

# Mark Scheme Summer 2009

GCE O Level

## GCE O Level Economics (7120)

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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.

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

Question Number	Answer	Mark
1(a)(ii)	Vertical backward	(1)

Question Number	Answer	Mark
1(a)(iii)	Conglomerate	(1)

Question Number	Answer	Mark
1(b)(i)	Example such as cocoa plantation or more specific example.	(1)

Question Number	Answer	Mark
1(b)(ii)	Example such as steel manufacturer or more specific example - Mittel.	(1)

Question Number	Answer	Mark
1(b)(iii)	Example such as ice cream seller or more specific example.	(1)

Question Number	Answer	Mark
2(a)(i)	1 mark for correct equation = % change in quantity demanded / % change in price. 1 mark for correct figures in equation = 200% / - 50% 1 mark for correct answer = 4 / -4 / 4%	(3)

Question Number	Answer	Mark
2(a)(ii)	Elastic	(1)

Question Number	Answer	Mark
2(a)(iii)	Factor identified, 1 mark. Explanation up to 2 marks. For example luxury item (1 mark) not necessity (1 mark). People might want a mobile phone but will only buy at cheaper price because they can do without it (1 mark) Accept arguments looking at particular brand of mobile phone, for example Motorola has lots of substitute brands. Do not accept factors affecting demand. Award 1 mark for "substitutes" even if referring to demand not elasticity No marks for change in income etc. Accept alternative arguments for mobile phones being a necessity.	(3)

Question Number	Answer	Mark
3(a)	General and/or persistent and or sustained (1 mark) rise in prices (1 mark). Also accept fall (1 mark) in the value of money (1 mark). Don't accept "too much money chasing too few goods".	(2)

Question Number	Answer	Mark
3(b)	Function of money identified = 1 mark for example medium of exchange, store of value. Effect of inflation identified (1 mark), development (2 marks). For example money loses its function as store of value (1 mark) so people save less (1 mark). Savings can't buy as much (1 mark) so people buy gold etc which won't lose its value (1 mark). Where candidate omits function of money and writes about effect(s) of inflation maximum 1 mark.	(4)

Question Number	Answer	Mark
4(a)(i)	Output (1 mark) per worker / person / factor of production (1 mark). Total output/inputs or workers (2 marks). Also accept numerical example for 2 marks. Do not accept measure of efficiency - this is not a definition.	(2)

Question Number	Answer	Mark
4(a)(ii)	The person who organises/gathers the factors of production (2 marks) or takes business decisions (2 marks) or the person who takes the risk (2 marks). Do not accept "owns" or "runs" the business.	(2)

Question Number	Answer	Mark
4(a)(iii)	Splitting of work (1 mark) into smaller tasks (1 mark). Each worker does a small part (1 mark) of the whole job (1 mark). Accept "each group of workers working on a specific task" for 2 marks. Credit example (1 mark) such as one worker straightens the wire, another cuts it in a pin factory.	(2)

Question Number	Answer	Mark
4(b)	Each way identified (1 mark) such as saves time, workers become more skilled. Must refer to division of labour "give them more machines" is insufficient but "tasks are broken down so specialised machinery can be used" is worth a mark.	(2)

Question Number	Answer	Mark
4(c)	Each disadvantage identified, 1 mark, development, 1 mark, for example boredom (1 mark) as tasks are repetitive (1 mark) immobility of labour, demotivation. Also accept problem for worker if one section goes on strike he can't do his job. Reference to interdependency (1 mark). Unemployment (1 mark) as machines can easily replace workers (1 mark).	(4)

Question Number	Answer	Mark
5(a)(i)	2 tonnes of wheat or 2	(1)

Question Number	Answer	Mark
5(a)(ii)	3 tonnes of wheat or 3	(1)

Question Number	Answer	Mark
5(a)(iii)	Country X or X	(1)

Question Number	Answer	Mark
5(a)(iv)	Tractors = 300 (1 mark) Wheat = 600 (1 mark)	(2)

Question Number	Answer	Mark
5(b)	Each disadvantage identified, 1 mark, development, 1 mark. For example crop failure (1 mark), country would have nothing to export (1 mark). For example fall in demand (1 mark) would mean country would earn less (1 mark).	(4)



## SECTION B

Question Number	Answer	Mark
6(a)(i)	As a firm increases output (1 mark) average cost falls (1 mark). Examples, 2 x 1 mark, for example bulk buying, division of labour - also accept general economies, for example marketing, technical, financial. "As a firm grows in size (1 mark) average costs fall (1 mark). Examples are technical (1 mark) and marketing (1 mark)".	(4)

Question Number	Answer	Mark
6(a)(ii)	As an industry increases in size (1 mark) there will be cost advantages to firms in the industry (1 mark). "External economies are those advantages which arise due to the growth of the whole industry" = 1 mark. Must have reference to the benefit to the firm for other mark. No marks for examples.	(2)

Question Number	Answer	Mark
6(b)	Each economy identified, 1 mark, explanation 1 mark. For example ancillary firms (1 mark) in the area can save car firm transport costs for parts (1 mark). Skilled labour (1 mark) can save training costs (1 mark). Good infrastructure (1 mark) can reduce transport costs (1 mark). Do not accept general factors affecting location, for example proximity to raw materials.	(4)

Question Number	Answer	Mark
6(c)(i)	<p>Each method identified, 1 mark, explanation, 1 mark.</p> <p>The methods can be: incentives to move to a particular location, for financial and/or ways of preventing firms setting up in a particular area such as licences, high taxes.</p> <p>For example government can offer tax holidays to set up in an area which reduces a firm's tax bill.</p> <p>For example government may prevent firms setting up in an area by issuing licences only to certain types of firms.</p>	(4)

Question Number	Answer	Mark
6(c)(ii)	<p>Each reason identified, 1 mark, development up to 2 marks.</p> <p>Accept reasons for locating in depressed regions, for example to combat unemployment, low standard of living.</p> <p>Also accept reasons for locating away from congested regions, for example pollution.</p>	(6)

Question Number	Answer	Mark
7(a)(i)	<p>Each reason identified (up to 2 reasons), fairness, motivation, increase standard of living, to decrease voluntary unemployment 1 mark, development up to 2 marks.</p> <p>For example to increase the wages (1 mark) of the poorer workers in the economy (1 mark) so that their standard of living will rise (1 mark).</p> <p>Credit definition with 1 mark.</p> <p>If two reasons not developed + definition maximum 2 marks.</p>	(3)

Question Number	Answer	Mark
7(a)(ii)	<p>Each reason identified (up to reasons), increase competition, efficiency, choice, government revenue 1 mark, development up to 2 marks.</p> <p>For example to increase efficiency (1 mark). This can be done by increasing competition (1 mark) and making them less reliant on government finance (1 mark).</p> <p>Credit definition with 1 mark.</p> <p>If two reasons not developed + definition maximum 2 marks.</p>	(3)

Question Number	Answer	Mark
7(b)	<p>Minimum wage rate: Wage rise above equilibrium (1 mark) leads to fall in demand for workers (1 mark) so firms will make some unemployed (1 mark). Supply of labour exceeds demand (1 mark).</p> <p>Privatisation: to increase efficiency privatised firms may make workers redundant (1 mark) as either overstaffing is reduced or they replace staff with machines (1 mark). Government may have employed more workers as profits not a priority (1 mark). Allow 1 mark for definition of privatisation.</p> <p>For maximum marks candidates must consider both minimum wage rates and privatisation. If only one considered maximum 4 marks.</p> <p>Candidates can score up to 4 marks for either part of answer. Credit MWR diagrams.</p>	(6)

Question Number	Answer	Mark
7(c)(i)	<p>Definition should include reference to “improving the working of the market” and/or “incentives for individuals and firms to increase their productivity” .</p> <p>Accept reference to increase aggregate supply (1 mark) in the long run (1 mark).</p> <p>Do not accept reasons for supply side policy, for example to cut unemployment / inflation / to promote economic growth.</p> <p>Accept an example of supply side policy for 1 mark, such as education and training, reducing the power of trade unions, removing regulations.</p>	(2)

Question Number	Answer	Mark
7(c)(ii)	<p>Supply side policy identified 1 mark. Up to 3 marks for explanation of how it can reduce unemployment. Expect candidates to concentrate on education and training with better candidates also referring to reducing power of trade unions.</p> <p>For example workers who are unemployed because the demand for their skills has fallen (1 mark) need to be retrained (1 mark) so that they can find work in growing industries (1 mark).</p> <p>If the power of the trade unions is reduced (1 mark) firms may employ more workers as wages may fall (1 mark).</p> <p>Credit fiscal and monetary policies used in supply side context, for example income tax and subsidies, but must refer to increase in supply.</p> <p>Maximum 3 marks if policies not explained.</p> <p>For full marks must have some reference to why supply side policies may not reduce unemployment or reference to long term nature of the policies.</p>	(6)

Question Number	Answer	Mark
8(a)(i)	Each reason identified, 1 mark, for example falling birth rate, increasing death rate, lower immigration, higher emigration, population decreasing, ageing population.	(2)

Question Number	Answer	Mark
8(a)(ii)	Each problem identified, 1 mark, development, 1 mark, for example wages may rise (1 mark) as demand grows faster than supply (1 mark). Fewer new workers so less extra income tax revenue (1 mark) than before. Government will have to either slow growth in spending or raise taxes (1 mark). Rate of economic growth could slow. Imports may rise (1 mark) as domestic production falls (1 mark). Inflation (1 mark) due to fewer goods being produced (1 mark).	(4)

Question Number	Answer	Mark
8(b)	Each method identified, 1 mark, for example incentives for more immigrants (1 mark for each), raise the retirement age, lower the school leaving age, incentives for more women to work.	(2)

Question Number	Answer	Mark
8(c)(i)	Each advantage identified, 1 mark, development up to 2 marks. For example raise retirement age = fewer pensions to pay out (1 mark). Workers will already have skills (1 mark) so costs of training will be saved (1 mark). Each disadvantage identified, 1 mark, development up to 2 marks. For example older workers may not be able to cope with new technology (1 mark) so firms may not become efficient/competitive (1 mark) and may also need more time off with health problems (1 mark). If only advantages or disadvantages considered maximum 4 marks.	(6)

Question Number	Answer	Mark
8(c)(ii)	<p>Each advantage identified, 1 mark, development up to 2 marks. For example increase immigration = workers may be enthusiastic and more productive (1 mark) as they have chosen to move to a new country for work (1 mark). May have families who will also contribute to the workforce in a short time (1 mark).</p> <p>Each disadvantage identified, 1 mark, development up to 2 marks. For example may need to be taught skills (1 mark) which costs time and money (1 mark). Families may require education and health care so government expenditure rises.</p> <p>If only advantages or disadvantages considered maximum 4 marks.</p>	(6)

Question Number	Answer	Mark
9(a)(i)	More dollars (1 mark) can be bought with 1 euro (1 mark) or The Euro is worth more (1 mark) in terms of US dollars (1 mark). The value of the euro has increased (1 mark) in exchange for the dollar (1 mark). Also accept depreciation of dollar explanation such as fewer euros for 1 dollar. Credit numerical example 2 marks.	(2)

Question Number	Answer	Mark
9(a)(ii)	Each factor identified, 1 mark, development, 1 mark. For example if demand for exports rises then demand for currency rises so currency appreciates. For example higher interest rates can attract speculative deposits increasing the demand for the currency. Credit reference to confidence in government policies/stability of government and economy.	(4)

Question Number	Answer	Mark
9(b)(i)	Effect identified, 1 mark, development up to 2 marks, such as exports more expensive (1 mark) so demand falls (1 mark). Imports cheaper (1 mark) so demand rises (1 mark). Current account likely to worsen (1 mark). Credit candidates who refer to effect of elasticity of demand on exports and imports.	(5)

Question Number	Answer	Mark
9(b)(ii)	Effect identified, 1 mark, development up to 2 marks. For example multinational will now have to pay more for setting up in the country (1 mark). Its exports will now be less competitive (1 mark) and it will have to compete with cheaper imports (1 mark). If appreciation caused by interest rate rise it will have to pay more for loans in country (1 mark).	(5)

Question Number	Answer	Mark
9(b)(iii)	Effect identified, 1 mark, development up to 2 marks, for example as exports fall so exporting firms will need fewer workers (1 mark). Also firms producing for the domestic market face competition (1 mark) from cheap imports (1 mark) so they will also need fewer workers.	(4)

Question Number	Answer	Mark
10(a)(i)	Each effect identified, 1 mark, explanation, 1 mark, such as improve balance of payments as demand for oil is inelastic so TR increases. Also accept ways in which increased oil revenue could be used in the economies - increased education, infrastructure.	(4)

Question Number	Answer	Mark
10(a)(ii)	Each effect identified, 1 mark, explanation, 1 mark, such as inflation, search for alternatives, worsens balance of payments as demand for oil is inelastic.	(4)

Question Number	Answer	Mark
10(b)(i)	Each method identified including methods to reduce imports, 1 mark, explanation up to 2 marks, such as fiscal measures, alternative sources of power, incentives to use alternatives. For example high taxes on oil (1 mark) will increase the price (1 mark) and may decrease demand (1 mark). Subsidies and grants to households (1 mark) to use alternative methods of power (1 mark) for example wind turbines (1 mark) will decrease the demand for oil.	(6)

Question Number	Answer	Mark
10(b)(ii)	Each factor identified, 1 mark, explanation up to 2 marks, for example accept investment in search for oil, war and disagreements between countries can disrupt supply, role of OPEC. Accept increasing demand will influence the supply of oil as price rises so countries/firms will try to increase supply. This type of response may go on to mention factors above.	(6)

Question Number	Answer	Mark
11(a)(i)	Each characteristic identified, 1 mark, for example government decides what is produced, how it is produced and for whom. 1 mark for each. Also accept shortages / rationing, no / limited freedom of choice, price stability due to stiff government control, prices fixed by government, social benefits, eg education and health, goods not produced for profit motive but for welfare of the people, profit not the main goal, government owns and controls firms, government directs workforce.	(2)

Question Number	Answer	Mark
11(a)(ii)	Each characteristic identified, 1 mark, for example price mechanism determines price, no government interference, consumer sovereignty, freedom of choice and production, profit motive, individuals can own private property. Do not accept references to mixed economy, such as private and public ownership.	(2)

Question Number	Answer	Mark
11(b)(i)	1 mark for rate of interest would rise. Each effect 1 mark, explanation up to 4 marks. For example cost of borrowing would increase (1 mark) so consumers would borrow less (1 mark) and so would spend less (1 mark) and therefore demand pull inflation would be less (1 mark). Also accept increase in savings, fall in spending. Mortgage rate increases so less money available to spend. Maximum 4 marks for response which is repetitive as it looks at increase and decrease in interest rate on one group.	(5)

Question Number	Answer	Mark
11(b)(ii)	<p>Each effect 1 mark, explanation up to 2 marks.            For example high interest rates increase cost of borrowing for firms (1 mark) so investment may fall (1 mark). This would lead to a fall in economic growth (1 mark). Also accept lower consumer demand might lead to fall in unemployment, unemployed resources = lower economic growth.</p> <p>Maximum 4 marks for response which is repetitive as it looks at increase and decrease in interest rate on one group, for example increase in interest rate would lead to lower consumer demand might lead to fall in unemployment, unemployed resources = lower economic growth. A decrease in interest rates would lead to increased consumer demand etc.</p>	(6)

Question Number	Answer	Mark
11(c)	<p>Each advantage identified, 1 mark, maximum 3.            Development up to 3 marks.            For example increases trade with other countries (1 mark) as trade barriers will fall (1 mark) so exports will increase (1 mark) because costs may be lower (1 mark) in countries like Vietnam, increased participation in world affairs.            WTO will mediate in trade disputes (1 mark) so can improve trading relationships (1 mark).</p>	(5)

Question Number	Answer	Mark
12(a)	Government revenue/income more than government expenditure or government expenditure less than government revenue.	(2)

Question Number	Answer	Mark
12(b)(i)	Each effect identified, 1 mark (maximum 3 effects), development up to 2 marks. Accept long run and short run approach, for example LR = decrease in economic growth (1 mark) as workforce becomes less skilled (1 mark) so productivity will fall (1 mark). SR = Increase in unemployment (1 mark) as many teachers may lose their jobs (1 mark). Accept fall in occupational mobility.	(5)

Question Number	Answer	Mark
12(b)(ii)	Each effect identified, 1 mark (maximum 3 effects), development up to 2 marks. For example fall in the standard of living (1 mark) of the poor (1 mark). It may reduce voluntary unemployment as unemployed may decide to look for work (1 mark) as their "income" has fallen (1 mark). Also accept increase of gap between rich and poor.	(5)

Question Number	Answer	Mark
12(c)(i)	Each advantage, 1 mark, development 1 mark. For example more disposable income (1 mark) so standard of living will rise (1 mark). Improved incentives to work (1 mark). Each disadvantage, 1 mark, development 1 mark. For example higher levels of spending (1 mark) may lead to inflation (1 mark), increase in poverty gap (1 mark) as benefit rich - those earning (1 mark). Do not accept government revenue will fall for a disadvantage.	(4)

Question Number	Answer	Mark
12(c)(ii)	<p>Each advantage, 1 mark, development, 1 mark.            For example lower prices (1 mark) so people can buy more. Increases standard of living (1 mark), benefits poor (1 mark) as they are regressive (1 mark).</p> <p>Each disadvantage, 1 mark, development, 1 mark.            For example demand will increase (1 mark) and if not supplied by domestic firms then imports may rise (1 mark).            Do not accept government revenue will fall for a disadvantage.</p>	(4)

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