



**General Certificate of Secondary Education
2018**

Economics

Paper 2

[G9272]

WEDNESDAY 6 JUNE, AFTERNOON

**MARK
SCHEME**

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

Section A

**AVAILABLE
MARKS**

- 1 (a)** A business might need finance for any of the following reasons:
- To start up a business
 - To buy new capital equipment
 - To pay bills
 - To expand the business

Award [2] for a clear and accurate explanation; or [1] mark for a flawed or partial explanation. [2]

- (b)** An overdraft is a type of loan which allows the business to withdraw more money from its account than is lodged there.

Award [2] for a clear and accurate definition; or [1] for a flawed or partial definition. [2]

A mortgage is a loan secured on property. It is usually repaid over a long time period such as 25 years.

Award [2] for a clear and accurate definition; or [1] for a flawed or partial definition. [2]

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- 2 (a)** The equilibrium or market clearing price is £14 and 40 vegetable boxes are demanded and supplied each week.

Award [1] for identifying the price at £14 and allow [1] for stating that the quantity demanded and supplied will be 40 per week. [2]

- (b)** At £20 per vegetable box, 10 will be demanded but 70 will be supplied. This means that the farmer will have 60 left over vegetable boxes (excess supply).

Award [2] for a clear and accurate explanation that makes use of data; or [1] for a flawed or partial explanation. [2]

- (c)** There are a range of factors that could cause the demand for vegetable boxes to increase (a shift to the right in the demand curve) including:
- Better advertising by the farmer for example, setting up a web site
 - An increase in the number of people living in the market catchment area
 - Other suppliers (shops and supermarkets) experience difficulty in meeting demand (limited substitutes)
 - Consumers become more aware of the health benefits of fresh organic vegetables creating a change in taste and fashion.
 - A rise in consumers' incomes.
 - The impact of changes in demand for complements or substitutes.

Award [2] for a clear and accurate explanation; or [1] for a flawed or partial explanation. [2]

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3 (a) The public sector is that part of the economy owned and controlled by the government providing public and merit goods, running key services, and in a few instances, industries.

Award [2] marks for a clear and accurate definition; or [1] mark for a flawed or partial definition. [2]

(b) Privatisation refers to the transfer of an asset or company from the public sector to the private sector.

Award [2] for a clear and accurate definition; or [1] for a flawed or partial definition. [2]

(c) Advantages may include:

- Raises revenue for the government
- A more efficient service may be provided
- Government may not have to subsidise any losses incurred.

Disadvantages may include:

- Services may be cut
- Government loses future profits
- Fares for consumer might rise

Award [2] for any well explained advantage or disadvantage; or [1] for a flawed or partial explanation. [4]

Section A

**AVAILABLE
MARKS**

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Section B

**AVAILABLE
MARKS**

- 4 (a)** The exchange rate of the pound is the price of one pound in terms of another currency or basket of currencies.

Depreciation refers to a fall in the value of the pound, which is a floating exchange rate, against another, or other, currencies.

In each case award [2] for a clear definition [1] for a flawed or partial definition. [4]

- (b)** At the start of January 2016 the pound was worth approximately \$1.45. Until June, the rate stayed close to this, but in July the value of the pound against the dollar followed a downward trend. This followed the Brexit vote for the UK to leave the EU. The pound dropped sharply to \$1.30 and remained around this rate until September. The downward trend continued into October where it dropped to the lowest level for the year at \$1.20. For the final two months, there was a slight improvement to finish the year at \$1.25. Overall throughout the year the depreciation from £1=\$1.50 to finish at £1=£1.22 represented an approximate depreciation of 16%.

Allow up to [2] for describing what happened and [2] for use of data [4]

- (c) (i)** The depreciation of the pound would mean that it would take more sterling to buy US dollars. This would increase the cost of the holiday.

Award up to [3] for a clear explanation of the impact.

- (ii)** The depreciation would mean that the dollar now buys more pounds. The engineering firm's products would become cheaper in dollar terms and they might have an increase in sales.

Award up to [3] for a clear explanation of the impact. [6]

- (d)** The main advantage of the fall in the value of the £ against the US \$ in 2016 is that exported goods and services are cheaper in foreign currency terms. This might lead to an increase in exports. This rise in exports could lead to higher economic growth and lower unemployment. On the other hand the price of imports is likely to rise. This could lead to a fall in the standard of living as consumers could afford fewer goods. Firms would face rising costs and falling profits. The rise in import prices could generate higher inflation and result in lower economic growth.

Allow up to [3] for each valid advantage and disadvantage.

(2 × [3]) [6]

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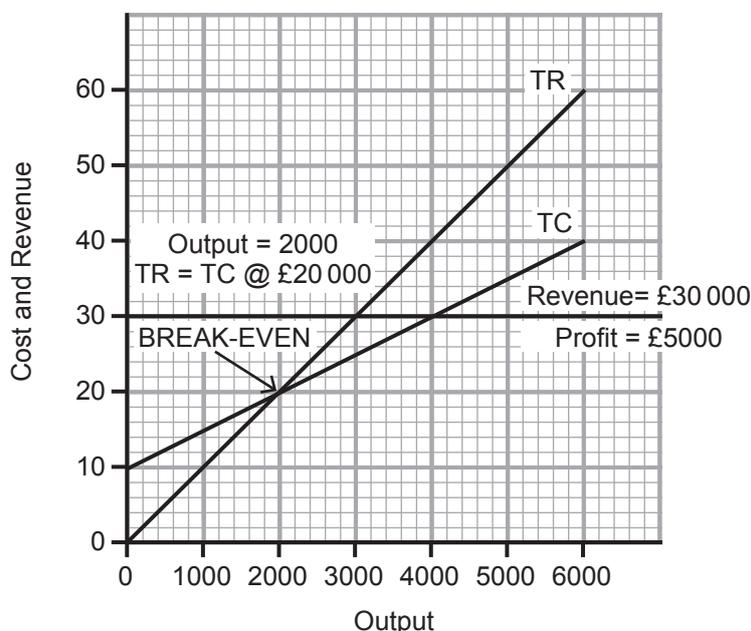
- 5 (a) Factors of production may include:
- Land. In the form of the land for the factory or the wood used in the doors.
 - Labour. The workers involved in manufacturing the doors.
 - Capital. The machinery and tools used in door production.
 - Enterprise. The owner of the company.

Award up to [2] for each factor of production identified and illustrated (2 × [2]). [4]

- (b) An advantage of specialisation is that the company gains expertise in that particular field. This can lead to rising productivity and greater efficiency. This in turn can lead to lower average costs, increased investment in research and development and increased profit.

Award up to [2] for a well explained advantage [2]

- (c) Award [2] for correctly labelling axes. [1] for the total revenue (TR) line, [1] for total cost (TC) line and [1] for identifying break even output at 2000. [5]



- (d) At a revenue of £30 000 the firm's total cost is £25 000. As profit is total revenue minus total cost the firm makes £5 000 profit.

Award [1] for understanding profit is equal to total revenue minus total cost and [2] for correctly calculating profit. [3]

- (e) An advantage of this type of merger (conglomerate integration) is that there is less risk for the business. If there is a downturn in one area of the business then it would still be making sales in another. Furthermore, the larger business can benefit from internal economies of scale.

A disadvantage would be that the company could become too large in unrelated areas and suffer from diseconomies of scale. Credit should be given to other relevant advantages and disadvantages. Award up to [3] for each advantage and disadvantage. [6]

Section B

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Section C

AVAILABLE
MARKS

- 6 (a) Fiscal policy is government policy relating to taxes, spending and public sector borrowing. Governments will levy a variety of both direct and indirect taxes. They will also spend money on a range of goods, including public and merit goods and transfer payments. Fiscal policy can be used to achieve a more equitable distribution of income; it can also be used to achieve government economic objectives. In the UK fiscal policy is the responsibility of HM Treasury and the key element is the government's annual budget.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[2])

Some understanding of fiscal policy but it is limited and not developed. Quality of written communication is limited.

Level 2 ([3]–[4])

A good understanding of fiscal policy with limited development. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is clear understanding and well developed explanation of fiscal policy. Quality of written communication is of a high standard. [6]

- (b) The government levies taxes for a range of reasons. These include:
- To discourage consumption of demerit goods. Government will impose high taxes on goods such as alcohol or tobacco which are viewed as being demerit goods
 - To pursue environmental objectives. Government may impose taxes on activities which are deemed harmful to the environment. Examples of such taxes would be duties on fuel, air passenger duty or the plastic bag tax
 - To raise revenue to fund government spending on education, the NHS, etc.
 - To redistribute income from rich to poor through a progressive income tax system
 - To achieve government economic objectives, for example raising direct taxes if there is inflation.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[3])

There is some understanding of why governments levy taxes but the explanation is not well developed. Quality of written communication is limited.

Level 2 ([4]–[6])

There is a reasonable explanation of why governments levy taxes. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

There is a well developed explanation of why governments levy taxes. Quality of written communication is of a high standard. [9]

- (c) Some economists argue for a reduction in government spending because this could benefit the economy in the following ways:
- Some government spending is wasteful and inefficient
 - Cutting spending would allow taxes to be cut which would boost spending and give consumers more choice over how to spend their money
 - It would help reduce government borrowing which remains at high levels
 - Reduced government spending could lead to a stronger private sector, which could promote competition.

However, cuts in government spending can cause problems, for example:

- It would mean less money for the NHS and schools, people might have to turn to private provision.
- A cut in government spending might cause a fall of demand in the economy leading to a rise in unemployment and a fall in growth.
- It could lead to greater inequality as benefits to the elderly, disabled and less well off are cut
- Aggregate demand decreases due to the decrease in government spending
- Less spending on infrastructure.

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[5])

There is some understanding of the impact of reducing government spending. Quality of written communication is limited.

Level 2 ([6]–[10])

There is a good understanding of the impact of reducing government spending. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

A comprehensive understanding of the impact of reducing government spending. Quality of written communication is of a high standard.

[15]

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AVAILABLE
MARKS

- 7 (a) Supply is the quantity of a good or service supplied at a given price at a set point in time. The relationship between the price of a good and the quantity supplied is illustrated by a supply curve which slopes upward from left to right.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[2])

Some understanding of supply but it is limited and not developed. Quality of written communication is limited.

Level 2 ([3]–[4])

A good understanding of supply with limited development. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is clear understanding and well developed explanation of supply. Quality of written communication is of a high standard. [6]

- (b) There are a number of factors which may have caused a fall in the supply of coffee beans. These include:

- Cost. There may have been an increase in the cost of producing coffee beans. This might have occurred due to a rise in workers' wages.
- Weather. Poor weather conditions may have led to a fall in the production of coffee beans, reducing its supply.
- Subsidies. Governments previously subsidising coffee bean production may have decided to reduce those subsidies.
- Taxation. Government may have increased taxes on the production of coffee beans.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[3])

There is some understanding of why the supply of coffee beans might have fallen but it is not well developed or limited. Quality of written communication is limited.

Level 2 ([4]–[6])

There is a reasonable explanation of why the supply of coffee beans might have fallen. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

There is a well developed explanation of why the supply of coffee beans has fallen. Quality of written communication is of a high standard. [9]

(c) The growth of large firms has a number of implications for consumers, other producers and the economy as a whole. These include:

Consumers

- Large firms often provide a more consistent quality of service for consumers.
- Large firms usually have lower average costs and so can often charge consumers lower prices than smaller firms.
- Large firms may gain monopoly power and abuse this position by raising prices or providing a lower quality service.

Other producers

- Smaller firms might be unable to cope with the growth of large companies and could be forced out of business.
- Suppliers of equipment might make more sales as companies grow.
- Other producers may look for efficiency savings to compete.

Economy as a whole

- The growth of companies like Starbucks can create jobs in the economy.
- Large companies might make more profit and pay more tax, but on the other hand these companies might try to avoid tax.
- Generates more competition.
- Larger firms may be in a better position to generate exports.
- Larger firms may generate negative externalities, e.g. pollution.

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[5])

There is some understanding of the impact of the growth of large companies. Quality of written communication is limited.

Level 2 ([6]–[10])

There is a good understanding of the impact of the growth of large companies. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

A comprehensive understanding of the impact of the growth of large companies. Quality of written communication is of a high standard.

[15]

AVAILABLE
MARKS

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- 8 (a) Economic growth is an increase in the productive potential of an economy. It is usually measured by an increase in real GDP. Economic growth means an economy can produce a greater output of goods and services. It is commonly illustrated by an outward shift of the PPF.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[2])

Some understanding of economic growth but it is limited and not developed. Quality of written communication is limited.

Level 2 ([3]–[4])

A good understanding of economic growth with limited development. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is clear understanding and well developed explanation of economic growth. Quality of written communication is of a high standard. [6]

- (b) Governments can encourage economic growth in a number of ways. Economic growth is achieved by an increase in the quantity or quality of factors of production or more efficient use of them. Taking each factor in turn

Land: Government can encourage companies to exploit natural resources, e.g. grants or tax cuts for companies engaging in fracking.

Labour: Government can promote training and education of the workforce to promote skills. They can try and increase the size of the workforce by encouraging immigration or providing childcare.

Capital: Government can try and encourage investment to improve quantity and quality of capital. They may offer grants to companies, or reduce tax on profits.

Enterprise: Government may provide assistance to entrepreneurs to set up in business.

Alternatively students may analyse how fiscal, monetary and supply side policies may increase the rate of economic growth.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[3])

There is some understanding of how government can promote economic growth but it is not well developed or limited. Quality of written communication is limited.

Level 2 ([4]–[6])

There is a reasonable explanation of how government can promote economic growth. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

There is a well developed explanation of how government can promote economic growth. Quality of written communication is of a high standard. [9]

(c) Economic growth has both advantages and disadvantages which may include:

Advantages

- Economic growth generates more goods and services helping deal with the basic economic problem of scarcity.
- It will generate jobs helping reduce unemployment.
- The production of more goods and services can help improve the standard of living.
- It can generate more tax revenue allowing for funding of a wider range of goods and services.
- Economic growth could generate a higher level of income.

Disadvantages

- Economic growth can generate significant external costs including pollution.
- Economic growth can use up scarce non renewable resources
- High rates of economic growth can lead to inflation
- Economic growth may result in a widening gap between rich and poorer households.

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[5])

There is some understanding of the advantages or disadvantages of economic growth. Quality of written communication is limited.

Level 2 ([6]–[10])

There is a good understanding of the advantages and disadvantages of economic growth. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

A comprehensive understanding of the advantages and disadvantages of economic growth. Quality of written communication is of a high standard.

[15]

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AVAILABLE
MARKS

- 9 (a) Foreign aid is assistance given to less developed countries to assist with the development process. The aid can be in the form of money, goods or expertise. Aid can be given by governments, NGOs or international organisations.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[2])

Some understanding of aid. Quality of written explanation is limited.

Level 2 ([3]–[4])

A good understanding of aid with limited development.
Quality of written communication is satisfactory.

Level 3 ([5]–[6])

There is clear understanding and well developed explanation of aid. Quality of written communication is of a high standard. [6]

- (b) Developing countries have a number of common features. These include:
- Low levels of income with substantial poverty.
 - Higher dependence on the primary sector of their economy.
 - Low levels of educational attainment with children attending school for short periods of time and high levels of illiteracy.
 - Poor health care with low life expectancy and high infant mortality.
 - Poor infrastructure causing problems with water supply and electricity supply.

Other relevant characteristics will be acceptable.

Level 0 [0]

There is no content worthy of credit.

Level 1([1]–[3])

There is some understanding of the features of developing countries but it is limited. Quality of written communication is limited.

Level 2 ([4]–[6])

There is a reasonable discussion of the features of developing countries.
Quality of written communication is satisfactory.

Level 3 ([7]–[9])

There is a well developed explanation of the features of developing countries. Quality of written communication is of a high standard. [9]

- (c) It has been argued that removing trade barriers would help promote trade and growth in developing countries. If these countries exports did not face restrictions then they could sell freely into more developed countries. As a result output would rise leading to economic growth. This would generate jobs in exporting industries and help raise income levels and reduce poverty. Tax revenue would increase and government would have more money to spend on health, education and welfare.

However, it could be argued that trade alone would not be enough to benefit developing economies. Many of these countries lack the resources to produce substantial amounts of goods for exports. Firms may lack capital equipment and skilled workers. There may not be sufficient and reliable sources of energy to power machinery, or adequate infrastructure to transport goods. For this reason help in the form of aid may also be needed.

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[5])

There is some understanding of the impact of reducing government spending. Quality of written communication is limited.

Level 2 ([6]–[10])

There is a good understanding of the impact of reducing government spending. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

A comprehensive understanding of the impact of reducing government spending. Quality of written communication is of a high standard.

[15]

Section C

Total

**AVAILABLE
MARKS**

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