



General Certificate of Secondary Education

Economics

Paper 1

[G9281]

Assessment

**MARK
SCHEME**

General Marking Instructions

Introduction

Mark schemes are intended to ensure that the GCSE examinations are marked consistently and fairly. The mark schemes provide markers with an indication of the nature and range of candidates' responses likely to be worthy of credit. They also set out the criteria which they should apply in allocating marks to candidates' responses.

Assessment objectives

Below are the assessment objectives for Economics.

Candidates must:

- AO1** recall, select and communicate their knowledge and understanding of concepts, issues and terminology;
- AO2** apply skills, knowledge and understanding in a variety of contexts; and
- AO3** analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions.

Quality of candidates' responses

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 16-year-old which is the age at which the majority of candidates sit their GCSE examinations.

Flexibility in marking

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 16-year-old GCSE candidate.

Awarding zero marks

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

Marking Calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error.

Types of mark schemes

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

Tasks and questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Quality of written communication

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within levels of response as follows:

- Level 1: Quality of written communication is limited.
- Level 2: Quality of written communication is satisfactory.
- Level 3: Quality of written communication is of a high standard.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable selection and use of an appropriate form and style of writing. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning clear.

Level 3 (High Standard): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

How to determine a level and a mark

How to determine a level

1. Start at the lowest level of the mark scheme and use it to see whether the answer meets the descriptor for that level.

The descriptor for the level indicates the different qualities and content that might be seen in the student's answer for that level.

2. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer.

With practice and familiarity, you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

3. When assigning a level you should look at the overall quality of the answer.

Do not pick holes in small and specific parts of the answer where the student has not performed quite as well as in the rest of their answer.

4. If the answer covers different aspects of different levels of the mark scheme examiners should use a 'best fit' approach bearing in mind that weakness in one area may be compensated for by strength in another. Use a 'best fit' approach for defining the level and then use the variability of the response to help decide the mark within the level.

For example, if the response is predominantly within the level 2 descriptor but also includes a small amount of the level 3 descriptor, it would be placed in level 2 but you should award it a mark near the top of the level 2 descriptor because it covers some of the requirements of the level 3 descriptor.

How to determine a mark

1. You may need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme. Also, an answer which contains nothing of relevance to the question must be awarded no marks.

2. Examiners are required to assign each of the students' responses to the most appropriate level according to its overall quality, then allocate a single mark within the level.

When deciding upon a mark in a level, examiners need to be mindful of the relative weightings of the assessment objectives and be careful not to over/under credit a particular skill. For example, in some specific questions more weight should be given to AO2 than to AO1 or AO3, so be mindful of this as you mark each question.

Section A

AVAILABLE
MARKS

1 (a) *What is meant by an internal economy of scale?*

An internal economy of scale happens when a firm is able to produce goods or services at a lower average cost as a result of growth. Producing goods or services on a larger scale usually results in greater efficiency and this can be passed on to consumers in the form of lower prices or more efficient services.

Other relevant answers should be credited.

Allow [1] for partial or flawed definition.

Allow [2] for a correct and full definition.

(AO1)

[2]

(b) *Explain two types of internal economies of scale from which PA Consulting may benefit.*

PA Consulting is a global business employing 2600 workers. They are likely to enjoy the full range of internal economies of scale as follows:

- Technical economies: they are likely to use specialist computer technology to increase the quantity and quality of their output
- Marketing economies: they can use the same advertising in the countries in which they operate hence spreading the cost
- Financial economies: as a large firm, they are likely to be able to raise capital at competitive rates which will decrease costs per unit
- Managerial economies: they will be able to employ highly skilled managers and use their expertise across their global network to improve efficiency
- Risk-bearing economies: they can take on a wider range of types of work as they can spread the risks associated with new work and new markets
- Purchasing economies: as a large firm they are likely to buy in bulk which means they may receive a discount

Allow [1] for identification of each type of internal economy of scale (2 × [1]) and [1] for the correct explanation of each (2 × [1]).

(AO1, AO3)

[4]

(c) *Using an example, explain what is meant by an external economy of scale.*

An external economy of scale is a fall in the average cost for the firm that arises because of the growth of the industry in which the firm operates. Every firm in the industry can potentially benefit. In the case of PA Consulting, they announced that their choice of Belfast was due to the pool of talent, the good universities and the thriving technology sector. Hence they will have access to a skilled workforce which will help reduce their training costs.

Other relevant answers should be credited.

Allow [1] for a flawed or partial definition.

Allow [2] for correct definition supported by a relevant example.

(AO1, AO2)

[2]

8

2 (a) (i) *Identify the country with the highest productivity per worker.*

Allow [1] for USA.

(ii) *By how much does this country's productivity per worker differ from the productivity of UK workers?*

Allow [1] for 37.2%.

(AO2)

[2]

(b) *Explain two possible factors that may have caused the score for the UK's GDP per worker to differ from the scores for the other countries.*

Possible factors that may have caused the difference in the UK's GDP per worker include:

- Lack of investment in new technology
- Inferior education and training resulting in poorer quality workforce
- Less efficient workforce perhaps due to higher number of days lost through poor health

Other relevant answers should be accepted.

Allow [1] for identification of each possible factor (2 × [1]) and [1] for explanation (2 × [1]).

(AO3)

[4]

AVAILABLE
MARKS

6

3 (a) Define what is meant by a tariff.

A tariff is a tax on imported goods that makes them more expensive to buy. Sometimes it is called a customs duty.

Other relevant answers should be accepted.

Allow [1] for partial or flawed definition.

Allow [2] for a correct and full definition. [2]

(AO1)

(b) Explain one possible impact on USA consumers if tariffs are imposed on Chinese imports.

Imported Chinese goods are likely to be much more expensive as the stimulus states that the tariffs will be high. US consumers will either have to pay higher prices for Chinese imports, or find substitute products produced either in the USA, or in countries with which the USA trades more freely.

Other relevant answers should be accepted.

Allow [1] for partial or flawed explanation.

Allow [2] for a correct and full explanation. [2]

(AO3)

(c) Identify and describe one method of trade protection other than a tariff.

Other types of trade protection include:

- Embargos: these are a total ban on the imports from a designated country, e.g. for a specified health reason such as when British beef was banned in many countries following the foot and mouth outbreak, or it could be due to political relationships such as the UK's ban on trade with Iran
- Quotas: this limits the quantity of a good that can be imported, e.g. the EU is considering limiting the quantity of steel imports from the USA in response to their tariffs
- Subsidies: governments may provide subsidies to domestic producers to help them compete with cheaper imported goods

Other relevant answers should be accepted.

Allow [1] for correct identification and [1] correct description. [2]

(AO1, AO3)

AVAILABLE
MARKS

6

Section B

**AVAILABLE
MARKS**

- 4 (a)** *Using the graph paper provided, plot the demand and supply for places on the package tour holiday. Label the diagram carefully including the market clearing (equilibrium) price and quantity.*

Allow [1] for each of the following:

1. the vertical and horizontal axes correctly drawn and labelled
2. the demand curve plotted and labelled
3. the vertical supply plotted and correctly labelled
4. the equilibrium price identified at £3500
5. the equilibrium quantity (number taking the holiday) at 200 [5]
(AO1, AO2)

- (b)** *The tour organisers plan to provide an extra 100 places on the holiday. On your diagram, show how this will affect the market clearing (equilibrium) price and quantity.*

Allow [1] for each of the following:

1. the new vertical supply plotted at 300 and correctly labelled
2. the equilibrium price identified at £2500
3. the equilibrium quantity (number taking the holiday) at 300 [3]
(AO1, AO2)

- (c)** *Using demand and supply diagrams, explain how each of the following events could affect the market for tourism in Zambia:*

- (i)** *the Zambian government provides subsidies to its tourist industry to build more hotels.*

Allow [1] for each of the following:

- sketch D and S diagram showing a shift to the right of the S curve
- a fall in equilibrium price, and
- short explanation of why the supply curve shifted [3]

- (ii)** *UK tourists who experienced the holiday provide excellent reviews on social media.*

Allow [1] for each of the following:

- sketch D and S diagram showing a shift to the right of the D curve
- an increase in equilibrium price, and
- short explanation of why the demand schedule shifted to the right [3]
(AO1, AO2, AO3)

(d) (i) *What is meant by social costs?*

Social costs include private costs borne by individuals directly involved in an economic transaction together with the external costs borne by third parties not directly involved in the transaction.

Other relevant answers should be accepted.

Allow [1] for a flawed definition

Allow [2] for a correct definition

(AO1)

[2]

(ii) *Using examples, explain two possible social costs that could result from increased tourism in developing countries like Zambia.*

Social costs include private costs (PC) and negative externalities (NE).

Examples include:

- High investment costs for the Zambian government for capital projects and infrastructure that may require higher taxation burden on citizens or higher borrowing, or diversion of scarce public funds from areas such as education and health spending (PC)
- Greater costs of training staff (PC)
- Pollution in the form of traffic congestion, or noise, e.g. from aircraft, or emissions, e.g. from increased use of buses and cars (NE)
- Loss of environment and habitat, e.g. to build infrastructure such as roads and hotels (NE)

Other relevant answers should be accepted.

Allow [1] for identification of each relevant social cost (2 × [1]) and

allow [1] for explaining each cost

(2 × [1])

(AO1, AO3)

[4]

AVAILABLE
MARKS

20

5 (a) Using Fig. 1, describe the trend, and the expected future trend, in the UK's coffee shop market between 2013 and 2022.

- There is a general upward trend both to 2017 and the projected trend to 2022
- There was a general steady upward trend in the growth of coffee shops in the UK from a starting position of 17 000 in 2013 to 24 000 in 2017. This is an increase of 7000 over 5 years
- The projected trend from 2018 until 2022 is expected to continue this steady upward trend from 25 000 in 2018 to 32 000 in 2022. Again, this is a growth of 7000 over 5 years

Allow [1] for identification of upward trend;

Allow up to [2] for use of data to illustrate the magnitude of change over the 10 year period. [3]

(AO2)

(b) Coca-Cola bought the Costa coffee shop chain in 2018.

(i) Identify this type of integration

Allow [1] for lateral integration. [1]

(ii) Explain two possible reasons why Coca-Cola bought Costa Coffee.

Reasons include:

- Diversification as demand in the soft drinks market is falling
- Growth as the coffee market internationally is growing. This will reduce risk for Coca-Cola as they won't have to just rely on the soft drinks industry.
- This will keep them maximising their profits by operating in a growing market.
- Economies of scale such as frequent and purchasing economies of scale.

Other relevant answers should be credited.

Allow [1] for identifying each relevant point and up to [2] for the explanation (2 × [3])

(AO1, AO2, AO3) [6]

(c) Explain why has the government banned the sale of some fizzy energy drinks to young people under 18 years of age.

- Fizzy energy drinks have been identified as causing health issues due to their high sugar and caffeine content
- The government considers them to be demerit goods, namely they are over-consumed in the market probably because they are affordable to that age group
- This is an example of market failure therefore the government has intervened in the market to ban the sale of the goods to this age group

Other relevant answers should be credited.

Allow up to [2] for identification that fizzy drinks are considered to be demerit goods and allow up to [2] for the supporting explanation. [4]

(AO2, AO3)

(d) Discuss two ways in which Coca-Cola's takeover of Costa Coffee could have an impact on Coca-Cola's competitors in the market.

AVAILABLE
MARKS

Possible impacts include:

- Other fizzy drinks firms may follow this lead and look to expand in a similar way by a merger or take-over of a firm in the same or related form of business
- Other soft drinks firms may diversify their product range to reflect the market trends for more healthy drinks and hence develop a niche for their products in the market
- Other coffee shop chains may seek to expand more quickly into the growing Asian market as this is where Coca-Cola anticipates making profit
- Other competitors may not be able to respond strongly as they may not have the same resources (Coca-Cola paid £4 billion for Costa Coffee) hence they may have to look for alternative growth opportunities either in the types of products they sell, and/or the markets they target, and/or their own growth strategy through mergers and takeovers
- May force other competitors to leave the market

Other relevant answers should be credited.

Allow [1] for application of knowledge and understanding to the context to identify possible impacts and up to [2] for analysis of each way in which competitors could be impacted.

(2 × [3])

(AO1, AO2, AO3)

[6]

20

- 6 (a) *Explain what is meant by the basic economic problem.*

The basic economic problem refers to the assumption that individuals, organisations and societies have unlimited wants whilst there are limited resources in the form of factors of production. As a result, choices have to be made about how to use resources and the making of choices involves an opportunity cost in the form of the best or highest value alternative foregone. Factors of production such as land and labour are in limited supply and choices are made within the economy about how to best allocate these scarce resources.

Other relevant answers should be credited.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

The candidate demonstrates very restricted or confused understanding of the nature of the basic economic problem. Examples are not given or are inappropriate. Quality of written explanation is limited.

Level 2 ([3]–[4])

(AO1: [3], AO2: [1])

The candidate demonstrates an adequate understanding of the nature of the basic economic problem, including the concept of opportunity cost. Some relevant examples are provided but only partially explained. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

(AO1: [4], AO2: [2])

The candidate demonstrates a clear understanding of the nature of the basic economic problem including the concept of opportunity cost. A number of relevant examples are skilfully used to illustrate the answer. Quality of written communication is of a high standard. [6]

- (b) Using a production possibility frontier (PPF), examine how the NHS faces the basic economic problem.

AVAILABLE
MARKS

A PPF illustrates the sets of combinations of goods and services that can be produced or provided when all of the available resources are being fully utilised. As there are limited resources currently available, combinations beyond the frontier are unavailable. Combinations inside the frontier represent unemployed factors of production.

In the context of the NHS, the PPF could illustrate all the alternative combinations of health care that could be provided with the current level of resources. Assuming that there are just two types of care, A and B, available from the NHS, an increase in resources devoted to A would involve an opportunity cost in terms of reduced provision of B.

Providing more resources for the NHS would shift the PPF outwards and allow the provision of more of both types of care.

Using a diagram to illustrate their answers, candidates might be expected to make the following points:

- There are a limited amount of resources available in the form of money, doctors, nurses, hospital beds, drugs and medicines etc.
- At the same time, there is an increasing demand for healthcare brought about by the growing and ageing population, less healthy younger people in the population, and scientific advances which have increased the range of illnesses that can now be effectively treated
- Increased use of resources in one area, for example cancer treatment, will leave reduced resources for the next best alternative, for example, accident and emergency. This is an opportunity cost

Other relevant points should be credited.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[3])

(AO1: [1]; AO2: [2])

The candidate demonstrates a very restricted understanding of the concept of a PPF. There is no diagram or a very weak attempt at one. Some attempt is made to illustrate the scarcity of resources in the NHS. Quality of written communication is limited.

Level 2 ([4]–[6])

(AO1: [2]; AO2: [3], AO3: [1])

The candidate demonstrates an adequate understanding of the concept of a PPF. There is a reasonable attempt at a diagram. The relevance of the basic economic problem to the health service is examined briefly and illustrated. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

AO1: [3]; AO2: [4], AO3: [2])

The candidate demonstrates a clear understanding of the concept of a PPF. There is a clear and well labelled diagram. The relevance of the basic economic problem to the NHS is thoroughly examined and clearly illustrated with good links to the diagram. Quality of written communication is of a high standard.

[9]

(c) *Discuss the costs and benefits of three ways in which the government could increase funding to the NHS.*

AVAILABLE
MARKS

The stimulus provides three possible examples of ways in which funding could increase: imposing a new health tax on income; charging for appointments; or redirecting funding to other areas of public spending. Candidates may suggest other relevant ways and credit should be given to alternative possibilities.

The costs and benefits of each possible way to increase funding include:

Costs	Benefits
A new health tax on income	
<ul style="list-style-type: none"> Workers who pay income tax and National Insurance Contributions may feel that they are already heavily taxed hence a new tax may be a disincentive to work Depending on the type of tax, this could be regressive and affect lower incomes greater than those on higher incomes Costs of administering a new tax 	<ul style="list-style-type: none"> Even a very low rate of tax is likely to bring in substantial revenue for the NHS Many people respond positively to this idea in surveys providing there is a guarantee that the NHS will receive the new tax revenue Services and waiting times should improve
Charging for appointments	
<ul style="list-style-type: none"> This will hit those on fixed and low incomes particularly hard hence some people may not seek medical help when they need it, resulting in even greater stress and poor health Resources will have to be allocated to collect this revenue 	<ul style="list-style-type: none"> Fewer appointments will be missed and this wastage will be reduced Services and waiting times should improve
Cutting funding to other areas of the public sector	
<ul style="list-style-type: none"> Quality of services will fall, for example to education, and this will have economic knock-on effects, e.g. less skilled flexible workforce Funding to many areas of the public sector have already been cut, for example social services, so further cuts are likely to lead to greater hardship This is likely to be both politically and economically unpopular 	<ul style="list-style-type: none"> Some areas may be able to absorb funding cuts if they are able to implement more efficient working practices or use new technology Services and waiting times should improve

Other relevant points should be credited.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[5])

(AO1: [1]; AO2: [1], AO3: [3])

The candidate briefly discusses up to three points but these are not developed or discussed. Any conclusion is unbalanced and inadequately supported. Quality of written communication is limited.

Level 2 ([6]–[10])

(AO1: [2]; AO2: [2], AO3: [6])

The candidate briefly discusses three relevant points but this may be one-sided. A conclusion is reached and supported. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

(AO1: [3], AO2: [3], AO3: [9])

The candidate discusses three points giving detailed analysis of costs and benefits. A balanced and reasoned conclusion is reached. Quality of written communication is of a high standard. [15]

**AVAILABLE
MARKS**

30

7 (a) Explain what is meant by a trade deficit.

AVAILABLE
MARKS

A trade deficit is the balance between the net trade in goods (exports and imports) and the net trade in services (exports and imports) sections of the current account of the Balance of Payments Accounts.

If there is a trade deficit, the value of exported goods and services will not be large enough to counterbalance the value of imported goods and services. In the UK, net trade in services is usually positive while the net trade in goods is negative giving the UK an overall trade deficit. Other relevant points should be credited.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

The candidate demonstrates a very restricted or confused understanding of a trade deficit. Quality of written explanation is limited.

Level 2 ([3]–[4])

(AO1: [3]; AO2: [1])

The candidate demonstrates an adequate understanding of a trade deficit. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

(AO1: [4]; AO2: [2])

The candidate demonstrates a clear understanding of a trade deficit. Quality of written communication is of a high standard. [6]

- (b) *Explain why the UK has a trade deficit in goods and services on the Balance of Payments current account.*

The UK has been a net importer of goods and a net exporter of services and the reasons include:

- Dependence on imported food as the UK is not self-sufficient
- Greater consumer demand for food that cannot be easily produced in the UK
- UK imports raw materials and components needed in manufacturing
- The UK is a relatively rich country and there is demand from consumers for foreign produced goods, e.g. electronic goods from Asia, clothing that can be produced more cheaply in countries such as China or Bangladesh, and cars particularly from Germany
- The UK specialises in areas such as finance and banking and these services are sold throughout the world. These are positive exports for the UK that help to boost the trade in services section of the trade accounts and reducing the deficit

Other relevant points should be credited.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[3])

(AO1: [1]; AO2 [2])

The candidate is aware of a small number of factors which influence the composition and magnitude of the UK's trade deficit but points are not developed. Quality of written communication is limited.

Level 2 ([4]–[6])

(AO1: [2]; AO2 [3]; AO3: [1])

The candidate provides a reasonable examination of a number of factors that influence the composition and magnitude of the UK's trade deficit and there is an attempt to develop and illustrate these. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

(AO1: [3]; AO2 [4]; AO3: [2])

The candidate provides a thorough examination of the most relevant factors that influence the composition and magnitude of the UK's trade deficit and these are well developed. Quality of written communication is of a high standard.

[9]

- (c) *Discuss the costs and benefits to UK trade, and the economy in general, of a fall in the value of the pound.*

The value of the pound affects the relative prices that exporters and importers pay for goods and services. A fall in the value of the pound, e.g. from £1 = \$1.5 (US) to £1 = \$1.25 (US) is a devaluation of the pound causing imports to be relatively more expensive and exports relatively cheaper. This will make UK exports cheaper for foreign countries to buy but UK importers will find goods and services more expensive. Some aspects will bring benefits to the UK economy such as increased tourism, and greater demand for exported goods. However, other outcomes will have severe impacts on the UK economic growth and employment.

Some outcomes include:

- The extent to which the quantities of goods or services demanded, and supplied, will depend on the relevant elasticities of demand and supply
- In the short term, UK firms may have little choice other than to pay more for components and raw materials and this situation may endure in the longer term if there are no alternative cheaper sources available. This will make UK goods more expensive to produce and could lead to cost-push inflation
- UK firms may receive increases in orders from overseas customers, helping aggregate demand, economic growth and employment, but they will need to have sufficient capacity to be able to respond to this increase in demand otherwise increased foreign demand could fuel demand-pull inflation
- UK consumers may decrease their demand for foreign goods and services (such as holidays) and look for cheaper, domestically available alternatives. This will increase aggregate demand and promote employment and growth
- Essential materials for the operation of the economy, such as oil, will become more expensive and this will have knock-on effects throughout the UK economy increasing production and transport costs and fuelling cost push inflation
- More expensive imports, in particular of fuel and raw materials, will contribute to cost-push inflation. This will put pressure on the economy with possible increases in unemployment and reduced levels of economic growth

Other relevant points should be credited.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[5])

(AO1: [1]; AO2: [1], AO3: [3])

The candidate demonstrates some understanding that the fall in the pound will affect export and import prices but this is not clearly expressed or includes errors. Some of the possible consequences that may arise are briefly mentioned but these are not developed or discussed. Any conclusion is unbalanced and inadequately supported. Quality of written communication is limited.

Level 2 ([6]–[10])

(AO1: [2]; AO2: [2], AO3: [6])

The candidate identifies that the fall in the pound will affect export and import prices. A good range of possible consequences are identified with some development and discussion. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

(AO1: [3], AO2: [3], AO3: [9])

The candidate demonstrates clear understanding of how the fall in the pound will affect export and import prices. An extensive range of possible consequences are identified and the explanation is fully developed. A balanced and reasoned conclusion is provided. Quality of written communication is of a high standard.

[15]

30

8 (a) *Explain what is meant by economic growth.*

Economic growth is an increase in the productive potential of an economy. It is usually measured by an increase in real Gross Domestic Product (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. Growth curves from an expansion of both the quality and quantity of ???? ??? reflected in higher productivity and the growth enhancing effects of innovation

Other relevant points should be credited.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

The candidate demonstrates some basic understanding of the concept of economic growth but this is poorly explained or underdeveloped. Quality of written explanation is limited.

Level 2 ([3]–[4])

(AO1: [3], AO2: [1])

The candidate demonstrates a reasonable understanding of the concept of economic growth but the explanation could be more fully developed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

(AO1: [4], AO2: [2])

The candidate demonstrates a clear understanding of the concept of economic growth and the explanation is fully developed. Quality of written communication is of a high standard. [6]

(b) *Analyse the impact of economic growth on the economy.*

Economic growth can lead to higher living standards depending on the extent to which the outcomes are shared across the full range of income groups. It can also have negative effects on the environment, for example if natural resources are being used in an unsustainable way.

If GDP increases, there will be more money circulating in the domestic economy. Consumers will demand more goods and services and this increases demand for businesses. Business investment will also increase and this increases the capacity of the economy to produce more goods and services.

As a result, GDP per person (per capita) will rise and this is likely to result in workers having increased disposable income and higher living standards. However, economic growth statistics may not give the whole picture – other factors should also be considered when analysing the impact of economic growth on the economy include:

- Regional differences as some regions may prosper more than others hence improvements in living standards may not be shared across the UK
- Leisure time and working conditions may also affect living standards. If workers have to work longer hours, living standards will not have improved

- If higher investment has contributed to an improved rate of economic growth, living standards may not have been affected
- Environmental issues – if greater growth may have created negative externalities

Other relevant points should be credited.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[3])

(AO1: [1]; AO2 [2])

The candidate demonstrates some understanding of the impact of economic growth on the economy but points are not developed. Quality of written communication is limited.

Level 2 ([4]–[6])

(AO1: [2]; AO2 [3]; AO3: [1])

The candidate provides brief examination of some of the issues associated with the impact of economic growth on the economy and points are developed to a reasonable standard. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

(AO1: [3]; AO2 [4]; AO3: [2])

The candidate provides a thorough examination of the main impacts of economic growth on the economy. Quality of written communication is of a high standard. [9]

- (c) *Discuss the costs and benefits of the policies that the government could use to promote economic growth.*

The government could use a combination of fiscal, monetary or supply-side policies to promote economic growth. The costs and benefits of respective policies include:

Fiscal policies aim to stimulate economic growth by injecting more government finance into the economy as a result of increased taxation or borrowing, or by reducing taxation hence providing consumers with increased disposable income that can be spent on goods and services. The costs and benefits include:

- Greater demand from consumers has been a key factor in stimulating the economy post the crash of 2008
- Fiscal policy can be directed by the government but it is not possible to tweak any policy changes easily and any changes in tax laws take time to have an impact
- Consumers may save increases in disposable income or choose to spend it on imported goods and services, both of which would be withdrawals from the circular flow and reduce economic growth
- Increased government spending may not target areas of the economy that have the potential to increase quantity of goods and services

Monetary policy is implemented by the Bank of England and aims to keep inflation with a target set by the government. The base rate of interest is reviewed monthly by the independent Monetary Policy Committee(MPC).

Hence the government does not have direct control of the actual instruments. The costs and benefits include:

- Changes in interest rates by the Bank of England may not produce the desired effect on consumer spending or investment needed to produce economic growth
- Recent experience shows that interest rate changes happen only infrequently, and even then they are fractions of a percentage point. Hence they are not a strong, or direct, policy measure to support government policy

Supply-side policies aim to make markets and business operate more efficiently so that a greater rate of economic growth can be achieved. The costs and benefits include:

- Improving incentives to work – government reforms of the benefits system are aimed to make work more attractive
- Investing in skills – increased spending on vocational and higher education are intended to improve the quality of the workforce
- Improving occupational and geographic mobility of labour to help reduce unemployment
- Investment in research and development
- Promoting competition through privatisation
- Encouraging new businesses

Other relevant points should be credited.

One of the key positive points about supply-side policies is that growth should be achieved without having a knock-on effect on inflation. However, they are slow to take effect and show positive results in the form of economic data about the performance of the economy.

Criticisms of supply-side policies include:

- They may result in greater inequalities of income – this is one of the current arguments about government reforms to the benefits system
- There needs to be sufficient capacity in the economy to allow any increase in supply to be effective
- They may produce negative externalities

Other relevant points should be credited.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[5])

(AO1: [1]; AO2: [1], AO3: [3])

The candidate identifies some outcomes from policies to achieve economic growth but they are not developed or discussed. Any conclusion is unbalanced and inadequately supported. Quality of written communication is limited.

Level 2 ([6]–[10])

(AO1: [2]; AO2: [2], AO3: [6])

The candidate briefly discusses a range of outcomes from policies to achieve economic growth. A conclusion is reached and supported. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

(AO1: [3], AO2: [3], AO3: [9])

The candidate identifies a wide range of outcomes from policies to achieve economic growth. The relative benefits and drawbacks of respective policies are discussed and there is some argument about the benefits of possible alternative policies. A balanced and reasoned conclusion is provided. Quality of written communication is of a high standard. [15]

Total

**AVAILABLE
MARKS**

30

150