



General Certificate of Secondary Education
2012

Economics

Paper 2

[G9272]

FRIDAY 25 MAY, AFTERNOON

**MARK
SCHEME**

Section A

AVAILABLE
MARKS

- 1 (a) Unemployment is when someone who is actively seeking work is unable to find a job.

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

(AO1: [2]) [2]

- (b) Possible costs to the economy are:

- the opportunity cost of unemployment which is the lost output from workers being unemployed
- the loss of tax revenue to the government due to unemployed workers reduced income and spending
- the increase in public spending needed to pay welfare benefits
- the loss of demand faced by businesses due to reduced spending
- loss of skills by workers if they are unemployed for long period of time
- social costs of worsening health, increasing crime, etc.

Award [2] for each clear description of a cost to the economy of unemployment, award [1] for a flawed or partial description

(AO1: [2], AO3: [2]) [4]

6

- 2 (a) External costs, or third party costs, are costs which are paid by someone other than the consumer or producer of the good, a third party.

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

(AO1: [2]) [2]

- (b) Examples of external costs of increased road traffic include:

- increased emissions of carbon contributing to further global warming
- increases in respiratory diseases linked to exhaust fumes and higher cost to the health service
- greater congestion leading to increased costs for businesses attempting to deliver goods
- increases in time taken for emergency services to respond to incidents.

Award [2] for each clear description of an external cost of increased road traffic, award [1] for a flawed or partial description

(AO1: [2], AO3: [2]) [4]

6

3 (a) Exports are goods or services sold abroad in exchange for foreign currency.

Award [2] for a clear and accurate definition, [1] for a flawed or partial definition
(AO1: [2]) [2]

(b) A trade deficit occurs when the value of imports of goods and services is less than the value of exports of goods and services.

Award [2] for a clear and accurate definition, [1] for a flawed or partial definition
(AO1: [2]) [2]

(c) Possible disadvantages include:

- the deficit could lead to a fall in the value of the pound
- the deficit could lead to rising unemployment as more foreign produced goods and services are purchased
- the deficit could lead to a slowdown in economic growth.

Award [2] for each clear description of a disadvantage of a trade deficit, award [1] for a flawed or partial description
(AO1: [2], AO2: [1], AO3: [1]) [4]

Total for Section A

8

20

Section B

AVAILABLE
MARKS

- 4 (a) A mortgage is a long term loan secured on property. A mortgage is the most common way for purchasers to raise finance to purchase their house.

Award up to [2] for a clear explanation of a mortgage
(AO1: [2])

[2]

- (b) A 'tracker' mortgage's interest rate is set at a certain margin above the Bank of England's base rate. As the base rate rises or falls so does the interest rate on the mortgage. In times when the economy is depressed the rate of interest on the mortgage will tend to be low, but it will tend to rise in economic booms. Most tracker mortgages have a 'floor' below which rates cannot fall.

Award [1] for each relevant point made up to a maximum of [3]

[3]

- (c) The HSBC is the most expensive of the mortgage products at 5.1%. However, this is fixed for 5 years. If the base rate rises over this period by more than 2.5%, the rate of interest on all of these mortgage products will increase and become more expensive than the HSBC mortgage. Some might choose this mortgage if they judge that interest rates are due to rise. This could be a possibility if inflation were to rise very quickly as a result of an increased aggregate demand. However, if the current economic conditions remain, it is unlikely that interest rates will rise to this level.

Allow [1] for simply recognising that the HSBC is the most expensive mortgage and allow further marks for weighing up the possible benefits of this over the longer fixed term of 5 years if interest rates were to rise

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

[3]

- (d) Savers will benefit from an increase in interest rates as they will earn more interest on investments. This will encourage more people to save which could result in a decrease in aggregate demand in the economy.

Homebuyers will find if there is an increase in interest rates then they will have to repay more for their mortgage. A rise in interest rates may lead to a fall in house prices which would benefit first time buyers but may affect those wishing to move house.

Banks may benefit from a rise in interest rates as they will now earn more interest on loans they have. However, they may also have to pay more interest to savers and they may find the demand for loans has fallen.

Building firms will face a fall in demand as the rise in interest rates will cause a fall in demand for houses so fewer will be built. In addition, the interest on any loans they have will increase so their costs will go up. The fall in revenue and rise in costs will cause a fall in profit. In some cases firms will make a loss and may be forced out of business.

Allow [1] for identification of an effect of rising interest rates on each of savers, homebuyers, banks and building firms and up to [2] for outlining each effect

(AO2: [4], AO3: [8]) [12]

20

- 5 (a) In 2009 China's rate of economic growth was 9%.

Award [2] for correct answer. Award [1] for an answer of 9 (omitting the %) or an answer of 8 or 10%

(AO2: [2]) [2]

- (b) A PPF is drawn, and a second PPF is then drawn further out from the origin and correctly labelled.

Award up to [3] for correct diagram

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

- (c) Sustainable development is defined as development which meets the needs of the present without compromising the ability of future generations to meet their own needs. In other words current development should not generate significant pollution or depletion of natural resources so that future growth will be decreased.

(AO1: [3]) [3]

- (d) (i) Costs to China include:
- there could be increased pollution
 - there might be a rise in income inequality and some people may become poorer
 - there could be a rise in inflation.

Benefits to China include:

- rising incomes leading to a higher standard of living
- creation of jobs
- the availability of a wider variety of goods and services
- Government revenue may increase allowing for greater spending on merit goods.

Allow [1] for simply stating a benefit and up to [2] additional for explaining the benefit

(AO2: [2], AO3: [4])

[6]

- (ii) Costs to other countries might include:

- increased Chinese pollution could contribute to global warming and impose costs on other countries
- market prices of essential raw materials and fuel could increase as a result of higher demand from China
- they could lose industries and jobs to China.

Other economies could benefit in a number of ways:

- they could find an increased market for their exports, e.g. trains, technical expertise
- they could specialise in producing goods and services where they have a comparative advantage
- they could be able to import cheap goods from China.

Allow [1] for simply stating a cost and up to [2] additional for explaining the cost

(AO2: [2], AO3: [4])

[6]

20

Total for Section B

40

Section C

AVAILABLE
MARKS

- 6 (a) The exchange rate is the price of one currency in terms of another. For example £1 = €1.22. In a floating exchange rate system a fall in the value of an exchange rate is referred to as a depreciation, a rise is an appreciation.

Level 0 [0]

The candidates response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

Some understanding of an exchange rate but it is limited and not developed. Quality of written explanation is limited.

Level 2 ([3]–[4])

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

A good understanding of the exchange rate with limited development. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

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

There is a clear explanation of the exchange rate. Quality of written communication is of a high standard. [6]

- (b) The value of the pound is determined by the forces of demand and supply on the foreign exchange markets. If the pound is falling in value then it means that either the demand for pounds is falling or the supply is increasing, this could be occurring for a range of reasons. The demand for the pound may fall if people living abroad buy fewer UK exports. Foreign investors may decide not to invest in the UK and so will not buy pounds. Speculators may fear a fall in the value of the pound and so will not buy pounds. Supply can increase if UK residents import more goods and services. UK firms may decide to invest more overseas or speculators fearing a fall in the value of the pound may sell pounds. The Bank of England may cause the value of the pound to fall by cutting interest rates.

Level 0 [0]

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

Level 1 ([1]–[3])

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

There is some understanding of why the exchange rate may change but it is not well developed or limited. Quality of written explanation is limited.

Level 2 ([4]–[6])

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

There is a reasonable explanation of why the exchange rate might change. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

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

There is a well developed explanation of how why the exchange rate might change. Quality of written communication is of a high standard.

[9]

- (c) At an individual consumer level, a fall in the value of the pound will make it more expensive to buy imported goods and to travel outside the UK. Patterns of consumer spending may change to reflect the increased cost of certain items such as food and fuel. Consumers may be more tempted to stay at home for holidays as they experience the rising cost of holidays abroad. The “staycation” may become a more popular holiday choice.

Some businesses may experience a boost in sales as orders from abroad should increase. The lower exchange rate will make UK goods and services more competitive. However, like households, many firms will experience rising costs as any raw material or component manufactured outside the UK will rise in cost.

A fall in the exchange rate would lead generally to exports falling in price and imports rising in price; this should lead to a rise in demand for exports and a fall in demand for imports thus stimulating economic growth. An increase in economic growth should generate a rise in employment. If the economy was experiencing a trade deficit, a fall in the exchange rate should help to improve this situation. A fall in the exchange rate would increase the price of imports and this would generate increased inflation.

Level 1 ([1]–[5])

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

Some understanding of how a fall in the value of the exchange rate will affect the economy. Quality of written explanation is limited.

Level 2 ([6]–[10])

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

Good understanding of how a fall in the exchange rate will affect the economy. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

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

A comprehensive understanding of how a fall in the exchange rate will affect the economy. Quality of written communication is of a high standard.

[15]

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- 7 (a) A trade union represents its members in their relationship with employers. Among the roles they perform are negotiating pay and conditions for members, representing members in dispute with employers and providing legal support.

Level 0 [0]

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

Level 1 ([1]–[2])

(AO1: [2])

Some understanding of the role of a trade union but it is not developed. Quality of written explanation is limited.

Level 2 ([3]–[4])

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

Some relevant roles of a trade union are explained to a limited extent. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

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

There is a clear and well developed explanation of the role of a trade union. Quality of written communication is of a high standard. [6]

- (b) Industrial action by trade unions could take many forms from working to rule or a ban on overtime, both considered disruptive, to the most serious action of a total strike. This latter type of action has become less frequent in today's economy although it is not unusual to see one day strike action. The effects on the economy depend on the type of action taken:

- days could be lost due to strike action
- firms may lose export orders as production may slow down
- industrial unrest may spread to other groups of workers
- industrial action may lead to improvements in pay and conditions for groups of workers and this could help the economy to become more competitive.

Level 0 [0]

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

Level 1 ([1]–[3])

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

One or two effects are outlined but the explanation is limited. Quality of written explanation is limited.

Level 2 ([4]–[6])

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

At least two possible effects are outlined and there is an attempt to explain in detail. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

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

Two or more effects are outlined and explained in detail. Quality of written communication is of a high standard. [9]

- (c) Privatisation is the sale of a public sector organisation to the private sector. There are a number of advantages and disadvantages to this.

Advantages

- the government will make money from the sale of Royal Mail
- the government may not have to subsidise Royal Mail if it makes a loss
- Royal Mail may be able to raise capital more freely
- management of Royal Mail will be able to manage the company free of political interference
- the company may become more efficient in the private sector.

Disadvantages

- the government will lose a future revenue stream from Royal Mail profits
- the new owners may lay off Royal Mail employees leading to a rise in unemployment
- the privatised company may not provide as good a service as Royal Mail, e.g. possible loss of universal postage.

Level 0 [0]

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

Level 1 ([1]–[5])

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

Some understanding of advantages and/or disadvantage of privatisation of Royal Mail are discussed. Quality of written explanation is limited.

Level 2 ([6]–[10])

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

Good discussion of some advantages and disadvantages of privatisation of Royal Mail. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

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

Thorough examination and discussion of a range of advantages and disadvantages of privatisation of Royal Mail. Quality of written communication is of a high standard. [15]

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- 8 (a) Fixed costs are fixed with regard to output, e.g. rent, interest on loans. Fixed costs can vary, e.g. a rise in the rate of interest, but they are not directly influenced by output. Variable costs on the other hand will vary with output, e.g. raw materials, electricity.

Level 0 [0]

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

Level 1 ([1]–[2])

(AO1: [2])

Some understanding of one type of cost but answer is not developed. Quality of written explanation is limited.

Level 2 ([3]–[4])

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

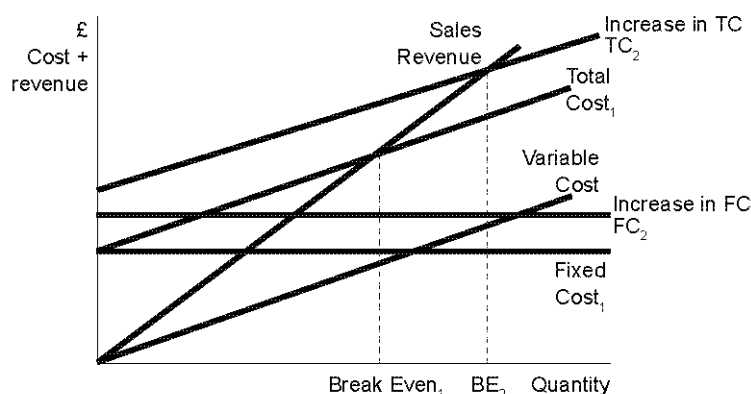
Both types of cost are explained to a limited extent. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

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

There is a clear explanation of both fixed and variable costs. Quality of written communication is of a high standard. [6]

- (b) In the diagram it can be seen that fixed costs are constant with output and there is a fixed cost even when output is zero. Total costs equal fixed costs plus variable costs and, due to the variable component will increase as output rises. Total revenue will rise as output increases. Where total cost cuts total revenue is the breakeven output where the firm makes enough profit to keep it in business.



Interest charges for a firm represent a fixed cost. If there is an increase in interest rates then, all other things remaining equal, fixed cost will increase. This will lead to an increase in total costs and subsequently the breakeven point.

Level 0 [0]

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

Level 1 ([1]–[3])

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

There is a limited explanation without the assistance of a diagram. Quality of written explanation is limited.

Level 2 ([4]–[6])

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

There is a reasonable explanation with the assistance of a diagram which may contain some flaws. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

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

There is a clear explanation accompanied by a diagram which is largely flawless. Quality of written communication is of a high standard.

[9]

- (c) There are a number of ways in which a small business firm can raise finance to expand and there are advantages and disadvantages attached to all. The “best” way to borrow will depend on the individual circumstances of the businesses. The options include:
- retained profit. A firm can retain some of its profit to finance investment. This can be built up over a number of years by adding to the reserves. However, it may not be possible for a firm to raise enough capital in this way, furthermore shareholders may be unhappy to see potential dividends diverted into the reserves
 - borrowing from family or friends. In the credit crunch, this has become a more popular method of borrowing for small firms especially if they have had problems borrowing from banks. A rate of interest and repayment schedule can be negotiated but if the borrower defaults, it could result in strained relationships. Such loans can be risky for the lender but the borrower is unlikely to have to go into as much detail about the business finances as they would if dealing with a bank
 - business loan. The firm can borrow money from a bank and repay this over a period of time. Interest will be charged on the repayments and bank loans are difficult to obtain in the current economic climate
 - mortgage. This is a long term loan secured on property and generally used to finance investment in new buildings. It does have to be paid off over a long period of time and the property can be seized if payments are missed.

Other relevant points supported with appropriate discussion can 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])

Some understanding of advantages and disadvantages of different types of business finance that could aid expansion. Quality of written explanation is limited.

Level 2 ([6]–[10])

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

Good understanding of the ways a small firm could finance its expansion and some evaluation of which of these are better than others. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

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

Thorough examination of the best ways for a small business to finance its expansion. Quality of written communication is of a high standard. [15]

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- 9 (a) The supply of cocoa refers to the general market conditions which indicate the amount of cocoa supplied at given price ranges over a period of time. In the present market conditions, reduced supply and increasing global demand are contributing to the rising price of cocoa products.

Level 0 [0]

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

Level 1 ([1]–[2])

(AO1: [2])

Some indication of the concept of supply but it is not applied well to the cocoa market. Quality of written explanation is limited.

Level 2 ([3]–[4])

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

Some relevant factors about the supply of cocoa are explained to a limited extent. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

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

There is a clear explanation of the supply of cocoa. Quality of written communication is of a high standard. [6]

(b) The price of cocoa is governed by a number of factors. The demand for cocoa is largely derived from the demand for chocolate and so factors influencing the demand for chocolate will also affect cocoa.

These would include:

- consumers' income. The higher income levels the higher the demand for chocolate
- consumer tastes. If consumers develop a taste for chocolate demand will rise, alternatively concerns about health could cause a fall in demand
- price of substitutes. Substitutes could include ice cream, other forms of confectionary such as boiled sweets or coffee for hot chocolate. A rise in the price of any of these will cause the demand for chocolate to rise
- population. An increase in the population will generate an increase in the demand for chocolate products and cocoa
- seasonal factors. The demand for chocolate is likely to rise at both Christmas and Easter.

Supply side factors include:

- costs. A rise in the cost of chocolate production would cause a fall in supply
- weather. Poor weather or other natural events such as disease could cause a fall in supply
- technology. An improvement in technology used in chocolate production would cause an increase in supply
- tax. A tax placed on chocolate production would cause a fall in supply
- subsidy. A subsidy paid to chocolate producers would increase supply.

Candidates should use at least one relevant demand and supply diagram in their answer

Level 0 [0]

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

Level 1 ([1]–[3])

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

One or two factors are outlined without the assistance of a diagram but the explanation is limited. Quality of written explanation is limited.

Level 2 ([4]–[6])

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

Two possible factors are outlined with the assistance of a mainly correct diagram and there is an attempt to explain in detail. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

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

Two or more reasons are outlined with the assistance of an accurate diagram and explained in detail. Quality of written communication is of a high standard. [9]

- (c) A rise in the price of cocoa will have a range of effects on consumers, businesses and right through to the global economy.
- consumers may face a rise in the price of chocolate. This could lead to a fall in their real incomes, or they may switch to substitute products, e.g. boiled sweets, coffee instead of hot chocolate
 - manufacturers of chocolate products (cakes, drinks, confectionery) will see costs rising. In recent years Cadbury’s has reduced the standard size of their chocolate bars rather than increase the price
 - cocoa farmers may see a rise in the price of their product leading to increasing living standards. However, the increase in price may be kept by the large multinational producers and not passed on to farmers. More land may be given over to producing cocoa and other countries may also become interested in producing this more expensive commodity
 - in less developed countries (LDCs) where cocoa is produced, there may be benefits from increased export revenue which will help with their economic development. However, consumers of chocolate in LDCs will also be affected by higher prices.

Level 0 [0]

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

Level 1 ([1]–[5])

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

Some understanding of the impact of a rise in the price of cocoa. Quality of written explanation is limited.

Level 2 ([6]–[10])

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

Good understanding of the impact of a rise in the price of cocoa. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

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

Thorough examination of a range of effects of a rise in the price of cocoa. Quality of written communication is of a high standard. [15]

Total for Section C

Total

30

30

90