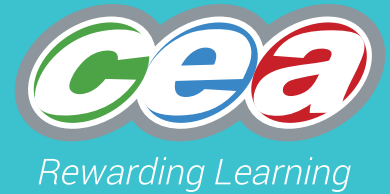


GCSE



CCEA GCSE Specimen Assessment Materials for **Economics**

For first teaching from September 2017
For first assessment in Summer 2019
For first award in Summer 2019
Subject Code: 4410



Foreword

CCEA has developed new specifications which comply with criteria for GCSE qualifications. The specimen assessment materials accompanying new specifications are provided to give centres guidance on the structure and character of the planned assessments in advance of the first assessment. It is intended that the specimen assessment materials contained in this booklet will help teachers and students to understand, as fully as possible, the markers' expectations of candidates' responses to the types of tasks and questions set at GCSE level. These specimen assessment materials should be used in conjunction with CCEA's GCSE Economics specification.

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GCSE Economics

Specimen Assessment Materials

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Subject Code	4410
QAN	603/1195/2
A CCEA Publication © 2017	

You may download further copies of this publication from www.ccea.org.uk

SPECIMEN PAPERS



Rewarding Learning

General Certificate of Secondary Education
2019

Centre Number

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Candidate Number

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Economics

Paper 1

[CODE]

SPECIMEN PAPER

TIME

1 hour 45 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.

You should answer all questions in the spaces provided.
If you do not have enough space to complete your answer, extra lined pages are provided at the back of the booklet.

Answer **all** questions in **Section A**.

Answer **both** questions in **Section B**.

Answer **one** question from questions 6, 7, and 8 in **Section C**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

Any working should be clearly shown since marks may be awarded for partially correct solutions.

Your quality of written communication will be taken into account in assessing your answers to **all parts** of the question that you choose to answer from **Section C**.

ADVICE TO CANDIDATES

You should take into account the maximum marks available when deciding how much time to spend on each question.

For Examiner's
use only

Question Number	Marks
--------------------	-------

SECTION A

1	
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2	
---	--

3	
---	--

SECTION B

4	
---	--

5	
---	--

SECTION C

6	
---	--

7	
---	--

8	
---	--

Total Marks	
------------------------	--

Section A

Answer **all** three questions

- 1 Harry is 18 and has started a new full-time job working 40 hours per week in a local hotel, where he is training to be a chef. He is paid the national minimum wage for his age. He hopes to buy some new clothes and save up for a holiday but first he has to pay basic living expenses.

National Minimum Wage Rates (October 2016)	
Age	Rate per hour
16-17	£4.00
18-20	£5.55
21-24	£6.95
25 and over	£7.20

- (a) How much does Harry earn each week? **Show your calculations.**

£ _____ [2]

- (b) State **two** taxes that Harry will pay.

_____ [2]

- (c) How does Harry's situation illustrate the basic economic problem?

_____ [2]

Examiner Only

Marks Re-mark

(d) Analyse **one** way the economy may benefit when workers like Harry specialise in one specific type of work.

[2]

Examiner Only	
Marks	Re-mark

2 Central and local government fund a wide range of services that help the economy to function. These include: facilities for sports and leisure activities, public libraries, building new hospitals, funding for schools and universities, street lighting, health screening and many others.

(a) Using examples from the information above, explain what is meant by:

(i) a merit good

[2]

(ii) a public good

[2]

(b) Analyse **one** reason why the government may want to spend more on merit goods.

[2]

Examiner Only	
Marks	Re-mark

3 In 2016, the UK government forecast for the rate of economic growth was 2.4% and the rate of unemployment was 5.1%. The Chancellor plans to reduce government spending and some job losses are expected in the public sector.

(a) Define what is meant by 'economic growth'.

[2]

(b) Define what is meant by 'unemployment'.

[2]

(c) Analyse **one** possible effect on economic growth if the government reduces its spending.

[2]

Examiner Only	
Marks	Re-mark

Section B

Answer **both** questions

- 4 Jenny is a university student who wants to use credit to purchase a new laptop costing £500. Table 1 below shows the financial products that may be available and their rates of interest.

Table 1: Financial Products

Financial Product	Rate of Interest (%)
Store Card	30%
Credit Card	20%
Personal Loan	10%
Bank Overdraft	12%

- (a) Using an example, explain what is meant by the rate of interest when someone borrows money.

[2]

- (b) Explain the difference between:

- (i) a personal loan and a bank overdraft.

[4]

Examiner Only	
Marks	Re-mark

(ii) a credit card and a store card.

[4]

(c) Explain **two** factors that Jenny should consider when choosing how to pay for the laptop.

1

[4]

Examiner Only	
Marks	Re-mark

5 Study the information below and answer the questions that follow.

Examiner Only	
Marks	Re-mark

Local entrepreneur defends plans for summer music festival

Peter McConnell is an entrepreneur who plans to organise an outdoor music festival over a weekend next summer. He calculates that he will have to pay £50000 in fixed costs to get the event up and running. These costs include hire of the venue and facilities such as a stage and mobile toilets, paying performers, advertising and insurance.

He also estimates that he will have additional costs of £10 per person. The venue he selects has a limited capacity of 5000 people. He intends to charge £20 per person and estimates that he will make a profit at that price.

(a) Using an example from the information above, explain what is meant by a fixed cost.

[2]

(b) Complete the information in the table below to show total costs (TC) and total revenue (TR) when:

(i) no one attends the festival; and

(ii) when 5000 people attend.

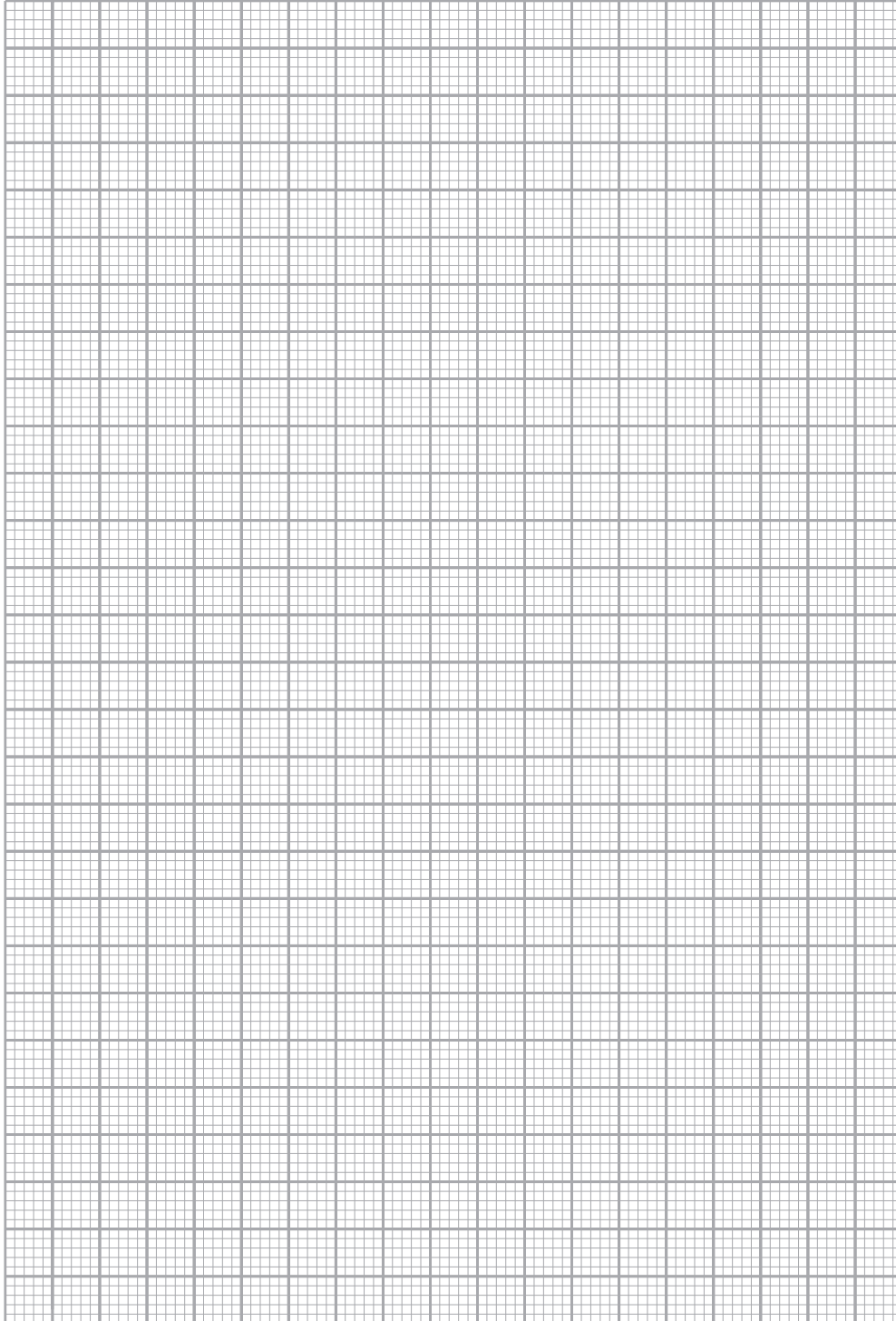
Number who attend the festival	Fixed costs £	Variable costs (£10 per person)	Total costs £	Total revenue £
0	50000	0		
5000	50000	50000		

Show your workings clearly

[4]

(c) Using the information in the table on the previous page, draw a break-even chart for the music festival on the graph paper below. You should clearly label:

- (i) both axes
- (ii) the total costs (TC)
- (iii) the total revenue (TR)
- (iv) the break-even point (BE)



[4]

Examiner Only	
Marks	Re-mark

(d) Peter has now discovered that he has to buy an entertainments licence at a cost of £5000.

Explain how this will affect his break-even point.

[4]

Examiner Only	
Marks	Re-mark

7 Cycle firms to merge

Chain Reaction Cycles Limited, a Northern Ireland company, recently announced plans to merge with Wiggle Limited, another online cycle retailer. Both companies sell similar ranges of bikes and cycling accessories. There are fears that the merger may not be approved by the Competition and Markets Authority if it is judged to limit competition.

© Adapted from 'Merged Wiggle- Chain Reaction is same size as Halford's bike division' by Carlton Reid, Bikebiz, 12 February 2016

- (a) Explain what is meant by a 'merger', using relevant examples of different types of merger.

[6]

Examiner Only	
Marks	Re-mark

THIS IS THE END OF THE QUESTION PAPER



General Certificate of Secondary Education
2019

Centre Number

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Candidate Number

--	--	--	--

Economics

Paper 2

[CODE]

SPECIMEN PAPER

TIME

1 hour 15 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.

You should answer **both** questions in the spaces provided. If you do not have enough space to complete your answer, extra lined pages are provided at the back of the booklet.

INFORMATION FOR CANDIDATES

The total mark for this paper is 60.

Any working should be clearly shown since marks may be awarded for partially correct solutions.

Your quality of written communication will be taken into account in assessing your answers to **1(e)** and **2(d)** and **2(e)**.

ADVICE FOR CANDIDATES

You should take into account the maximum marks available when deciding how much time to spend on each question or part question.

For Examiner's use only	
Question Number	Marks
1	
2	
Total Marks	

Answer **both** questions.

Examiner Only	
Marks	Re-mark

1 Study the information below and answer the questions that follow.

World Market price of cocoa beans (US \$): 2011-2015



Years: January 2011-January 2015

Adapted from <http://www.icco.org/statistics/cocoa-prices/daily-prices.html>

The demand for cocoa beans, the crop used to make chocolate, usually outstrips supply. However, it is not that long ago that there was a surplus of cocoa beans.

Growth of the cocoa crop has been interrupted by a fungal disease called frosty pod rot that killed off one third of the supply from countries in West Africa, one of the world’s major producing areas. For many of the cocoa producing countries in West Africa, such as the Ivory Coast and Ghana, it is a vital export crop that supports their developing economies. Furthermore, drought in that area has forced farmers to switch to more water-resistant crops, mainly corn and rubber.

The market demand for chocolate products is changing. Dark chocolate, typically chocolate that contains at least 70% real cocoa, is believed to be healthier than other types of chocolate. Dark chocolate is increasingly the choice of health conscious consumers and particularly those in the USA. Similarly, consumers in China and India are developing a taste for chocolate as their incomes rise. These combined effects are pushing up cocoa bean prices bringing benefits to small producers in developing countries.

So by 2020, will chocolate become a luxury that only the very wealthy will be able to afford? Chocolate lovers worldwide will hope not.

© Adapted from ‘The world is running out of chocolate: soaring demand and slowing production are combining to put sweet treats at risk’ by Alexander Robertson, *Daily Mail*, 13 February 2016

© Adapted from ‘Shock Warning: world is running out of chocolate’ by Andy Russell, *Daily Express*, 15 Feb 2016

© Adapted from ‘Is the world really running out of chocolate?’ by Andrew Baker, *The Telegraph*, 26 May 2015

(a) Describe how the price of cocoa beans changed between January 2011 and January 2015.

[4]

(b) Using the axes below, draw and label a sketch demand and supply diagram that shows how the spread of the fungal disease affects the equilibrium market price and quantity (market clearing) of cocoa beans.

You should clearly label:

- (i) the demand and supply axes
- (ii) the demand curve
- (iii) the supply curve
- (iv) the original market price and quantity
- (v) the new demand **or** supply curve
- (vi) the new equilibrium market price and quantity



[6]

Examiner Only	
Marks	Re-mark

Other factors than those above can influence the market price of cocoa beans.

(c) Analyse **two** additional factors that could influence the market price of cocoa beans.

Factor 1

[3]

Factor 2

[3]

Examiner Only	
Marks	Re-mark

- (d) In 2014 the price of cocoa beans increased, forcing one manufacturer of chocolate products to increase the price of one of its branded luxury ranges from £20 to £25 per box. This situation and the response by consumers is summarised below:

	Price of luxury box of chocolates (£)	Quantity demanded per month
May 2014	20	1000
June 2014	25	975

- (i) Use the formula provided to calculate the price elasticity of demand (PED) for the box of chocolates. Show your calculations.

Formula: $PED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$
--

Calculations

% change in quantity demanded =

% change in price =

PED =

[3]

- (ii) Explain the importance of Price Elasticity of Demand (PED) for producers.

[3]

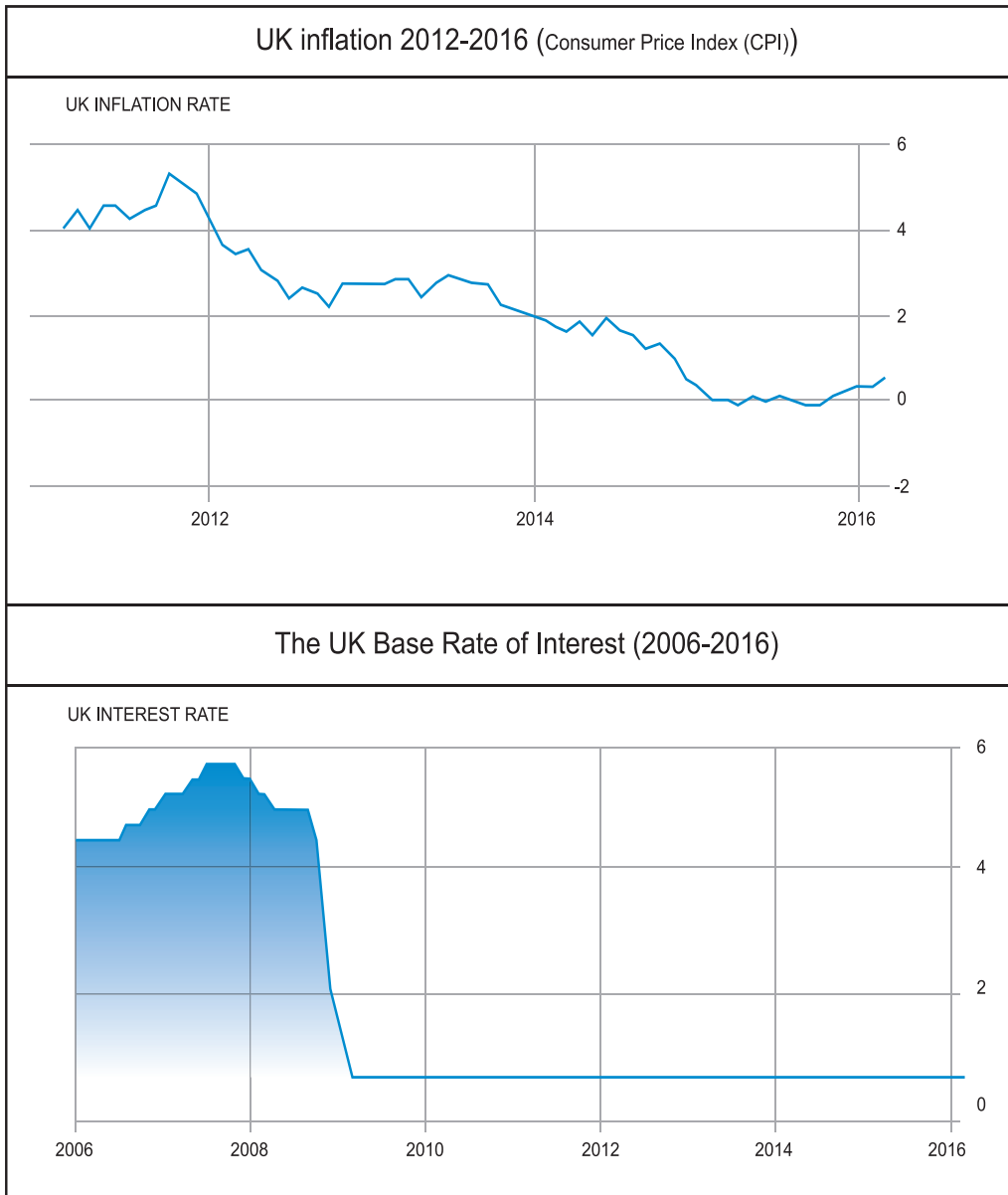
Examiner Only

Marks Re-mark

2 Study the information below and answer the questions that follow.

Examiner Only	
Marks	Re-mark

Table 1: UK Economic Data



Source:
Data adapted from <http://www.tradingeconomics.com/united-kingdom/inflation-cpi>

Contains public sector information licensed under the Open Government Licence v3.0 <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/>

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Data adapted from <http://www.bankofengland.co.uk/boeapps/iadb/repo.asp>

Contains public sector information licensed under the Open Government Licence v3.0 <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/>

Examiner Only	
Marks	Re-mark

In December 2015, the UK's inflation rate, as measured by the CPI, rose to an 11-month high. Some categories of the goods and services included in the calculation of the 'average basket of goods', for example food, clothing, and petrol, fell in price. However, rising prices of other items such as air fares resulted in a higher than expected rise in inflation.

For example, air fares jumped by 46% in December, the biggest rise for 13 years. December typically sees a high monthly increase in air fares, due to the Christmas holidays.

In August 2016, the Bank of England announced a reduction in the base rate of interest to 0.25%, a new record low rate. The base rate of interest had been 0.5% for seven years and this was already considered to be very low. There are concerns that if inflation rates rise and the base rate increases, consumers and businesses will struggle to meet the higher repayments on personal business loans and mortgages.

For too long, the economy has depended on low interest rates and debt-financed consumers spending rather than growing and prospering as a result of higher output and growing exports.

© BBC News 2016

- (a) With reference to Table 1 on the previous page, explain what is meant by 'inflation'.

[3]

THIS IS THE END OF THE QUESTION PAPER

MARK SCHEMES



General Certificate of Secondary Education

Economics

GENERAL MARKING INSTRUCTIONS

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.

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Rewarding Learning

**General Certificate of Secondary Education
2019**

Economics

Paper 1

**[CODE]
SPECIMEN**

**MARK
SCHEME**

Section A

AVAILABLE
MARKS

- 1 (a) *How much does Harry earn each week? Show your calculations.*

Harry works 40 hours @ £5.55 per hour: $40 \times £5.55 = £222.00$ per week.

Allow [1] for statement of correct calculation ($40 \times £5.55$), [1] for statement of correct answer (£222), or [1] if incorrect rate is chosen but correct calculation.

[0] if calculation and answer are incorrect.

(AO2)

[2]

- (b) *State **two** taxes that Harry will pay.*

Now that he is working, Harry will pay income tax and national insurance. Valid answers may include reference to indirect taxes such as VAT or excise duties on alcohol or tobacco if he consumes these products.

Allow [1] for each valid example of tax (2x [1])

(AO1)

[2]

- (c) *How does Harry's situation illustrate the basic economic problem?*

The basic economic problem is that resources are scarce but wants are infinite. Harry will have to budget carefully as his income is low making it difficult to be able to enjoy a reasonable standard of living.

Any other valid response will be credited.

Allow [1] for the application of knowledge and understanding of the basic economic problem applied to the context and [1] for the correct analysis to the context. (2x [1])

(AO2, AO3)

[2]

- (d) *Analyse **one** way the economy may benefit when workers like Harry specialise in one specific type of work.*

When workers specialise, they develop a high level of skills and expertise at performing their chosen profession. Highly skilled workers help to increase the output of the economy and improve the general standard of living.

Any other valid response will be credited.

Allow [1] for demonstrating knowledge and understanding of how specialisation benefits the economy and [1] for analysis relevant to the context.

(AO1, AO3)

[2]

8

2 (a) Using examples from the information above, explain what is meant by:

(i) *a merit good*

A merit good is one that would be under-consumed if left to market forces. Examples include health, provision of hospitals and schools, and provision and upkeep of public libraries, sport and leisure facilities.

Any other valid response will be credited.

Allow [1] for correct understanding of explanation and [1] for identification of a correct example. (2x [1])

(AO1, AO2)

[2]

(ii) *a public good*

A public good is one that cannot be provided profitably by the market because people can benefit from it without paying. Hence these goods are provided by the government. Examples include street lighting.

Any other valid response will be credited.

Allow [1] for correct understanding and explanation and [1] for identification of a correct example. (2x [1])

(AO1, AO2)

[2]

(b) Analyse **one** reason why the government may want to spend more on merit goods.

Merit goods contribute positive externalities to society. For example by providing health screening for certain illnesses, the general health of the population is improved and this helps the economy. By providing education services, more people can benefit from it than would be the case if it was only available to those who could pay the full market price. The economy in general benefits from the positive externalities.

Any other valid response will be credited.

Allow [1] for a partial or flawed analysis of one reason.

Allow [2] for giving an appropriate analysis of one reason of why the government may want to spend more on merit goods.

(AO3)

[2]

6

3 (a) Define *what is meant by 'economic growth'*.

Economic growth is an increase in the national income of the economy measured over a period, usually a year. It is also defined as an increase in the productive potential of the economy. Economic growth may also be described as the annual percentage of real Gross Domestic Product (GDP).

Any other valid response will be credited.

Allow [1] for a partial or flawed definition.

Allow [2] for a correct and full definition.

(AO1)

[2]

(b) Define *what is meant by 'unemployment'*.

Unemployment is a measure of the number of people in the economy who are seeking work but have been unable to find a job.

Any other valid response will be credited.

Allow [1] for a partial or flawed definition.

Allow [2] for a correct and full definition.

(AO1)

[2]

(c) Analyse *one possible effect on economic growth if the government reduces its spending.*

Government spending is a major component of the circular flow of income. If the government reduces its spending, the level of aggregate demand will fall and this will cause a slowdown in economic activity causing economic growth to also slow and possibly fall.

Any other valid response will be credited.

Allow [1] for a partial or flawed analysis.

Allow [2] for a correct and detailed analysis.

(AO3)

[2]

6

Section B

AVAILABLE
MARKS

- 4 (a) *Using an example, explain what is meant by the rate of interest when someone borrows money.*

The rate of interest is the cost of borrowing money usually expressed as a percentage of the sum borrowed over a year. For example, if Jenny has a personal loan of £500 at 12% for a year, they will pay back £560. Table 1 contains a number of examples: A store card may have a 30% rate of interest.

Any other valid response will be credited.

Allow [1] for the correct explanation and [1] for illustrating this with a relevant example.

(AO1, AO2)

[2]

- (b) *Explain the difference between:*

- (i) *A personal loan and a bank overdraft*

A personal loan is an agreed sum of money that is advanced to a borrower by a financial service provider for a purchase such as a new car. The conditions of the loan are likely to state the rate of interest that must be paid and the length of time over which it must be paid back. It may be secured against an asset such as the deeds of a house.

An overdraft is usually authorised, namely the customer has permission from their bank or financial institution to withdraw more money than they have in their bank account over a set period of time, but they will be charged for this and have to repay the money with interest. Table 1 gives the rate of interest for the personal loan at 10% while the rate for the bank overdraft is 12%.

Any other valid response will be credited.

Allow [2] for demonstrating correct understanding of the products, and up to [2] for giving relevant contrasting features of each product.

(AO1, AO3)

[4]

- (ii) *A credit card and a store card*

A credit card is most likely to be provided by a bank, although other financial service providers also offer credit cards. This card allows consumers to obtain goods on credit – they are billed within four weeks by the credit card provider. They then have to pay back a minimum amount and will be billed again in subsequent months together with interest for any outstanding amount. Alternatively, the whole outstanding balance can be cleared and no interest charge incurred. Generally the rate of interest for credit cards are higher than other forms of borrowing.

Store cards operate in a similar way to credit cards but some can only be used in a particular store. Again, their rate of interest tends to be high if outstanding balances are not cleared. Table 1 gives the credit card rate of interest at 20% while the rate for the store card is rate 30%.

Any other valid response will be credited.

Allow [2] for demonstrating correct understanding of the products, and up to [2] for giving relevant contrasting features of each product.

(AO1, AO3)

[4]

(c) Explain **two** factors that Jenny should consider when choosing how to pay for the laptop.

Factors that could be considered include:

- The total amount of money to be borrowed – does £500 need to be borrowed or can she borrow a smaller amount?
- The length of time over which the money is to be repaid – the longer the repayment period, the more expensive the debt Jenny will incur.
- Ability to repay – Jenny must have sufficient income to repay the debt or the lender will refuse to grant credit in the first instance
- Interest rates payable – Jenny must consider which lender is willing to lend her the money to buy the laptop; if the bank lends her the money as a personal loan, the interest rate is 12%. However, if Jenny opts for a store card, the interest rate is 30%, therefore more expensive.

Any other valid response will be credited.

Only **two** factors need considered.

Allow up to [2] for application of knowledge and understanding to the context and up to [2] for analysis of the factor (2x [2]). Detailed responses will make use of the data on rates of interest.

(AO2, AO3)

[4]

(d) Analyse **two** possible effects on the economy of consumer debt.

AVAILABLE
MARKS

Two possible effects from any of the following:

- Economic growth may increase as a result of increased aggregate demand caused by increased levels of consumer spending. Some sectors of the economy may benefit more than others and jobs will be created.
- Higher consumer spending made possible by borrowing may lead to an increase in imports.
- Multiplier effect may increase as increased consumer spending will lead to firms spending more on components and capital equipment.
- High levels of consumer debt might lead eventually to a reduction in consumer spending, once disposable income levels remain static or decline and consumers cannot afford spending on basic living expenses.
- Increasing numbers of consumers defaulting on debts will eventually lead to a reduction in consumer spending as credit will be more expensive and harder to get in future, thus consumers will spend less.
- Economic growth may decline if consumers are declined credit in future as they experience reduced access to payment methods.

Candidates are only expected to analyse **two** possible effects.

Any other valid response will be credited.

Allow [1] for identification of each effect (2x [1]) and up to [2] for analysis of each effect (2x [2]).

(AO1, AO3)

[6]

20

5 (a) Using an example from the information above, explain what is meant by a fixed cost.

- A fixed cost is a cost that remains constant irrespective of the level of activity, e.g. venue hire, paying performers etc.

Any other valid response will be credited.

Allow [1] for identifying a correct example and allow [1] for a correct explanation.

(AO1, AO2)

[2]

(b) Complete the information in the table below to show total costs (TC) and total revenue (TR) when:

- (i) no one attends the festival and
(ii) when 5000 people attend.

Number who attend the festival	Fixed costs £	Variable costs (£10 per person)	Total costs £	Total revenue £
0	£50000	0	£50000	£0
5000	£50000	£50000	£100000	£100000

Examiners should apply 'own figure rule' so that candidates are not penalised more than once for a computational error.

(AO2)

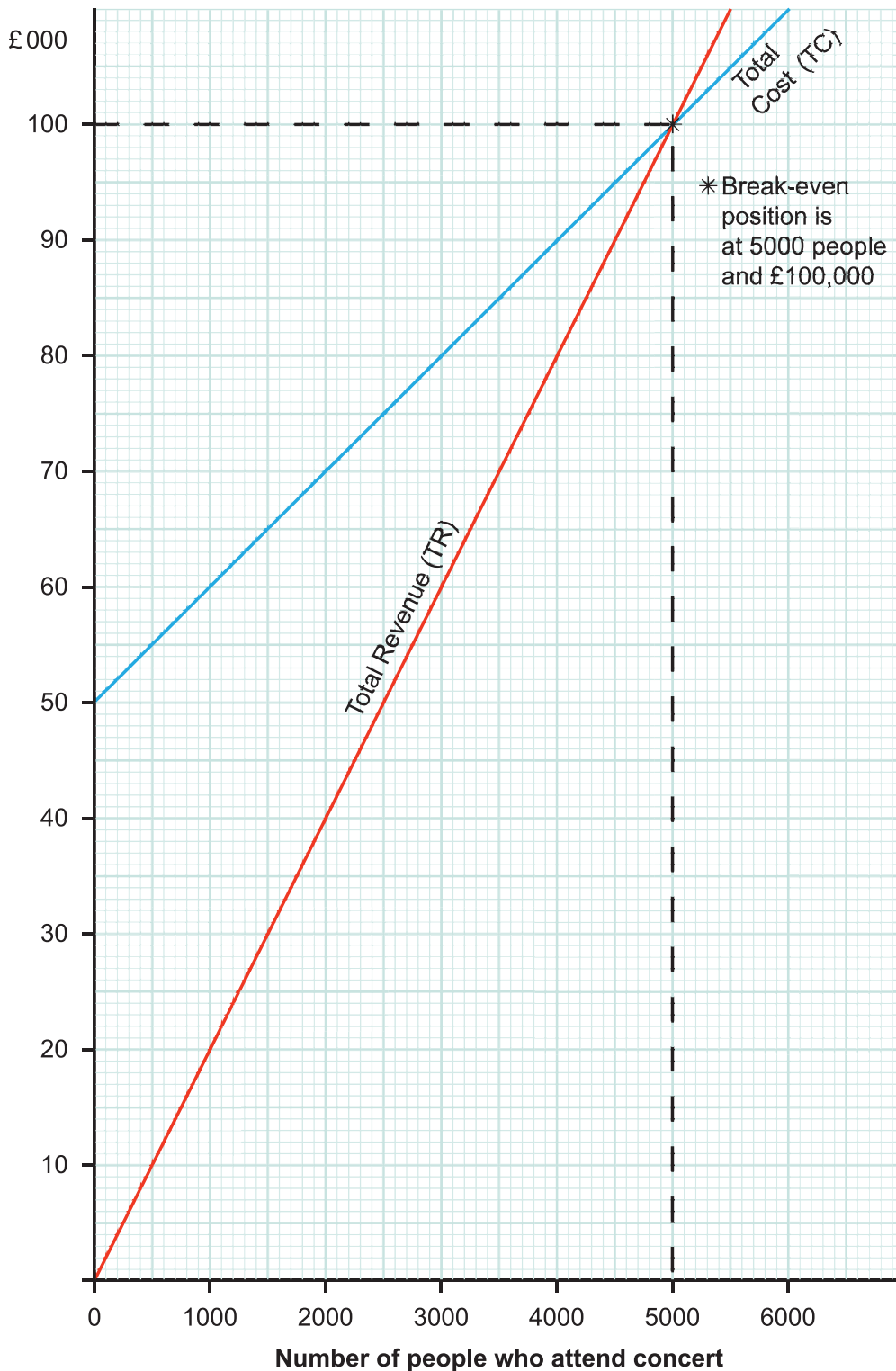
[4]

(c) Using the information in the table, draw a break-even chart for the music festival on the graph paper below.

You should clearly label:

- (i) both axes
 - (ii) the total costs (TC)
 - (iii) the total revenue (TR)
 - (iv) the break-even point (BE)
- (AO2)

[4]



AVAILABLE MARKS

Examiners should apply 'own figure rule' so that candidates are not penalised more than once for a computational error.

Allow [1] for correctly showing each of the following: both axes labelled correctly; total costs; total revenue; break-even point correctly indicated (4x [1])

(AO2)

[4]

- (d) *Peter has now discovered that he has to buy an entertainments licence at a cost of £5000. Explain how this will affect his break-even point.*

The licence is effectively an additional fixed cost that Peter will have to buy before he can commence trading. The new amount of fixed costs is now £55000. If total revenue remains unchanged at £50000, he will make a loss of £5000 as he is only just breaking even. To avoid this situation, he will need to either sell additional tickets or increase the price of tickets so that he can increase the total revenue (fewer tickets at a higher price may increase revenue).

Any other valid response will be credited.

Allow [1] for recognising that this will add to fixed costs, allow up to [2] for calculating the effect on fixed costs and/or total costs, and [1] for explaining that he will not break-even if total revenue remains the same.

(AO1, AO2, AO3)

[4]

- (e) *With reference to social costs and benefits associated with the music festival, discuss whether it should go-ahead.*

Social costs and benefits are the total of the private costs or benefits and the associated positive or negative externalities. For the concert, these can be shown as follows:

Private benefits	Private costs
Peter has the potential to make a profit.	Peter will have to spend time planning and organising the event, and pay a number of costs to set it up before he can recoup any money from the sale of tickets such as wages for workers, cost of electricity etc.
Positive externalities	Negative externalities
The concert will provide employment for a number of other people, e.g. the performing artists and organisations that provide support services, e.g. catering services, hotels and guest houses, providers of transport.	The concert may cause congestion on the roads and noise pollution in the surrounding area. It may also cause environmental damage and effect wildlife, flora and fauna.

Any other valid response will be credited.

Allow [1] for demonstrating knowledge and understanding that the concert will produce externalities, up to [2] for identification of private costs or benefits and positive and negative externalities, and up to [3] for analysis and evaluation of economic impact of the concert and the recommendation as to whether it should be held.

(AO1, AO2, AO3)

[6]

AVAILABLE
MARKS

20

Section C

AVAILABLE
MARKS

- 6 (a) Explain *what is meant by the labour market*.

The market for labour refers to the general market conditions which indicate the number of workers demanded and supplied at given wage rates over a period of time. It will establish the equilibrium wage rate in a given industry. In recent years, market conditions have resulted in huge rises in employment reflecting the fact that UK business is demanding more workers as UK consumers begin to spend money during the economic recovery. Market wage rates will adjust in response to changes in market conditions if the market is operating effectively.

Level 0 ([0])

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

Level 1 ([1]–[2])

The candidate demonstrates some understanding of idea of the labour market but this is poorly explained or underdeveloped. Quality of written explanation is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of the meaning of the labour market but the explanation could be more fully developed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear understanding of the meaning of the labour market. Quality of written communication is of a high standard.

(AO1, AO2)

[6]

- (b) Explain *how the labour market can lead to large variations in the wages paid to different occupations*.

Wages refers to the total earnings of people in employment and include overtime and bonuses. The main explanation of why individual wages may vary lies in wage rates. Differences in earnings can be explained by a range of supply and demand factors that include:

Demand

- Workers in general in the economy are demanded for what they can produce - derived demand for labour. Hence, technology and automation has had a huge impact on the demand for certain types of manual labour.
- The demand for skilled labour will differ from the demand for unskilled labour.
- The state of the economy will have an important impact on demand – in time of recession, demand for labour falls; when the economy is growing, demand usually rises.

- The exchange rate may also affect the demand for export products and the labour associated with producing these goods and services, e.g. the motor industry.
- The UK's general competitiveness will also affect the demand for labour in a more globalised economy where manufacturers can switch production between countries. Factors that affect this are the wage rates and legislation affecting those rates, productivity and the exchange rate.

Supply

- The number of workers available within different sub-markets in the economy depends on the qualifications required. For example, doctors require high levels of qualifications and training and this limits their supply, while fewer qualifications are needed to work as a checkout operator in a supermarket so the supply of these workers is higher.
- Workers in some professions are regulated by professional bodies, e.g. teachers, nurses, doctors.
- The number of people who chose to work in certain professions is limited by the conditions of the employment, e.g. unpleasantness/danger of the job.
- The supply of workers can be affected by time – in the short term, it may be difficult to increase the supply of certain types of workers if particular training and experience are required.

Any other valid response will be credited.

Level 0 ([0])

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

Level 1 ([1]–[3])

The candidate is aware of a limited number of factors which influence why some people earn more than others but points are not well developed and do not make reference to demand and supply of labour. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate provides a reasonable explanation of a number of reasons why some people earn more than others. There is some reference to demand and supply of labour. At least two possible factors are outlined and there is an attempt to explain in detail. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

The candidate provides a thorough examination of relevant factors accounting for the differences in earnings and links these effectively to the demand and supply of labour. Two or three possible factors are given and explained in detail. Quality of communication is of a high standard.

(AO1, AO2, AO3)

[9]

(c) *Discuss the benefits and drawbacks of policies to reduce wage inequality.*

AVAILABLE
MARKS

Wage inequality refers to a situation where the lowest market wage rates are considered to be too high to sustain a reasonable standard of living. At the other extreme, some high wage rates may be judged to be at a level that could sustain a higher burden of taxation. There are a number of mainly fiscal policy measures that the government may use to address wage inequality and these include the current system of progressive income supported by tax credits and access to means tested benefits.

Employers are required by law to pay workers the national minimum wage (the living wage) appropriate to their age and this is a further measure that helps lift the wages of the poorest paid workers in the economy.

Other supply-side policies that are also relevant include measures to improve educational attainment and opportunity targeted at poorer areas.

As part of the analysis candidates should explore the benefits and drawbacks of these policies. Areas for analysis include: changes to incentives; how individuals and households may benefit from such measures; unintended consequences; cost to business and government.

Any other valid response will be credited.

Level 0 ([0])

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

Level 1 ([1]–[5])

The candidate identifies a limited number of possible policies but points are not developed or discussed. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate briefly discusses the benefits and drawbacks of two policies. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

The candidate discusses the two or three appropriate policies giving detailed analysis of benefits and drawbacks. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[15]

30

- 7 (a) Explain what is meant by a 'merger', using relevant examples of different types of merger.

A merger is when two companies join together to form a single company, for example the two cycle firms Chain Reaction Cycles Limited and Wiggle Limited have decided to join together to form one larger business. Like this example, mergers can be horizontal, when companies in the same industry at the same stage of production merge. Vertical integration occurs when two companies in the same industry at different stages of production merge, or a conglomerate merger is when two companies in unrelated industries merge. A merger may be distinguished from a take-over when the former implies an agreement and joint decision, while a take-over is when one dominant firm buys the other and takes over its control and administration.

Any other valid response will be credited.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[2])

The candidate demonstrates a very restricted or confused understanding of a merger. Examples are not given or are inappropriate. Quality of written explanation is limited.

Level 2 ([3]–[4])

The candidate demonstrates an adequate understanding of mergers. One or two examples are given but only partially explained. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear understanding of mergers including understanding of different types of mergers. Two or more relevant examples are used appropriately to illustrate the answer. Quality of written communication is of a high standard.

(AO1, AO2)

[6]

- (b) Explain the ways in which businesses can compete through price and non-price competition.

Business can compete using price and non-price competition. If businesses compete on price, they will have to pay careful attention to costs to ensure that they are covering costs. Business can compete on price if they know the price elasticity of demand (PED) for their product. For example, a decrease in the price of an 'elastic good' will significantly increase the quantity demanded and result in an increase in total revenue (TR). However, if the PED is inelastic, a decrease in price will bring about only a slight increase in the quantity demanded and TR will fall.

Non-price competition methods include:

- Advertising
- Offers such as ‘three for the price of two’
- Competitions and offers
- Loyalty schemes
- After sales service
- New product development
- Quality
- Brand image and reputation

Any other valid response will be credited.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[3])

The candidate is aware of a small number of factors which influence how businesses compete but points are not developed. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate provides a reasonable examination of two or three factors that influence how businesses compete and there is an attempt to develop and illustrate these. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

The candidate provides a thorough examination of two or three relevant factors that influence how businesses compete and recognises the distinction between price and non-price factors. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[9]

- (c) *Discuss whether mergers between companies such as Chain Reaction Cycles Limited and Wiggle Limited provide economic benefits for consumers, producers and the economy as a whole.*

Mergers between well-known firms that provide popular products or services result in a range of outcomes for different ‘economic agents’. One direct business outcome is that the new firm of Chain Reaction Cycles/Wiggle Ltd will benefit from economies of scale and overall improved efficiency. This will benefit to the cost situation of the firm and these efficiencies may be passed on to consumers in the form of lower prices, more efficient service and a better range of products. The new larger firm may spend more on research and development of new/existing products which will benefit both themselves and consumers. Larger firms will compete more effectively with other global firms, leading to increased growth and job security for staff.

However, larger firms may become more inefficient due to diseconomies of scale. A merger may lead to a dominant market position establishing a monopoly which might exploit consumers through charging higher prices and operating a less than efficient service with reduced consumer choice.

The decision about whether such mergers should go ahead may become the subject of an investigation by the Competition and Markets Authority. This organisation has the role of investigating situations where competition may be restricted and a merger between two well-known large companies may have the potential to be investigated if there is concern about whether a merger is in the public interest.

Any other valid response will be credited.

Level 0 ([0])

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

Level 1 ([1]–[5])

The candidate identifies some possible points that may arise from the merger but they are not developed or discussed. Any conclusion is unbalanced and inadequately supported. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate briefly discusses a range of benefits and drawbacks of a merger for consumers, business and the economy as a whole. A conclusion is reached and supported. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

The candidate discusses in detail a range of benefits and drawbacks of a merger for consumers, business and the economy as a whole. A balanced and reasoned conclusion is provided. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[15]

30

8 (a) Explain why the UK has a current account deficit.

The current account is made up of four sections:

- Net trade in goods
- Net trade in services
- Net income (from investments and repatriation of earnings)
- Current transfers, e.g. movement of finance associated with the work of charities.

The final balance of all the net transactions that are included in the current account can be positive or negative producing either a current account surplus or deficit.

In the UK, the current account has been in deficit for many years and as stated in the stimulus, this widened in 2015 to £34.7 billion. The main cause of the UK's current account deficit is that the net value of imported and exported goods is negative. The UK's economy depends heavily on imported foodstuffs, raw materials and manufactured goods. UK consumers also have a preference for electronic goods and clothing that are manufactured cheaply in countries such as China.

While the UK exports goods, the value of these is much lower than the value of imported goods.

The UK traditionally has been a net exporter of services as this reflects the economy's specialisation in areas such as banking, engineering expertise, and professional services. However, again the net value is not sufficient to cover the large deficit resulting from trade in goods.

The other two sections of the current account make a modest contribution to the overall balance. In theory, if activities grouped in either of these categories were to change, then this could also be reflected in the magnitude of the current account deficit.

However, at GCSE level, detailed knowledge of the Income and Current Transfers sections is not expected.

Any other valid response will be credited.

Level 0 ([0])

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

Level 1 ([1]–[2])

The candidate demonstrates some basic understanding of why the UK has a current account deficit but this is poorly explained or underdeveloped. Quality of written explanation is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of why the UK has a current account deficit but the explanation could be more fully developed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear understanding of why the UK has a current account deficit and the explanation is fully developed. Quality of written communication is of a high standard.

(AO1, AO2)

[6]

- (b)** *Examine how a fall in the value of the pound (£) might affect the current account.*

The value of the pound (£) against other currencies (a depreciation) affects the amount of money needed by UK importers to pay for the goods and services that they import. Similarly, this affects UK exporters as the money needed by foreigners to trade with the UK may rise or fall depending on the relative strength of the pound against their currency.

A fall or depreciation in the pound (£), a weak pound, will make trading with the UK less expensive so exports will be relatively cheaper to foreign buyers. This will be good for the UK economy as exports will fall in price, hence the total value of exported goods to the UK should increase. This should benefit sectors such as the car and tourist industries. This will help the current account as trade in both goods and services should increase.

Manufacturers who need to import raw materials and components from abroad will be faced with higher bills as more pounds will be needed to pay for these items.

UK tourists going abroad will be less pleased about the depreciation of the pound as their pounds will buy less foreign currency and their foreign holiday will be relatively more expensive. This will affect the 'trade in services' section of the current account.

Any other valid response will be credited.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[3])

The candidate demonstrates some understanding of the impact of a fall in the value of the pound but points are not developed. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate provides brief examination of some of the issues associated with a fall in the value of the pound. There is reference to the impact on imports and exports and how these changes affect the current account. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

The candidate provides a thorough examination of the main impacts of a fall in the value of the pound on exports and imports and clearly explains the impact on the current account. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[9]

- (c) *Discuss the benefits and costs to the UK economy of a reduction in world trade barriers.*

If trade barriers are reduced, it should result in freer trade and increased globalisation. The effect of this on the UK will depend on its current pattern and quantity of trade with other countries. For so long as the UK remains a member of the EU, a large proportion of UK trade takes place with other members so a reduction in the EU's common external tariff may result in changes of trading partners. Some countries that were previously restricted from trading with their UK, or whose produce was heavily taxed by the EU making it too expensive to buy, may now see benefits from the new market conditions.

The UK will also concentrate in the production of goods and services where they have a comparative advantage. More open global trade will also change these market conditions such that the UK may benefit from even greater specialisation or they may find their comparative advantage eroded as other countries may be able to compete more effectively in areas where the UK had been strong. In theory, the UK should benefit from increased export opportunities leading to increased economic growth and higher employment. The cost of imports should fall leading to lower costs for firms and lower prices for consumers. Consumers should also benefit from increased choice.

The drawbacks could be the UK firms may not be able to cope with increased competition which could lead to a rise in imports and a possible increase in unemployment.

Any other valid response will be credited.

Level 0 ([0])

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

Level 1 ([1]–[5])

The candidate identifies some possible points that may arise from a reduction in world trade barriers but they are not developed or discussed. Any conclusion is unbalanced and inadequately supported. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate briefly discusses a range of benefits and drawbacks from a reduction of world trade barriers. A conclusion is reached and supported. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

A wide range of benefits and drawbacks from a reduction in world trade barriers are developed and thoroughly discussed. A balanced and reasoned conclusion is provided. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[15]

Total

**AVAILABLE
MARKS**

30

90

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Rewarding Learning

**General Certificate of Secondary Education
2019**

Economics

Paper 2

**[CODE]
SPECIMEN**

**MARK
SCHEME**

- 1 (a) Describe how the price of cocoa changed between January 2011 and January 2015.

The key points shown in the graph are:

- The starting price in January 2011 for cocoa (beans) was approx. \$3200 per tonne but the price fell throughout the year to approx. \$2200
- Between 2012 and early in 2013, the price fluctuated between approx. \$2200 and approx. \$2600 per tonne
- Later in 2013, the price began to gradually increase until it reached \$3000 by the end of 2014.
- Overall this was lower by approx. \$300 than at the start of 2011.

Any other valid response will be credited.

Allow [1] for partial or flawed identification of the key trends and [1] for partial use of data.

Allow [2] for clear identification of the key trends and [2] for the appropriate use of the data.

(AO2)

[4]

- (b) Using the axes below, draw and label a sketch demand and supply diagram that shows how the spread of the fungal disease affects the equilibrium market price and quantity (market clearing) of cocoa beans.

[1] for the demand and supply axes

[1] for the demand curve

[1] for the supply curve

[1] for the original market price and quantity

[1] for the new demand **or** supply curve

[1] the new equilibrium market price and quantity

(AO1, AO2)

[6]

- (c) Analyse **two** additional factors that could influence the market price of cocoa beans.

There are a number of other demand and/or supply side factors that could affect the price of cocoa.

The text outlines an increase in demand for chocolate products that is the result of both increases in income in India and China, and changes in taste and fashion in the USA. Other demand side factors include advertising of chocolate that may affect demand, changes in population that may increase or decrease the population, or changes in the price of other products that could be seen as substitutes for chocolate.

On the supply side, the text indicates the production problems caused by both the frosty pod rot and weather conditions (drought). Technology that improves the production, such as better equipment to harvest or development of new pesticides to protect the product from

disease, may improve supply. The impact of taxes and subsidies will also have an impact – local government can promote production by awarding subsidies to growers.

Any other valid responses will be credited

Award [1] for the identification of each valid factor, and award either [1] for partial analysis of the factors or [2] for relevant analysis of the conditions of demand and supply that will affect the market price of cocoa.

(AO1, AO3) [6]

- (d) (i) *Use the formula provided to calculate the price elasticity of demand (PED) for the box of chocolates. Show your calculations.*

The formula provided is:

$\text{PED} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$ Award

Award [1] for correct calculation.

Change in quantity = 25; % change in quantity demanded = $\frac{25}{1000} = 2.5\%$.

Award [1] for correct calculation.

Change in price = 5; % change in price = $\frac{5}{20} = 25\%$.

$\text{PED} = \frac{2.5}{25} = 0.1$

Award [1] for correct calculation.

(A02) [3]

- (ii) *Explain the importance of Price Elasticity of Demand (PED) for producers.*

Knowledge of the PED for a product helps producers to decide whether to increase (or decrease) prices. If they know that a particular change in price is going to bring about a more or less than proportionate change in quantity demanded, they will be able to judge the effect on total revenue (TR). The general rules are:

Where a PED score is greater than (-)1, known as elastic, an increase in price will decrease TR, while a decrease in price will increase TR.

Where a PED score is less than (-)1, known as inelastic, an increase in price will increase TR, while a decrease in price will decrease TR.

Appropriate examples may be used to illustrate these situations. In (i) above, PED is inelastic therefore an increase in the price will cause demand to fall but not by that much so that the slightly fewer consumers who remain loyal to the product will be paying the higher price and the overall effect will be an increase in TR for the producer.

Any other valid response will be credited.

Allow [1] for a basic explanation and [2] for an appropriate explanation of how a producer uses information about PED. Allow [1] for development in response such as use of a relevant example.

(AO3)

[3]

- (e) *Discuss the possible economic effects of changes in the price of cocoa beans on developing economies where cocoa beans are produced.*

The price of cocoa is fluctuating and this will have a number of effects on the economies of those developing countries such as the Ivory Coast and Ghana that produce this important crop. Points may include:

- The increase in demand for cocoa from wealthier countries is good for the economic development of the producing countries, providing the increase in market price is passed on to the producers and that this helps to bring about sustainable development.
- Production is taking place on a small scale and increases in the commodity price may never reach the growers – there are likely to be other stages in getting this product to market so the suppliers of the infrastructure may benefit more than the growers.
- If the price increase is the result of limited supply as producers switch to other water-resistant crops such as rubber and corn, the outlook for producing countries may not improve that much.
- Conversely, if the market price of cocoa falls, this will have a devastating impact on poorer countries that are highly dependent on it.
- The economic problems of developing countries are complex and increases in the price of cocoa alone are not likely to bring about that much change.

Any other valid response will be credited

Level ([0])

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

Level 1 ([1]–[3])

The candidate identifies one or two possible ways in which countries that produce cocoa might be affected by changes in the market price but points are flawed or lack development. Any conclusion is unbalanced and inadequately supported. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate briefly discusses one or two possible ways in which countries that produce cocoa might be affected by changes in the market price. A conclusion is reached with some supporting evidence. Quality of written communication is satisfactory.

Level 3 ([7]–[8])

The candidate develops and thoroughly discusses a number of possible ways in which countries that produce cocoa might be affected by changes in the market price. A reasoned and balanced conclusion is reached. Quality of written communication is of a high standard.

(AO1,AO2, AO3)

[8]

AVAILABLE
MARKS

30

2 (a) With reference to Table 1, explain what is meant by 'inflation'.

Inflation is a significant and persistent rise in the general level of prices. In the UK the Consumer Prices Index (CPI) is used to measure inflation.

Allow [1] for demonstrating that inflation refers to a persistent rise in prices, allow [1] for demonstrating understanding that the focus is on the general level of prices, or average prices as defined in the method of calculation, and allow [1] for recognising that the UK uses CPI, as shown in Table 1, to measure inflation.

(AO1)

[3]

(b) With reference to Table 1, outline how inflation is measured.

- In the UK the government's preferred method of measurement of inflation is the Consumer Prices Index (CPI) as shown in Table 1. This is the official method of calculating inflation in the UK. It is a measure of the cost of living and reflects changes in the general price level.
- Table 1 refers to the CPI's use of a basket of consumer goods to reflect average household spending and based on this, gives different categories of goods and services a weighting. Price surveys are then used to find out how much the prices have increased.
- Table 1 refers to the impact of different categories of goods on the overall average increase in prices that was recorded in December 2015. The 46% increase in the price of air fares outweighed the falling prices in food, clothing and petrol.

Any other valid response will be credited.

Allow up to [4] for a detailed and accurate outline or allow up to [2] for a partial or flawed outline.

(AO1, AO2)

[4]

(c) (i) Describe what happened to the UK's rate of inflation (CPI) between January 2012 and January 2016.

Between 2012 and 2016, the rate of inflation changed as follows:

- At the start of 2012, CPI was approx. 3.8% and rose during that year to 6%, the highest rate for the period.
- Following this peak at the end of 2012, the rate fell quite rapidly to just below 2%.
- From the start of 2014, CPI continued to fall more gradually until it reached its lowest point of around 0% the end of 2015
- By January 2016, CPI reached approx. 1%.

Allow up to [3] for a partial or incomplete interpretation of the trends shown by the data.

Allow [4] for a clear and accurate interpretation of the data and the trends that includes relevant reference to the data.

(AO2)

[4]

- (ii) *Analyse the possible causes of the change in the rate of inflation between 2012 and 2016.*

The causes of inflation depend on a combination of cost-push and demand pull factors. The drop in the rate of inflation at the start of the period is likely to have been caused by a reduction in demand that may have been caused by cuts in public spending and the period of wage constraint following the downturn in the economy. The gradual increase in the rate of inflation is likely to have been caused by an increase in consumer spending following growth and prosperity returning, if tentatively, to the economy.

The stimulus suggests that certain prices have changes more or less relative to others.

Any other valid response will be credited.

Allow [1] for knowledge of some of the factors that cause inflation to change and [1] for use of the stimulus material. Allow up to [2] for development and analysis.

(AO1, AO2, AO3)

[4]

- (d) *Using relevant examples analyse how low interest rates on financial products used by consumers and business may affect inflation.*

Table 1 provides details of the UK's 9-year record low base rate of interest. In August 2016, the base rate was further lowered from 0.5% to 0.25%. This situation has had the following impact:

- Reduced the interest rates charged on the financial products used by consumers and businesses to borrow, such as personal, business loans and mortgages. This has led to increased borrowing throughout the economy.
- Lowered the interest rate paid to savers by banks and other financial institutions on financial services such as savings accounts and Individual Savings Accounts (ISAs).
- This has reduced the overall level of savings in the economy and further contributed to increases in spending.
- Consumers are less likely to save as interest on their savings will be low.
- However, if any increase in demand can be met by spare capacity in the economy or by imports these may reduce inflation by pressure.

Any other valid response will be credited.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[2])

The candidate demonstrates a very restricted or confused analysis of how low interest rates on the financial products used by consumers and businesses may affect inflation. Examples of specific impacts are not given or inappropriate. Quality of written communication is limited.

Level 2 ([3]–[4])

The candidate demonstrates an adequate analysis of how low interest rates on the financial products used by consumers and businesses may affect inflation. Some relevant examples of impacts are given but only partially analysed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear analysis of how low interest rates on the financial products used by consumers and businesses may affect inflation. A number of relevant examples of impacts are analysed appropriately to illustrate the answer. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[6]

- (e) *Discuss the possible effects on the UK economy if the Bank of England announces an increase in the base rate of interest.*

Interest rates are paid by people and businesses who borrow money. For example, the largest loan that a person is likely to have is their mortgage and changes in interest rates will affect the amount that has to be repaid every month.

If the Bank of England raises the base rate of interest from 0.5% (as per graph), this will have an impact on all rates of interest set by banks and lending institutions on loans and savings. The knock-on effect of this will be felt on all consumers and business who borrow money as they will face higher repayments on loans or credit card repayments that will be linked to the current base rate. Anyone with a fixed rate of interest on a loan or mortgage will be unaffected until the term of that agreement runs out.

The overall effect on the economy is likely to be a reduction in aggregate demand and depending on the magnitude of this interest rate rise, this could in turn affect demand for a number of goods and services. Luxury items are likely to be the first to be affected and the housing market is also expected to slow down as the repayments on mortgages increase.

However, the UK economy is likely to see an increase in foreign investment in the financial sector as investors move finance to the UK to benefit from higher interest rates. This could also have an impact on the exchange rate as there will be greater demand for pounds

sterling causing the exchange rate of the pound to increase on the foreign exchange market.

Any other valid response will be credited.

Level ([0])

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

Level 1 ([1]–[3])

The candidate identifies one or two possible effects on the economy of the Bank of England's decision to increase the base rate of interest. Any conclusion is unbalanced and inadequately supported. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate briefly discusses one or two possible effects on the economy of the Bank of England's decision to increase the base rate of interest. A conclusion is reached with some supporting evidence. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

The candidate develops and thoroughly discusses a number of possible effects on the economy of the Bank of England's decision to increase the base rate of interest. A reasoned and balanced conclusion is reached. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[9]

30

Total

60

**AVAILABLE
MARKS**

