Mark Scheme (Results)
January 2009

GCE O Level Economics (7120) Paper 01

Question Number	Answer	Mark
1(a)	1 mark for example, e.g. EU. Need name (or abbreviation) of bloc not a list of countries.	(1)

Question Number	Answer	Mark
1(b)	Each characteristic, 1 mark, development 1 mark. E.g. Free trade between member countries (1 mark), no tariffs within the bloc (1 mark). Common external tariff (1 mark) with countries outside the bloc (1 mark). Accept the following for maximum 1 mark each: Monetary union, builds up good relationships, free movement of capital and labour. Mark as 2+2.	(4)

Question Number	Answer	Mark
2(a)	(i) Demand and supply correctly labelled. 1 mark. (ii) Shift to left of demand curve D2, 1 mark. (iii) Surplus indicated between D2 and S1 at price P1, 2 marks. (iv) New price **and** new quantity, 1 mark. 	(5)

Question Number	Answer	Mark
2(b)	Each factor identified, 1 mark, development, 1 mark E.g. fall in the price of a substitute (1 mark) would lead to people switching the way in which they heat their homes (1 mark). A decrease in the population (1 mark) would lead to fewer houses needing to be heated and lower the demand for heating oil (1 mark). 2+2 Must be a shift of the demand curve not a movement along the curve so rise in the price of oil is incorrect.	(4)

Question Number	Answer	Mark
3(a)	Diversification: this occurs when a firm starts to produce more than one type of good (or service) (1 mark). E.g. a television manufacturer starts to produce mobile phones (1 mark).	(2)

Question Number	Answer	Mark
3(b)	Each reason identified, 1 mark. Explanation, 1 mark. E.g. to spread risks (1 mark), if demand for one product falls then still have the other product (1 mark), increase profits (1 mark) as it is now entering another market (1 mark).	(4)

Question Number	Answer	Mark
4(a)	Definition: income not spent. Also accept withdrawal from circular flow of income(1 mark), holding money for a period of time (1 mark), money which is stored (1 mark). Do not accept money we save/put in a bank.	(2)

Question Number	Answer	Mark
4(b)	Each method identified, 1 mark, explanation, 1 mark. E.g. increase interest rates (1 mark) so that people earn more on savings (1 mark), introduce tax free savings schemes (1 mark) so that people don't pay tax on the interest (1 mark) 2+2 Also accept decrease income tax/increase minimum wage/maintain stable banking system/keep value of money stable (no inflation)	(4)

Question Number	Answer	Mark
4(c)	Each effect identified, 1 mark, development, 1 mark. E.g. more saving means less spending and lower demand (1 mark) which might lead to unemployment (1 mark), will increase the amount of money institutions have to lend (1 mark) so may try to attract borrowers by increased advertising (1 mark) 2+2 Do not accept investment will go down.	(4)

Question Number	Answer	Mark
5(a)	Depreciation, 1 mark. Explanation up to 2 marks e.g. invisible import for Australia/invisible export for China (1 mark) Increase in supply of Australian dollars on market leads to fall in value of dollar (1 mark). Credit correct diagram.	(3)

Question Number	Answer	Mark
5(b)	Appreciation, 1 mark. Explanation up to 2 marks e.g. visible export for Australia/visible import for China (1 mark) so demand for Australian dollars will increase as China needs to pay for coal (1 mark). Credit correct diagram.	(3)

Question Number	Answer	Mark
6(a)	Each function identified, 1 mark. E.g. issues currency, controls money supply. Allow for country variations.	(2)

Question Number	Answer	Mark
6(b)	Each function identified, 1 mark. E.g. market for second hand shares, barometer for share prices.	(2)

Question Number	Answer	Mark
7(a)	Definition: goods which are used to produce other goods (1 mark). Example: accept general terms – machinery and specific items e.g. baker's oven (1 mark). Do not accept money capital e.g. money invested by shareholders in a company.	(2)

Question Number	Answer	Mark
7(b)(i)	Advantage, 1 mark, explanation, 1 mark e.g. may learn new skills (1 mark) and be able to demand higher wages (1 mark). Disadvantage: 1 mark, explanation, 1 mark e.g. workers may become redundant (1 mark) as machines replace workers (1 mark).	(4)

Question Number	Answer	Mark
7(b)(ii)	Advantage, 1 mark, explanation, 1 mark e.g. production might increase (1 mark) as machines can work all day without a break (1 mark). Disadvantage: 1 mark, explanation, 1 mark e.g. capital can be expensive (1 mark) and money borrowed will have to be repaid with interest (1 mark). If candidates repeat the same points given in (i) in (ii) then maximum mark = 2.	(4)

Question Number	Answer	Mark
7(c)	Each measure identified, 1 mark. Explanation up to 5 marks. Must have monetary and fiscal measure for maximum marks. If only monetary or fiscal considered maximum 6 marks. **Monetary measures** might include lowering interest rates (1 mark) and directing commercial banks to make it easier for firms who want to purchase machinery to borrow (1 mark). If interest rates are lowered firms will find it cheaper to borrow (1 mark) as less has to be repaid (1 mark) and so may invest in more machinery (1 mark). If firms can borrow easily from banks they may increase their purchase of capital equipment (1mark). Maximum 2 marks for reduce rate of interest on savings so people consume more and firms invest. **Fiscal policies** might include giving firms grants (1 mark) which don't have to be repaid (1 mark). The government can also reduce the taxes paid by firms (1 mark) who introduce more capital. This will encourage firms as it will make the real cost of buying the capital cheaper (1 mark). Maximum 2 marks for reference to decrease in income tax so people spend more and firms invest. Maximum 2 marks for lowering indirect tax so firms produce more and invest.	(10)

Question Number	Answer	Mark
8(a)	1 mark for axes and original demand and supply 1 mark for original price and quantity 1 mark for shift of supply to left 1 mark for new price 1 mark for new quantity 1 mark for indicating level of tax or for showing incidence of taxation or for non parallel shift in supply curve. (Max. 6 marks) Diagram Don't accept shift of demand curve but don't penalise shift of both demand and supply curves.	(6)

Question Number	Answer	Mark
8(b)(i)	Each valid reason given, 1 mark, development up to 3 marks. E.g. The tax will not benefit the poor as it is an indirect tax (1 mark) and may take proportionately more of a poor person's income than of a rich person's (1 mark). If chopsticks are a necessity (1 mark) the poor will have to buy them and pay the tax (1 mark). Accept government expenditure will increase and **may** be spent on the poor. Also accept possible benefit from preserving forests.	(4)

Question Number	Answer	Mark
8(b)(ii)	Each measure identified, 1 mark, development up to 3 marks. E.g. introduce progressive taxes e.g. income tax (1 mark) so that rich are taxed at a higher rate (1 mark) than the poor (1 mark) and give non taxable allowances to the low income earners (1 mark). Government could also spend more on benefits to the poor (1 mark) e.g. increase pensions and unemployment benefit (1 mark). The government could also increase indirect taxes on luxury goods (1 mark) that the rich buy but which the poor cannot afford (1 mark). At the same time they could reduce the taxes on necessities (1 mark) so that the burden of tax on the poor falls (1 mark). Also accept • government spending on public and merit goods and development for 3 marks. • Reduce indirect taxes so that taxation is less regressive. List maximum 5 marks	(10)

Question Number	Answer	Mark
9(a)(i)	Explanations up to 2 marks, examples, 1 mark (maximum 3 marks). E.g. Ancillary industries (1 mark) mean that car manufacturer will have supply of component parts (1 mark) e.g. bulbs and batteries and this will save transport costs (1 mark). Credit reference to reducing long run average costs and give up to 2 marks for definition. List maximum 2 marks	(6)

Question Number	Answer	Mark
9(a)(ii)	Explanations up to 2 marks, examples, 1 mark (maximum 3 marks). E.g. Government can provide tax holidays/subsidies (1 mark) as a financial incentive (1 mark) to encourage firms to set up in an area. It can also provide help and advice (1 mark) so that firms will find it easier (1 mark) to set up in an area. Good infrastructure (1 mark) e.g. transport links (1 mark) could also influence a firm's decision. List maximum 2 marks	(6)

Question Number	Answer	Mark
9(b)	Must relate to advantages and disadvantages of country not firm. Each advantage/disadvantage, 1 mark, development up to 2 marks. Advantages: more jobs/less unemployment (1 mark) fewer unemployment benefits to be paid by government (1 mark). Other advantages include; increase skills, increase technology. Disadvantages: Profits sent back to home country (1 mark), this will worsen the current account (1 mark). Other disadvantages include; externalities, closure of domestic industries. Maximum 5 marks if only advantages OR disadvantages. Maximum 4 for list	(8)

Question Number	Answer	Mark
10(a)(i)	Each benefit identified, 1 mark, development 1 mark. Accept economies of scale and individual economies of scale (technical, marketing),e.g., economies of scale (1 mark) reduce the average costs of the firm so profits rise (1 mark). Other benefits might include reduction of competition/increased market share so profits increase.	(4)

Question Number	Answer	Mark
10(a)(ii)	Each benefit identified, 1 mark, development, 1 mark. Examples include, reduction in price due to economies of scale, better consumer service as large firms can afford to have a specialist department devoted to customer problems.	(4)

Question Number	Answer	Mark
10(b)	Each reason identified, 1 mark, development 1 mark. E.g. decreases competition (1 mark) might increase price (1 mark). Merged firms may rationalise (1 mark) and this may lead to unemployment (1 mark)	(4)

Question Number	Answer	Mark
10(c)	Each method identified, 1 mark, development up to 2 marks. Expect measures which prevent mergers and those which encourage other firms to enter the market. E.g. governments can set up commissions which deal with mergers (1 mark). If the commission decides that the merger is not good for the economy it will not allow the firms to merge (1 mark). The government can encourage firms to set up – these can be foreign firms (1 mark) or small domestic firms (1 mark). It can offer a variety of financial incentives (1 mark) and help and advise (1 mark). Accept measures to encourage foreign competition/privatisation. In the development of the method accept effects/consequences of the identified method.	(8)

Question Number	Answer	Mark
11(a)	Each factor identified, 1 mark, explanation, 1 mark. 2+2 marks. Likely factors are decrease in birth rate, increase in death rate, emigration.	(4)

Question Number	Answer	Mark
11(b)(i)	Russia: each problem identified, 1 mark explanation, 1 mark. E.g. decrease in workforce (1 mark) leads to fall in production (1 mark). May lead to ageing population (1 mark) and increased government expenditure (1 mark).	(4)

Question Number	Answer	Mark
11(b)(ii)	Vietnam: each problem identified, 1 mark explanation, 1 mark. E.g. overpopulation (1 mark) leads to insufficient resources for the population (1 mark). Also lead to overcrowding, congestion, inflation but NOT unemployment.	(4)

Question Number	Answer	Mark
11(c)	Each method identified, 1 mark, development up to 3 marks. E.g. increase the workforce by reducing school leaving age, increasing retirement age or by reducing restrictions on immigrant workers. Help firms to invest in more capital equipment so that production can increase. Increase taxes on working population to pay for ageing population's needs. Incentives to have more children. Accept measures to reduce death rate. Maximum 2 marks for how micro problems can be overcome e.g. ageing population will need more care as they can't look after themselves.	(8)

Question Number	Answer	Mark
12(a)(i)	Maximum marks can be obtained from explanation with or without diagram. Diagram only maximum 4 marks. Explanation: increase in minimum wage rate increases costs for firms 1 mark. Increase in wages likely to reduce demand for labour 1 mark. Some workers can be made unemployed as supply is greater than demand 1 mark. More people will want to work as wages increase so supply will increase but demand may fall 1 mark. Diagram: Axes, original demand and supply and original wage rate 1 mark. Minimum wage rate 1 mark. New quantity demanded and level of unemployed 1 mark. New quantity supplied and level of unemployed 1 mark. Additional marks for other factors e.g. firms may replace workers with machines as wages increase. It is often unskilled workers who lose their jobs and they find it more difficult to find new jobs. Correct definition, 1 mark.	(6)

Question Number	Answer	Mark
12(a)(ii)	Exports become cheaper (1 mark), therefore demand increases (1 mark) leads to employment in export industries (1 mark). Imports become more expensive (1 mark) therefore demand falls (1 mark) leads to employment in domestic industries as foreign competition decreases (1 mark). Correct definition, 1 mark.	(6)

Question Number	Answer	Mark
12(b)(i)	Workers are able to work but choose not to work, 2 marks. Workers who don't work due to idleness, 1 mark. Workers who volunteer for redundancy, 1 mark.	(2)

Question Number	Answer	Mark
12(b)(ii)	Each measure identified, 1 mark development up to 2 marks. Measures include; reduce benefits, increase minimum wage, reduce income tax. E.g. the government can reduce benefits (1 mark) so that workers will be forced to work to maintain their standard of living (1 mark). Increasing the minimum wage rate (1 mark) and/or reducing income taxes (1 mark) will also mean that wages received from working will be more than the amount received from benefits (1 mark) so workers will seek employment (1 mark).	(6)

Question Number	Answer	Mark
13(a)	Percentage change in real (1 mark) GDP (1 mark) over time period (1 mark).	(3)

Question Number	Answer	Mark
13(b)(i)	Each problem identified, 1 mark, explanation, 1 mark. E.g. pollution, congestion, depletion of natural resources, inflation. 2+2 marks	(4)

Question Number	Answer	Mark
13(b)(ii)	Each problem identified, 1 mark, explanation, 1 mark. E.g. recession – unemployment, fall in output, inflation (due to shortages) 2+2	**(4)**

Question Number	Answer	Mark
13(c)	Each factor identified, 1 mark, development, 2 marks. E.g. discovery of natural resources (1 mark), e.g. oil. This will lead to increased employment (1 mark) and output (1 mark). 3x3 marks.	**(9)**