept "older" valid factors including power etc. 3 x 2 marks.	(6)

Question Number	Answer	Mark
10 (c)	Each advantage identified, 1 mark. Development up to 2 marks. E.g. Increase in production (1 mark) in the economy may lead to economic growth (1 mark) and a higher standard of living for the people (1 mark). Each disadvantage identified, 1 mark. Development up to 2 marks. E.g. increased production from factories may lead to social costs (1mark). These may include pollution and congestion (1 mark) which will decrease the standard of living (1 mark). Must have advantage(s) and disadvantage(s) for maximum marks. If one sided then maximum 6 marks.	(10)

Question Number	Answer	Mark
11 (a)	Persistent increase in general level of prices (1 mark) in a period of time (1 mark).	(2)

Question Number	Answer	Mark
11 (b)	Each cause identified, 1 mark. Explanation, 2 marks. E.g. cost push (1 mark) increase in the price of imported raw materials (1 mark) will increase costs so firms will increase prices (1 mark). Demand pull (1 mark) increase in wages (1 mark) will lead to more spending and so demand may outstrip supply (1 mark). Also accept more detailed causes and examples e.g. increase in minimum wage rate (1 mark) will lead to increased costs for producers (1 mark) so they will have to increase price to keep profit margin (1mark) 2 x 3 marks	(6)

Question Number	Answer	Mark
11 (c) (i)	Each reason, 1 mark. Development, 2 marks. E.g. to maintain functions of money (1 mark). Inflation will mean money will no longer save (1 mark) as the money will lose value (1 mark). Exports will become less competitive (1 mark) and this may lead to balance of payments problems (1 mark) and unemployment in export industries (1 mark). 2 x 3 marks	(6)

Question Number	Answer	Mark
11 (c) (ii)	Increase rate of interest (1 mark). Each effect identified, 1 mark, development up to 2 marks. E.g. fall in consumer demand (1mark) brought about by increased cost of loans (1 mark) so people borrow less (1 mark), existing loan repayments increase so people have less money to spend (1 mark). Also effect on firm's borrowing. Some indication of the likely success/limitations of an interest rate rise, e.g., time lags, responsiveness, required for maximum marks.	(6)

Question Number	Answer	Mark
12 (a)	Each advantage, 1 mark. Explanation, 1 mark. E.g. increase in employment (1 mark) for building new stadiums (1 mark), increase in tourism (1 mark) improves balance of payments, improved infrastructure (1 mark) aids economic growth. 3 x 2 marks.	(6)

Question Number	Answer	Mark
12 (b) (i)	Direct - tax on income and wealth (1 mark). Example, 1 mark, e.g. income tax. Indirect - tax on expenditure (1 mark). Example, 1 mark, e.g. VAT.	(4)

Question Number	Answer	Mark
12 (b) (ii)	(ii) Each way identified, 1 mark, e.g. borrowing, sponsorship, national lottery.	(2)

Question Number	Answer	Mark
12 (b) (iii)	Each advantage identified, 1 mark. Development up to 2 marks. E.g. if items taxed are essential/inelastic (1 mark) then tax revenue will increase (1 mark) as consumers will still need to buy them (1 mark). Other advantages may include, hidden tax, not a disincentive to work. Each disadvantage identified, 1 mark. Development up to 2 marks. E.g. regressive (1 mark), the poor have to pay the same amount as the rich (1 mark) which will be a higher proportion of their income (1 mark). Other disadvantages may include, inflationary effects. Must have advantage(s) and disadvantage(s) for maximum marks. If one sided then maximum 6 marks.	(8)

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